Advanzia Bank S.A.

Financial Statements
For the Year Ended
31 December 2022

Advanzia Bank S.A.
9, rue Gabriel Lippmann
L-5365 Munsbach

Public

FINANCIAL STATEMENTS

For the Year Ended 31 December 2022
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1 ABOUT ADVANZIA BANK S.A.

1.1 A European digital bank

Advanzia Bank S.A. (hereafter also referred to as “the Bank” or “Advanzia”) is a European digital bank specialising in credit cards and Cards-as-a-Service (CaaS) solutions for consumers, business partners and financial institutions. Advanzia was granted a banking license by the Luxembourg Ministry of Treasury and Budget in December 2005. With 2.2 million credit card customers, Advanzia is a leading digital credit card issuer in Germany, with a strong and increasing presence in Luxembourg, Austria, France, Spain and Italy. Advanzia conducts its operations solely from Luxembourg and has no branches.

1.2 Flexible own branded products

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

1.3 Bespoke Cards-as-a-Service solutions

Advanzia has business partnerships with over 270 companies, associations and financial institutions for its Cards-as-a-Service offering. Business partners use Advanzia’s co-branded credit cards to strengthen their customer loyalty strategy and create a competitive advantage. Private banks and other financial institutions implement turnkey Visa and Mastercard credit card solutions delivered by Advanzia, either under their own brand or under the flagship brand Capitol. Advanzia takes care of the complete card programme, which encompasses scheme licensing, card issuance, processing, settlement, and customer service.

1.4 Regulatory stability

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

1.5 Solid shareholder structure

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

2 REPORT OF THE BOARD OF DIRECTORS

Advanzia is a digital bank that offers competitive and flexible consumer finance and card servicing solutions for private customers, business partners and banks. Advanzia promotes its own branded Mastercard Gold credit cards through online marketing channels in various European markets. It also offers Cards-as-a-Service solutions through white labelled and co-branded credit cards that are distributed via business partner networks, and through turnkey credit card programmes for banks and financial institutions – an area in which Advanzia is a leading provider in Europe and beyond.

2.1 Overall results

2.1.1 Strong financial performance

The global economy continued to be disrupted by the pandemic throughout 2022, mainly through reversed generous monetary policy and high inflation leading to higher interest rates. Despite the market environment and increased funding costs, Advanzia continued to keep profits stable whilst investing in new customer onboarding, diversifying its funding base and reaching important digital transformation milestones. The 2022 results demonstrate the success of Advanzia's credit risk underwriting and its ability to flexibly adapt marketing strategies and acceptance policies in order to improve portfolio performance and minimise risk. In 2022, the Bank paid to its shareholders a dividend of MEUR 93.0 out of the financial result 2021 and an interim dividend of MEUR 60.1 out of the interim result from January 2022 to June 2022.

2.1.2 Continued digital transformation

The Bank continued its digitalisation programme based on its state-of-the art cloud-based platform, with a new mobile app now rolled out for its CaaS offering, and a successful migration of all financial institutions and private banks to the Bank's Capitol omni-channel platform.

2.1.3 Increasing customer base and market growth

Overall, the loan balance grew satisfactorily during 2022, much more pronounced than in 2021. The number of new active customers also grew, and Advanzia's existing client base was more active with increasing transaction volumes per card reaching record levels in the second half of the year.

The Bank's credit card portfolio increased by 296 000 new active credit card customers[1]. At the end of the year, the Bank had 2.2 million credit cards in force[2] and a gross loan balance of MEUR 2 613. Profit after taxes was MEUR 122.

In 2022, the total turnover on all cards reached EUR 5.3 billion or EUR 3 800 per performing active customer[3], and the average loan balance per active customer amounted to approximately EUR 1 700. Advanzia's main income driver, the gross loan balance, increased by 15.3% compared to the previous year, to MEUR 2 613. Advanzia employed 195 people in total at the end of the year, compared to 193 at the end of 2021.

[1] New active customers is the number of customers who have used their cards for the first time.
[2] Cards in force: The number of issued cards including active and inactive cards.
[3] Active customers are customers with at least one movement on their account in the last month.

2.1.4 Product and market development

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

Own branded products

In **Germany** and **Luxembourg**, the "Gebührenfrei Mastercard Gold" concluded the year with a total gross loan balance of MEUR 2 112[4]. Overall, card applications and new active clients increased substantially throughout the year due to various new campaigns with attractive customer benefits.

In **France**, the "carte ZERO" sales development was positive with overall performance in line with expectations. The total gross loan balance reached MEUR 175.

In **Austria**, customer onboarding for the "Free Mastercard Gold" experienced constant growth despite limited digital marketing opportunities. The year ended with a total gross loan balance of MEUR 148.

The Bank's performance in **Spain** showed increased sales volumes and intensified lead generation from affiliate partners. Optimisations in the application process and risk management approach also contributed to an increase in acceptance rates. The year ended with a total gross loan balance of MEUR 94 for "Tarjeta YOU".

The Bank celebrated its first full year in **Italy** in November 2022 and ended the year with a total gross loan balance of MEUR 7.5, mainly thanks to expanded advertising campaigns and increased online marketing for "Carta YOU".

Cards-as-a-Service

The go-live of the eventimcard for CTS Eventim, Europe's largest ticket and event provider, was a particular highlight in the **CaaS co-branding** segment in Germany. Austria also saw the conclusion of a new co-branded partnership, and the Bank entered a significant number of new partnerships in Spain. Following its recent launch in Italy, Advanzia signed three new business partnerships, including Miles & More which already cooperates with Advanzia in France.

During 2022, Advanzia completed the migration of its former brand Omnium to the Capitol platform for its turnkey **CaaS solutions for private banks** and financial institutions. The Bank also launched the new Capitol app for all private bank cardholders – a further milestone for the bespoke service delivered from the Bank's state-of-the-art omni-channel platform. By the end of the year, Advanzia serviced close to 100 banks in 11 countries and solidified its position as the leading Cards-as-a-Service provider in Europe.

Advanzia Deposit Account

Besides credit cards, Advanzia also offers an online sight deposit account, the **Advanzia Deposit Account**. By the end of 2022, the deposited balance stood at MEUR 2 344, a 5.8% growth compared to 2021.

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[4] The loan balance figures in this chapter also include the co-branded cards.

2.2 Economic outlook

The German economy is expected to shrink through the middle of 2023 as businesses and households are faced with high inflation and increased borrowing and energy costs. Forecasts by the European Central Bank expect inflation in the Euro zone above its 2% target through 2025 and a shallow recession over the winter months. Despite the macro climate, the Bank's performance across all markets showed resilience to geopolitical conflicts and inflation pressure, achieving growth targets within anticipated risk. Credit risk measured by loan loss provisions increased during 2022, showing the expected trend of returning to pre-pandemic levels. The Bank continues to closely monitor the macroeconomic development and receivables performance, ready to take action should unexpected events arise. With a strong capital position and 2022 performance, the Bank expects continued growth in 2023 of the loan balance and client base across all markets it serves.

2.3 Strategic roadmap

2.3.1 Digital banking platform

With all of Advanzia's markets fully digitalised and operating from the cloud-based digital banking platform, 2022 saw continued customer growth overall, an accelerated market entry in Italy, the migration of all banks to the Capitol platform and the successful launch of the new Capitol app as key digitalisation milestones.

The successful setup of the omni-channel platform and related cloud infrastructure and interfaces in 2022 will facilitate the migration of remaining legacy frontends to the omni-channel platform in 2023. The continued omni-channel transformation will also result in a streamlined and harmonised customer enrolment process.

Internally, the Bank continued to optimise the digital workspaces for its employees and call centres in 2022. Virtual desktops and digital communication channels such as the launch of a new intranet were introduced to facilitate remote work and further enhance digital collaboration.

2.3.2 Value-added services

The provision of value-added services for the Bank's products and services is a key component for enhancing customer loyalty, boosting card usage and increasing revenues. Integrated in the customer journey and sold digitally via the product apps, the Bank initiated various value-added features in 2022 – a particular milestone is the successful provision of Payment Protection Insurance (PPI) in all markets except Italy.

2.3.3 Data platform

A 2022 milestone was the implementation of a new Data Analytics Workbench providing a Scoring-as-a-Service framework and enabling real-time risk scoring, which is a key component for enrolment and application enhancement.

The strategic Data Integration initiative launched in 2022 will modernise all the Bank's current data platforms, enabling deep-dive analysis and enhanced data exploration in order to support further growth. A new data analytics platform will provide centralised data access empowering all business departments through self-service capabilities and facilitating the creation of Artificial Intelligence models (examples include predictive behavioural models and campaigning, customer segmentation modelling and cross-selling opportunities). The business needs for the future data platform were analysed and the project is ready for implementation in 2023.

2.3.4 Growth market Italy

Since launching in Italy in November 2021, Carta YOU continues to be well received by Italian customers with consistently high and increasing application numbers throughout 2022. The product's online visibility continues to enhance thanks to the full deployment of all planned marketing and sales channels. Minor enhancements to the onboarding process have facilitated the customer journey and increased card activation rates.

In 2023, the Bank's credit risk policies will continue to be finetuned, building on specific Italian data feeding into the risk data platform and enabling increasingly accurate behavioural scoring to maximise card usage whilst minimising default risks.

The Bank was not involved in any kind of research or development activities during the year ended 31 December 2022.

3 LEADERSHIP

Board of Directors

- **Mr. Bengt Arve Rem**, Chairperson of the Board, CEO Kistefos AS
- **Dr. Thomas Schlieper**, Deputy Chairperson of the Board, Private investor
- **Mr. Nishant Fafalia**, Kistefos AS, Investment Director
- **Mr. Tor Erland Fyksen**, Private investor
- **Mr. Wiljar Nesse**, CEO DigiPlex, Class C Director

Audit, Risk and Compliance Committee

- **Mr. Nishant Fafalia**, Chairperson
- **Mr. Tor Erland Fyksen**, Member
- **Mr. Wiljar Nesse**, Member

Nomination and Remuneration Committee

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

3.1 Management Team

Executive Management Committee

- **Mr. Roland Ludwig**, Chief Executive Officer (until 7 March 2023)
- **Mr. Nishant Fafalia**, Interim Chief Executive Officer (subject to CSSF approval)
- **Mr. Frank Hamen**, Chief Risk Officer (until 25 July 2022)
- **Mr. Kaj Larsen**, General Counsel (as of 26 July 2022)
- **Mr. Patrick Thilges**, Chief Financial Officer (EMC member as of 24 October 2022)

Management Committee

- **Mr. Roland Ludwig**, Chief Executive Officer (until 7 March 2023)
- **Mr. Nishant Fafalia**, Interim Chief Executive Officer (subject to CSSF approval)
- **Mr. Frank Hamen**, Chief Risk Officer (until 30 September 2022)
- **Mr. Kaj Larsen**, General Counsel (as of 15 June 2022)
- **Mr. Patrick Thilges**, Chief Financial Officer
- **Mr. Romain Fettes**, Chief Information Officer
- **Ms. Linda Früh**, Chief Digital Officer
- **Ms. Annemarie Jung**, Chief Product Officer (as of 1 December 2022)
- **Mr. Johannes Neander**, Chief Commercial Officer (until 23 November 2022)
- **Mr. Petrus Johannes** (Pieter) Verhoeckx, Chief Customer Relations Officer

4 INTERNAL GOVERNANCE

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

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

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

4.1.1 Specialised committees

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

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

4.1.2 Operational controls

Operational controls are subdivided into three categories:

- Day-to-day controls performed by operating staff;
- Key critical controls, including, inter alia, hierarchical control, validation process, reciprocal control, account balance reconciliation, compliance checks with internal limits;
- Controls performed by the EMC members over activities and functions for which fall under their direct responsibility.

4.1.3 Internal controls

The Bank has implemented three distinct and independent internal control functions encompassing risk control, compliance and internal audit. The staff in charge of the internal control function report to the EMC, the Board of Directors, and the Audit, Risk and Compliance Committee.

Risk Control function: The purpose of the Risk Control function is to anticipate, identify, measure, monitor, manage and duly report on the risks to which the Bank is exposed. The Chief Risk Officer (CRO) heads the Risk Control function.

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

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

5 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Following the escalation of the Russia-Ukrainian conflict in February 2022, the Management of the Bank closely monitors the developments and assesses any potential impact on the Bank's operations. For the time being, the Bank has not identified any material impacts on its daily operations.

To ensure additional liquidity and to diversify its funding sources, the Bank intends to issue senior unsecured bonds within the first half of 2023 that will be listed on the Euro MTF, the non-EU regulated market of the Luxembourg Stock Exchange.

Mr. Roland Ludwig, CEO, left Advanzia Bank on 7 March 2023. A succession plan is in place and a new CEO will be announced in due course. Mr. Nishant Fafalia has stepped in as interim CEO (subject to CSSF approval) as a third authorised manager in the Bank's Executive Management Committee. His role is to help ensure a smooth transition, oversee the day-to-day management and secure execution of key strategic priorities, together with the Bank's Executive Management Committee.

The Bank is not aware of any significant events after the reporting date which would have a material impact on the 2022 financial statements.

6 FINANCIAL STATEMENTS

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

6.1 Statement of Financial Position as at 31 December 2022

In thousands of EUR

Assets	**Note**	**2022**	**2021**
Cash and cash equivalents	7.7.1	695 188	897 579
Loans and advances		2 507 724	2 185 484
whereof: financial institutions	*7.7.2*	*161 347*	*143 123*
whereof: corporates		*12*	*12*
whereof: customers	*7.7.3*	*2 346 365*	*2 042 349*
Property, plant and equipment	7.7.4	775	2 260
Intangible assets	7.7.5	24 606	27 374
Other assets	7.7.6	20 153	13 401
Total assets		**3 248 446**	**3 126 098**

Liabilities and equity			
Amounts owed to financial institutions		20 689	23 475
Amounts owed to customers	7.7.7	2 355 662	2 221 257
Structured financing	7.7.8	439 426	400 198
Tax liabilities		10 181	20 378
Other liabilities	7.7.10	23 802	22 927
Subordinated liabilities	7.7.11	55 000	55 000
Total liabilities		**2 904 760**	**2 743 235**
Subscribed capital	7.7.12.1	17 553	17 553
Issue premiums	7.7.12.1	9 890	9 890
Other equity instruments	7.7.12.2	58 588	61 668
Other reserves	7.7.12.3	38 359	29 859
Profit (loss) carried forward		162 376	147 120
Result for the financial year		122 412	120 726
Interim dividends	7.7.12.4	-60 120	-
Interest paid on Tier 1	7.7.12.2	-5 372	-3 953
Total equity		**343 686**	**382 863**
Total liabilities and equity		**3 248 446**	**3 126 098**

The notes are an integral part of these financial statements.

6.2 Statement of Profit and Loss and Other Comprehensive Income

In thousands of EUR	**Note**	**2022**	**2021**
Financial and operational income and expenses		**398 619**	**336 048**
Interest income [(1)]	7.6.1.1	378 008	325 171
Interest expenses	7.6.1.2	-16 269	-14 461
Fee and commission income	7.6.2	63 367	45 103
Fee and commission expenses	7.6.2	-21 697	-17 964
Net exchange result		-596	-24
Other operating income	7.6.3	1 689	4 820
Other operating expenses	7.6.3	-5 883	-6 597
Administrative expenses		**-119 163**	**-97 542**
Personnel expenses	7.6.4	-22 594	-21 075
General administrative expenses	7.6.5	-96 569	-76 467
Depreciation and amortisation		**-9 782**	**-8 647**
Depreciation on property, plant and equipment	7.7.4	-1 684	-1 774
Amortisation of intangible assets	7.7.5	-8 098	-6 874
Other loan losses		**-2 887**	**-3 854**
ECL on financial assets [(1)]	7.6.6	**-118 411**	**-80 992**
Result on activities before taxes		**148 376**	**145 014**
Income taxes	7.6.7	-25 964	-24 287
Result on activities after taxes		122 412	**120 726**
Result for the year		122 412	**120 726**
Other comprehensive income for the year		**-**	**-**
Total profit and loss and other comprehensive income for the year		**122 412**	**120 726**

The notes are an integral part of these financial statements.

6.3 Statement of Changes in Equity

For the year ended 31 December 2022

In thousands of EUR

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

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

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

The notes are an integral part of these financial statements.

For the year ended 31 December 2021

In thousands of EUR

2021	Sub-scribed capital	Issue premiums	Other equity instruments	Reserves	Profit carried forward	Net profit or loss for the financial year	Total Equity
Equity balance at 1 January 2021	**17 553**	**9 890**	**21 221**	**21 659**	**134 706**	**98 707**	**303 736**
Allocation to reserves	-	-	-	8 200	-	-8 200	-
Allocation to profit brought forward	-	-	-	-	90 507	-90 507	-
Tier 1	-	-	40 447	-	-	-	40 447
Interest paid on Tier 1	-	-	-	-	-	-3 953	-3 953
Dividends(1)	-	-	-	-	-78 093	-	-78 093
Total profit and loss and other comprehensive income for the year	-	-	-	-	-	120 726	120 726
Equity 31 December 2021	**17 553**	**9 890**	**61 668**	**29 859**	**147 120**	**116 773**	**382 863**

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

(2) The amount includes EUR 78 million paid to the shareholders out of the 2020 result

The notes are an integral part of these financial statements.

6.4 Statement of Cash Flows

In thousands of EUR

Operating activities	**Note**	**2022**	**2021**
Interest, fee and commission receipts	7.6.1.1, 7.6.2	441 375	370 274
Interest, fee and commission payments	7.6.1.1, 7.6.2	-37 966	-32 425
Other receipts		1 689	4 820
Operating payments		-151 010	-128 426
(Increase) decrease in money market placements	7.7.2	-18 224	-13 685
(Increase) decrease in loans to customers	7.7.3	-428 394	-360 027
(Increase) decrease in loans to corporates		-	-12
Increase (decrease) in deposits from financial institutions		-2 786	-185 332
Increase (decrease) in deposits from customers	7.7.7	134 405	150 939
Increase (decrease) in deposits from corporates		-	-
(Increase) decrease in other assets		-6 752	-1 300
Increase (decrease) in tax liabilities		-10 197	-171
Increase (decrease) in other liabilities		875	1 436
Net cash flow from operating activities		**-76 985**	**-193 908**

Investment activities		**2022**	**2021**
Acquisition of plant and equipment and intangible assets	7.7.4, 7.7.5	-4 003	-3 023
Acquisition of investment securities		-212 000	-223 000
Proceeds from sales of investment securities		212 000	223 000
Net cash flow from investment activities		**-4 003**	**-3 023**

Financing activities		**2022**	**2021**
Dividend paid to shareholders	7.7.12.4	-153 137	-78 093
Proceeds from Tier 1		-	40 447
Interests paid on Tier 1		-5 372	-3 953
Proceeds from subordinated liabilities		-	30 000
Proceeds from structured financing	7.7.8	48 764	484 719
Payment made for structured financing	7.7.8	-9 536	-84 521
Principal elements of lease payments		-1 526	-1 567
Net cash flow from financing activities		**-120 807**	**387 032**

Net cash flow		**-201 795**	**190 101**
Opening balance of cash and cash equivalents	7.7.1	897 579	707 502
Effects of exchange rate changes on cash and cash equivalents		-596	-24
Net cash flow for the period		-201 795	190 101
Ending balance of cash and cash equivalents	**7.7.1**	**695 188**	**897 579**

The notes are an integral part of these financial statements.

7 NOTES TO THE FINANCIAL STATEMENTS

7.1 Reporting entity

Advanzia Bank S.A. ("the Bank" or "Advanzia") is domiciled in the Grand Duchy of Luxembourg and is established for an indefinite duration. The address of the Bank's registered office is 9, rue Gabriel Lippmann, L-5365 Munsbach, Luxembourg. The Bank is included in the consolidated accounts of Kistefos AS Group forming the largest body of undertakings of which the Bank forms part as a subsidiary undertaking. The consolidated accounts are available at Kistefos' registered office in Dokkveien 1, N-0250 Oslo, Norway. The financial statements of the Bank for the year ended 31 December 2022 were authorised for issue by the Bank's board of directors on 13 March 2023.

7.2 Basis of preparation and summary of accounting principles

7.2.1 Basis of preparation

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

7.2.2 Basis of measurement

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

7.2.3 Functional and presentation currency

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

7.2.4 Accounting standards

7.2.4.1 Applicable accounting standards and changes in accounting policies

The Bank initially applied the following standards and amendments to standards from 1 January 2022.

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

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments.

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

On 31 March 2021, the Board issued Covid-19-Related Rent Concessions beyond 30 June 2021, which amended IFRS 16. The amendment extended the availability of the practical expedient so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The amendments are effective for a period ending by 30 June 2022. The amendments have no impact on the Bank.

Amendments to IAS 16 Property, Plant and Equipment

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

The application date is 1 January 2022. The amendments have no impact on the Bank.

Amendments to IFRS 3 Business Combinations

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

The application date is 1 January 2022. The amendments have no impact on the Bank.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets

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

The application date is 1 January 2022. The amendments have no impact on the Bank.

Annual Improvements to IFRS Standards 2018–2020

The following improvements were finalised in May 2020:

– IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
– IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
– IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
– IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

The application date is 1 January 2022. The improvements have no impact on the Bank.

7.2.4.2 New accounting standards issued but not yet effective

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

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

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

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

Amendments to IAS 12 Income Taxes

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

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

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

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

IFRS 17 Insurance Contracts

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

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

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

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

Amendments to IAS 1 Presentation of Financial Statements

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

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

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

Amendments to IFRS 16 Leases

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

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

7.2.5 Significant events after the reporting date

Following the escalation of the Russia-Ukrainian conflict in February 2022, the Management of the Bank closely monitors the developments and assesses any potential impact on the Bank's operations. Changes in the economy enter the IFRS9 ECL estimation by adjusting expected probabilities of default (PD) to reflect inflationary pressure and interest rate increases. This PD adjustment, driven by key market leading indicators, is produced monthly and ECL estimates are adjusted accordingly once a significant change is observed. For the time being, the Bank has not identified any material impacts on its daily operations as direct exposure to

Russia and Ukraine is low. Revenues developed well during 2022 despite increasing funding costs, and this trend is expected to continue throughout 2023. Operating costs also remained within expectations during 2022 and will evolve in steadily 2023. The Bank has not recorded any impairments on non financial assets in 2022.

To ensure additional liquidity and to diversify its funding sources, the Bank intends to issue senior unsecured bonds within the first half of 2023 that will be listed on the Euro MTF, the non-EU regulated market of the Luxembourg Stock Exchange.

Mr. Roland Ludwig, CEO, left Advanzia Bank on 7 March 2023. A succession plan is in place and a new CEO will be announced in due course. Mr. Nishant Fafalia has stepped in as interim CEO (subject to CSSF approval) as a third authorised manager in the Bank's Executive Management Committee. His role is to help ensure a smooth transition, oversee the day-to-day management and secure execution of key strategic priorities, together with the Bank's Executive Management Committee.

The Bank is not aware of any significant events after the reporting date which would have a material impact on the 2022 financial statements.

7.3 Significant accounting policies

7.3.1 Consolidation

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

7.3.2 Foreign currency

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

7.3.3 Net interest margin

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

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

Interest income and expense presented in the Statement of Profit and Loss and Other Comprehensive Income include interest on financial assets and liabilities at amortised cost calculated on an effective interest basis.

The Bank has not held any assets at fair value through other comprehensive income or fair value through profit and loss during the reporting period or at balance sheet date.

7.3.4 Fees and commissions

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

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

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

7.3.5 Financial assets and financial liabilities

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

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

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

7.3.5.1 Amortised cost measurement

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

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

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

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

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

7.3.5.2 Fair value measurement

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

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

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

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

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

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

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

7.3.5.3 Identification and measurement of impairment

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

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

ECL and its components

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

Probability of default (PD)

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

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

Loss given default (LGD)

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

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

Exposure at default (EAD)

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

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

Three-stage deterioration model & allocation

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

Advanzia has defined its staging criteria as follows:

- Stage 1: The loan is either performing or with less than 30 days past due;
- Stage 2: Significant increase in relative credit risk (SICR) since initial recognition is assessed based on the 2 main triggers:
    - Deterioration of the 12-months PD at initial recognition compared to 12-months PD at reporting date exceeding a defined threshold;
    - Delinquency information – more than 30 days past due but with less than 90 days past due (back-stop)
- Stage 3: The loan is either in default, or in pre-litigation, or underperforming and in forbearance.

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

In case the credit risk of an instrument has increased significantly (SICR) after initial recognition by the next reporting date, the instrument is transitioned from stage 1 to stage 2. When comparing the 12-months PDs, the SICR threshold is a combination of an absolute and relative percentage calculated based on the statistical analysis (the hypothesis testing applied to the compound theoretical distribution of the initial and current PDs). For stage 2 assets an ECL allowance needs to be recognised and based on the lifetime PD. This change in the PD results in an increased ECL. Interest is recognised on a gross basis.

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

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

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

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

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

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

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

7.3.5.4 Write-off

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

7.3.5.5 Derecognition of financial assets or financial liabilities

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

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

7.3.6 Cash and cash equivalents

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

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

7.3.7 Loans and advances

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

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

Within the Professional Card Service business line, the Bank acts as a card issuer for other institutions and companies. The transactions from card usage build up a loan balance that is invoiced to the business partner on a monthly basis and is settled in total.

7.3.8 Property, plant and equipment

7.3.8.1 Recognition and measurement

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

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

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

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

7.3.8.2 Depreciation

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

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

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

7.3.9 Intangible assets

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

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

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

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

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

Research and development costs

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

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

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

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

7.3.10 Impairment of non-financial assets

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

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

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

7.3.11 Reversal of impairments of non-financial assets

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

7.3.12 Deferred tax

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

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

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

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

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments, and as defined in IFRS 9 and IAS 32. Deposits, debt securities issued, subordinated liabilities and structured funding are initially measured at amortised cost plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss. The Bank has decided not to exercise the fair value option.

7.3.14 Provisions recognised as liabilities

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

7.3.15 Employee benefits

7.3.15.1 Defined contribution plans

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

7.3.15.2 Short-term benefits

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

7.3.16 Share capital and reserves

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

7.3.17 Income tax

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

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

7.3.18 Leases

7.3.18.1 Definition of a lease

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

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

7.3.18.2 As a lessee

i. At initial recognition

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

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

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

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

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

ii. Subsequent measurement

The lease liability is measured as follows:

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

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

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

7.3.18.3 As a lessor

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

7.4 Use of judgements and estimates

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

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

7.4.1 Judgements

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

Note 0.3: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

7.4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have significant risk of resulting in a material adjustment in the year ended 31 December 2022 is included in the following notes:

Note 7.3.5.3 Identification and measurement of impairment: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

Note 8.2.2 Exposures to credit risk and Note 7.3.5.3 Identification and measurement of impairment: key assumptions used in estimating recoverable cash flows.

7.5 Segment reporting

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

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

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

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

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

7.5.1 Retail banking

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

7.5.2 Corporate banking

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

7.5.3 Segmentation by region

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

In thousands of EUR

Segment 2022	**Retail banking**					**Corporate banking**	**Total**
	Germany & Luxembourg	**France**	**Austria**	**Spain**	**Italy**	**Luxembourg**	
Interest income	327 063	19 510	20 899	10 033	420	83	**378 008**
Interest expenses	-14 046	-762	-715	-348	-16	-382	**-16 269**
Fee and commission income	39 940	2 594	3 228	1 769	281	15 555	**63 367**
Fee and commission expenses	-15 675	-931	-1 065	-692	-125	-3 209	**-21 697**
Net exchange result	-	-	-	-	-	-596	**-596**
Other operating profit/loss	-4 179	-	-	-	-	-15	**-4 194**
Administrative expenses	-92 962	-6 199	-5 460	-6 959	-5 658	-1 925	**-119 163**
Depreciation and amortisation	-5 609	-	-	-33	-278	-3 862	**-9 782**
Other loan losses and ECL on financial assets	-89 457	-14 736	-3 833	-10 259	-2 992	-21	**-121 298**
Result on activities before taxes	**145 075**	**-524**	**13 054**	**-6 489**	**-8 368**	**5 628**	**148 376**
Income taxes	-25 386	92	-2 284	1 135	1 464	-985	**-25 964**
Result on activities after taxes	**119 689**	**-432**	**10 770**	**-5 354**	**-6 904**	**4 643**	**122 412**
Loans and advances to partner banks	-	-	-	-	-	76 343	**76 343**
Loans and advances to customers	1 988 692	144 745	135 565	72 871	4 492	-	**2 346 365**

In thousands of EUR

Segment 2021	**Retail banking**					**Corporate banking**	**Total**
	Germany & Luxembourg	**France**	**Austria**	**Spain**	**Italy**	**Luxembourg**	
Interest income	285 121	18 022	18 625	3 403	-	-	325 171
Interest expenses	-13 120	-536	-477	-104	-1	-223	-14 461
Fee and commission income	28 329	2 017	2 464	1 300	-	10,993	45 103
Fee and commission expenses	-13 464	-787	-826	-395	-9	-2,483	-17 964
Net exchange result	-	-	-	-	-	-24	-24
Other operating profit/loss	-2 765	218	140	16	-	614	-1 777
Administrative expenses	-79 050	-5 819	-5 231	-5 603	-251	-1,588	-97 542
Depreciation and amortisation	-4 200	-4	-12	-363	-81	-3,987	-8 647
Other loan losses and ECL on financial assets	-60 882	-12 472	-5 853	-5 564	-3	-72	-84 846
Result on activities before taxes	**139 970**	**639**	**8 830**	**-7 310**	**-345**	**3 230**	**145 014**
Income taxes	-23 028	-160	-2 202	1 823	86	-806	-24 287
Result on activities after taxes	**116 941**	**479**	**6 628**	**-5 487**	**-259**	**2 424**	**120 726**

Loans and advances to partner banks	-	-	-	-	-	60 124	**60 124**
Loans and advances to customers	1 764 932	125 101	116 543	35 744	29	-	**2 042 349**

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

7.6.1 Net interest income

7.6.1.1 Interest income

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

In thousands of EUR

Interest income	2022	2021
Financial institutions	2 697	132
Of which: Interest received on balances held with the Central Bank of Luxembourg (BCL)	1 798	-
Customers	375 311	325 039
Total interest income	**378 008**	**325 171**

Interest income is charged on loans to customers based on the effective interest rate method. Out of this interest income, TEUR 3 090 is interest related to stage 3 exposures. This interest income is recognised net of applicable impairments to the loans.

7.6.1.2 Interest expenses

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

In thousands of EUR

Interest expenses	2022	2021
Financial institutions	-2 008	-7 292
Of which: Negative Interest paid on balances held with the Central Bank of Luxembourg (BCL)	-1 341	-3 291
Customer deposits	-6 551	-3 716
Subordinated liabilities	-3 349	-2 900
Structured financing	-4 317	-494
Interest expenses on lease liability	-44	-59
Total interest expenses	**-16 269**	**-14 461**

7.6.2 Net fee and commission income

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

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

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

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

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

7.6.3 Other operating income/expenses

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

7.6.3.1 Deposit guarantee scheme

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

As a result of the above law, the “Fonds de résolution Luxembourg” (FRL) was founded as finance mechanism. The funded amount of the FRL 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 authorised credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions by the end of the year 2024.

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

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

For 2022 the Bank paid EUR 3.7 million to FGDL (2021: EUR 3.3 million).

7.6.4 Personnel expenses

Personnel expenses include wages and salaries, social security and other expenses. In addition, some employees participate in a defined pension insurance contribution plan. The Bank's cost for this pension plan and the applicable taxes in 2022 was TEUR 404 (2021: TEUR 452), which was included in the wages and salaries. All pension contributions are either paid in or provisioned.

In thousands of EUR

Personnel expenses	**2022**	**2021**
Wages and salaries	19 446	17 871
Social security contributions	1 952	2 086
Other personal expenses	1 196	1 118
Total personal expenses	**22 594**	**21 075**

7.6.5 General administrative expenses

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

In thousands of EUR

General administrative expenses	**2022**	**2021**
Card acquisition costs	47 270	33 684
Card operating costs	33 254	27 226
Other administrative expenses	16 045	15 557
Total general administrative expenses	**96 569**	**76 467**

7.6.6 Impairment on financial assets

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

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

In thousands of EUR

Impairment	2022	2021
Net (loss) / gain from impairment	-26 931	-19 546
Write-offs	-91 480	-61 446
Total impairments	**-118 411**	**-80 992**

The Bank is assessing the total impairment on credit card loans on an individual customer basis. Total impairment includes ECL estimated using the Bank's ECL methodology (please see 0.3 for the ECL policy), expected recoveries of delinquent loans, and any written exposures during the year.

7.6.7 Income taxes

The Bank is subject to taxation in Luxembourg. The corporate income tax (CIT) rate was 17% in 2022. The income is further subject to the municipal business tax (6.75%), whereas the corporate income tax amount is subject to the solidarity surtax (7% imposed on the CIT).

In thousands of EUR

Income taxes	2022	2021
Result on activities before taxes	148 376	145 014
Aggregate tax rate	24,94%	24,94%
Theoretical income tax	**37 005**	**36 166**
Tax impact of exempt income	-9 781	-10 336
Tax impact of Tier 1 interest	-1 340	-1 428
Other regularisations	80	-115
Effective income tax	**25 964**	**24 287**
Effective income tax rate	**18%**	**17%**

As at 31 December 2022, tax liabilities amount to EUR 10.2 million. During the year 2022, the Bank paid income tax for the year 2020 of EUR 13.2 million.

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

As at 31 December 2022, there are no deferred tax liabilities or assets.

7.7 Notes to the statement of financial position

7.7.1 Cash and cash equivalents

In thousands of EUR

Cash and cash equivalents	2022	2021
Balances with central banks	634 346	835 264
Nostro account balances with financial institutions	60 842	62 315
Balance at 31 December	**695 188**	**897 579**

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

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

7.7.2 Loans and advances and amounts owed to financial institutions

In thousands of EUR

Loans and advances to financial institutions	2022	2021
Available on demand	76 338	60 114
Money market placements	85 009	83 009
Balance at 31 December	**161 347**	**143 123**

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

The Bank has pledged term deposits of NOK 625 million (2021: NOK 625 million) as collateral for a guarantee in favour of Mastercard with a revolving maturity of three months. The pledged amount consists of two amounts (400 million and 225 million) with different maturities (31 December 2025 and 10 July.2024 respectively). Before the end of every three-month period the amount gets revolved with the new conditions agreed upon.

Since the end of May 2021, Advanzia benefits from an overdraft facility with ING Belgium SA/NV, which provides the Bank access to short term financing in multiple currencies (EUR, USD, GBP, CHF, NOK and SEK) up to an amount equivalent to EUR 25 million. This credit line is secured by a cash deposit of EUR 25 million and mainly used to perform the daily settlements denominated in foreign currency with the credit card schemes (Visa and Mastercard). At balance sheet date, the Bank's liability in relation to overdraft is EUR 19 million (2021: 20 million).

7.7.3 Loans and advances to customers

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

In thousands of EUR

Loans and advances to customers	**2022**	**2021**
Credit card loans to retail customers	2 536 279	2 205 325
ECL	-189 914	-162 976
Balance at 31 December	**2 346 365**	**2 042 349**

In thousands of EUR

Allowances for ECL	**2022**	**2021**
Balance at 1 January as reported	162 976	143 377
Charge for the year	118 411	80 992
Write-offs (net of recoveries)	-91 473	-61 393
Balance at 31 December	**189 914**	**162 976**

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

In the period between August 2018 and June 2020, Advanzia was selling 75% of its monthly non-performing loans in the German market. This activity was discontinued as from June 2020 upon expiration of the underlying contract. In July 2021, the Bank commenced a new sale of 80% of its monthly German market non-performing loans for a period of two years. Respective gains from these sales are not significant as the sale price is close to the carrying value.

A part of the Bank's loan portfolio is encumbered as further detailed in the Note 7.7.8 (under the securitisation transaction).

7.7.4 Property, plant and equipment

In thousands of EUR

Cost	Right-of-use assets	IT equipment	Fixtures and fittings	Total
Balance at 1 January 2022	**6 356**	**3 951**	**1 587**	**11 894**
Acquisitions	171	26	2	199
Disposals	-	-	-	-
Balance at 31 December 2022	**6 527**	**3 977**	**1 589**	**12 093**
Balance at 1 January 2021	**6 356**	**3 816**	**1 580**	**11 752**
Acquisitions	-	135	7	142
Disposals	-	-	-	-
Balance at 31 December 2021	**6 356**	**3 951**	**1 587**	**11 894**
Accumulated depreciation				
Balance at 1 January 2022	**4 438**	**3 763**	**1 433**	**9 634**
Depreciation for the period	1 484	104	96	1 684
Disposals	-	-	-	-
Balance at 31 December 2022	**5 922**	**3 867**	**1 529**	**11 318**
Balance at 1 January 2021	**2 919**	**3 646**	**1 295**	**7 860**
Depreciation for the period	1 519	117	138	1 774
Disposals	-	-	-	-
Balance at 31 December 2021	**4 438**	**3 763**	**1 433**	**9 634**
Carrying amount at 31 December 2022	**605**	**110**	**60**	**775**
Carrying amount at 31 December 2021	**1 918**	**188**	**154**	**2 260**

7.7.5 Intangible assets

In thousands of EUR

Cost	**Purchased software**	**Portfolio Acquisition [1]**	**Total**
Balance at 1 January 2022	26 518	24 677	51 195
Acquisitions / additions	5 330	-	5 330
Balance at 31 December 2022	31 848	24 677	56 525
Balance at 1 January 2021	22 070	24 677	46 747
Acquisitions / additions	4 448	-	4 448
Balance at 31 December 2021	26 518	24 677	51 195

Accumulated amortisation	**Purchased software**	**Portfolio Acquisition**	**Total**
Balance at 1 January 2022	15 063	8 758	23 821
Amortisation for the period	4 352	3 746	8 098
Balance at 31 December 2022	19 415	12 504	31 919
Balance at 1 January 2021	11 934	5 013	16 947
Amortisation for the period	3 129	3 745	6 874
Balance at 31 December 2021	15 063	8 758	23 821
Carrying amount at 31 December 2022	**12 433**	**12 173**	**24 606**
Carrying amount at 31 December 2021	**11 455**	**15 919**	**27 374**

(1) On 29 March 2020, the Bank acquired card servicing operations of Catella Bank for consideration of TEUR 24 677. The remaining amortisation period is 4 years (until 31 March 2026).

In accordance with IAS 36, the Bank performed an annual review of the acquired card servicing operations for impairment at the end of the reporting period. The review concludes that actual results were better than the initial business case despite revenues in 2020-2021 were negatively affected by the COVID-19 pandemic and it is expected that the portfolio will continue to perform better going forward. This is mainly attributable to the better development of the client base than the initial business case as well as the strong rebound of card activities of the individual PCS cardholders since second half of 2021. These positive developments will more than offset revised operating costs and higher expected funding costs going forward.

7.7.6 Other assets

In thousands of EUR

	2022	2021
Mastercard Receivable	3 493	2 814
Insurance commission receivables	11 473	4 891
Prepaid administrative expenses	3 899	3 992
Receivable from suppliers	1 042	932
VISA Guarantee	-	740
Sundry	246	32
Balance at 31 December	**20 153**	**13 401**

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

The increase on the insurance commission receivables is mainly due to the fact that the commission of 2021 was still outstanding.

VISA no longer required the deposit from the Bank. Thus, the full amount TEUR 740 was released in November 2022.

7.7.7 Amounts owed to customers

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

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

7.7.8 Structured financing

As of 31 December 2022, the balance is composed of the deemed loan towards the Securitsation Special Purpose Vehicle (SSPV), more details about the transaction is detailed in the Note 7.7.9. The balance includes the following:

In thousands of EUR

	2022	2021
Funding received from SSPV	523 151	477 650
Finance charges collections payable	10 332	7 069
less		
Junior notes issued	-81 301	-71 809
Subordinated debt	-4 332	-4 068
Excess spread	-6 069	-5 808
Servicing fees receivable	-1 067	-951
Transaction costs	-1 288	-1 885
Balance at 31 December	**439 426**	**400 198**

The deemed loan towards the SSPV comprises:

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

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

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

Compliance with loan covenants

The Bank has complied with the covenants attached to the secured funding during 2022, these are also known as early amortisation events, which would trigger the early repayment of the funding raised.

The main early amortisation events are as follows:

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

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

7.7.9 Securitisation programme

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

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

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

Retained interests

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

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

Continuing obligations

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

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

The table below provides details of the carrying and fair values of both the transferred assets that are not derecognised and the associated liabilities as of 31 December 2022:

In thousands of EUR

	Carrying value	Fair value
Loans and advances to customers (1)	551 818	551 818
Structured financing (2)	-439 426	-439 426
Net balance at 31 December 2022	**112 392**	**112 392**
Loans and advances to customers (1)	494 189	494 189
Structured financing (2)	-400 198	-400 198
Net balance at 31 December 2021	**93 991**	**93 991**

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

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

- There is a significant yield spread between the return on the securitised assets (>20% p.a.) and the senior notes funding costs (<0.5% p.a.);
- No breach of any early amortisation triggers is observed, allowing for a significant excess spread receivable each month;
- the structure is revolving, meaning that there is a monthly replenishment of the underlying assets portfolio with new eligible assets.

7.7.10 Other liabilities

In thousands of EUR

	2022	2021
Preferential creditors	802	1 085
Other accruals	21 670	18 565
Other liabilities	663	1 291
Lease liabilities	667	1 986
Balance at 31 December	**23 802**	**22 927**

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

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

7.7.11 Subordinated liabilities

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

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

The Tier 2 bonds are listed on no regulated Nordic ABM as well as the Frankfurt Open Market and callable on each payment day (quarterly) starting five years after the disbursement day, subject to prior approval by the competent authority.

7.7.12 Equity

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

7.7.12.1 Subscribed capital and issue premiums

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

In thousands of EUR

Date	Subscribed capital	Issue premiums	Issued voting shares	Issued non-voting shares
1 January 2022	17 553	9 890	210 210	-
31 December 2022	17 553	9 890	210 210	-

As at 31 December 2022 and 2021, the 210 210 issued shares were distributed among the following share classes:

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

Shares in share classes A-C are ordinary voting shares and have a nominal value of EUR 83.50 each. As at 31 December 2022, the authorised management held no shares in Advanzia Bank S.A as well as the Bank holds no own shares.

7.7.12.2 Other equity instruments

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

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

The Bank paid TEUR 5 372 to Tier 1 bondholders during 2022 as distribution. The Bank can cancel distributions at any time.

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

7.7.12.3 Reserves

In 2022 Advanzia Bank S.A. allocated TEUR 8 500 of the 2021 profits to a reserve according to Luxembourg tax law and released TEUR 2 375 to the free reserves.

The reserves are composed of free reserves of TEUR 2 375, legal reserves of TEUR 1 755 and the reserve for the reduction of the net wealth tax of TEUR 34 229.

As of 31 December 2022, the legal reserve was fully formed.

7.7.12.4 Dividends

During the year ending 31 December 2022, Advanzia Bank S.A. distributed TEUR 93 018 out of the 2021 results (2021: TEUR 78 093) and TEUR 60 120 out of the 2022 interim results (2021: nil) upon receiving the approvals of the CSSF.

7.8 Leases

7.8.1 Leases as lessee

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

7.8.2 Extension options

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

7.8.3 Maturity analysis of lease liabilities

As at 31 December 2022, the undiscounted maturity analysis of lease liabilities is as follows:

In thousands of EUR

	Carrying amount	Minimum lease payments due	Less than 1 year	1-2 years	2-3 years	3-5 years	More than 5 years
Lease liability	**667**	**1 077**	885	126	57	9	-
Total	**667**	**1 077**	885	126	57	9	-

7.9 Auditor's fees

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

In thousands of EUR

	2022	2021
Audit fees	223	195
Audit related fees	41	23
Tax services	71	88
Total fees (excl. VAT)	**335**	**306**

7.10 Staff

Average number	2022	2021
Management Committee	7	7
Employees (fulltime equivalent)	181	180
Total	**188**	**187**

In 2022, the company had 188 employees (FTE), including the Management Committee.

7.11 Related parties

7.11.1 Parent and ultimate controlling party

Kistefos AS, Norway retained majority control of the shares during the year ended 31 December 2022.

7.11.2 Transactions with board members and key management personnel

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

In thousands of EUR

	2022	2021
Remuneration	3 267	3 166
Pensions	198	181
Loans	24	31
Other commitments	67	68

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

In thousands of EUR

	2022	2021
Remuneration	108	108
Pensions	-	-
Loans	4	7
Other commitments	40	50

Additionally, during the period, Kistefos AS associates and their immediate relatives have transacted with the Bank with loans amounting to TEUR 2 and other commitments amounting to TEUR 310.

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

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

7.11.3 Transactions with other related parties

The Bank is executing a control over the SSPV – Advanzia Invest S.à r.l – for the purpose of raising a structured financing. For more details about the transaction and associated balances, please see Notes 7.7.8. and 7.7.9.

7.12 Significant events after the reporting date

Following the escalation of the Russia-Ukrainian conflict in February 2022, the Management of the Bank closely monitors the developments and assesses any potential impact on the Bank's operations. For the time being, the Bank has not identified any material impacts on its daily operations.

To ensure sufficient liquidity and to diversify its funding sources, the Bank intends to issue senior unsecured bonds within the first half of 2023 that will be listed on the Euro MTF, the non-EU regulated market of the Luxembourg Stock Exchange.

The Bank is not aware of any significant events after the reporting date which would have a material impact on the 2022 financial statements.

8 RISKS AND RISK MANAGEMENT

The following note provides an overview and analysis of the risks to which Advanzia Bank is subject, and how the Bank manages such risks. Unless otherwise stated, all figures are in euro as at 31 December 2022 and as of 31 December 2021.

8.1 Risk management: objectives and policies

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

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

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

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

For managing risks, the following principles are followed:

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

8.2 Credit risk

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

8.2.1 Management of credit risk

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

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

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

8.2.2 Exposure to credit risk

In thousands of EUR	**Loans and advances to customers**		**Loans and advances to financial institutions**	
Collectively impaired	**2022**	**2021**	**2022**	**2021**
Stage 3 (impaired)	186 041	208 143	-	-
Gross amount	**186 041**	**208 143**	**-**	**-**
Allowance for impairment	-127 518	-115 678	-	-
Carrying amount	**58 523**	**92 465**	**-**	**-**

Past due but not impaired	**2022**	**2021**	**2022**	**2021**
Stage 2	511 874	350 023	-	-
Gross amount	**511 874**	**350 023**	**-**	**-**
Allowance for impairment	-42 287	-26 504	-	-
Carrying amount	**469 587**	**323 519**	**-**	**-**

Neither past due nor impaired	2022	2021	2022	2021
Stage 1	1 838 364	1 647 159	161 354	143 133
Gross amount	**1 838 364**	**1 647 159**	**161 354**	**143 133**
Allowance for impairment	-20 109	-20 794	-7	-10
Carrying amount	**1 818 255**	**1 626 365**	**161 347**	**143 123**
Carrying amount - amortised cost	**2 346 365**	**2 042 349**	**161 347**	**143 123**

In addition to the above, on the off-balance sheet the Bank has an amount of EUR 5 813 million as undrawn commitments (2021: EUR 5 383 million), which originates from credit card clients being neither past due nor impaired. The undrawn commitment is no longer available as soon as the customer is classified as Stage 2 or 3.

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

- Undrawn junior notes – TEUR 6 989;
- Undrawn seller notes – TEUR 10 000;
- Undrawn subordinated debt – TEUR 304.

See also Note 7.3.5.3 regarding definitions and accounting policies for impaired loans, Note 7.4 regarding judgements and estimates, as well as note 7.6.6 regarding impairments on financial assets and Note 7.7.3 regarding loans and advances to customers.

Loss allowance

Loss allowance is calculated as a weighted average of three scenarios: one baseline scenario which is forecasted using macro-economic information from statistical databases of the EBA and Eurostat, one positive scenario based on the year with the lowest result for the Bank in terms of losses, and one negative scenario based on the year with the highest result. These are weighted respectively 90%, 5% and 5%.

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

In thousands of EUR

		2022	
Amounts arising from ECL	**Stage 1**	**Stage 2**	**Stage 3**
Opening ECL	**20 794**	**26 504**	**115 678**
Transfers to Stage 1	2 114	-6 025	-429
Transfers to Stage 2	-2 952	18 383	-451
Transfers to Stage 3	-799	-5 262	41 031
New issued	3 636	8 955	2 947
Write-offs	-760	-4 721	-39 409
No transition	-1 924	4 453	12 995
Interest adjustment			-4 844
Closing ECL	**20 109**	**42 287**	**127 518**

In thousands of EUR

	2021		
Amounts arising from ECL	**Stage 1**	**Stage 2**	**Stage 3**
Opening ECL (restated) *	**20 290**	**23 504**	**99 583**
Transfers to Stage 1	2 751	-6 603	-562
Transfers to Stage 2	-1 962	9 157	-571
Transfers to Stage 3	-1 018	-6 453	41 463
New issued	2 227	6 641	3 000
Write-offs	-388	-1 438	-33 238
No transition	-1 106	1 696	10 030
Interest adjustment	-	-	-4 027
Closing ECL	**20 794**	**26 504**	**115 678**

Note: The amounts arising from ECL include the effect of transfer itself as well as the effect of remeasurements due to the transfers, as different PD is applied for each stage.

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

COVID-19 Pandemic in the context of ECL

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

8.2.3 Concentration risk

In general, credit card loans are well diversified and small. The Bank also follows a policy of maximum concentration per individual borrower or group of borrowers. See also Note 0 below regarding concentration risk with respect to financial institutions.

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

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

The exposure by location as of 31 December 2022 is as follows:

In thousands of EUR	Loans and advances to customers		Loans and advances to financial institutions		Loans and advances to Corporates	
Concentration by sector	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Banks	-	-	161 347	143 123	-	-
Retail	2 346 365	2 042 349	-	-	-	-
Corporates	-	-	-	-	12	12
Total 31 December	**2 346 365**	**2 042 349**	**161 347**	**143 123**	**12**	**12**

Concentration by location	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Germany	1 962 198	1 739 392	-	-	-	-
Luxembourg	26 569	22 143	97 013	87 798	12	12
France	144 751	125 101	1 902	1 124	-	-
Austria	135 296	116 543	-	-	-	-
Spain	72 873	35 744	1	-	-	-
Other countries	4 678	3 426	62 431	54 201	-	-
Total 31 December	**2 346 365**	**2 042 349**	**161 347**	**143 123**	**12**	**12**

8.2.4 Trading assets

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

8.2.5 Settlement risk

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

8.2.6 Financial institutions

Advanzia only places its spare liquidity with other banks that are all to be individually assessed and for larger exposures, also to be approved by the Board of Directors. These are banks that have minimum requirements with respect to ratings and are mostly to be considered as systemic banks. The Bank was as at balance sheet date compliant with the requirements of Regulation (EU) N°575/2013 (as amended) on prudential requirements for credit institutions and Regulation (EU) N 2021/451 on supervisory reporting.

8.3 External fraud risk

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

Advanzia has over the past years continuously enhanced the existing measures to identify and mitigate fraud losses. The credit card related fraudulent activity in 2022 resulted in a loss of TEUR 1 614 (TEUR 3 039 in 2021) which corresponds to a fraudulent amount rate measured as ratio of card turnover of 0.03% in 2022 (0.07% in 2021). These losses are in the financial statements included as part of the write-offs of credit card loans.

8.4 Liquidity risk

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

8.4.1 Management of liquidity risk

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

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

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

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

The Bank relies on deposits from customers as its primary source of funding. The deposits from customers are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive deposit offering and constant monitoring of market trends. On an aggregate level, the customer deposits exhibit a high degree of stability. During 2022, customer deposits in savings products increased by 6% (2021: increase of 7%).

Since 2021, the Bank also has a securitisation facility providing senior funding for an amount up to EUR 475 million. At the end of 2022, EUR 30.5 million of committed senior funding are undrawn under the facility (2021: EUR 69 million) and can be used as contingent funding reserves. For more details about this transaction refer to Notes 7.7.8 and 7.7.9.

8.4.2 Exposure to liquidity risk

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

LCR (Min. 100%)	2022	2021
at 31 December	168%	217%

NSFR (Min. 100%)	2022	2021
at 31 December	246%	260%

There were no breaches of the liquidity requirements in 2022.

8.4.3 Residual contractual maturities of financial liabilities

31 December 2022

In thousands of EUR

NON-DERIVATIVE LIABILITIES	Carrying amount	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Amounts owed to financial institutions	75 689	-86 471	-20 454	-977	-3 118	-61 922	-
Amounts owed to customers	2 355 662	-2 355 662	-2 355 662	-	-	-	-
Structured financing	439 426	-461 041	-903	-1 805	-8 123	-450 210	-
Undrawn loan commitments	5 812 646	-5 812 646	-5 812 646	-	-	-	-
Total	**8 683 423**	**-8 715 820**	**-8 189 665**	**-2 782**	**-11 241**	**-512 132**	**-**

31 December 2021

In thousands of EUR

NON-DERIVATIVE LIABILITIES	Carrying amount	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Amounts owed to financial institutions	78 475	-89 449	-23 240	-778	-2 309	-63 122	-
Amounts owed to customers	2 221 257	-2 221 257	-2 221 257	-	-	-	-
Structured financing	400 198	-404 724	-151	-165	-578	-403 830	-
Undrawn loan commitments	5 326 141	-5 326 141	-5 326 141	-	-	-	-
Total	**8 026 071**	**-8 041 571**	**-7 570 789**	**-943**	**-2 887**	**-466 952**	**-**

The above table shows the undiscounted cash flows on the Bank's financial liabilities and undrawn loan commitments on the basis of their earliest possible contractual maturity, please see Notes 7.7.7 to 7.7.9. The amounts from the Subordinated Liability are calculated until the date the Bank is entitled to execute the call-option, please see Note 7.7.11. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, deposits from customers are expected to maintain a stable or increasing balance, and only a very small amount of undrawn loan commitments (i.e. the unused portion of credit card limits) may be expected to be drawn down immediately.

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

8.5 Market risks

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

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

Credit card loans and customer deposits are usually not subject to sudden large (but short-lived) aberrations in the underlying money market interest rates, which may occur on rare occasions, and the Bank is thus in practice shielded from such shocks. The Bank also has placements with other banks, either on nostro accounts or as money market placements (term deposits), but the duration of the latter is usually kept at less than three to six months, and are thus considered to be in line with the main other interest bearing asset/liability classes. The Bank monitors and reports interest rate risk and its impact on both the Net Interest Income (NII) and the Economic Value of the Equity (EVE) on a quarterly basis.

8.5.1 Management of market risks

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

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

As of 31 December 2022 the total EUR equivalent FX exposure was of TEUR 440.

8.5.2 Exposure to interest rate risk

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

A summary of the Bank's interest rate gap position for interest rate increases (asymmetrical to decreases) as at balance sheet date is as follows:

31 December 2022

In thousands of EUR

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

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

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

31 December 2021

In thousands of EUR

Interest bearing assets	Gross amount	Less than 3 months	3-6 months	6-12 months	1-5 years	more than 5 years
Central bank - minimum reserve	22 151	22 151	-	-	-	-
Central bank reserves in excess of the minimum required (deposit facility)	813 113	813 113	-	-	-	-
Loans and advances to banks (assimilated to Nostro)	62 315	62 315	-	-	-	-
Term deposits	83 009	83 009	-	-	-	-

Loans and advances to partner banks (PCS)	8 456	8 456	-	-	-	-
Gross loans and advances to credit card customers FR	152 456	152 456	-	-	-	-
Gross loans and advances to credit card customers AT	130 798	130 798	-	-	-	-
Gross loans and advances to credit card customers DELU	1 869 655	1 869 655				
Gross loans and advances to credit card customers ES	52 384	52 384	-	-	-	-
Gross loans and advances to credit card customers IT	32	32	-	-	-	-
Total interest bearing assets	**3 194 369**	**3 194 369**	**-**	**-**	**-**	**-**

Interest bearing liabilities	**Gross Amount**	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**more than 5 years**
Overdraft Nostro Accounts			-	-	-	-
Structured financing	400 198	400 198	-	-	-	-
Deposits from customers	2 221 257	2 221 257	-	-	-	-
Subordinated liabilities	55 000	55 000	-	-	-	-
Total interest bearing liabilities	**2 676 455**	**2 676 455**	**-**	**-**	**-**	**-**

Gap	517 914	517 914				
Cumul gap	517 914	517 914				
Cumul. gap (%)	**16.2%**	**16.2%**				

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

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

Maturities of interest-bearing positions are symmetric in a sense that they do not depend on increases or decreases of the rates. The only exception is the credit card portfolio. Due to changes in consumer protection laws, the Bank's GTCs were updated, so that credit card interest rates can be decreased at any time, while increases have to be explicitly accepted by the customers. In that sense, maturity of the credit card portfolio becomes asymmetric: 2.5 months for decreases and 51 months for increases. The latter is based on an assumption that the average maturity of the credit card portfolio is approximately the time until at least 50% of legacy customers are replaced by newly onboarded customers (the average time-to-replacement for a customer).

31 December 2022

In thousands of EUR	Carrying amount	Present value of banking positions after interest shock		Impact on equity of the 12-month sensitivity on income	
Interest bearing assets		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
Central bank - minimum reserve	25 224	25 716	24 732	369	-369
Central bank reserves in excess of the min. required (deposit facility)	609 123	621 067	597 180	8 965	-8 965
Loans and advances to banks (assimilated to Nostro)	60 842	62 048	59 635	905	-905
Term deposits	59 446	60 406	58 483	721	-723
Gross loans and advances to credit card customers FR	174 181	174 181	171 743	-	-1 830
Gross loans and advances to credit card customers AT	147 652	147 652	145 640	-	-1 510
Gross loans and advances to credit card customers DELU	2 112 418	2 112 418	2 083 784	-	-21 493
Gross loans and advances to credit card customers ES	94 062	94 062	92 762	-	-976
Gross loans and advances to credit card customers IT	7 478	7 478	7 376	-	-76
Total interest bearing assets	**3 290 426**	**3 305 028**	**3 241 335**	**10 960**	**-36 847**
Interest bearing liabilities		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
Overdraft facility	7 626	7 773	7 478	-111	111
SPV deemed loan	439 426	447 290	431 548	-5 903	5 913
Deposits from customers	2 344 212	2 388 756	2 299 631	-33 435	33 462
Subordinated liabilities	113 588	115 315	111 857	-1 296	1 300
Total interest bearing liabilities	**2 904 852**	**2 959 134**	**2 850 514**	**-40 745**	**40 786**
Gap	385 574	345 894	390 821	-29 785	3 939
Cumul. Gap	385 574	345 894	390 821		
Cumul. Gap (%)	11.7%	10.5%	12.1%		

31 December 2021

In thousands of EUR	Carrying amount	Present value of banking positions after interest shock		Impact on equity of the 12-month sensitivity on income	
Interest bearing assets		**+200 bp**	**-200 bp**	**+200 bp**	**-200 bp**
Central bank - minimum reserve	22 151	22 594	21 708	333	-333
Central bank reserves in excess of the minimum required (deposit facility)	818 202	834 648	801 755	12 345	-12 345
Loans and advances to banks (assimilated to Nostro)	61 919	63 166	60 673	936	-936
Term deposits	62 570	63 618	61 519	786	-789
Loans and advances to partner banks (PCS)	8 460	8 594	8 325	101	-101
Gross loans and advances to credit card customers FR	155 222	155 222	153 002	-	-1 667
Gross loans and advances to credit card customers AT	135 301	135 301	133 415	-	-1 415
Gross loans and advances to credit card customers DELU	1 360 400	1 360 400	1 341 980	-	-13 826
Gross loans and advances to credit card customers ES	57 703	57 703	56 879	-	-619
Gross loans and advances to credit card customers IT	32	32	31	-	-
Total interest bearing assets	**2 681 960**	**2 701 278**	**2 639 287**	**14 501**	**-32 031**
Interest bearing liabilities					
Structured funding	405 990	413 425	398 543	-5 581	5 590
Deposits from customers	2 215 130	2 257 571	2 172 654	-31 856	31 882
Subordinated liabilities	117 570	119 398	115 737	-1 372	1 376
Total interest bearing liabilities	**2 738 690**	**2 790 394**	**2 686 934**	**-38 809**	**38 848**
Gap	-56 730	-89 117	-47 647	53 310	-70 879
Cumul gap	-56 730	-89 117	-47 647		
Cumul. gap (%)	**-2.1%**	**-3.3%**	**-1.8%**		

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

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

8.6 Operational risks and outsourcing risk

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

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

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

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

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

The Bank is regularly assessing and reporting its operational and outsourcing risk to management as well as to the Board of Directors. The Bank is also regularly assessing its expected losses in relation to these risks on a regular basis. The Bank has not incurred nor recorded any material operational losses in 2022.

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

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

Disaster Recovery/Business Continuity Plan

For the purpose of a disaster recovery and the planning of the business continuity, appropriate procedures are in place and a crisis management team have been established. 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 plan and business continuity plan are updated in response to changes on an on-going basis in the business environment. The disaster recovery plan and business continuity plan are reviewed at least annually by the IT Department (Business Continuity Manager).

8.7 Concentration risk

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

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

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

8.8 Model risk and income risk

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

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

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

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

8.9 Reputation risk and compliance risk

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

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

8.10 Capital management

Regulatory capital

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

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

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

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

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

The Bank's regulatory capital position on 31 December 2022 was as follows:

In thousands of EUR

	Note	2022	2021
Subscribed capital	7.7.12.1	17 553	17 553
Issue premium	7.7.12.1	9 890	9 890
Reserves	7.7.12.3	38 359	29 859
Income carried forward		157 004	143 168
Phasing of IFRS 9 first time adoption impact		8 542	16 262
Minimum Loss Coverage*		-1 467	
Interim profits inclusion authorised by CSSF		17 200	15 470
Less intangible assets	7.7.5	-24 606	-27 374
CET 1		**222 475**	**204 828**
Eligible subordinated liabilities – Tier 1		58 588	61 668
Tier 1 Capital		**281 064**	**266 495**
Eligible subordinated liabilities – Tier 2		55 000	55 000
Total Capital		**336 064**	**321 495**

If considering the remaining profits for the year (after dividend distribution), the Tier 1 capital as of 31 December 2022 would amount to EUR 326 million (2021: EUR 372 million).

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

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

Pillar 1

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

The capital ratio (Pillar 1) as of 31 December 2022 was 17.09% (2021: 18.67%). Had the remaining 2022 profits also been included; the Bank's total capital ratio would have been 19.38% (2021: 24.78%).

Pillar 2 (ICAAP and ILAAP)

Advanzia will submit its ICAAP and ILAAP documents for 2022 during the year, as per regulatory requirements.

During the ICAAP and ILAAP process in 2022, Advanzia has been following a strategy of assessing all risk aspects available and considered their relevance. The Bank is to a larger degree also quantifying its assessments based on experience data. The Bank assessed its ICAAP and ILAAP on a quarterly basis, and reported its findings to the Board of Directors.

The Pillar 2 ratio at 31 December 2022 was 15.4% (2021: 22.3%), slightly below the agreed risk appetite of Advanzia. Reduction of the ratio was mainly driven by increased capital requirements for liquidity and IRRBB risks as well as lower available Pillar 2 capital. The ratio will increase to be in line with its risk appetite limits in the first quarter of 2023 and is expected to remain above the thresholds going forward. Additionally, the Bank will implement a Pillar 2 view in its capital and dividend planning in 2023 to ensure adherence to Pillar 2 risk appetite limits going forward.

Capital allocation

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

8.12 Remuneration policy and practices

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

Management of the Bank as well as the Head of Risk Control, Head of Compliance, Head of Internal Audit, Head of Legal, Head of Human Resources and Information Security Officer are considered material risk takers. The remuneration for both management and employees consists of a fixed component and a variable component. The variable component is related to the performance of the Bank as well as the individual performance. The variable component for executive management, management, identified staff and employees cannot exceed 50%, 33% and 25% respectively of the total annual remuneration. For executive management and management any variable payment from TEUR 50 and above is deferred over three years with 60% to be paid out for the current year, and 20% in each of the subsequent two years. The variable remuneration consists only of settlements in cash.

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

For the Bank's management remuneration please refer to Note 7.10 and 7.11.

Munsbach, Luxembourg, March 2023

Mr. Bengt Arve Rem
Chairperson of the board

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

Mr. Nishant Fafalia

Mr. Tor Erland Fyksen

Mr. Wiljar Nesse

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Advanzia Bank S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022 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 as adopted for Luxembourg by the CSSF are further described in the « Responsibilities of "réviseur d'entreprises agréé" for the audit of the financial statements » section of our report. We are also independent of the Bank in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Why the matter was considered to be one of most significance in our audit of the financial statements for the year ended 31 December 2022

The Bank's portfolio of loans and advances to customers amounts to EUR 2,346 million as at 31 December 2022. These loans and advances to customers are measured at amortised cost and their cumulative impairment allowance as at 31 December 2022 amounts to EUR 190 million, with a net impairment result on financial assets of EUR 118 million for the year 2022.

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

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

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

How the matter was addressed in our audit

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

- With regards to the Bank's related internal control environment, we have tested the design and implementation and the operating effectiveness of key controls in the following areas:
    - collection monitoring,
    - write-off handling,
    - reliability of data sources.
- In addition, we have performed the following test of details:
    - We assessed together with our Risk Advisory and Information Risk Management specialists the selection and application of management's models, assumptions and data used in estimating the ECL requirements and performed a back testing based on the historical parameters.
    - We have assessed together with our Financial Risk Management specialists the calculation routine used for the ECL calculation as at 31 December 2022 and performed a recalculation of ECL on a sample basis.
    - Finally, we have assessed whether the related disclosures in the financial statements are appropriate.

Other information

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

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

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

Responsibilities of the Board of Directors

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

Responsibilities of the réviseur d'entreprises agréé for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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 skepticism throughout the audit. We also:

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

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

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

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

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

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

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 14 March 2022 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 18 years.

The Report of the Board of Directors is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in the EU Regulation N°537/2014 were not provided and that we remained independent of the Bank in conducting the audit.

Luxembourg, 13 March 2023

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

M. Jahke
Partner