

Financial Statements

For the Year Ended 31 December 2017

Avanzia Bank S.A.

Avanzia Bank S.A.

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About Avanzia Bank S.A.

A European online direct bank

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

Simple and flexible products

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

Bespoke credit card solutions

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

Regulatory stability

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

Solid legal structure

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

Directors' Report for 2017

Avanzia Bank S.A. accelerated its growth in 2017, adding 242 000 new active credit card customers. The Bank ended the year with 1 201 000 credit cards in force¹ and a gross loan balance of EUR 1 229 million. Profit after taxes were EUR 47 million and the Bank's capital ratio was 14.2% including interim year profits (net of distributions).

Avanzia's strategy is to focus on being a specialised and efficient credit card issuer. The distribution strategy remains unchanged from previous years and consists in promoting the Bank's own branded Mastercard Gold credit cards via the internet (B2C), and white labelled/co-branded cards through partners (B2B).

In 2017, the total turnover on all cards amounted to EUR 2.30 billion or EUR 3 000 per active client, while the average loan balance per active client in good standing reached approximately EUR 1 450. The total loan balance, Avanzia's main income driver, increased by 31% over the year to EUR 1 229 million.

Avanzia is active in Germany, Luxembourg, France and Austria. Germany, which Avanzia entered in 2006, remains the Bank's largest market, with a gross loan balance of EUR 1 094 million. France, where operations started in 2012, has proven to be a more challenging market. In April 2017, the Bank purchased a revolving credit portfolio of EUR 63 million in order to accelerate its development in France, resulting in a total gross loan balance of just under EUR 100 million. Finally, our Austrian product was launched in 2015 and grown steadily since then, achieving a gross loan balance of EUR 40 million.

Avanzia offers various insurance products linked to its credit cards, which have helped to both diversify and increase Avanzia's profitability base. The Bank is also active in the area of Professional Card Services (PCS), with Avanzia issuing Omnium-branded and white label credit cards on behalf of other European banks. By the end of 2017, Avanzia had contracts with 20 partner banks.

Avanzia primarily funds its operations by offering an internet deposit account with attractive interest rates. By the end of 2017, the Bank's deposit balance stood at EUR 1.45 billion. In 2017, the Bank started to diversify into other funding sources and will continue doing so going forward.

The Bank prides itself on its effective risk management. Various credit scorecards maximise value while containing credit risk at an acceptable level, as evidenced by a loan loss rate of 4.1%. The Bank also continued to invest in credit card fraud prevention systems, reducing the fraud loss ratio to 0.05% of the turnover.

Avanzia's cost-income ratio of 39% is a reflection of the Bank's lean operating model. Excluding acquisition costs of EUR 26 million, which can be considered an investment independent of the Bank's day-to-day operations, the cost-income ratio is 23%.

Avanzia has continued to upgrade its IT systems, and has begun the implementation of a new Core Banking System to support the Bank's growth ambitions.

¹ Cards in force: The number of issued cards including active and inactive cards.

At the end of the year, Avanzia employed 143 people in total.

The Bank continues to grow its capital base through retaining its earnings in line with its activity level. Surplus capital is paid out as dividends and in 2017, these amounted to EUR 10.7 million. The Bank has maintained a Tier1 capital ratio of above 11% at all times, ending the year with a ratio of 11.4%, or 14.2% including interim year profits (net of distributions). Avanzia's return on equity was 41% and its return on assets was 3%.

The economic outlook for 2018 is favourable for the countries in which Avanzia operates. Avanzia will maintain both its B2C and B2B growth channels in all its markets. The PCS business will also be further developed by growing the existing client base.

Overall, the Board of Directors is pleased with Avanzia's performance in 2017, and expects continued strong growth and profitability in 2018.

Board and Management in 2017

In 2017, the Board of Directors had the following members:

- Mr. Bengt Arve Rem, CEO, Kistefos AS (Chairman)
- Mr. Nishant Fafalia, Investment Director, Kistefos AS
- Mr. Tor Erland Fyksen, Founder Director
- Mr. Tom Ruud, Kistefos AS
- Dr. Thomas Schlieper, Seed Director, (Deputy Chairman)

To assist the Board of Directors in the areas of financial information and internal control, the Bank established an Audit Committee, which in 2017 had the following members:

- Mr. Nishant Fafalia (Chairman)
- Mr. Tor Erland Fyksen (Member as of 20 June 2017)
- Mr. Tom Ruud
- Dr. Thomas Schlieper (Member until 20 June 2017)

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

- Mr. Roland Ludwig, Deputy Chief Executive Officer as of April 2017 and Chief Executive Officer as of 1 July 2017
- Mr. Marc Hentgen, Chief Executive Officer until June 2017; member of the Executive Management Committee until 31 December 2017
- Mr. Gregor Sanner, Chief Operations Officer

The EMC has delegated the management of some day-to-day business to the Management Committee, which in 2017 had the following members:

- Mr. Roland Ludwig, Chief Executive Officer (as of 1 July 2017)
- Mr. Gregor Sanner, Chief Operations Officer
- Mr. Frank Hamen, Chief Risk Officer (as of 1 September 2017)
- Mr. Marc Hentgen, Chief Executive Officer (until 1 July 2017); member of the Executive Management Committee until December 2017
- Mr. Johannes Neander, Chief Marketing Officer (as of 15 April 2017)
- Mr. Patrick Thilges, Chief Financial Officer
- Mr. Petrus Johannes (Pieter) Verhoeckx, Chief Customer Relations Officer
- Mr. David Voss, Chief Marketing Officer (until 15 April 2017)

Internal governance

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

- The first-line-of-defence consists of business units that take or acquire risks and carry out controls;

- The second-line-of-defence encompasses support functions such as the financial and accounting functions, as well as the compliance and risk control functions;
- The third-line-of-defence consists of the Internal Audit function.

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

Operational controls

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

Internal controls

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

Risk control

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

Compliance

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

Internal audit

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

Financial Statements

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

Statement of Financial Position as at 31 December 2017

In thousands of EUR

ASSETS	Note	2017	2016
Cash, balances with central banks	13	463.795	238.121
Loans and advances		1.228.874	987.877
<i>whereof: financial institutions</i>	14	59.030	97.509
<i>whereof: customers</i>	15	1.169.844	890.368
Tangible assets	16	1.834	2.124
Intangible assets	17	5.147	3.657
Other assets	18	29.584	2.395
Total assets		1.729.234	1.234.174
<hr/>			
LIABILITIES AND EQUITY	Note	2017	2016
Amounts owed to financial institutions	14	100.444	135
Amounts owed to customers	19	1.453.861	1.102.104
Tax liabilities	12	20.363	16.623
Other liabilities	20,23	10.173	6.562
Subordinated liabilities	21	8.638	9.355
Total liabilities		1.593.479	1.134.777
Subscribed capital	22	17.553	17.553
Issue premiums	22	9.890	9.890
Other reserves	22	10.910	8.713
Deposit guarantee scheme reserve	23	2.731	4.367
Profit (loss) carried forward		58.314	38.381
Result for the financial year		47.025	40.202
Interim dividends		-10.668	-19.707
Total equity		135.755	99.397
Total liabilities and equity		1.729.234	1.234.174

The notes are an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended 31 December 2017

In thousands of EUR

	Note	2017	2016
Financial and operational income and expenses		166.349	137.495
Interest income	6	174.893	141.422
Interest expenses	6	-11.752	-8.082
Commission income	7	17.682	14.795
Commission expenses	7	-11.647	-9.726
Net exchange result		22	-5
Other operating income	8	1.441	3.122
Other operating expenses	8	-4.289	-4.030
Administrative expenses		-62.284	-48.143
Personnel expenses	9	-14.658	-11.385
General administrative expenses	10	-47.626	-36.758
Depreciation and amortisation on (in)tangible assets		-1.933	-1.626
Depreciation on tangible assets	16	-679	-544
Amortisation on intangible assets	17	-1.254	-1.082
Impairment on financial assets	11	-44.786	-38.807
Result on activities before taxes		57.347	48.919
Income taxes	12	-10.322	-8.717
Result on activities after taxes		47.025	40.202
Result for the year		47.025	40.202
Other comprehensive income for the year		0	0
Total comprehensive income for the year		47.025	40.202

The notes are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2017

2017

<i>In thousands of EUR</i>	Subscribed capital	Issue premiums	Reserves	Profit carried forward	Net profit or loss for the financial year	Total Equity
Equity 1 January 2017	17.553	9.890	13.080	38.381	20.494	99.397
Allocation to reserves 15 February 2017			319	2.464	-2.783	0
Allocation to profit brought fwd 15 February 2017				17.683	-17.683	0
Allocation to legal reserve 15 February 2017			28	0	-28	0
Interim dividend distribution 20 July 2017					-10.668	-10.668
Allocation to reserves 13 December 2017	0	0	214	-214		0
Total comprehensive income for the year					47.025	47.025
Equity 31 December 2017	17.553	9.890	13.641	58.314	36.357	135.755

The notes are an integral part of these financial statements.

2016

<i>In thousands of EUR</i>	Subscribed capital	Issue premiums	Reserves	Profit (loss) carried forward	Net profit or loss for the financial year	Total Equity
Equity 1 January 2016	17.270	9.080	10.955	27.346	22.160	86.811
Allocation to reserves 29 February 2016			2.097		-2.097	0
Dividend distribution 29 February 2016					-9.000	-9.000
Allocation to profit carried forward 29 February 2016				11.063	-11.063	0
Share conversion and capital increase 18 July 2016	282	809				1.092
Allocation to legal reserve 21 July 2016			28	-28		0
Interim dividend distribution 21 July 2016					-10511	-10.511
Interim dividend distribution 14 December 2016					-9.197	-9.197
Total comprehensive income for the year					40.202	40.202
Equity 31 December 2016	17.553	9.890	13.080	38.381	20.494	99.397

The notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2017

In thousands of EUR

OPERATING ACTIVITIES	2017	2016
Interest, commissions receipts	192.575	156.217
Interest, commissions payments	-23.399	-17.808
Other receipts	1.463	3.117
Operating payments	-76.895	-60.891
(Increase) decrease in money market placements	162	-4.509
(Increase) decrease in loans to customers	-324.262	-197.374
(Increase) decrease in participations	0	872
Increase (decrease) in deposits from financial institutions	100.309	122
Increase (decrease) in deposits from customers	351.757	310.044
(Increase) decrease in other assets	-27.188	-533
Increase (decrease) in tax liabilities	3.741	5.717
Increase (decrease) in other liabilities	3.611	-998
Net cash flow from operating activities	201.873	193.977
INVESTMENT ACTIVITIES	2017	2016
Investments in tangible and intangible assets	-3.132	-5.759
Net cash flow from investment activities	-3.132	-5.759
FINANCING ACTIVITIES	2017	2016
Increase (decrease) from dividend payments/ capital distributions	-10.668	-27.616
Increase (decrease) in subordinated loan capital	-717	503
Net cash flow from financing activities	-11.385	-27.113
Net cash flow	187.356	161.105
Opening balance of cash and cash equivalents	297.705	136.600
Net cash flow for the period	187.356	161.105
Ending balance of cash and cash equivalents	485.061	297.705

Please see note 13 regarding cash and cash equivalents.

The notes are an integral part of these financial statements.

Notes to the Financial Statements

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1. Reporting entity

Avanzia Bank S.A. (“the Bank” or “Avanzia”) is a bank domiciled in the Grand Duchy of Luxembourg and is established for an indefinite duration. The address of the Bank’s registered office is 9, rue Gabriel Lippmann, Parc d’Activité Syrdall 2, L-5365 Munsbach, Luxembourg. Avanzia is fully consolidated into Kistefos. The consolidated accounts are available at Kistefos’ registered office in Dokkveien 1, N-0250 Oslo, Norway.

The financial statements of the Bank as at and for the year ended 31 December 2017 include the entire Bank.

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were authorised for issue by the Board of Directors on 22 February 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Significant events after balance sheet date

The Bank is not aware of any significant events after balance sheet date which would have a material impact on the 2017 financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements.

(a) Basis of consolidation

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

(b) Foreign currency

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

(c) Interest

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

The calculation of the effective interest rate includes fees and points paid or received, if any, that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

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

Interest income and expense presented in the Statement of Comprehensive Income include:

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

The Bank has not had available-for-sale investment, securities, derivatives or similar during the reporting period or at balance sheet date.

(d) Fees and commission

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

Other fees and commission income, interchange fees from Mastercard, including account servicing fees, are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(f) Income tax

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

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

(g) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits and subordinated liabilities on the date at which they are originated.

For credit cards, a loan is originated when the customer uses the card and by that transaction the Bank gives a loan to the customer. For loans to (deposits with) other banks, the loan is originated when the Bank has transferred the funds to the counterparty bank. For deposits from customers, the liability is originated when the Bank receives the payment transaction with the funds deposited by the customer.

(ii) Classification

At inception, a financial asset is classified in one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; or
- at fair value through profit or loss and within the category as:
 - held for trading; or
 - designated at fair value through profit or loss.

The Bank's credit card loans, deposits with other banks are classified as loans and receivables.

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. Transfers in whom control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

(iv) Amortised cost measurement

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

(v) Fair value measurement

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction on the measurement date. See also note 4 regarding the determining of fair value.

(vi) Identification and measurement of impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets are impaired. 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, the disappearance of an active market for a security, 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. 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.

In assessing collective impairment the Bank uses experience data from the Bank when available, or from other sources (such as collection agencies, etc.) for similar types of loans and defaults, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount which arises due to the present value calculation. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Bank is continuously monitoring the development of its recoverability, and provides on that basis estimates for the recoverability of the remaining cash flows for its impaired loans. These estimates are

updated in accordance with actual performance and possible revision of expectations with respect to recoverability.

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 1 200 days past due" to "more than 36 months at collection" and resulted in an additional one-time write-off of TEUR 254. Going forward no material difference in write-offs amounts will result from this change.

(h) Cash and cash equivalents

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

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

(i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value plus incremental direct transaction costs if any, and subsequently measured at their amortised cost using the effective interest method.

The Bank issues Mastercard revolving type credit cards, where the customers are given a credit limit which they can draw on. The customer may use these credit cards at points of sales and in banks for purchases and cash withdrawals. Transactions from card usage will result in the customer building up a loan balance. The customer will on a monthly basis receive an invoice, where he is required to repay a minimum amount (the higher of a certain percentage of the loan balance or a fixed minimum amount, or the entire loan balance if it is less than the fixed minimum amount; the actual values differ slightly for each country), or repay up to the full outstanding loan balance if the customer so desires. The Bank may at any time change the interest rate charged to the card and/or cancel the loan agreement.

In line with the new professional card service which started in 2014 the Bank acts as a card issuer for other institutions. The transactions from card usage build up a loan balance which is invoiced to the business partner on monthly basis and is settled in total.

(j) Property and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Depreciation

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

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

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

(k) Intangible assets

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

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

(l) Impairment of non-financial assets

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

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

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

(m) Reversal of impairments of non-financial assets

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

(n) Deferred tax

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

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

(o) Deposits, debt securities issued and subordinated liabilities

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

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

(p) Accrued expenses

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

(q) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

(r) Share capital and reserves

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

(s) Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Bank has not early adopted the new standards in preparing these financial statements.

The following standard is expected to have a material impact on the Bank's financial statements in the period of initial application.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018. Based on assessments undertaken to date, the total estimated adjustment (net of tax) of the adoption of IFRS 9 on the opening balance of the Bank's equity at 1 January 2018 is approximately EUR 19.6 million, in particular due to the material impact of the new standard on provisions for impairments of loans (please see further below).

The actual impact of IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application.

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

Consequently, the new standard is expected to not affect the current classification and measurement approach of the Bank. Under IFRS 9 Financial assets will still be measured at amortized cost.

There will therefore be no financial impact on the opening balance of the Bank's equity as at 1 January 2018.

Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. This requires additional factors such as probability of default, additional exposure deriving from undrawn credit facilities as well as considerable judgement over how changes in economic factors affect ECLs (determined on a probability-weighted basis) to be considered for the recognition of the loan loss allowances.

The overall approach chosen by the Bank consists in using standard forecasting statistical tools (as those tools are already broadly used in the Bank and are recognized as industry best practices). The Bank decided to apply different ECL computation models for the different asset categories depending on their size and riskiness.

The key inputs into the measurement of ECLs are the term structures of the following variables:

- Probability of Default (PD)
- Loss Given Default (LGD) and
- Exposure at Default (EAD).

These parameters will be derived from internally developed statistical models and other historical data. They will be adjusted to reflect forward looking information.

In the following the ECL model for the credit card receivables is described:

The Bank applies the three-stage model in order to apply the appropriate ECL formula (12-month PD ECL vs. expected lifetime PD). In the three-stage model, the Bank utilises quantitative indicators (i.e. arrear status, credit revoke status) for the transitioning between the stages.

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

Any financial instrument at initial recognition is allocated to stage 1. Since Avanzia does not invest in credit impaired loans, all newly issued credit cards are allocated to stage 1 at initial recognition. As long as the risk of this instrument to default has not increased significantly by the next reporting date, the loan can be considered as performing and it stays in stage 1. For such performing stage 1 assets a 12-months expected credit loss (*ECL*) allowance needs to be recognized and based on the 12-months PD. Interest is to be recognized on a gross basis.

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

In case an instrument defaults, it has to be transitioned to stage 3. For such non-performing loans, a lifetime ECL needs to be recognized and based on the lifetime PD, like for stage 2 assets, although

interest no longer is recognized on a gross, but net basis. The majority of the Bank's financial assets will move to stage 3 from stage 2, (e.g. loan first gets into in arrears before defaulting). Transition from stage 1 to stage 3 is unlikely, but possible (e.g. insolvency before the loan gets into in arrears). The Bank considers a financial asset to be in default (stage 3) when the loan is more than 90 days past due and/or the loan has been credit revoked.

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

The PD of a loan is derived from a statistical model relying on internally compiled data comprising both quantitative and qualitative factors (e.g. customer behaviour, personal data, external scoring). Different statistical models have been developed for each homogenous subset of the Bank's credit card portfolio (e.g. market, arrear status, lifecycle tenure).

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

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

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

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

Impact assessment

The most significant financial impact from the implementation of IFRS 9 is expected to result from the new impairment requirements in relation to the performing loans (stage 1 and stage 2 assets), a concept unknown under IAS 39. Furthermore with the introduction of IFRS 9, the loan loss allowances will be impacted by possible transitions between the stages and possible changes to the forward-looking information.

With the replacement of IAS 39 by IFRS 9, the Bank estimates the loan loss allowance to increase by EUR 26.4 million to EUR 85.2 million.

Impact on capital planning

The Bank has decided and informed the competent authority (CSSF) to apply the transitional arrangements set out in the EU Regulation No 2017/2395 following the standardised approach. On the one hand, in the first year of the transitional period, 95% of the initial impact of EUR 19.6 million (after-tax) can be added back to the CET1 capital. On the other hand, the reduction of the capital requirement deriving from the increased loan loss provision, i.e. the reduction of the exposure value, the amount of deferred tax assets and the amount of Tier 2 items, has to be reversed by the same factor.

The Bank estimates the impact on the statutory capital of the implementation of IFRS 9 according to the table below (all figures in MEUR):

In thousands of EUR

Impact to the capital as of 01.01.2018 before adjustments for phasing-in	per IAS 39	per IFRS 9	Impact
CET1	100.920	81.361	-19.559
AT1	8.625	8.625	
T2			
Total capital	109.545	89.986	-19.559
Risk weighted assets	960.497	934.062	-26.435
CET1 ratio	10,5%	8,7%	-1,8%
Total capital ratio	11,4%	9,6%	-1,8%

In thousands of EUR

Impact to the capital as of 01.01.2018 after adjustments for phasing-in (95%)	per IAS 39	per IFRS 9	Impact
CET1	100.920	99.942	-978
AT1	8.625	8.625	
T2			
Total capital	109.545	108.567	-978
Risk weighted assets	960.497	959.175	-1.322
CET1 ratio	10,5%	10,4%	-0,1%
Total capital ratio	11,4%	11,3%	-0,1%

4. Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in the Bank's procedures.

In general, the Bank assesses impairments on credit card loans collectively, as this is the most practical approach given the number of credit card loans, and the average low exposure on each loan. An impairment assessment is applied to non-performing credit card loans to cover credit losses inherent in portfolios of loans with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans.

For credit card loans, the Bank considers that there is objective evidence of impairment when a loan or group of loans is 60 days or more past due. In addition the Bank analyses other traits to verify if there is other objective evidence of impairment. An impairment allowance is assessed on the groups of loans, categorised by the number of days past due, or other criteria. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical data and current economic conditions. The accuracy of the allowances depends primarily on the estimates of collectability over time. The Bank continuously assesses and monitors the collectability of delinquent loans. The same principles are applied for the purchased French revolving portfolio. However in lack of historic performance data, the relevant parameters are derived from the Bank's own experience in the French market and adjusted based on expert judgment.

In addition, the Bank may also apply allowances for impairment applied to financial assets evaluated individually, if there are particular events that warrant this. The assessment is made upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the nature of the delinquency and the counterparty's financial situation. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Determining fair values

The Bank considers that based on the contractual parameters (short term nature, variable interest rate, cancellation possibilities, etc.), the carrying amounts of its assets and liabilities represent a reasonable approximation for the fair value of these assets and liabilities.

Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- The Bank has not classified any of its financial assets or liabilities as "trading".
- The Bank has not classified any financial assets as "held-to-maturity".

5. Segment reporting

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

6. Net interest income

Interest income

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

In thousands of EUR

INTEREST INCOME	2017	2016
Financial institutions	54	75
Customers	174.839	141.347
Total interest income	174.893	141.422

Interest income is charged on impaired loans to customers based on the effective interest rate method. Of this interest income, TEUR 3 904 is interest on impaired receivables (2016: TEUR 3 298). This interest income is recognised net of applicable impairments to the loans (please see note 11). For a description of concentration with respect to sector and geographical location, please see note 27(c)(iii)

Interest expense

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

In thousands of EUR

INTEREST EXPENSE	2017	2016
Financial institutions	-1.985	-538
of which: interest paid on assets (mainly BCL)	-1.422	-445
Customers	-9.269	-7.086
Subordinated liabilities	-498	-458
Total interest expense	-11.752	-8.082

7. Net fee and commission income

Commission income is made up of interchange fees received from Mastercard and reminder fees charged to credit card customers. For a description of concentration with respect to sector and geographical location, please see note 27(c)(iii).

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

8. Other operating income/expenses

Other operating income comprises all income not recorded elsewhere and contains EUR 1.2 million in commercial and technical support.

Other operating expenses contain an arrangement fee of TEUR 1 030 in relation to the acquisition of a financial instrument during the year and the contribution to the Luxembourgish deposit insurance scheme (FGDL) (please see note 23) for 2017 of TEUR 3 044.

9. Personnel expenses

Personnel expenses include wages and salaries as well as social security and other costs. In addition, some employees participate in a defined pension insurance contribution plan. The Bank's cost for this

pension plan including applicable taxes in 2017 was TEUR 202 (2016: TEUR 206). All pension contributions are paid in.

10. General administrative expenses

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

Operational lease payments are as follows:

In thousands of EUR

OPERATIONAL LEASES	2017	2016
Office rental	964	781
Other leases	1.365	176

The increase of "other leases" is mainly due to new IT related contracts which started in October 2016, having a major impact on 2017 figures.

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

In thousands of EUR

COMMITMENTS	<1 year	1-5 years	> 5 years
As at 31 December 2017	2.685	7.986	591
As at 31 December 2016	2.155	8.784	1.642

11. Impairment on financial assets

The Bank applies an allowance for impairment on loans that it considers to be impaired.

Please see note 27(c)(ii) and note 3(g)(vi) regarding impairment of loans. In addition, loans that are deemed uncollectible are written off.

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

In thousands of EUR

IMPAIRMENT	2017	2016
Net (loss) / gain from impairment	-9.325	-8.786
Write-offs	-35.461	-30.021
Total impairments	-44.786	-38.807

The Bank is assessing the impairment on credit card loans on a group basis and based on expected recoveries of delinquent loans. For loans that were less than 60 days past due, the Bank did at balance sheet date not consider that there were any other objective evidence of impairment, except for those loans where the contract has been cancelled by the Bank.

12. Income taxes

The Bank is subject to taxation in Luxembourg. The corporate income tax (CIT) rate was 21% in 2016 and became 19% in 2017 (2018: 18%). The income is further subject to the municipal business tax (6.75%), whereas the corporate income tax amount is subject to the solidarity surtax (7% imposed on the CIT).

In thousands of EUR

	2017
Result on activities before taxes	57.347
<i>Aggregate tax rate</i>	<i>27.08%</i>
Theoretical income tax	15.530
Tax impact of exempt income	-5.208
Effective income tax	10.322

As at 31 December 2017, tax liabilities amount to EUR 20.4 million.

As at 31 December 2017, there are no deferred tax liabilities or assets.

13. Cash and cash equivalents

In thousands of EUR

CASH AND CASH EQUIVALENTS	2017	2016
Balances with central banks	463.795	238.121
Nostro account balances with financial institutions	21.266	59.584
Balance at 31 December	485.061	297.705

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

14. Loans and advances and amounts owed to financial institutions

In thousands of EUR

LOANS AND ADVANCES TO FINANCIAL INSTITUTIONS	2017	2016
Available on demand	21.266	59.584
Money market placements	37.764	37.925
Balance at 31 December	59.030	97.509

Money market placements are term deposits with other financial institutions (banks). On 31 December 2017 there was one placement with an original maturity of two months.

The Bank has pledged term deposits of EUR 28.3 million and NOK 85.0 million as collateral for a guarantee in favour of Mastercard.

The assets are recognised at their carrying amount which is considered a reasonable approximation for their fair values, due to their short term nature.

In May 2017, the Bank contracted a EUR 100 million senior secured credit facility collateralised by loans and advances to German customers.

At balance sheet date the Bank has a liability of around TEUR 170 in relation to overdrafts on current accounts in USD, GBP and CHF.

15. Loans and advances to customers

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

In April 2017, the Bank purchased a revolving credit portfolio from a French bank. The purchased portfolio amounted to EUR 63 million for a total of 17 200 customers. The Bank aims to convert these clients to Avanzia specific products. Customers not yet migrated are serviced by the French bank. As at balance sheet date, the portfolio was at balance of EUR 55 million for a total of 14 200 customers.

In thousands of EUR

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST	2017	2016
Credit card loans to retail customers	1.228.562	939.761
Impairment	-58.718	-49.393
Balance at 31 December	1.169.844	890.368

In thousands of EUR

ALLOWANCES FOR IMPAIRMENTS	2017	2016
Balance at 1 January as reported	49.393	40.607
<i>Impairment loss for the year</i>		
Charge for the year	44.786	38.807
Write-offs (net of recoveries)	-35.461	-30.021
Balance at 31 December	58.718	49.393

The above assets are recognised at their carrying amount.

16. Tangible assets

<i>In thousands of EUR</i>	IT equipment	Fixtures and fittings	Total
COST			
Balance at 1 January 2017	3.337	1.046	4.383
Acquisitions	295	94	389
Balance at 31 December 2017	3.632	1.140	4.772
Balance at 1 January 2016	1.411	779	2.189
Acquisitions	1.927	267	2.194
Balance at 31 December 2016	3.337	1.046	4.383
ACCUMULATED DEPRECIATION			
Balance at 1 January 2017	1.594	665	2.259
Depreciation for the period	538	141	679
Balance at 31 December 2017	2.132	806	2.938
Balance at 1 January 2016	1.140	575	1.715
Depreciation for the period	454	90	544
Balance at 31 December 2016	1.594	665	2.259
Net tangible assets at 31 December 2017	1.500	333	1.834
Net tangible assets at 31 December 2016	1.743	381	2.124

17. Intangible assets

<i>In thousands of EUR</i>	Purchased software	Total
COST		
Balance at 1 January 2017	8.523	8.523
Acquisitions	2.744	2.744
Balance at 31 December 2017	11.266	11.266
Balance at 1 January 2016	4.957	4.957
Acquisitions	3.565	3.565
Balance at 31 December 2016	8.523	8.523
ACCUMULATED AMORTISATION		
Balance at 1 January 2017	4.866	4.866
Amortisation for the period	1.254	1.254
Balance at 31 December 2017	6.120	6.120
Balance at 1 January 2016	3.784	3.784
Amortisation for the period	1.082	1.082
Balance at 31 December 2016	4.866	4.866
Net intangible assets at 31 December 2017	5.147	5.147
Net intangible assets as 31 December 2016	3.657	3.657

18. Other assets

Other assets are made up of EUR 27 million Mastercard customer card payments paid in advance for 1 January 2018, as well as TEUR 2 549 prepaid administrative expenses.

19. Amounts owed to customers

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

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

20. Other liabilities

<i>In thousands of EUR</i>	2017	2016
Short term payables	11	106
Preferential creditors	997	854
Other accruals	9.165	5.601
Balance at 31 December	10.173	6.562

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

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

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

21. Subordinated liabilities

The subordinated liabilities consist of a NOK 85 million floating rate note with indefinite maturity, qualifying as alternative Tier 1 capital (please see note 27 (k)). The note has been issued to a number of institutional investors, with a rate of 3 months NIBOR + 450 bps.

22. Equity

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

Subscribed capital and issue premiums

The subscribed capital, issue premiums, authorised capital (excluding subscribed share capital) and voting and non-voting shares were as following 2017 (no change):

<i>In thousands of EUR</i>	Subscribed capital	Issue premiums	Authorised capital	Issued voting shares	Issued non-voting shares
DATE					
1 January 2017	17.553	9.890	3.114	210.210	0
31 December 2017	17.553	9.890	3.114	210.210	0

The authorised capital excludes the subscribed capital.

Avanzia Bank S.A.

As at 31 December 2017, the 210 210 issued shares were distributed among the following share classes:

SHARE CLASS	Number of shares
Class A	30.383
Class B	21.280
Class C	158.547
Total voting shares	210.210
Class F	0
Total non-voting shares	0
Total issued shares	210.210

Shares in share classes A-C are ordinary voting shares and have a nominal value of EUR 83.50 each. As at 31 December 2017 management held directly or indirectly 2 000 shares in Avanzia Bank S.A.

Reserves

In 2017 Avanzia Bank S.A. allocated TEUR 533 of the 2016 profits to a reserve according to Luxembourg tax law.

The total of the reserves as at 31 December 2016 amounts to EUR 13.6 million which is not available for distribution.

Dividends

On 20 July 2017 Avanzia Bank S.A. declared and paid an interim dividend of EUR 10.7 million (EUR 50.75 per share). This dividend was attributable to the holders of the ordinary voting shares (share classes A-C).

23. Deposit guarantee scheme

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

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

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

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

As at 31 December 2016 the Bank had allocated an amount of EUR 4.4 million to an un-distributable specific reserve in relation to AGDL. For 2017 the Bank paid EUR 3 million to FGDL and TEUR 2 to FRL. Based on CSSF circular 14/599, for 2018 the Bank will release the equivalent after-tax amount of EUR 2.2 million of the un-distributable specific reserve in relation to AGDL.

24. Auditor's fees

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

In thousands of EUR

	2017	2016
Audit fees	178	130
Audit related fees	19	49
Tax services	0	95
Total fees (excl. VAT)	197	274

25. Staff

The average number of persons employed during the financial year by the Bank was as follows:

	2017	2016
Management Committee	7	6
Employees	136	114
Total	143	120

At the end of 2017, the company had 143 employees (including senior management).

26. Related parties

Parent and ultimate controlling party

Kistefos AS, Norway retained majority control of the shares during the year ended 31 December 2017.

Transactions with board members and key management personnel

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

In thousands of EUR

	2017	2016
Remuneration	2.521	2.237
Pensions	92	92
Loans	8	100
Other commitments	57	99

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

In thousands of EUR

	2017	2016
Remuneration	114	36
Pensions	0	0
Loans	5	3
Other commitments	45	12

Additionally, during the period, Kistefos associates and their immediate relatives have transacted with the Bank with loans amounting to TEUR 14 and other commitments amounting to TEUR 250.

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

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

27. Risks and risk management

(a) Introduction

The following note provides an overview and analysis of the risks to which Avanzia Bank is subject, and how the Bank manages such risks. Unless otherwise stated, all figures are in euro as at 31 December 2017.

(b) Risk management: objectives and policies

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

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

The Bank has exposure to the following risks:

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

For managing risks, the following principles are followed:

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

(c) Credit risk

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

(i) **Management of credit risk**

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

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

(ii) Exposure to credit risk

<i>In thousands of EUR</i>	Loans and advances to customers		Loans and advances to financial institutions	
	2017	2016	2017	2016
COLLECTIVELY IMPAIRED				
Impaired; less than 60 days past due	2.898	2.569	0	0
Impaired; 60 days past due	9.523	6.706	0	0
Impaired; 90-420 days past due	58.748	49.810	0	0
Impaired; 420-780 days past due	27.712	21.296	0	0
Impaired; 780-1140 days past due	12.514	11.458	0	0
Impaired; 1140 days + past due	3.546	3.654	0	0
Impaired; other assessment	6.467	5.921	0	0
Gross amount	121.409	101.415	0	0
Allowance for impairment	-58.718	-49.393	0	0
Carrying amount	62.690	52.022	0	0
PAST DUE BUT NOT IMPAIRED				
0-30 days	111.278	74.513	0	0
30-60 days	28.024	18.671	0	0
Carrying amount	139.301	93.184	0	0
NEITHER PAST DUE NOR IMPAIRED				
Not impaired; not past due	967.852	745.162	59.030	97.509
Carrying amount	967.852	745.162	59.030	97.509
Carrying amount - amortised cost	1.169.844	890.368	59.030	97.509

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

See also note 3(g)(vi) regarding definitions and accounting policies for impaired loans, note 4 regarding judgements and estimates, as well as note 11 regarding impairments on financial assets and note 15 regarding loans and advances to customers.

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 (please see note 14) collateralised by loans and advances to German customers. At the end of 2017 the pledged loans and advances amounted to EUR 170 million.

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.

(iii) Concentration risk

In general, credit card loans are well diversified and small (usually maximum up to EUR 10 000, and on average EUR 1 478 in December 2017). The Bank also follows a policy of maximum concentration per individual borrower or group of borrower. See also note 27(c)(vi) below regarding concentration risk with respect to financial institutions.

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

An analysis of concentrations from loans and advances at the balance sheet date is presented below:

<i>In thousands of EUR</i>	Loans and advances to customers		Loans and advances to financial institutions	
	2017	2016	2017	2016
CONCENTRATION BY SECTOR				
Banks	0	0	59.030	97.509
Retail	1.169.844	890.368	0	0
Total 31 December	1.169.844	890.368	59.030	97.509
CONCENTRATION BY LOCATION				
Germany	1.029.818	839.245	256	43.744
Luxembourg	3.216	2.860	57.064	50.375
France	93.030	30.016	1.527	1.355
Austria	38.356	13.940	0	0
Other EU/EEA countries	5.424	4.307	184	2.034
Total 31 December	1.169.844	890.368	59.030	97.509

The concentration of interest income is as follows:

<i>In thousands of EUR</i>	Interest income on customers		Interest income on loans and advances to financial institutions	
	2017	2016	2017	2016
CONCENTRATION BY SECTOR				
Banks	0	0	54	75
Retail	174.840	141.347	0	0
Total 31 December	174.840	141.347	54	75
CONCENTRATION BY LOCATION				
Germany	159.767	135.027	0	0
Luxembourg	506	455	54	75
France	9.438	4.209	0	0
Austria	4.347	1.035	0	0
Other EU/EEA countries	781	621	0	0
Total 31 December	174.840	141.347	54	75

The concentration of commission income is as follows:

<i>In thousands of EUR</i>	Commission income on customers		Commission income on loans and advances to financial institutions	
	2017	2016	2017	2016
CONCENTRATION BY SECTOR				
Banks	0	0	653	398
Retail	17.029	14.398	0	0
Total 31 December	17.029	14.398	653	398
CONCENTRATION BY LOCATION				
Germany	15.194	13.359	0	0
Luxembourg	78	126	653	398
France	325	231	0	0
Austria	1.341	493	0	0
Other EU/EEA countries	91	189	0	0
Total 31 December	17.029	14.398	653	398

(iv) Trading assets

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

(v) Settlement risk

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

(vi) Financial institutions

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

(d) Fraud risk

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

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

The credit card related fraudulent activity resulted 2017 in a loss of TEUR 1 095 (TEUR 1 410 in 2016) which corresponds to a fraudulent amount rate measured as ratio of card turnover of 0.05% in 2017 (0.08% in 2016). These losses are in the financial statements included as part of the write-offs of credit card loans.

(e) Liquidity risk

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

Management of liquidity risk

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

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

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

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

The Bank relies on deposits from customers as its primary source of funding. The deposits from customers are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends. On an aggregate level, the customer deposits exhibit a high degree of stability. During 2017, customer deposits in savings products increased by 31.9% (2016: increase of 39.3%).

In May 2017, the Bank contracted a senior secured credit facility of EUR 100 million that matures in May 2020 (please see note 14).

Exposure to liquidity risk

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

LCR (Min. 100%)	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%

Residual contractual maturities of financial liabilities

31 DECEMBER 2017

<i>In thousands of EUR</i>	Carrying amount	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
NON-DERIVATIVE LIABILITIES							
Deposits from banks	100.444	-102.819	-177	-382	-496	-101.764	0
Deposits from customers	1.453.861	-1.454.762	-1.454.762	0	0	0	0
Unrecognised loan commitments	3.068.205	-3.068.205	-3.068.205	0	0	0	0
Total	4.622.510	-4.625.786	-4.523.143	-382	-496	-101.764	0

31 DECEMBER 2016

<i>In thousands of EUR</i>	Carrying amount	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
NON-DERIVATIVE LIABILITIES							
Deposits from banks	135	-135	-135	0	0	0	0
Deposits from customers	1.102.104	-1.102.809	-1.102.809	0	0	0	0
Unrecognised loan commitments	2.658.274	-2.658.274	-2.658.274	0	0	0	0
Total	3.760.512	-3.761.218	-3.761.218	0	0	0	0

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

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

(f) Market risks

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

Avanzia's exposure to interest rate risk is fairly 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 class is 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 customer deposits, on which the rates may be changed immediately, thus changes in the two may be fairly well matched as needed.

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

Management of market risks

Overall authority for market risks is vested in the Finance 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.

Avanzia 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 which are at all times in relation with equivalent claims on the PCS client banks. The Bank holds no positions in other currencies, and does apart from the above not need to recognise or manage any other currency risk. A few suppliers may invoice in currencies other than euro, but these are immediately translated to euro, and the currency risk as such is negligible.

Exposure to interest rate risk

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

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

31 DECEMBER 2017

<i>In thousands of EUR</i>	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
INTEREST EARNING ASSETS						
Cash, balances with central banks	463.795	463.795	0	0	0	0
Loans and advances to banks	59.030	59.030	0	0	0	0
Loans and advances to customers	1.169.844	1.169.844	0	0	0	0
Total interest earning assets	1.692.668	1.692.668	0	0	0	0
INTEREST BEARING LIABILITIES						
Deposits from banks	100.444	100.444	0	0	0	0
Deposits from customers	1.453.861	1.453.861	0	0	0	0
Subordinated liabilities	8.638	8.638	0	0	0	0
Total interest bearing liabilities	1.562.943	1.562.943	0	0	0	0
Gap	129.726	129.726	0	0	0	0
Cum. gap	129.726	129.726	129.726	129.726	129.726	129.726
Cum. gap (%)	7,7%	7,7%	7,7%	7,7%	7,7%	7,7%

31 DECEMBER 2016

<i>In thousands of EUR</i>	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
INTEREST EARNING ASSETS						
Cash, balances with central banks	238.121	238.121	0	0	0	0
Loans and advances to banks	97.509	97.509	0	0	0	0
Loans and advances to customers	890.368	890.368	0	0	0	0
Total interest earning assets	1.225.998	1.225.998	0	0	0	0
INTEREST BEARING LIABILITIES						
Deposits from banks	135	135	0	0	0	0
Deposits from customers	1.102.104	1.102.104	0	0	0	0
Subordinated liabilities	9.355	9.355	0	0	0	0
Total interest bearing liabilities	1.111.593	1.111.593	0	0	0	0
Gap	114.405	114.405	0	0	0	0
Cum. gap	114.405	114.405	114.405	114.405	114.405	114.405
Cum. gap (%)	9,3%	9,3%	9,3%	9,3%	9,3%	9,3%

The cumulative gap (%) is calculated in relation to interest bearing items, measured at amortised cost.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant balance sheet position, is at balance sheet date as follows:

<i>In thousands of EUR</i>	100bp parallel increase	100bp parallel decrease	50bp increase after 1 year	50bp decrease after 1 year
SENSITIVITY OF PROJECTED NET INTEREST INCOME 2017				
At 31 December	512	-1.518	0	0
Average for the period	515	-1.413	0	0
Maximum for the period	823	-985	0	0
Minimum for the period	223	-1.812	0	0
SENSITIVITY OF PROJECTED NET INTEREST INCOME 2016				
At 31 December	-265	-1.212	0	0
Average for the period	-367	-984	0	0
Maximum for the period	-236	-798	0	0
Minimum for the period	-441	-1.220	0	0
SENSITIVITY OF REPORTED EQUITY TO INTEREST RATE MOVEMENTS 2017				
At 31 December	374	-1.107	0	0
Average for the period	375	-1.030	0	0
Maximum for the period	600	-719	0	0
Minimum for the period	163	-1.321	0	0
SENSITIVITY OF REPORTED EQUITY TO INTEREST RATE MOVEMENTS 2016				
At 31 December	-187	-858	0	0
Average for the period	-259	-696	0	0
Maximum for the period	-167	-565	0	0
Minimum for the period	-312	-864	0	0

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

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

(g) Operational risks and outsourcing risk

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

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

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

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

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

The Bank is regularly assessing and reporting its operational and outsourcing risk to management as well as to the Board of Directors. The Bank is also regularly assessing its expected losses in relation to these risks, which is done on a regular basis. At year end, these losses were expected to be TEUR 233, of which TEUR 214 to operational risk and TEUR 19 is related to outsourcing risk. The Bank has however not incurred nor recorded any material operational losses in 2017.

Avanzia Bank S.A. has received acceptance from the regulator for using the Alternative Standardised Approach (ASA) as described in the Basel 2 framework as well as Regulation (EU) N° 575/2013 for

assessing operational risk charge for capital adequacy purposes. The amount assessed for this charge as at balance sheet date was TEUR 3 019 when using the ASA method.

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

Disaster Recovery 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 updated in response to changes on an on-going basis in the business environment. The IT Department reviews the plan at least annually.

(h) Concentration risk

Given the limited individual balances (on average EUR 1 478) and the large diversification of credit card customers, Avanzia does not consider that there is material concentration risk within this product. The same applies to customer deposits, which again are limited in average and maximum amount, and well diversified in number.

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

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

(i) Model risk and income risk

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

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

There is also a risk that Avanzia's income may change over time. There may be several sources for this risk, such as change in client behaviour, change in spreads, etc. Avanzia's business model, however, is one of highly stable recurring revenue, where the variation in both volumes and spreads are limited over time, giving assurance for sustained income going forward. As such the income risk is considered to be limited.

(j) Reputation risk and compliance risk

Reputation risk may arise from the Bank acting incompetently or outright dishonestly towards its clients, that it presents itself in an unprofessional fashion, and possibly also due to founded or

unfounded smear campaigns from others. The consequence of bad reputation could be a loss of confidence in the Bank. This can, in turn, imply that the Bank may lose customers for both product types. For credit cards it will mean a loss of income over time, whereas for deposits this may imply a liquidity risk, if clients start to withdraw their funds in considerable volumes.

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

(k) Capital management

Regulatory capital

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

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

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

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

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

The Bank's regulatory capital position at 31 December 2017 was as follows:

In thousands of EUR

TIER 1 CAPITAL	Note	2017	2016
Subscribed capital	22	17.553	17.553
Issue premium	22	9.890	9.890
Reserves (excl. AGDL)	22	10.910	8.713
Income carried forward		58.314	38.381
Interim profits inclusion authorised by CSSF		9.400	5.000
Subordinated liabilities	21	8.625	9.338
Less intangible assets	17	-5.147	-3.657
		109.545	85.217

Avanzia has in 2017 received authorisation from the competent authority to include EUR 9.4 million of the 2017 profits as part of its regulatory capital. If considering the remaining interim profits for the year, the Tier 1 capital as at 31 December 2017 would amount to EUR 136.5 million (2016: EUR 100.7 million).

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

Pillar 1

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

The capital ratio (Pillar 1) as at 31 December 2017 was 11.4% (2016: 11.6%).

Profits for the financial year are not included in the regulatory capital, except for EUR 9.4 million as described under (k) above. Had the remaining 2017 profits also been included, the Bank's Tier 1 capital ratio would have been 14.2% (2016: 13.8%).

Pillar 2 (ICAAP)

Avanzia will submit its ICAAP document for 2018 during 2018, as per regulatory requirements.

During the ICAAP process in 2017, Avanzia has been following a strategy of assessing all risk aspects available, and considered their relevance. The Bank is to a larger degree also quantifying its assessments based on experience data. The Bank assesses its ICAAP on a monthly basis, which is reported to the Board of Directors.

The Pillar 2 ratio at 31 December 2017 was 13.9% (2015: 13.3%) and within the agreed risk appetite of Avanzia.

Capital allocation

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

(m) Remuneration policy and practises

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

Only the management of the Bank are considered to be material risk takers. The remuneration for both management and employees consists of a fixed component and a variable component. The variable component is related to the performance of the Bank (up to 70%) as well as the individual performance (30%). The variable component can for management and employees not exceed 50% and 20% respectively of the total 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.

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

As the Bank only has one main activity, credit cards, the entire remuneration is related to this activity.

For the Bank's management the remuneration was as follows:

In thousands of EUR

TOTAL REMUNERATION	2017	2016
Fixed remuneration	1.475	1.381
Variable remuneration	1.046	820
Sum	2.521	2.201
<i>Number of beneficiaries</i>	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 differences with regards to the amounts stated in note 26, arise from the fact that non-executive board members are not considered as risk takers and hence not included above, and some timing differences with respect to payment and accrual.

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.

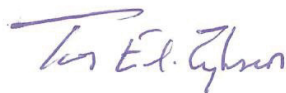
Munsbach, Luxembourg 22 February 2018



Mr. Bengt Arve Rem
Chairman of the board



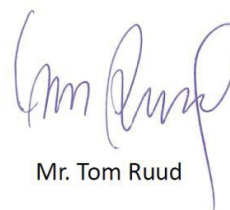
Dr. rer. pol. Thomas Schlieper
Deputy chairman of the board



Mr. Tor Erland Fyksen



Mr. Nishant Fafalia



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To the Board of Directors
Avanzia Bank S.A.
9, rue Gabriel Lippmann
L-5365 Munsbach

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Avanzia Bank S.A. ("Avanzia Bank"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Avanzia Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

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

Key audit matters

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

Acquisition of a Loan Portfolio

Why is it a key audit matter?

In April 2017, the Bank acquired a portfolio of revolving consumer loans from a French bank. The nominal value of the portfolio at the acquisition date including a premium was EUR 62.8 million. The acquisition of the loan portfolio is impacting the financial statements of Advanzia Bank.

As this transaction is significant in size and unusual compared to the business model of Advanzia Bank we have assessed the transaction as significant for the audit which required special attention.

Please refer to the Directors' Report and the disclosures in Note 15 of the financial statements.

How we responded to the risk

We have inspected the underlying portfolio transfer agreement and reconciled the relevant parameters in relation to the acquisition price calculated and agreed between the parties and traced the acquisition price to the relevant bank statement.

We assessed the accounting treatment for the transaction in relation to the Bank's accounting policies and to the International Financial Reporting Standards.

We checked the disclosures made in the financial statements of Advanzia Bank in relation to this transaction.

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

Why is it a key audit matter?

Advanzia Bank's portfolio of loans and advances to customers amounts to EUR 1.228 million as at 31 December 2017. These loans and advances to customers are measured at amortised cost. The allowance for impairment on loans that the Bank considers to be impaired amounts to EUR 45 million as at 31 December 2017.

Certain aspects of the accounting for loan losses require significant judgement of management, such as the identification of loans that are deteriorating, the assessment of objective evidence for impairment (in particular based on groups of loans that share the same risk characteristics and the delinquency status of the loans), and the estimation of the recoverable amount.



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

Please refer to the “Significant accounting policies” section in Note 3 and related disclosures in the “Risk Management” Note 28 of the financial statements.

How we responded to the risk

We understood, evaluated and tested the operating effectiveness of key controls to identify loss events and assess and determine the extent to which impairments should be recognized.

These controls include the Bank’s credit management process for the approval and review of loans including the identification of impairment triggers and the completeness and accuracy of the transfer of data from the underlying source system to the impairment calculation system.

We have assessed the methodology and framework designed and implemented for the impairment calculation.

We challenged management’s inputs in the impairment calculation model, including the future cash flows and underlying key parameters and assumptions and back tested recoveries of impaired loans against recovery expectations embedded in the assumptions on future expected cash flows based on past values.

We have re-performed the impairment calculation as at 31 December 2017 on a sample basis.

Other information

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Advanzia Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of Board of Directors` use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Advanzia Bank`s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of “Réviseur d’Entreprises agréé” to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of “Réviseur d’Entreprises agréé”. However, future events or conditions may cause Advanzia Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

We have been appointed as “Réviseur d’Entreprises agréé” by the Board of Directors on 15 February 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 13 years.

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

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

Luxembourg, 22 February 2018

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé



T. Feld
Partner