Annual Financial Statements and Management Report

31. December 2019

Austrian Anadi Bank

your future bank – since 1896

AUSTRIAN ANADI BANK AG KEY DATA

in EUR m	2019	2018
Total assets	3,064	3,072
Primary funds (customer deposits, own funds)	2,434	2,328
Customer Assets	2,183	2,166
Total shareholder equity	170	192
Own Funds in accordance with CRR/CRD	169	187
Net interest income	29	33
Operating income	48	52
Operating expenses	–42	–45
Operating result	6	6
Profit from ordinary activities	–19	7
Cost: Income ratio	86.76%	87.48%
Net Interest Margin	0.98%	1.19%
Return on equity (RoE)	negative	4.00%
Return on assets (RoA)	negative	0.22%
Total number of employees	325	337

THE CHALLENGER HYBRID BANK FOR RETAIL CUSTOMERS AND SMEs

Financial report 2019

MANAGEMENT REPORT 2019

MANAGEMENT REPORT 2019

1. General economic environment

As a result of the economic weakness in world trade and the resulting dampening of domestic exports, growth in the Austrian economy has recently slowed down noticeably after a period of upswing. Compared to the previous year 2018 (+2.4 percent), the Austrian economy weakened significantly: In the full year 2019, economic output in Austria increased by only 1.6 percent (IHS) and 1.7 percent (WIFO). According to the OeNB (the Austrian National Bank), the domestic economy experienced even more robust growth in the first quarter of the past year, which had a correspondingly significant impact on Austria's economic output for the year as a whole. Since the middle of the year, industry has been in a phase of moderate recession. This is mainly due to the continuing export weakness. Uncertainties in global economic policy and trade policy tensions at the international level are increasingly weighing on industrial production. The cyclical weakness in global trade and in the euro zone naturally affected the Austrian economy. After a prolonged boom phase, growth in the domestic economy weakened significantly from spring 2019 onwards. After stronger economic growth at the beginning of the year, only a moderate increase of 0.2 percent each was recorded in the second and third quarters according to WIFO due to weaker foreign trade dynamics.

The domestically oriented sectors of the Austrian economy, on the other hand, continue to be an important pillar of the domestic economy: in particular, private consumption and the flourishing construction sector are working against a stronger slowdown in growth. Moreover, 2019 will be the fourth year in a row in which private consumption will increase significantly (+1.5 percent according to IHS). The basis for this is once again strong real income growth and dynamic employment growth. Due to the ECB's ongoing low-interest policy, lending rates are still at record lows. This situation is particularly pleasing for borrowers of long-term real estate financing. According to the OeNB, demand for retail lending has remained essentially stable since the end of 2017. Supported by low interest rates, demand for housing loans increased moderately in the course of the year.

According to Eurostat, the unemployment rate fell from 5.5 percent in 2017 to 4.9 percent in 2018, with a further decline to 4.6 percent in 2019.

Compared to the euro zone, Austria's economic growth was again significantly higher in 2019. In 2020, however, the economy is expected to slow down significantly due to the Covid-19 pandemic. Due to the uncertain development and its economic consequences, the effective impact of the pandemic with the associated government restrictions can only be estimated to a limited extent from today's perspective (see also Chapter 10. Outlook).

2. Overview

2.1 Positioning of the Bank

Austrian Anadi Bank AG ("Anadi Bank") is an Austrian hybrid bank in the business segments Retail Banking, Corporate Banking and Public Finance. The bank's value proposition is simplicity, speed and efficiency in the products and services it offers. On the one hand, it offers its customers personal support through a multi-channel approach with branches, its own credit shop and a team of customer care agents. On the other hand, Anadi Bank relies on smart product innovations and user-optimised digital services and is working consistently on the completion of its digital value-added chain, which enables the bank to achieve "time-to-market" leadership.

With 120 years of tradition in housing finance, the bank is an experienced partner in all financing matters of private customers. As a partner of the Province of Carinthia, the bank has been managing the granting of Carinthian housing loans for more than 60 years. Furthermore, it is the principal bank of numerous SMEs in trade, industry and real estate as well as product specialist for companies in the import and export sector, where it adds value through tailor-made solutions. Anadi Bank makes targeted use of the advantages of its lean structure and high decision-making speed. At 15 locations in Carinthia, Styria and Vienna more than 300 employees serve about 57,000 customers.

2.2 Financial year 2019 dominated by portfolio optimisation with focus on high-margin business & digitisation, with solid operational business development

In the past year, the bank was in the process of transforming a traditional mortgage bank to a sustainable high margin consumer finance & "niche" Corporate SME. However, the negative interest rate policy of the European Central Bank and the resulting high level of liquidity on the capital markets are putting ever greater pressure on margins in certain market segments. The bank has responded to these difficult conditions by selectively growing the retail and corporate markets. In the Public Finance segment, the Bank continues to focus on the Carinthian region.

In 2019, loans and advances to customers increased again compared with the previous year (approx. +0.8%), but unplanned high provisioning had to be made, particularly in the area of non-performing loans (for details, see section 5 Risk management).

The associated loss in the fiscal year led to a reduction in the common equity tier 1 ratio by 2.0 percent to 12.0 percent (2018: 14.0 percent). The total capital ratio amounts to 14,1 percent (2018: 16.1 percent). As a result, the Bank's new business growth was optimised for efficient RWA utilization resulting in lower business, with the aim of returning to the capital ratios set internally by management. However, all ratios continue to exceed the prescribed minimum legal requirements.

The NPL ratio is 2.4 percent (2018: 2.5 percent), which was calculated in the reporting year on the basis of the EBA definition (previous year's figure was adjusted).

Anadi Bank sees digitization as the key to a smooth customer experience by introducing a "one-system-fits all" approach with digital and automated processes that increase efficiency and lead to cost savings. Being the "small, agile bank" with focus on simplicity and speed in terms of products and services offered is the goal.

Despite the challenging year 2019, Anadi Bank is well on the way to successfully completing its digital value chain and is consistently pushing ahead with the digitization of its product offerings and services. A special focus is being placed on the automation of financing processes. Most recently it has automated the transfer of defaulted retail clients from the branches to the workout team. The bank is constantly developing new possibilities and ways of digitalising processes, products and services. Following the motto "Banking as a Service", Anadi Bank offers customers of every generation the opportunity to carry out their banking transactions simply and quickly, regardless of location. The bank also offered multi-account aggregation for customers to see their foreign bank accounts in one Anadi bank account. Anadi Bank successfully fulfils this service promise by connecting all sales channels – branches and shops, online and mobile – in an uncomplicated way.

With its paperless credit offers for private customers and SMEs, Anadi Bank has its finger on the pulse of the times. These digital credit variants are also enjoying increased popularity due to the simple application process and the quick decision to grant a loan. After the completely digitalised consumer loan, which already achieved a strong volume in 2018 and is being constantly improved in the end-to-end process, the bank also offered a customer loan app serving mobile customers and worked on a digital range of offers for housing and real estate financing during 2019. Considerations were made to completely automate the mode of online property valuation in the context of housing finance and to make use of the advantages of fintech digital services.

Anadi Bank is also innovating in its classic branch business. Its 1st loan shop in Vienna's Favoritenstrasse contributed to the increase in new lending business in 2019. The modern location with its focus on financing, especially consumer loans, offers interested parties individual, digital support. If the credit check is positive, the loan amount is paid out within 24 hours. Anadi Bank is the 1st bank in Austria to offer non-Anadi customers the option of express payment, i.e. a loan disbursement within a few hours.

As a partner for medium-sized companies, Anadi Bank also uses digital tools, such as the newly developed Corporate Credit Tool. With this tool different financing structures can be compared ad hoc. Corporate customers are thus provided a tailor-made financing solution with immediate indicative pricing. With Anadi as a business partner, corporate customers also have a contact person at their side throughout.

As the principal bank of the province of Carinthia and various municipalities, the bank is strongly anchored in the public finance sector. By financing public health care, technical infrastructure, educational institutions, tourism projects and many other public sector projects, Anadi Bank plays a decisive role in the growth and development of the region.

2.3 Retail Banking

Strategy

The retail segment of Anadi Bank serves more than 56,000 private and commercial clients via a centrally controlled branch network and via online and mobile sales channels supplemented by a Customer Care Center.

In 2019 the role as a hybrid bank was further expanded. The retail business model was strengthened through investments in digital technologies.

Business development in 2019

The results were characterized by the following focus areas:

- Growth in consumer loan business (+55.0 percent)
- Expansion of digital services
- Productivity gains
- Use of new products
- Opening of the first loan shop (in Vienna)
- Digital business grew by 109.0 percent year-on-year and the total share of lending business was 1.0 percent
- Customer growth in the digital business was 18.0 percent year-on-year

Growth in the customer loan business

In its core function as a competent advisor in matters of financing, the branch division recorded additional growth in this area, a solid result was achieved in the 2019 fiscal year with a new business volume of approximately EUR 141,0 million.

Customer demand in housing loans and consumer loans remains high. In general, new business increased year-on-year, particularly in the consumer loan area.

In the 2nd half of 2019, Austria's first loan shop was opened. This is a modern, cashless small branch in which customer needs, especially with regard to consumer loan financing, are met quickly. The aim is to offer our customers improved service and faster decision-making processes. This was achieved in particular by streamlining and optimizing internal processes.

Continuous implementation of the digitization strategy

In the course of the year, further features were added to the hybrid approach based on the digital consumer loan front-end rolled out in September 2018, such as an express payout, whereby the loan amount is available to the customer on the same day, regardless of which Austrian bank the account is held at.

Online-Banking & App

The continued development of online banking and the Anadi app with customer-focused new functions was implemented in 2019. For example, the PSD2 implementation required in September was successfully introduced. Furthermore, usability was increased through optimizing navigation. Another focus is the completion of the digital value chain. In addition to the successful expansion of the digital consumer loans, the introduction of the digital working capital loan is planned for 2020.

Growth in online savings deposits

The liquidity targets for 2019 were achieved with the Bank's own online savings products (online savings and online fixed-term deposits).

Product diversity through partnerships

The cooperation with Amundi Austria GmbH, one of the largest asset managers in Europe, which also ranks among the largest investment companies worldwide, was intensified.

Furthermore, the successful cooperation with Nürnberger Versicherung was further expanded and the planning for new product implementations is in progress. The penetration rates in the consumer loan business as a supplementary or cross-selling product to loans remained over 70 percent.

Partnership with Wüstenrot Bausparkasse was also intensified, enabling this customer need (building saving loans) to be covered.

Focus on the customer

Customer satisfaction is a core focus for us. The Customer Care Center is always receptive to the customers' concerns. In 2019, approximately 120,000 calls were received. Around three-quarters of the customer requests could already be resolved in a satisfactory manner in the first telephone call.

2.4 Corporate Banking

The Corporate Banking division comprises both the bank's corporate customer business and its real estate business. In both business segments, Anadi Bank pursues a consistent niche strategy with a focus on medium-sized companies and especially on owner-managed companies, with emphasis on such issues as entrepreneurial succession situations, company acquisitions or investment models for improving the ecological footprint of medium-sized companies.

The performance of the Corporate segment in 2019 was clouded by an unforeseen, high impairment charge. Both the Bank's performing and non-performing portfolios were subjected to an intensive review on a case-by-case basis, including the involvement of external experts. Higher value adjustments had to be made, particularly in the area of non-performing loans (for details see section 5 Risk management).

Despite this unsatisfactory development, the Bank was able to gain new customers in its operating activities in 2019 and further expand its solid new business. The committed new business volume reached a satisfactory level of around EUR 240.0 million and documents the high level of customer confidence in the Bank and its employees. Despite the clear objective of profitability before volume, the division's total loan portfolio was further increased to EUR 699.0 million.

Real Estate

In the Real Estate segment, the Bank is continuing to expand its good relations with well-known investors, funds and project developers. The cooperation with existing customers will be further intensified and the Bank will be able to become a true house bank for project developers on new projects. On the other hand, Anadi Bank benefits increasingly from customer recommendations, on the basis of which the clientele is expanded. The high level of customer satisfaction with the bank's structuring competences in this area should be emphasized. There is thus a strong focus on repeat business with existing or newly acquired customers in order to realise synergies and efficiency gains in project implementation.

Corporate clients

In the corporate customer business, the Anadi Bank defines itself as a bank of entrepreneurs for entrepreneurs and pays particular attention to competently supporting entrepreneurs in special business situations such as company acquisitions, succession arrangements or investor income. Based on a strong relational customer base, Anadi Bank tries to deepen the cooperation with these customers and to add value through unique competences, for example in the field of subsidies or in the document business. In addition, the bank is increasingly acquiring customers through business contacts and, as a basis for this, maintains contacts in particular with private investors, family offices and investment companies with the aim of pursuing a solid buy-and-build strategy.

In line with a focused niche policy, the bank has intentionally avoided competing on pricing, and instead has focused purely on market share expansion, deepening existing relationships and solving more complex financing requirements. Anadi Bank will continue to pursue this path in 2020 and further deepen its position as a solution-oriented bank for entrepreneurs. In addition to traditional financing for investments, 2019 saw a particularly pleasing development in the guarantee and liability business, where the bank's high level of competence in project-based financing activities is an added competitive advantage.

A milestone in the range of services offered to customers in the 2019 financial year was the introduction of an online tool for working capital loans, on the basis of which customers can be provided with a non-binding, very detailed financing proposal at an initial appointment. The further expansion of these digital competencies in the corporate customer business is one of the main focuses for the 2020 financial year, in which the range of products and services will be expanded to include investment loans and real estate financing using appropriate tools.

2.5 Public Finance

The Public Finance segment comprises the financing business as well as the deposit-taking business with public and semi-public customers. The customers include federal states, cities, municipalities, non-profit housing cooperatives, associations of local authorities and non-profit organisations. In addition, Public Finance has been managing the subsidized housing loans on behalf of the State of Carinthia since 1957.

Despite the continued increased price competition in the public sector and the generally low interest rate environment, the Public Finance segment was able to maintain its position as a reliable partner for around 120 Carinthian municipalities in 2019, thanks to its market presence and excellent service performance. Outside of Carinthia, more than 600 public corporations trust the services of Anadi Bank. Due to the price competition, the focus was intentionally not on growth, but rather on financing activities in the Carinthian region. In addition, new sales opportunities were developed via digital channels.

The management of subsidized housing loans, i.e. loans granted by the Province of Carinthia to private individuals for the construction of their own homes as well as to non-profit housing cooperatives, was managed to the complete satisfaction of all parties involved (customers and Province of Carinthia) in the year under review. The passing of a new attractive Housing Subsidy Act in 2018 laid the foundations for a continuous increase in the volume of loans under management.

The main focus in the 2019 financial year was on the digitization of subsidized housing loans. Thus, the bank's existing expertise could be used to the advantage of the Carinthians. From 2019, all new subsidized housing loan customers will have access to their accounts via Anadi Internet Banking. In this context, the overall "smart hybrid bank" strategy is being implemented seamlessly in Public Finance.

In addition, Public Finance was able to offer its customers attractive investment products even at the current very low level of interest rates. Innovative forms of investments were also offered as tailor-made alternatives to traditional fixed-term deposits. As a result, Public Finance continues to represent a stable source of liquidity for the bank as a whole, thanks to secure and innovative investment products.

In 2020, the Public Finance division will continue to serve as a long-term partner for public-sector and public-sector-related customers by providing high-quality advice on financing and attractive offers with a maximum degree of security in investments.

2.6 Treasury & Investor Relations

The focus of Treasury & Investor Relations is on the forward-looking management of liquidity and the active management of interest rate risks as part of asset-liability management. In addition, activities aimed on the one hand at strengthening the visibility of the Bank among investors on the capital market and on the other hand at further expanding relationships with other capital market participants are carried out by Investor Relations & Financial Institutions.

The focus in 2019 was on optimising the funding structure and meeting regulatory requirements.

In the year under review, the S&P-rated mortgage bond programme was subjected to a further update and the rating was confirmed. As a result, AA-rated mortgage bonds can continue to be offered to capital market participants and thus generate capital market funding.

3. Business development of Austrian Anadi Bank

As of 31.12.2019, Anadi Bank AG was able to look back on a stable, operative business development in the core business areas. In the Retail and Corporate segments, business volumes increased, thus further strengthening the operating base. Thanks to the consistent optimisation of the business portfolio and the increase in cost efficiency, the basis for a stable business development was laid.

However, in the course of preparing the annual financial statements, a detailed analysis of the Bank's loan book revealed that, due to new information or developments from 2019 and 2020, a small number of loan exposures mainly from the non-performing loan portfolio had to be revalued and therefore had to be provisioned or additionally impaired. These affected customers are particularly those in the Corporate segment (for detailed explanations, see chapter 5. Risk Management). Provisions in the Retail segment were mainly in the area of consumer loans, but these were relatively lower. The need for provisions in 2019 therefore amount to EUR 29.6 million (EUR 6.5 million in the Retail segment and EUR 23.1 million in the Corporate segment). The cases affected were also analysed and resolved with the support of external experts.

The market environment remains challenging. The expansive monetary policy of the European Central Bank and the associated high liquidity in the capital markets is putting margins under even greater pressure, particularly in the areas of retail housing loans and public finance. New business growth in these areas is therefore only selective. The developments are explained in detail below.

3.1 Balance sheet development

As at 31 December 2019, Anadi Bank had total assets of EUR 3,063.7 million (2018: EUR 3,072.3 million). Total assets remained stable, the main reason for this was the development of new business in the core segments Retail and Corporate, whereas the volume of business in the Public Finance segment declined as a result of competition in pricing and the associated focus on the Carinthian region. Net loans and advances to customers increased by EUR 16.6 million to EUR 2,183.1 million (2018: EUR 2,166.5 million)

In total, risk provisions amounted to EUR 48.9 million (2018: EUR 30.0 million.). The net increase of EUR 18.9 million is due to higher risk provisions, mainly from the corporate non-performing loan portfolio (for detailed explanations, see chapter 5. Risk Management). This corresponds to around 2.2 percent of the total loan portfolio (2018: 1.4 percent). The NPL ratio is 2.4 percent (2018: 2.5 percent), which was calculated in the reporting year on the basis of the EBA definition (previous year's figure was adjusted)

The balance sheet item cash in hand, balances with central banks and post office banks shows a balance of EUR 81.8 million (2018: EUR 28.3 million). The increase of EUR 53.5 million is due to short-term investments with the central bank.

The balance sheet item Treasury bills and debt securities including fixed-income securities relate exclusively to the liquidity reserve and amount to EUR 318.6 million (2018: EUR 394.2 million). This is a net outflow of EUR 75.6 million. Due to sufficient liquidity, maturities in 2019 were only replaced selectively.

Loans and advances to credit institutions amounted to EUR 433.2 million (2018: EUR 422.9 million). The increase of EUR 10.3 million was used for short-term investments.

The balance sheet item Shares and other variable-yield securities amounts to EUR 0.0 million (2018: EUR 14.5 million). The investment fund reported in this item was sold for strategic reasons.

The other items on the assets side show only minor changes.

On the liabilities side, primary funds (customer deposits and own issues) increased by EUR 106.5 million to EUR 1,776.8 million (2018: EUR 1,670.3 million). The online deposits segment in particular continued to develop positively. There was no significant net change in securitised liabilities (own issues) during the financial year, which amounted to EUR 657.7 million (2018: EUR 657.9 million). Regular repayments were replaced by new issues in the same amount.

Liabilities to credit institutions amounted to EUR 430.6 million (2018: EUR 518.4 million). The decline of EUR 87.8 million is mainly due to a lower refinancing volume with banks.

The other items on the liabilities side show only minor changes.

The Bank's loan/deposit ratio (loans in relation to primary funds) is 89.7 percent (2018: 93.1 percent).

The LCR was 190.9 percent (2018: 172.4 percent) and the NSFR 117.7 percent (2018: 117.9 percent) as at 31 December 2019 in line with the minimum requirements. The Bank's leverage ratio was 4.6 percent on 31 December 2019 (2018: 5.1 percent), and hence all ratios are well above the Basel III minimum requirements.

3.2 Own capital funds

The bank's own funds (Tier 1 capital reduced by deductions) plus Tier 2 according to CRR/CRD amounted to EUR 169.3 million (2018: EUR 186.8 million). The legally required minimum level of capital was EUR 96.2 million, resulting in a surplus of EUR 73.1 million (2018: EUR 94.2 million) and a coverage ratio of 175.9 percent (2018: 201.7 percent).

As of 31 December 2019, the Common Equity Tier 1 ratio was 12.0 percent (2018: 14.0 percent) in line with CRR/CRD requirements. The decline in the common equity tier 1 ratio is mainly due to the increased risk provisioning requirement described above and the associated loss in the current fiscal year. The Total capital ratio was 14.1 percent (2018: 16.1 percent).

The capital ratios are thus above the regulatory minimum.

3.3 Profit and loss 2019

The increase in business volume and the ongoing optimisation of the business portfolio further strengthened the operating income base of Anadi Bank AG. Net interest income reached EUR 28.5 million (2018: EUR 33.3 million). However, the comparison with the previous year is limited, as one-off effects of EUR +4.2 million from early swap closures were carried out in 2018, primarily in connection with measures to optimise the interest rate profile. The net interest margin (ratio of net interest income to average balance sheet total) is 0.98 percent (2018: 1.19 percent).

Net commission income, the result between commission income and commission expenses, amounted to EUR 15.3 million in the financial year under review (2018: EUR 15.3 million) and was maintained at the high level of the previous year. In particular, commission income from guarantee business increased significantly year-on-year.

Income from securities and participating interests amounted to EUR 1.1 million (2018: EUR 0.4 million). The increase of EUR 0.7 million is mainly due to the liquidation of the Pfandbriefstelle and the related distribution of the remaining assets (see Notes, page 51). Other operating income amounted to EUR 2.7 million (2018: EUR 2.1 million).

Operating income (net interest income, net commission income, net trading income and other income) thus amounted to EUR 47.9 million in the 2019 financial year (2018: EUR 51.7 million).

The operating expenses amounted to EUR 41.6 million (2018: EUR 45.2 million). The main reasons for the decline of EUR 3.6 million were strict cost management in administrative expenses and significant cost effects in the area of human resources due to the fact that no replacements were made for departing employees and the release of personnel provisions no longer required.

The operating result thus reached EUR 6.3 million (2018: EUR 6.5 million).

Value adjustments and re-adjustments in respect of loan and advances and provisions for contingent liabilities and for commitments plus value adjustments and re-adjustments in respect of transferable securities held as financial fixed assets, participating interest and shares in affiliated undertakings amount to EUR –25.4 million (2018: EUR +0.2 million). The deviation mainly results from the higher net risk provisions compared to the previous year, as already described above (detailed explanations in chapter 5. Risk Management), and the sale of the right to "Entitlement to payment of the Conditional Additional Purchase Price" derived from the KAF offer of 2016 to settle receivables against HETA Asset Resolution AG. This right was sold on the open market in the year under review, generating a profit of EUR 1.9 million.

The result from ordinary activities was EUR –19.1 million in the year under review (2018: EUR +6.7 million).

Profit after tax for the 2019 financial year is EUR –21.4 million (2018: EUR +4.0 million).

The annual result in the amount of zero is due to the release of reserves.

3.4 Key profit indicators

The cost/income ratio (relation of operating expenses to operating income) was 86.76 percent in 2019 (2018: 87.48 percent).

In 2019, the return on equity before taxes (2018: 4.0 percent) and the return on assets (RoA) before taxes (2018: 0.22 percent) are negative.

The profit on ordinary activities is used as the basis for calculation.

4. Analysis of Non-Financial Performance Indicators

4.1 Employees

As of 31 December 2019, Austrian Anadi Bank employed 325 people at 15 sites throughout Austria, which represents a year-on-year reduction in personnel resources (2018: 337 employees). The bank offers its employees a wide range of variable part-time models, of which 115 employees made use as of 31 December 2019 (2018: 119 employees). This resulted in an employment level of 283 FTE (2018: 295 FTE). 51.4 percent of the employees are women (167 female employees as of December 31, 2019), which corresponds to 135.7 FTE in terms of the employment level.

For years Anadi Bank has committed itself to apprentice training. As of December 31, 2019, 3 apprentices will be trained as "bank clerks".

Anadi Bank gives high priority to continuous training of its employees, organizational development, creation of modern working environment and health provision. For the specialist and personal development of the staff, numerous specialist and management training courses, sales and product courses as well as in-house further training are offered. With these diverse courses, the bank ensures a very good level of qualification of its employees and contributes to the attractiveness of Anadi Bank as an employer.

4.2 Customers

Anadi Bank provides demand-oriented services as a reliable and competent partner in all financial matters to more than 57,000 customers.

In line with Anadi Bank's modern hybrid bank approach, there are different ways to carry out banking transactions simply and quickly. Traditionally, a customer can obtain advice and support in a branch of Anadi Bank. As an equivalent sales channel, customers also have digital application channels at their disposal, in which they can conclude the entire product range from savings accounts to current accounts to consumer loans as new or existing customers.

Customers also have the option of contacting the Customer Care Center via telephone concerning their grievances and wishes. The Customer Care Center also supports customers in their online product transactions even outside opening hours, including advising them on attractive online offers or branch campaigns. It is also possible to arrange appointments directly with customer advisors in local branches via the Customer Care Center.

4.3 The environment and social responsibility

The project team "Green Bank" established in 2012 is working on a sustainable resource planning and champions environmental protection. Examples of its work are the usage of environmentally friendly e-bikes for the trips between individual sites, the reduction in travelling through video conferences for internal meetings and avoiding colour print outs to a large extent.

Anadi Bank places great value on being socially responsible. In this context, the bank organised a "day of togetherness" with a varied programme in May 2019 with the "Lebenshilfe Kärnten".

In addition, the bank has funded two sponsorships. The program "Sonne für Kinder" ("Sun for Children"), for example, made it possible for children, including disabled, socially disadvantaged children to spend a holiday in Italy.

At Christmas, Anadi Bank participated in the "Advent Packer" campaign of the relief organization of St. Mauritius and Lazarus in Austria.

In order to convey the joy of sport and exercise to children and young people, Anadi Bank supports the ÖTV project "Next Generation". In addition, the U9 team of the ASV 13 football club will be equipped with training outfits.

As a long-standing funding pioneer of the "Trigonale" and the "Kultur.Raum.Kirche" the bank supported a high-caliber festival of old music in Carinthia in 2019. This cultural initiative, which is unique in the Alpine-Adria region, supports high-quality music ensembles at impressive locations.

4.4 Research and development

Anadi Bank does not engage in any research and development activity.

5. Risk Management

In the context of the 2019 annual financial statements, newly gained knowledge of individual loan cases led to a significant increase in provisions. Both the Bank's performing and non-performing portfolios were subjected to an intensive review on a case-by-case basis, including the involvement of external experts. In particular, existing collateral and guarantees, future cash flows and legal realisation options were analysed in detail and valued in accordance with the strict principle of prudence laid down in the Austrian Commercial Code.

The Bank's non-performing loan portfolio amounted to EUR 64.4 million (2018: EUR 67.6 million). After internal collateral value of EUR 14.7 million has been taken into account, the remaining unsecured exposure amounted to EUR 49.7 million of which EUR 46.4 million are provisioned. This corresponds to a ratio of 93.4%.

Risk taking within the scope of our business activities and the effective control, governance and management of these risks are among the core tasks of Anadi Bank.

Risk management tasks are carried out within the bank by (operational) Credit Risk Management and Strategic Risk Management. Both divisions report directly to the Chief Risk Officer (CRO).

5.1 Risk strategy, risk control and risk monitoring

The risk strategy of Anadi Bank defines the elementary risk policy principles, whose goals are the creation of a consistent risk profile and the preservation of an adequate capital base. It is based on the business strategy, which was formulated by the Management Board and approved by the Supervisory Board. In exercising their operational tasks, all employees and the Management Board commit in full to comply with the risk strategy.

The risk policy principles of the risk strategy form the basis of the common risk culture and of a uniform understanding of the risks within Anadi Bank reflected in the pronounced risk awareness of all employees. The risk culture thus promotes the identification and the conscious management of risks and ensures that decision-making processes result in balanced decisions in line with the Bank's risk appetite framework. This is supported by clearly defined risk management processes and the corresponding organizational structures.

The risk strategy also incorporates the goals of risk control for all fundamental business activities and the measures to achieve these goals. It takes risk concentrations into account and makes general statements on the processes for identification, assessment, limiting, control, monitoring and communication of the fundamental risks.

The following premises are stated within the framework of the risk strategy:

- The definition and determination of the risk strategy is in the collective responsibility of the Management Board.
- There is a strict separation of functions in compliance with the regulatory requirements and a risk-based organizational structure and clearly defined risk processes.
- Defined risk limits are closely linked to the economic capital allocation and are derived from the risk coverage potential. As part of the operationalization of the risk limits, further limits with a direct and/or indirect link to the risk-bearing capacity concept are derived.
- There are clearly defined reporting processes for risk communication with regular risk reports to the Management Board and other executives.
- The elements of risk control, its methods and assumptions are reviewed regarding appropriateness at least once a year.

The institution's risk management must guarantee that the risk-bearing capacity of the bank is ensured on an ongoing basis. This means in particular that the fundamental risks of a bank have to be identified, adequately quantified and continuously covered by the risk coverage potential, taking into account concentrations. Hence, Anadi Bank has institutionalized a multi-part risk management process. The internal risk management of Anadi Bank incorporates risk identification and evaluation, planning and pre-control, quantification, limiting as well as monitoring, control and communication of risks.

The goal of the risk inventory is the identification of fundamental banking risks in accordance with Section 39 (2b) BWG that could jeopardize the solvency of the bank permanently. The risks primarily result from the business policy alignment and the transactions entered into as a consequence. In addition, specifications under supervisory law can fundamentally influence the treatment of risks and their control.

The process of risk inventory will be initiated regularly at least once a year or in the event of fundamental ad-hoc developments. The implementation is the responsibility of the person charged with risk inventory (from Strategic Risk Management) who develops the results in collaboration with the risk type manager.

The bank controls and monitors its risks in all business divisions under the provisos of optimizing its risk/performance profile and to guarantee the risk-bearing capacity at any time. Investors of the bank are thus protected.

5.2 Risk management organisation

As a member of the Management Board of the bank, the Chief Risk Officer (CRO) is responsible for the adequate organisational structure and process organization of the risk management and controlling. Pursuant to the regulations valid in Austria and other European standards, the CRO acts independently of all market and trading units.

With a view to an appropriate internal risk control and monitoring, the responsibility of the CRO is divided into two risk areas:

Strategic Risk Management (SRM)

The strategic risk management on the on hand is responsible for the structured recording of the overall bank risks as a basis for the risk strategy within the framework of an annual risk inventory and for the development of the risk policy principles and of the appetite for risk (risk strategy) based on the specified business strategy plus annual review and adaptation. On the other hand, the specifications with regard to methods and models for the overall bank risk control are developed by the SRM pursuant to ICAAP and ILAAP and the monitoring of the economic capital management and of the liquidity management carried out.

The SRM is established as an independent risk control unit, with its own department for market and liquidity risk management and a department for Regulatory Reporting and Operational Risk. The following activities are managed under the direct responsibility of the SRM Division Head:

- Management of the Internal Capital Adequacy Assessment Process (ICAAP)
- Development and execution of the risk inventory
- Development of methods and models for the quantification of identified significant risks
- Limitation and monitoring of risks in accordance with the risk strategy
- Internal and external risk reporting (Supervisory Board, FMA, Federation)
- Development of scenario stress tests and reverse stress tests
- Capital planning within pillar 2

In addition, the following agenda are carried out within the framework of the overall bank management under the direct responsibility of the SRM division management:

- Core team member in NPNM processes ("new products – new markets" introduction processes)
- Creation of the rules for overall bank management (risk strategy plus guidelines on the operationalization of the risk strategy, ICAAP Policy, etc.)

The following tasks are carried out in the Market and Liquidity Risk department:

- Development of methods and models for market and liquidity risks (ICAAP, ILAAP)
- Development of methods and models for credit risks (Rating, Scoring, Credit Risk Models, Validation and Backtesting)
- Ongoing reporting/ad hoc reporting of market and liquidity risks
- Regulatory risk reporting (Interest rate statistics, IRRBB, LCR, NSFR, AMM)
- Measurement, limitation, stress testing and analysing of market- and liquidity risks
- Middle Office service functions in connection with Companies Code (UGB) balance sheet accounting standards, hedge efficiency measurement, fair value determination, calculation of CVA/DVA
- Cash collateral management for derivatives
- Liquidity contingency plan
- European Market Infrastructure Regulation (transaction register report, clearing, etc.)
- Core team member in the product implementation process (NPNM) for market and liquidity risks

The Regulatory Reporting and Operational Risk department manages the following tasks:

- Preparation, further development and updating of the AAB recovery plan within the framework of BaSAG
- Coordination and transmission of the Resolution Planning (LDR) data
- Performing the ICS functions for the entire division
- Development of methods and models for operational risks
- Participation in product implementation process (NPNM)
- Measurement, analysis, reporting and monitoring of operational risks
- Carrying out annual risk assessments with regard to operational risks

- Creation of COREP reporting package
- Coordination and transmission of the FINREP reporting package
- Creation of Smartcubes and financial market stability cubes
- Creation of the AnaCredit GKE reporting packages
- Preparation of the supervisory statistics, asset and risk reporting, monetary statistics
- Preparation of master data, participation and share right notifications
- Implementation of GMP data model and further development
- Preparation of reports in connection with the ESA deposit guarantee scheme
- Creation of Asset Encumbrance reporting package
- Coordination Credit Claims
- Basel IV overall coordination and project development
- SLA management in connection with internal departmental outsourcing (AUREP)

Credit Risk Management (CRM)

The CRM is responsible for the entire credit process and is divided into the following key functions:

- Underwriting for Corporate Clients/Banks/Public Finance/Retail
  Herein, the risk analysis of credit applications and the creation of the second vote necessary pursuant to the MSK, if applicable with requirements, is carried out. Other tasks include the rating confirmation and balance sheet analysis.

- Workout
  In this team, the restructuring and, if applicable, the collection of loans requiring recovery and loans that are insolvent from corporate and private clients, was carried out in the year 2019. After a successful restructuring, the customers were transferred again to the market departments. In the case of insolvencies, the insolvency proceedings were also accompanied by the Workout team. Due to different circumstances Workout was confronted with extraordinary staff turnover. After several personnel changes the management had to take countermeasures. Therefore, an external firm was commissioned for an independent valuation of larger loans. A few Workout-cases were managed by an external law firm. Therefore, the organizational and the process structure of the Workout governance will be restructured. The steering of the Workout portfolio will be carried out by a separate Steering Unit. This organizational unit functions as a link between the Case Manager and the Management Board. It monitors and reports the portfolio of non-performing loans. The operative Workout governance will be executed in two different departments. Complex cases (Corporates) will be processed by a new acquired team of experienced experts for restructuring, recovery and liquidation. The focus for non-performing loan cases relating to mass business including a small amount relating to Retail will be on a standardized Soft- and Hard Collection process.

- Collateral management
  In addition to valuations for ongoing business, the necessary annual revaluations of collaterals are carried out here. This includes mortgages, liens to shares, flexible assets, assignments, etc.

- Credit Risk Management Support
  In this department the policies are created and annually reviewed. In addition, among others, also responsible for the NPL reporting and the monitoring of the budget for provisions.

- Back Office
  Back Office includes the loan administration (creation of all loan documentation incl. creation of the securities, handling and payment as well as management of accounts).

5.3 Risk Governance

The overall responsibility for the risk governance is with the CRO. To support him, there are a number of decision-making and control bodies within the bank.

Risk Committee

The Risk Committee constitutes the risk committee defined pursuant to Section 39d of the BWG.

- Consulting on the current and future risk appetite of Anadi Bank and the risk strategy
- Monitoring of the implementation of the risk strategy in connection with the control, monitoring and limitation of risks pursuant to the risk-bearing capacity concept of Anadi Bank with regard to equity and liquidity
- Review of the pricing of products and services of Anadi Bank taking into account the business model and the risk strategy
- Assessment of the internal remuneration system

The Risk Committee comprises the Supervisory Board, the Management Board, the management of the Strategic Risk Management and the management of the Credit Risk Management.

Risk Executive Committee (RECO)

The RECO deals with the following risk topics every month during the Board meeting:

- Risk-bearing capacity
- Cross-risk and reverse stress test of the bank
- Credit risk development overall portfolio
- Segment control and risk limitation
- Early warning, event and recovery portfolio
- Risk Budget & Forecast (SRP, PRP)
- Watch list reporting
- Market and Liquidity risk plus reporting pursuant to the Securities Supervision Act (WAG)
- Operational risk
- Results risk inventory
- Risk strategy and noting of the exceptions to the risk strategy
- Decision/Discussion of risk-relevant models and methods

Governance Risk Committee (GRC)

In 2019 the Governance Risk Committee met every quarter within the framework of the Risk Executive Committee as a decision-making body with regard to activities and/or measures of operational risk management and as a client of possible OpRisk projects. The participants are the Management Board, the management of the Strategic Risk Management, the ORC (Operational Risk Controller), the Heads of Compliance & Legal, Audit as well as Operations.

The reporting content incorporates the collection of loss data in the period between the GRCs, key performance indicators, current topics such as implementation of measures or results of the scenario analysis, an outlook and current focus areas/activities and the notification of responses with regard to the delayed registrations of claims in the OpRisk database.

Furthermore, Compliance & Money Laundering, Fraud, Information Security & Safety and Security topics are dealt with within the framework of the GRC.

In addition, the SRM is a participant in the following bodies in its consulting and reporting function:

Asset Liability Committee (ALCO)

The ALCO is used for the exchange of information and decision-making for topics of the ALM overall bank management and specifically those of Treasury, the equity requirements of Pillar I and II as well as the control of country risks.

Liquidity Round (LR)

The LR is used for the operational implementation of liquidity topics and for the exchange of information and for decision making for the management of liquidity, of the control of liquidity key indicators and the control of the liquidity progress review and the counterbalancing capacity. Furthermore, during the LR, there is the coordination of the funding activities over a period of 4-6 weeks based on the funding plan (own issues).

Market & Liquidity Round (MLR)

The MLR takes place every quarter as an extension to the ALCO and also addresses the analysis of the current actual business situation (assets and liabilities), the plan comparison and the analysis of the competition, and serves as a decision-making body that stipulates conditions for products, product specifications and campaigns.

The most important committees of the credit risk management are:

Credit Committee (CC)

The Credit Committee meets weekly. The CRO chairs the committee and cannot be overruled.

Watch Loan Committee (WLC)

The bank has set up a Watch Loan Committee Corporate that is chaired by the CRO. Once a quarter, all loans within the rating-class 4 and all workout-cases of corporate clients with an obligation greater than EUR 200,000.00 are presented to this committee and discussed. In addition, all loans that are affected by unforeseen market movements or developments are also to be discussed in this body.

For the retail business, the Watch Loan Committee meets every two months.

5.4 Measures to improve risk management

Until May 2019 AAB used the external software LRT. The named software has been replaced by the so called Li-Stage, a tool based on SPOT created by the ARZ in accordance with our partner banks (Hypo banks and Volksbanken). As a result, the LCR (incl. scenario analysis) and the liquidity maturity balance sheet for the normal and stress scenarios (bank-, market-, and combined crisis) can be calculated on a daily basis and the KRI (Key Risk Indicators) can be reported within the daily market risk report.

5.5 Reporting

The results of the risk-bearing capacity calculation and risk-bearing capacity monitoring will be prepared on a monthly basis by the SRM in the form of the risk-bearing capacity report and provided to the overall board of management, the RECO and the respectively relevant division heads. The RTF reporting is supplemented by the market risk report, the overall portfolio report (credit risk), various sub-portfolio reports (credit risk), the early warning and event report (credit risk), the liquidity report and the OpRisk report.

In addition, the results of stress testing and reverse stress testing are also reported on a quarterly basis.

Furthermore, various special topics from all relevant areas are reported if necessary.

The Risk-bearing capacity report will be drawn up both for the Gone Concern (liquidation) as well as for the Going Concern (continuation) on a stand-alone basis and the Gone Concern perspective as well on the group level.

It is divided into the following sections of the Gone Concern perspective, which is the relevant steering perspective for Anadi Bank:

- Composition of the risk coverage potential (RCP)
- Quantification of the economic risks and comparison with the RCP
- Depiction of the limit utilization
- Results ICAAP stress tests
- Results reverse stress tests

The risk quantification in both perspectives incorporates the following risks:

- Credit risk with the sub-risks
  - Counterparty loss and credit rating risk
  - Size concentration risk
  - Country risk
  - Counterparty risk from derivatives
  - FX-induced credit risk
  - Credit risk of other assets
- Market price risk with the sub-risks
  - Interest rate risk
  - Creit spread risk
  - FX risk
- Liquidity risk
- Operational risk (since 2018 incl. ICR-Risk)
- Other risks with the sub-risks
  - Property risk
  - Macroeconomic risk
  - Model risk credit risk
  - Model risk market price risk measurement
  - Business, reputation and regulatory risk

A prompt, independent and risk-adequate reporting to the decision makers is ensured for all risk types. Ad-hoc reporting requirements are complied with at all times.

The regular credit risk reporting is carried out on a monthly basis. The liquidity risk reporting is carried out in standardized form on a weekly or monthly basis.

In the stress scenario, the frequency of the reporting will be increased as required. Market risk reports are drawn up on a daily basis, as well as the monitoring for bank, settlement, issuer and country transfer limits.

5.6 Capital Management

Within the overall control, the capital management of Anadi Bank is based on a multi-dimensional planning process that combines strategic, risk-oriented and regulatory aspects within an operational multi-annual planning.

The CRO is responsible for the Internal Capital Adequacy Assessment Process (ICAAP). In this context, the CRO is responsible for monitoring the risk-bearing capacity and managing the risk capital required from an economic point of view in accordance with Pillar II and for compliance with the regulatory capital requirements in accordance with Pillar I.

Regulatory capital adequacy

The starting point for regulatory equity allocation is equity planning. Equity is deemed to be the liable equity that comprises the tier 1 and tier 2 capital plus third-ranking funds.

The equity planning is predominantly based on an internally defined tier 1 capital ratio (ratio of tier 1 capital and risk positions) and an internally defined target ratio for the total capital ratio (ratio of total capital and risk positions) of the bank.

Economic perspective (risk-bearing capacity)

In addition to safeguarding the regulatory capital requirements, the safeguarding of the economic risk-bearing capacity (RTF) is a central element of the control. Serving this purpose, Anadi Bank has an institutionalized internal process with regard to the risk-bearing capacity (ICAAP or "Internal Capital Adequacy Assessment Process"). The economic equity constitutes an internal parameter that limits the bank's tendency to take risks in the internal control.

The deriving of the capital available for the risk allocation is conducted on the basis of the annual capital planning in which all fundamental individual capital components are planned or derived from other key performance indicators. In addition to the requirement of compliance with supervisory law specifications of the regulatory minimum equity to be held by the institution (external control pursuant to Pillar I), the fundamental willingness of the bank to take risks is reflected in the internal control in the risk coverage potential. In the process, a differentiation is also made in the determination of the risk coverage potential between the two perspectives "Gone Concern" and "Going Concern".

In the Going Concern perspective, the continuation of the institution is the focus, therefore the risk coverage potential derives from the available capital including hidden reserves and encumbrances less the committed regulatory capital. The risk coverage potential in the Gone Concern perspective, however, assumes safeguarding the payment of the creditor in the event of liquidation or utilization. That is why the Gone Concern perspective is based on the asset value of the institution. This is thus a purely inventory valuation in which compliance with capital specifications under supervisory law is not required. At Anadi Bank, the Gone Concern perspective is the leading perspective. This implies that the derivation of the appetite for risk, the capital allocation, the limiting and the control of the risks is done from this perspective.

Within the framework of the economic risk capital control, the risk profile of the bank is monitored with the risk-bearing capacity reporting. If necessary, control measures are taken.

The risk types necessary to determine the risk capital requirements include loan, market and other risks including their sub-risks as well as liquidity and operational risks. To determine the amount of the risk capital requirements per risk type, fundamentally the Value-at-Risk (VaR) method is applied.

Within the framework of the economic risk capital control, the bank monitors the risk profile and ensures the risk-bearing capacity through a comparison of risk coverage potential and risk coverage masses allocated and risk capital requirements. The upper threshold for losses, and thus the available risk capital, is determined by the sum of the capital components.

In order to guarantee an optimum utilization of the available risk capital on the risk-return level, in the interest of a value-oriented overall bank management, the limits derived from the risk-bearing capacity calculation from credit, market and liquidity risk are allocated to the individual business lines. The economic capital is also deemed to be a scarce resource for the value-oriented overall bank management. That is why the necessary compliance with the risk-bearing capacity prevents a too risky expansion of business from which income can be generated. With the risk capital provided, each business segment is thus required to manage it optimally from a risk perspective.

5.7 Credit risk

Based on its volume, credit risk is the most significant risk at the bank.

Within the framework of the calculation of the risk-bearing capacity, the credit risk is differentiated according to various sub-risk types. Most of the credit risk is attributable to the counterparty default risk and the credit risk. In addition, the country risk (country-specific default and transfer risk), the counterparty risk from derivatives (CVA risk), the FX-induced credit risk, the size concentration risk (granularity risk) as well as credit risks for other assets are quantified and reported.

The counterparty default risk is valued in compliance with the specifications of the CRR based on the IRB formula to calculate the unexpected loss.

Through the differentiation of categories of receivables with different asset correlations, segment-specific default risks and segment concentrations are implicitly also taken into account. However, the IRB model also assumes a high degree of granularity of the portfolio and thus does not take the negative effects of size concentrations on the unexpected loss into account. Thus there is an additional risk premium for the concentration risk; this premium is determined on the basis of the Herfindahl Hirschman Index.

Migration risks are recorded in the IRB model via the parameter for the residual term. This indication of the migration risk is implicitly also taken into account in the credit risk under the unexpected loss (UL).

As an adjustment of the residual term is not explicitly envisaged in the IRB formula for retail portfolios, the migration risk for retail receivables must be handled separately. It is taken into account within the quantification of the macroeconomic risk.

The assumptions of risk measurement on a rolling 12-month perspective and the assumption of static portfolios apply within the credit risk for all relevant portfolios, i.e. in addition to classic loans it also applies to the credit substitute business, securities (assets) and derivatives (incl. add-on). For the counterparty risk from derivatives, the CVA charge from Pillar I
is recognised as the risk value.

Credit risks for other assets are valued pursuant to the risk weightings of the standard approach from Pillar I. These risk values can be identified with a confidence level of 99.9 percent in accordance with the IRB formula. This procedure corresponds to a flat-rate risk valuation.

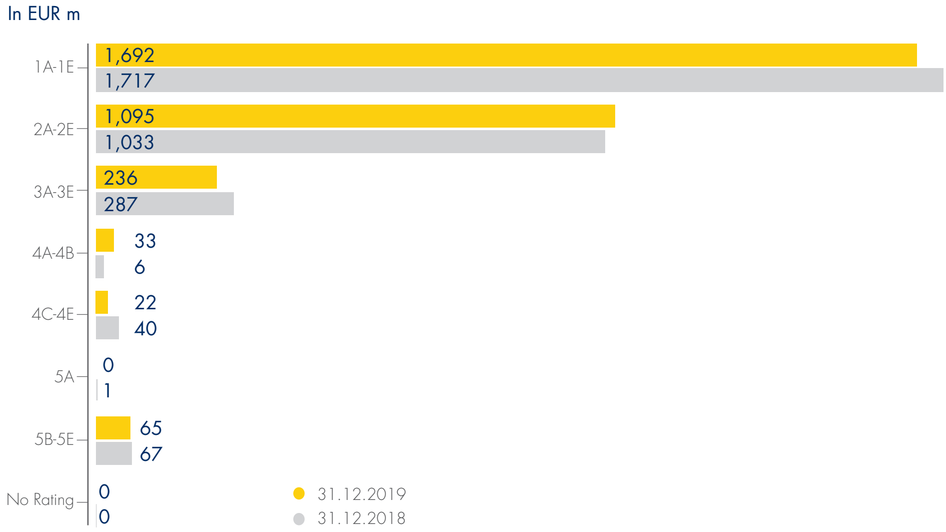
Limiting of credit risk

The limit system for the VaR limits is static, i.e. no previous risks affecting performance results will be offset against the VaR limits. Thus there is no dynamic development of the limits based on the accrued performance values. Risks that materialize from the past have an indirect effect on the limit system, as they reduce the risk coverage potential as of the reference date for analysis and may result in a reallocation of the limits and/or a reduction of the VaR limits

Distribution of the exposure

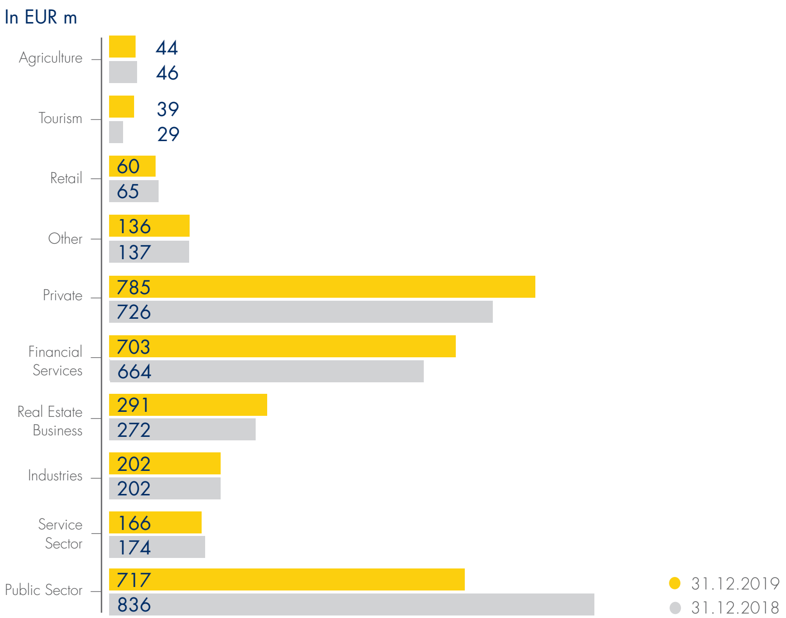
In the reporting year the bank's exposure fell by EUR 8.0 million or 0.3 percent respectively compared to the previous year. In total, there are free lines in the loan and credit sector of around EUR 142.1million.

Exposure by rating class



Around 88.7 percent of exposures have a rating of 1A to 2E. These are predominantly loans to banks and public institutions. The non-performing portfolio (rating categories 5A to 5E) was 2.4 percent based on loans.

Exposure by industry sector



The economic control and strategic alignment is carried out i.a. on the basis of industry exposures. The lower-risk industry groups, financial institutions and public households have a share of 45.2 percent. The well-diversified sector Private customers made up 25.0 percent.

Exposure by loan size

Loan size in EUR m	31.12.2019	31.12.2018
< 10.000	22	23
10.000–20.000	23	19
20.000–50.000	77	54
50.000–100.000	79	76
100.000–250.000	358	363
250.000–500.000	274	246
500.000–1.000.000	105	119
1.000.000–3.500.000	370	369
3.500.000–10.000.000	617	577
10.000.000–50.000.000	421	626
50.000.000–100.000.000	211	262
>100.000.000	586	417
Total	3,143	3,151

Around 61.2 percent of the exposure is in a range < EUR 10 million. A predominant amount of EUR 1.2 billion in the range > EUR 10 million exposure was attributable to banks or public households.

5.8 Market price risk

Market price risks resulted from the loss potential based on changed market prices. The bank structures market price risks according to the risk factors in interest rate change, credit spread and currency risks. At Anadi Bank, a particular focus was placed on identification, valuation, analysis, limitation and management of the market price risks. The Strategic Risk Management (SRM) department is responsible for the monitoring of all market price risks.

All market price risks are centrally monitored by the independent trading unit SRM. The control of the interest rate risk is carried out on an institutional basis, in compliance with the supervisory requirements concerning interest rate risk and limitations such as PVBP and gap limits. The ALCO (Asset Liability Committee) which comprises the Management Board and senior employees in the Treasury & Investor Relations department, Strategic Risk Management and Finance & Accounting, analyse and make decisions during regular meetings on measures concerning balance sheet structure and liquidity control.

The market price risk of Anadi Bank comprises several sub-risk types within the banking book.

Risk measurement in the banking book

The risk measurement is conducted separately for the sub-risk types, interest rate risk, credit spread risk and FX risk. The quantification is based in each case on the Value-at-Risk concept. In line with the Gone Concern logic, a confidence level of 99.9 percent and a holding duration/a risk horizon of one year (250 trading days) is assumed. Diversification effects are taken into account within the sub-risk types. However, no diversification effects are assumed between the sub-risk types in the market price risk, so that the overall calculation for the market risks in the banking book is a conservative one.

Overview market risks

Interest rate risk

The interest rate risk of the bank (excl. non-interest-bearing positions, including interest risks in the trading book) amounted to EUR 4,178,652.00 per year (250 trading days) with a confidence interval of 99.9 percent.

The method for calculating the interest risk is based on the provisions of the Austrian National Bank (OeNB) for calculating the interest risk statistics.

The regulatory limit of 20 percent was never in danger of being reached or exceeded at any point during the year. As of 31 December 2019, the utilization amounted to 2.84 percent (2018: 2.44 percent).

For the management of the interest gap balance, derivatives are primarily used which form a hedging relationship both with assets and liabilities and thus reduce the interest rate risk.

Foreign currency risk
The management of foreign currency risk is the responsibility of the Treasury & Investor Relations division. The foreign currency risk of Anadi Bank cannot be classified as fundamental as open positions are controlled on a daily basis and positions from the non-trading business are closed directly. As at 31 December 2019, the VaR of foreign currency risks amounted to EUR 34,071.00 with a confidence level of 99.9 percent and a holding period of 250 days.

Credit spread risk
The bank-internal credit spread risk amounted to EUR 780,862.00 at 31 December 2019 per year (250 trading days) and 99.9 percent confidence interval. The biggest influencing factor is the holding of a liquidity reserve in the form of securities.

Share price risk
As of 31 December 2019, there was no share price risk at Anadi Bank.

Risk from funds/alternative investments:
As of 31 December 2019, there was no risk from funds/alternative investments at Anadi Bank.

Limitation of market price risks
The entirety of the market price limits is documented in a limit compendium and serves as a basis for the corresponding market price risk reports.

As part of market price risk limitation, the following operational limits are defined

- Value-at-Risk Limits
- Loss limits
- Currency specifications
- Product specifications
- Volume

Solely the VaR limits are relevant for the RTF calculation.

5.9 Liquidity risk
Liquidity risk is defined as the risk of not meeting payment obligations in full or in a timely manner – or in the event of a liquidity crisis - only being able to procure refinancing funds at increased market rates or selling assets with deductions on the market prices. When calculating the risk-bearing capacity, all effects of the liquidity risks on capital and income are to be taken into account. The funding spread risk is thus a type of liquidation risk.

The liquidity risk constitutes an unavoidable risk component of the business model of Anadi Bank. The goal of the liquidity risk strategy is thus to define the goals of the liquidity risk management and to determine the corresponding framework specifications. Based on the goals the liquidity risk strategy defines principles to ensure the liquidity under economic aspects and taking into account compliance with regulatory specifications. Furthermore, the liquidity risk strategy specifies clear responsibilities and makes statements with regard to the allocation of the tasks to the various organizational units. It makes statements about the processes for identification, assessment, limitation, control, monitoring and communication of the liquidity risk. The liquidity risk strategy was created on the basis of the business strategy formulated by the Management Board regarding the Strategic Plan and adopted by the Management Board.

The bank also has a liquidity contingency plan. The liquidity contingency concept is the central set of regulations for Anadi Bank for the management of the liquidity contingency scenario and the upstream early warning stages. The goal is to guarantee an appropriate content-related, organizational and procedural approach in order to recognise a liquidity emergency or upstream early warning stages early on and to specify instruments for the control and/or management of the early warning stages and/or of the contingency scenario.

Together with the Fund Transfer Pricing (FTP), the liquidity risk strategy constitutes the basis for the liquidity risk management. The FTP facilitates a balance sheet structure management that establishes a direct link to the refinancing planning.

The measurement and/or control of the liquidity risk is carried out based on an implemented control loop whose individual phases are described in the following. The basis is provided by a regular identification and/or measurement of the liquidity risk based on the liquidity outflow balance sheet. For the various scenario-dependent liquidity overviews (e.g. of the stress scenarios), there is a comparison of all liquidity-relevant (balance sheet and off-balance sheet) cumulated net payment streams with the liquidity buffer and/or of the counterbalancing capacity (CBC).

The risk measurement of the funding spread risk is carried out in accordance with a (L)VaR concept. The cash-value refinancing damage that is created in an unexpected increase in the covered and uncovered funding spreads pursuant to the confidence level of 99.9 percent and a year-long holding duration for the bank is calculated. The risk measurement is thus consistent with the notion of the orderly handling in the event of liquidation, according to which a refinancing of the bank transactions on the basis of the liquidity spreads of Anadi Bank is also necessary in the event of risk.

The utilization of the specific limits is reviewed during the risk analysis and/or assessment. The limit utilization and/or the risk status is communicated in various internal reports to the respective addressees. In addition to internal reports, the supervisory requirement key performance indicators LCR and NSFR are calculated in compliance with the specified time intervals and reported to the supervisory authority via the reporting system. Based on the liquidity risk profile and the limit or key indicator utilization, control measures are taken in which a differentiation has to be made between operational and strategic measures.

Interlinking between individual components is reviewed in the liquidity risk management of Anadi Bank. The utilization of selected limits that are applied for monitoring the risk of inability to pay within the framework of scenarios is taken into account as an early warning indicator for the triggering of early warning steps and the initiation of an emergency. There is thus firstly an interlinking of the stress scenarios with the contingency concept. Secondly, the liquidity buffer is taken into consideration in the contingency concept alongside other contingency measures.

In addition to the structural control, attention is paid to compliance with the regulatory boundary conditions. The liquidity key indicators specified according to Basel III (LCR and NSFR) are taken into account in the control. As of 31 December 2019, the LCR of Anadi Bank was 190.9 percent (2018: 172.4 percent) within the framework of the minimum requirements.

In the configuration of the FTP concept and of the funding planning, it is taken into consideration that the key performance indicators under supervisory law (in particular LCR and NSFR) are complied with. This also applies in the deriving of (operational and strategic) measures in order to control the liquidity risk profile.

Limitation of the liquidity risk

The monitoring and limiting of the liquidity risk is carried out under several perspectives at Anadi Bank. Firstly, the short-term liquidity gap balance and the available liquidity coverage potential are monitored and limited during the Survival Period. The monitoring and limiting of the structural liquidity risk and of the funding spread are carried out via the long-term liquidity gap balance. To avoid concentration risks in refinancing, there are also specific limits and/or monitoring mechanisms. This also applies to the Intraday liquidity risk and the early-warning and contingency indicators. There is a limiting of the LCR, an internal warning limit is implemented for the NFSR.

5.10 Operational Risk

At Anadi Bank, operational risk is defined as the risk of losses that occur as the result of the inappropriateness or the failure of internal procedures, systems and employees or as the result of external events. Legal risks are included; strategic and reputation risks are excluded.

At Anadi Bank, the operational risk is determined within the Gone Concern risk-bearing capacity via the Standardized Measurement Approach (SMA) proposed in the Basel IV consultation paper.

5.11 Other risk and model risks

A separate quantification is used at Anadi Bank to depict other risks and model risks in the Gone Concern risk-bearing capacity. The basis for this are the results from the risk inventory and the assessment of the materiality of risks and risk concentrations with regard to capital and earning effects. Depending on the materiality classification and the type of effect (capital effect and earning effect), a differentiation depiction is made for other risks/model risks in the risk-bearing capacity concept in the following four variants:

- Consideration via explicit quantification in operational Gone Concern risk-bearing capacity
- Consideration through a conservative listing of the risk coverage potential
- Consideration in stress tests for Gone Concern risk-bearing capacity

The following sub-risks for other risks arose from the 2019 risk inventory:

- Property risk
- Macroeconomic risk
- Model risk credit risk
- Model risk market price risk measurement
- Business, reputation and regulatory risk
- Leverage ratio risk

Property risk

The economic risk capital for the property risk is approximately quantified via the consideration of the regulatory Pillar I capital requirements pursuant to the standard approach.

Macroeconomic risk

The risk capital requirements for the macroeconomic risk is quantified on the basis of the stress results for the macroeconomic stress test.

Additional risk effects that are identified in the risk inventory as fundamental and are not considered in the economic risk capital for credit risks, market price risks and liquidity risks in the Gone Concern risk-bearing capacity are therefore taken into consideration indirectly in the risk-bearing capacity via the macroeconomic risk.

- Migration risks in the retail portfolio
- Collateral utilization risks for defaulted loans

The risk effects shown in this way are taken into account in the macroeconomic risk in addition to the other risk effects from credit, market price, liquidity and other risks explicitly on the side of the risk coverage potential.

Model risk credit risk (rating model / LGD model)

The model risk based on the credit risk can result from parameter uncertainties for default rates (PD) due to model and application weaknesses in the rating procedures. An indication of this results from the validation reports of the rating procedures and a necessary recalibration of the respective procedures. In case of model weaknesses being shown in the validation reports, a risk value will be quantified which must be backed by capital until the rating procedure is recalibrated. In this context, a PD supplement for the quantification of the model risk is derived from the validation report pursuant to the parameter uncertainty. If the last validation of the rating procedure is older than 15 months, a PD shift is made by all individual transactions of the underlying segment a downgrading by one notch.

With regard to the model risk in the LGD estimate, quantitative and qualitative aspects are taken into account. The qualitative aspect incorporates the model design, the internal usage and the data quality. The quantitative aspect deals with the methods which are based on an empirical data base, mathematical- statistical parameters are determined and interpreted. Any model risk within the framework of the LGD estimate is covered by the use of an extremely conservative confidence level and a non-parametric modelling of the LGD distribution.

Model risk market price risk measurement

The quantification of the model risk of the market price risk models is conducted via the backtesting results of the market price risk models.

Currently, three market price risk models are incorporated into the model risk analysis:
- Model risk for interest rate risk model in the bank book
- Model risk for FX risk model in the bank book
- Model risk VaR mode in PMS (based on all risk factors of the securities)

Based on the comparison of the historical P&L results on a 1-day risk horizon and the historic VaR risk values on a historic period of 250 days, possible weaknesses in the model can be shown. The requirements and the procedure for the back-testing for market price risk models pursuant to the “Basel Traffic Light Approach” are fundamental for the comparison.

5.12 Payment Services Directive 2 (PSD2)

Directive (EU) 2015/2366 came into force on 18 January 2016 and became valid on 1 June 2018 with ‚ZaDiG 2018‘ (transposition into national law).

PSD2 authorises and mandates the European Banking Authority (EBA) to develop technical regulatory standards and guidelines to clarify the requirements of the Directive. On 14.09.2019 the delegated regulation EBA Guideline 2018/389 ‚Technical regulatory standards for high level customer authentication and secure open standards for communications‘ referred to in the Directive entered into force. The resulting technical adaptation requirements (e.g. strong customer authentication) were implemented together with our partner banks in the ARZ data center network. The relevant systems (Internet banking, office banking) were adapted for the consumer, and the general terms and conditions, the conditions for Internet and office banking, the customer guidelines for the card service and for the contactless function and the ZaDiG information brochure were also adapted and made available. Another delegated regulation, EBA Guideline 2018/05 "Reporting Fraud under the Second Payment Services Directive (PSD2)", requires Member States to ensure that payment service providers report to national market authorities on the basis of statistical data on fraud in various payment methods. This obliges payment service providers to record cases of fraud (fraudulent payment transactions) from 1 January 2020 and to report the collected data to the FMA/OeNB for the first time from the second quarter of 2021. The associated technical requirements (implementation of a recording tool as well as preparation and availability of reports) were also implemented together with our partner banks in the ARZ data center network. All necessary measures have been taken by the company to comply with the regulatory requirements from 01.01.2020.

6. Corporate Governance

The Supervisory Board comprises four elected members with different professional backgrounds and areas of activity. The Supervisory Board is chaired by the Chairman Srinivasan Sridhar, a bank expert with many years of international experience. The works council delegates two representatives of the workforce to the Supervisory Board. As of 31 December 2019, the Supervisory Board comprises the following members:

- Srinivasan Sridhar (Chairman)
- Dr. Sanjeev Kanoria (Deputy Chairman)
- Hemant Kanoria
- Dr. Franz Markus Nestl
- MMag. Gabriele Oberlercher (Workers' Council)
- Barbara Perchtold (Workers' Council)

The Supervisory Board oversees the strategy, the business development and the risk management of the bank. The Supervisory Board has transferred certain authorizations to the Management Board and in the process defined to what extent business transactions are to be approved by the Supervisory Board (with regard to their scope and their type).

In accordance with the Articles of Association, the Supervisory Board meets at least once a quarter, whereby further meetings can be convened as required. In 2019, the Supervisory Board met a total of six times.

The Supervisory Board is supported in its work by the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee.

The Management Board has been commissioned by the Supervisory Board with the operational management of the bank, whereby the risk and governance specifications adopted by the Supervisory Board apply.

The Management Board as of 31.12.2019 comprised the following members:

- Mag. Christoph Raninger (Chairman, CEO and CFO)
- GaneshKumar Krishnamoorthi, B.E. (CRDO)
- Mag. Franz Reif (CRO)

The current Management Board comprises the following members:

- GaneshKumar Krishnamoorthi, B.E. (CEO, CFO)
- Mag. Franz Reif (COO)
- Dr. Ferdinand Wenzl, MBA (CRO)

7. Internal Control System

With regard to the accounting process, the bank has an Internal Control System (ICS) in which suitable structures and processes are defined and implemented throughout the organization.

The Internal Control System of Anadi Bank is based on the COSO Framework (Committee of Sponsoring Organizations of the Treadway Commission), whereby the Management Board has configured the scope and the alignment of the Internal Control System set up based on company-specific requirements.

The Internal Control System (ICS) as part of the risk management system of the bank incorporates the following general goals:

- Ensuring and implementing the business and risk strategies as well as corporate guidelines
- Effective and efficient usage of all company resources in order to reach the intended business success
- Reliability of the financial reporting (financial reporting)
- Support in the compliance with all relevant laws, regulations and rules

The Management Board of Anadi Bank bears the responsibility for the implementation and monitoring of the ICS based on the accounting process of the annual financial statements and is responsible for the proper and timely sequence of the accounting-based processes and systems. The Internal Control System itself is not a static system but instead is continuously adjusted to the changed boundary conditions. The ongoing review of risk assessments as well as the review of the effectiveness of checks is a central component here. To monitor compliance, the Management Board uses the services of the units of the Internal Audit department and of the Compliance department. Within the framework of its ordinary audit activity, the Internal Audit department reviews, among others, the effectiveness of the Internal Control System and the reliability of the accounting.

The effectiveness of the Internal Control System is monitored by the Audit Committee and/or the Supervisory Board pursuant to the requirements of the Stock Corporation Act.

However, the basis for the implementation of the Internal Control System is primarily the integrity and the ethical conduct of the employees. The role model function of the Management Board and the managers is consciously and actively carried out by the holders of the respective positions.

As a fundamental rule, it needs to be taken into account that an ICS, irrespective of its configuration, does not provide any absolute certainty that fundamental erroneous statements are prevented or uncovered in the accounting.

The standard of the ICS in the Anadi Bank is documented in a separate directive. The purpose of these directives is to create a framework for identifying, evaluating, monitoring, reporting and controlling the ICS, which covers all areas of the Bank. It thus represents the quality standard against which the Bank's ICS is measured and further developed. The rules for an effective ICS defined in these directives are an integral part of the Bank's corporate governance.

7.1 ICS-related activities in 2019

All processes identified as ICS-relevant and recorded in the ICS tool, which serve to ensure the proper conduct of business operations, were subjected to an annual review.

All risk-relevant processes and activities per division were reviewed, for which a risk analysis was carried out using Anadi Bank's risk catalogue. Special attention was paid to the correct assessment of the amount of loss and probability of occurrence. The controls defined on the basis of the risk analysis, which have to be carried out periodically and, if necessary, entail corrective measures, were also subjected to a detailed review and adapted where necessary. In addition, each area was evaluated to determine whether additional risk-relevant processes or activities had arisen that needed to be incorporated into the internal control system.

The ICS is integrated into the business processes, is practiced at all levels and thus contributes to ensuring compliance with the corporate objectives.

Reports on risks, controls, control frequency and effectiveness have been prepared on the basis of the ICS system and are periodically communicated within the company.

8. Legal, Compliance & Regulatory Affairs

The Legal, Compliance & Regulatory Affairs department primarily incorporates three specialist areas:

- Legal which deals with all legal issues that concern the bank internally and externally.
- Compliance whose main tasks include the internal implementation and monitoring of compliance with supervision law and statutory specifications in connection with financial instruments according to the Securities Supervision Act (WAG) and anti-money laundering and terrorism financing.
- The Regulatory Affairs department that deals with regulatory specifications and matters.

The Legal, Compliance & Regulatory Affairs department advises and provides support in its areas of responsibilities to all bank-internal specialist departments and acts as an interface to external legal advisers of the bank or of customers. It is also responsible for ensuring compliance with statutory specifications and internal work instructions and guidelines by the bank and its employees.

The most important functions of the Legal, Compliance & Regulatory Affairs department include:

- Advising and supporting the internal specialist departments and the Management Board in all legal matters
- Representation of the Bank in external bodies and organisations
- Monitoring compliance with and implementation of regulatory, supervisory and legal requirements in the context of internal procedures, strategies and controls
- Position of the independent money laundering officer, the independent compliance officer, the officer for the protection of customer assets pursuant to WAG 2018 ("Safeguarding Officer") and the FATCA officer
- Monitoring of legislative changes and developments in the judiciary
- Monitoring of transactions in the context of compliance and prevention of money laundering and terrorist financing
- Support in the creation of internal instructions and regulations
- Training of Bank staff

9. Internal Audit

The Internal Audit forms an important component of the risk and control framework of the bank, and through its independent audit activity towards the Management Board, the Audit Committee and the Supervisory Board guarantees the quality and the effectiveness of the governance measures, the risk management and of the Internal Controls.

It provides independent and objective audit and advisory services aimed at creating added value and improving business processes. It also supports the achievement of corporate objectives by using a systematic and targeted approach to assess the effectiveness of risk management, controls and management and monitoring processes and helping to improve them.

The Internal Audit department acts as the "third line of defence" in the risk management model of the bank and deals in particular with:

- Design and operational efficiency of the bank's governance structures and processes
- Compliance with statutory and internal regulations
- Suitability, effectiveness and sustainability of action plans
- Risk and control structure of the company
- Procedures for managing the main credit, capital and liquidity risks
- Quality of the strategy and management information presented to the Management Board and the Supervisory Board
- Major changes in business processes and the introduction of new products, markets and services

The frequency, sequence and extent of internal audits are determined on the basis of an ongoing risk assessment. These plans are regularly reviewed by the Audit Committee. The plan approved for the year 2019 has been executed with regard to all major audit areas. In line with professional standards, functional, appropriate and direct communication has been established with management and the supervisory body. As part of this, the Head of Internal Audit regularly reports to the Bank's Management Board and to the Chairman of the Audit Committee and its members.

10. Outlook

After the developments in 2019 with the negative result after taxes triggered by the unplanned high need for impairments, Anadi Bank can once again focus on the operational business development, which will be significantly affected by the Covid-19 pandemic in 2020.

Despite the far-reaching measures taken to contain the pandemic in connection with Covid-19 and the serious consequences for the Austrian economy, banking operations can continue smoothly. Appropriate protective and security measures were immediately implemented in the branches, and thanks to the high degree of digitalization and state-of-the-art IT equipment, Anadi Bank was able to transfer about two thirds of its staff to its home office within a very short time. An uninterrupted service for customers both online and offline was ensured, which enabled the bank to continue to offer all banking services at the highest level.

Anadi Bank is 100% committed to the support measures taken by the Austrian government in the banking sector and fully supports customers and business partners. For this reason, corresponding internal bank guidelines were created with regard to lending criteria and a procedural overview for initial positions, which are continually adapted due to changes in laws and subsidies. This is also reflected in the fact that deferrals in accordance with the moratorium in the amount of EUR 3.5 million and liability financing (COFAG/ AWS/ ÖHT) in the amount of just under EUR 14.0 million were agreed with over 650 customers. To date, no defaults due to the economic effects of Covid-19 have been recorded.

In addition to securing operating activities and fulfilling banking measures, the focus of risk management is on securing liquidity. This concerned not only our own liquidity, but also the supply of liquidity or the supply of sufficient liquidity to customers. The measures for improving risk management in 2019, which are listed in chapter 5.4.

As a result of the aforementioned daily calculation of all liquidity ratios and positions, it was also possible in 2020 to access the latest figures for the Covid-19 Task Force operations, which also take place on a daily basis.

The effects of the Corona crisis on the P&L result and the capital situation of the Bank for 2020 were the subject of a stress test. The risk provisions to be expected due to the economic effects of Covid-19 were determined using a simulation of the expected loss. This took into account both corresponding rating downgrades at sector level and a decline in real estate prices and thus a reduction in the collateral deposited. The negative effects of the corona crisis calculated on the basis of the stress test can be compensated for by operational business development and specific countermeasures.

The Bank's focus in 2020 will be to achieve a sustainable increase in the capital ratios again. This will be achieved primarily by reducing total assets through contractual repayments of the existing portfolio in combination with selective new business volumes. The operating profit base will also be improved and strengthened through structural optimization of the cost base.

For the further, future development of the bank, digitization will be the key to a smooth customer experience by introducing a "one-system-fits all" approach with digital and automated processes that increase efficiency and lead to cost savings. Being the "small, agile bank" with a focus on simplicity and speed in terms of the products and services offered is the declared goal. With this in mind, the bank is constantly working to improve performance and efficiency. Processes and workflows are being optimised in order to increase profitability to the desired extent.

The Bank will resolutely continue to modernize its branch network and standardize its core product portfolio (in terms of simplification and scalability) in the coming period. The next projects will include a new, highly automated current account process for the branches, and in the SME Retail segment the range of products will be expanded to include an automated online working capital loan. This will enable Anadi Bank to consistently push ahead with its hybrid banking strategy and thus provide positive impetus for the "Challenger Bank" approach.

In order to be able to meet customer needs even better in the future, the main focus will be on expanding partnerships as a distribution channel. The aim is to offer easy-to-understand products with appropriate advice where customers' demands occur. The possibility of financing directly in the retail market is to be promoted in order to grow in the new customer segment. The decisive factor is to optimize the entire process from the submission of financing to the disbursement in order to offer customers and partners the best product and service on the market throughout Austria. With the expansion of this distribution channel, partnerships will represent an additional strong pillar in the company in the future.

These measures allow Anadi Bank to continue on the path of repositioning itself; the former traditional provider specialising in mortgage loans is developing into a small but serious player in the consumer loan segment. This is also shown by the test results of a customer satisfaction study conducted by the "Gesellschaft für Verbraucherstudien ÖGVS", an independent, renowned research institute. In the study, Anadi Bank came out with two top 3 rankings in the category "Credit Banks Austria 2020".

In the corporate customer business, Anadi Bank will continue to pursue a consistent niche strategy with a focus on small and medium-sized businesses and especially on owner-managed companies, combining entrepreneurial thinking with specialist expertise and offering excellent advice in special business situations. High process efficiency and speed in decision-making in the core products and services and thus the shortest possible "time to market" are seen as essential success factors in order to ensure sustainable, secure and profitable growth in the new financial year.

In the 2020 financial year, the declared aim of the bank is to optimise its business portfolio in terms of efficient capital deployment. High-margin business will continue to be the focus of growth, while low-margin business will only be pursued selectively.

In general Anadi Bank will closely observe and analyse developments and in doing so, make use of the opportunities that it has as a small, agile bank in a market with large competitors. Efficient processes, speed in decision-making and implementation and innovative strength set the bank apart from the competition in the market and will continue to be the decisive factors for success in the future.

Klagenfurt am Wörthersee, on 28.05.2020

The Management Board

VDir. GaneshKumar Krishnamoorthi, B.E. m.p.

VDir. Mag. Franz Reif m.p.

VDir. Dr. Ferdinand Wenzl, MBA m.p.

FINANCIAL STATEMENT 2019

Balance Sheet

Assets			31.12.2019 EUR	31.12.2018 TEUR
1.	Cash in hand, balances with central banks and post office banks		81,779,426.37	28,284
2.	Treasury bills and other bills eligible for refinancing with central banks treasury bills and similar securities		152,747,291.95	205,726
3.	Loans and advances to credit insititutions			
	a) repayable on demand	432,625,036.78		422,853
	b) other loans and advances	600,000.00		0
			433,225,036.78	422,853
4.	Loans and advances to customers		2,183,148,758.08	2,166,458
5.	Debt securities including fixed-income securities issued by other borrowers		165,865,896.41	188,523
	showing separately:			
	own debt securities EUR 33,651,939.60			
	(previous year: TEUR 47,807)			
6.	Shares and other variable-yield securities		0.00	14,470
7.	Participating interests		3,156,914.25	3,220
	showing separately:			
	in credit institutions EUR 638,762.30 (previous year: TEUR 711)			
8.	Intangible fixed assets		403,697.93	369
9.	Tangible assets		11,847,981.61	10,813
	showing separately:			
	land and buildings occupied by a credit institution for its own activities EUR 10,048,519.69			
	(previous year: TEUR 9,254)			
10.	Other assets		27,941,156.13	27,023
11.	Prepayments and accrued income		836,943.71	980
12.	Deferred tax assets		2,733,452.00	3,562
Total assets			3,063,686,555.22	3,072,280
1.	Foreign assets		517,293,742.60	546,611

Equity and Liabilities

		31.12.2019 EUR	31.12.2018 TEUR
1. Liabilities to credit institutions			
a) repayable on demand	7,575,340.27		8,406
b) with agreed maturity dates or period of notice	423,000,000.00		510,000
		430,575,340.27	518,406
2. Liabilities to customers (non-banks)			
a) saving deposits	467,175,042.57		475,224
showing separately:			
aa) repayable on demand EUR 283,712,527.99 (previous year: TEUR 158,488)			
bb) with agreed maturity dates or period of notice EUR 183,462,514.58 (previous year: TEUR 316,735)			
b) Other Liabilities	1,309,608,783.09		1,195,119
showing separately:		1,776,783,825.66	1,670,343
aa) repayable on demand EUR 927,965,099.44 (previous year: TEUR 928,812)			
bb) with agreed maturity dates or period of notice EUR 381,643,683.65 (previous year: TEUR 266,307)			
3. Securitised liabilities			
a) debt securities issued		657,686,502.28	657,854
4. Other liabilities		13,090,151.89	12,708
5. Accruals and deferred income		160,131.93	560
6. Provisions			
a) provision for severance payments	6,650,753.00		6,713
b) provisions for pensions	4,775,413.00		5,934
c) provisions for taxation	0.00		357
d) other provisions	3,826,973.90		7,819
		15,253,139.90	20,823
7. Tier 2 capital pursuant to Part Two, Title I, Chapter 4 of Regulation (EU) No. 575/2013		25,039,062.50	25,039
8. Subscribed capital		30,000,000.00	30,000
9. Capital reserves			
a) committed	78,102,760.79		82,009
b) uncommitted	0.00		323
		78,102,760.79	82,332
10. Retained earnings			
other reserves		0.00	13,204
11. Liability reserve pursuant to Article 57 para. 5 BWG		36,995,640.00	36,995
12. Net profit or loss for the year		0.00	4,016
Total liabilities		3,063,686,555.22	3,072,280

Off Balance sheet items: Equity and Liabilities

		31.12.2019 EUR	31.12.2018 TEUR
1.	Contingent liabilities showing separately: b) Guarantees and assets pledged as collateral security	70,098,320.82	86,441
2.	Commitments	156,687,085.30	189,508
3.	Commitments arising from agency services	13,826,071.18	9,098
4.	Eligible capital in accordance with Part Two of Regulation (EU) No. 575/2013,	169,339,415.07	186,839
	thereof Tier 2 capital pursuant to Part Two, Title I, Chapter 4 of Regulation (EU) No. 575/2013	24,740,250.00	24,740
5.	Own Funds requirements as defined in Article 92 of Regulation (EU) No. 575/2013,	1,203,427,713.61	1,158,076
	thereof own funds requirements pursuant to Article 92 (1) a to c of Regulation (EU) No. 575/2013		
	a) Common Equity Tier 1 capital ratio	12.02%	14.00%
	b) Tier 1 capital ratio	12.02%	14.00%
	c) Total capital ratio	14.07%	16.13%
6.	Foreign liabilities	128,526,954.50	140,185

Profit and loss account

				01.01.–31.12 2019 EUR	01.01.–31.12 2018 TEUR
1.	Interest receivable and similar income showing separately: from fixed-income securities EUR 2,748,853.48 (previous year: TEUR 5,243)			49,407,021.65	52,639
2.	Interest payable and similar expenses			(20,890,300.93)	(19,314)
I. Net interest income				**28,516,720.72**	**33,325**
3.	Income from securities and participating interests				
	a) income from shares and other variable-yield securities		279,022.10		93
	b) income from participating interests		779,969.07		355
	c) income from shares in affiliated undertakings		0.00		0
				1,058,991.17	448
4.	Commissions receivable			17,800,230.68	18,757
5.	Commissions payable			(2,548,660.69)	(3,501)
6.	Net profit or net loss on financial operations			408,082.91	559
7.	Other operating income			2,710,192.16	2,102
II. Operating income				**47,945,556.95**	**51,690**
8.	General administrative expenses				
	a) staff costs				
	aa) wages and salaries	(19,790,490.79)			(20,093)
	bb) expenses for statutory social contributions and compulsory contributions related to wages and salaries	(5,435,655.62)			(5,574)
	cc) other social expenses	(291,625.05)			(303)
	dd) expenses for pensions and assistance	42,030.01			(1,140)
	ee) allocation to provision for pensions	0.00			(363)
	ff) expenses for severance payments and contributions to severance and retirement funds	(816,761.87)			(1,224)
			(26,292,503.32)		(28,698)
	b) Other administrative expenses		(13,990,245.57)		(15,326)
				(40,282,748.89)	(44,024)
9.	Value adjustments in respect of asset items 8 and 9			(997,255.65)	(1,003)
10.	Other operating expenses			(318,221.43)	(191)
III. Operating expenses				**(41,598,225.97)**	**(45,218)**
IV. Operating result				**6,347,330.98**	**6,472**
11./12.	Value adjustments and re-adjustments in respect of loan and advances and provisions for contingent liabilities and for commitments			(27,376,927.90)	(2,464)
13./14.	Value adjustments and re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings			1,956,127.30	2,656
V. Profit or loss on ordinary activities				**(19,073,469.62)**	**6,664**
15.	Extraordinary expenses			0.00	0
16.	**Extraordinary result**			**0.00**	**0**
17.	Tax on profit or loss			(870,179.57)	(1,136)
18.	Other taxes not reported under item 17			(1,505,416.66)	(1,512)
VI. Profit for the year after tax				**(21,449,065.85)**	**4,016**
19.	Changes in reserves			21,449,065.85	0
VII. Net income for the year				**0.00**	**4,016**
20.	Loss brought forward			0.00	0
VIII. Net profit or loss for the year				**0.00**	**4,016**

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2019

Basic accounting principles

The separate financial statements of Austrian Anadi Bank AG (Anadi Bank) have been prepared in accordance with the provisions of the Austrian Banking Act (BWG), as amended, and where applicable, in accordance with the provisions of the Austrian Commercial Code (UGB) as amended.

The financial statements consist of the balance sheet, the income statement and the notes. In addition, a management report has been prepared which is consistent with the financial statements.

The balance sheet and income statement are presented in the form prescribed in Annex 2 to Section 43 BWG. The option accorded under Section 53 (3) and Section 54 (2) of the BWG to combine certain items in the income statement has been exercised.

In the schedule, the previous year's figures have been rounded up to the nearest thousand EURO (TEUR). Consequently, in the totalling, rounding differences cannot be excluded.

Accounting and measurement policies

The separate financial statements were prepared in accordance with generally accepted accounting principles and the general requirement to present a true and fair view of the bank's net assets, financial position and results of operations.

The principle of individual measurement was applied, and a going concern assumption made for the measurement of assets and liabilities, with regard to the business development in 2020, we refer to item 37 in the notes.

The principle of prudence was applied, paying particular attention to the special features of the banking business: only profits and gains realised at the balance sheet date were reported, and all recognisable risks and impending losses were taken into account.

Assets and liabilities in foreign currencies are translated using mean exchange rates on the balance sheet date. Forward transactions are translated at the applicable forward rate.

Loans and advances to credit institutions and customers are generally included at their nominal value. Premiums and discounts are recognised under accrued assets and liabilities and amortised over the life of the security.

The risk from the lending business was accounted for by the formation of individual specific valuation adjustments as well as a portfolio allowance for balance sheet receivables and off-balance sheet transactions. Individual value adjustments are thereby set up at the individual transaction level from a significant exposure in the event of credit risks to the amount of the expected loss. The amount of the individual specific value adjustment is calculated as the difference between the book value of the receivable and the cash value of the estimated future cash flows, taking into account the provided collaterals. Up to a non-significant exposure, individual specific value adjustments are calculated to the amount of the obligations not covered by collaterals.

The determination of the portfolio allowance for non-defaulting borrowers (Rating class 1A to 5A) is principally determined on the basis of the regulatory Expected Loss model, whereby internal parameters (in particular default probability and loss ratio) are also applied. The amount of the portfolio allowance is determined by the shared expected loss after multiplication with the loss identification period (LIP) determined by the bank - factors that represent the average time until the discovery of the loss event.

Thus the individual value adjustments as well as the portfolio allowance are subject to estimation uncertainties, in particular with respect to the amount, the time of the estimated cash flows, the probability of default, the loss ratio and the estimated LIP factors.

General risk provisions as defined in Section 57 (1) BWG are not created.

Securities earmarked for permanent use in the context of the bank's business operations are shown on the balance sheet as financial assets in accordance with Section 56 (1) BWG and valued according to the lower of cost or market value. The option accorded under Section 56 (2) and (3) BWG (distribution of the difference between acquisition and repayment costs over the remaining term) was not exercised. Impairment write-downs of financial assets are made where the loss in value is expected to be permanent. The bank reviews as appropriate – and at least once a year – whether a permanent impairment has arisen in the financial assets. Where a permanent deterioration of the creditworthiness of an issuer has been identified, an extraordinary impairment write-down is made.

All other securities (liquidity reserves) form part of current assets and, to the extent that they are stock exchange listed securities, they are shown at market value in accordance with Section 56 (5) BWG. Unlisted securities are valued strictly at the lower of cost or market value. Repurchased liabilities are allocated to current assets. Own issues such as these are measured at cost of acquisition, with any difference between a higher repurchase value and the repayment amount being immediately recognised in the income statement. If there is a difference as a result of the repurchase value being lower than the repayment amount, this is only recognised in the income statement upon redemption.

Securities forming part of the trading book are included at market value as at the balance sheet date. As a general rule, market values of financial instruments to be included in the financial statements are based on stock market prices. Where no stock market price is available, the future cash flows of the financial instrument are discounted to the present value using the applicable interest rate. The calculation applies standard investment mathematical procedures.

Participating interests are recognised at the cost of acquisition, provided that there is no permanent impairment that would require a write-down.

Intangible assets, together with **tangible assets** (land and buildings, fixtures, fittings and equipment) are recognised at acquisition or construction cost, less scheduled depreciation and amortisation and, where necessary, less write-downs for impairment. Scheduled depreciation and amortisation is applied on a straight-line basis. Annual rates of depreciation and amortisation for immovable assets are between 2 and 10 percent; for movable assets, they range from 4 to 33 percent; and for software they are 25 percent. Low value items for which the cost of acquisition is less than EUR 400.00 are written off immediately in the year of acquisition.

Liabilities are shown either at original nominal values or at the amounts repayable. Any issue costs such as premiums and discounts are written off over the life of the underlying debt and shown in net interest income. Other issue costs are shown immediately as an expense.

The provision for pension obligations was applied at an interest rate of 1.496 percent (31.12.2018: 1.764 percent) and a pension growth rate of 2.00 percent (31.12.2018: 2.00 percent).

Provisions for severance payments and **provisions for anniversary bonuses** disclosed under other provisions were calculated applying an interest rate of 1.496 percent (31.12.2018: 1.764 percent) and an assumed salary increase rate of 3.00 percent p.a. (31.12.2018: 2.75 percent). For severance payments a fluctuation discount of 0.00 percent (31.12.2018: 0.00 percent) was applied. For the 2019 anniversary provision, the fluctuation probabilities presented in the actuarial report were used. Provision was calculated assuming retirement at the earliest statutory pensionable age according to the General Social Insurance Act (ASVG, 2004 Pension Reform).

As reference interest rate for the calculation of the average interest rate, the interest rate published by Mercer is used, itself based on the bonds from the indices of Thomas Reuters Datastream.

The **provision for unused holidays** was based on the actual vacation days per employee as at 31.12.2019.

Other provisions were formed for contingent liabilities and impending losses in the amount of the expected requirement. They take account of all liabilities for which the amount involved has not yet been determined. A discount has been applied for material provisions which are subject to a term of more than one year. Other provisions are subject to estimates relating to amount or timing.

Derivative financial transactions (forward transactions, swaps, options) are declared either to the hedging book or to the trading book, depending on their purpose. In the year under review, in order to provide an improved presentation of the net assets, financial position and results of operations, a change in valuation was made insofar as the system of the "critical term match" method (simplified determination of effectiveness) is applied for the prospective effectiveness test. This method reviews whether a critical term match exists for the hedging relationship. If, in the case of a hedging relationship, all parameters of the underlying transaction and the hedging instrument that determine the extent of the hedge change in value is identical but opposite, this is an indicator of a fully effective hedging relationship. In order for a "critical term match" to occur, the parameters nominal value, currency, and maturity or interest rate fixation must match. Derivatives with a negative market value, which are not declared to hedge accounting as well as impending losses for not entirely effective hedges are treated as provisions. Option premiums (paid and received) are disclosed under other assets and other liabilities respectively. Option pricing models based on generalized Black-Scholes models, Bachelier models or Hull-White models, drawing on current market parameters, are applied to measure options and financial instruments with similar characteristics.

The following calculations are applied for discounting Overnight Indexed Swaps (OIS):

- OIS curve of the relevant currency is applied to discount cash flows for collateralised derivatives
- The standard interest rate curve of the relevant currency is applied to discount cash flows for non-collateralised derivatives and for all underlying transactions
- Forward interest rates are always calculated from the relevant maturity curve

No further valuation changes were made in the year under review.

NOTES TO THE BALANCE SHEET

1. Maturities of balance sheet items

Maturities in accordance with Section 64 (1) (4) BWG were as follows:

		31.12.2019	31.12.2018
A3.	Loans and advances to credit institutions	433,225,036.78	422,853
	– payable on demand	432,625,036.78	422,853
	– up to three months	0.00	0
	– three months to one year	0.00	0
	– one year to five years	600,000.00	0
	– over five years	0.00	0
A4.	Loans and advances to customers	2,183,148,758.08	2,166,458
	– payable on demand	112,203,568.93	89,981
	– up to three months	76,931,624.22	110,305
	– three months to one year	247,006,883.76	208,634
	– one year to five years	760,474,536.25	721,262
	– over five years	986,532,144.92	1,036,276
L1.	Liabilities to credit institutions	430,575,340.27	518,406
	– payable on demand	7,575,340.27	8,406
	– up to three months	180,000,000.00	267,000
	– three months to one year	135,000,000.00	0
	– one year to five years	108,000,000.00	243,000
	– over five years	0.00	0
L2.	Liabilities to customers	1,776,783,825.66	1,670,343
	– payable on demand	1,211,677,627.43	1,087,300
	– up to three months	283,439,548.06	161,296
	– three months to one year	199,883,956.22	287,239
	– one year to five years	81,782,693.95	111,021
	– over five years	0.00	23,487

2. Securities including accrued interest

		31.12.2019	31.12.2018
A2.	Treasury bills and other bills eligible for refinancing with central banks	152,747,291.95	205,726
	thereof listed	152,747,291.95	205,726
	thereof fixed assets	129,998,648.65	194,057
	thereof accrued interest in fixed assets	677,673.30	1,582
	thereof current assets	22,070,970.00	10,086
	thereof accrued interest in current assets	0.00	1
A4.	Loans and advances to customers	75,050,287.01	80,768
	thereof not listed	75,050,287.01	80,768
	thereof fixed assets	74,616,132.05	80,268
	thereof accrued interest in fixed assets	434,154.96	500
A5.	Bonds and other fixed-income securities	165,865,896.41	188,523
	thereof listed	132,213,956.80	140,715
	thereof not listed	33,651,939.61	47,808
	thereof fixed assets	92,022,460.00	134,007
	thereof accrued interest in fixed assets	243,714.39	1,175
	thereof current assets	73,455,146.32	53,276
	thereof accrued interest in current assets	144,575.70	65
A6.	Shares and other variable-yield securities	0.00	14,470
	thereof listed	0.00	0
	thereof not listed	0.00	14,470
	thereof fixed assets	0.00	14,470
	thereof current assets	0.00	0
A7.	Participating interests	3,156,914.25	3,220
	thereof not listed	3,156,914.25	3,220

2.1 The Government bonds included in the balance position A2 (excl. accrued interest) are analysed by country as follows

Country	Nominal value	Carrying amount 31.12.2019	Write-downs until 31.12.2019	Reversal of impairment until 31.12.2019
Germany	10,000,000	10,031,850.00	54,450.00	350.00
Belgium	6,000,000	6,000,000.00	0.00	0.00
Austria	44,000,000	43,738,100.00	0.00	0.00
France	26,000,000	24,919,598.65	0.00	0.00
Netherlands	7,000,000	6,982,500.00	0.00	0.00
European Union	60,537,000	60,397,570.00	47,642.10	840.00

2.2 Breakdown of bonds and other fixed-income securities from the balance position A5 (incl. accrued interest)

	31.12.2019	31.12.2018
Issued by others (without public authorities)	**165,865,896.41**	**188,523**
thereof:		
Own issues	33,651,939.60	47,807
Foreign bonds (credit instituions)	68,178,549.53	60,566
Mortgage bonds and municipal bonds	64,035,407.28	75,903
Other bonds	0.00	4,247

2.3 Other Disclosures Relating to Securities

The difference between the acquisition costs and the higher market value (Section 56 para. 5 BWG) for securities authorized for official dealing on a stock exchange and not held as financial fixed assets, which are stated at their higher market value, is EUR 0.00 (31.12.2018: TEUR 0).

In 2020 fixed-income securities from the bank's own holdings in the amount of EUR 41,716,827.02 (2019: TEUR 158,502) (euro-denominated securities) and EUR 0.00 (2019: TEUR 0) (foreign currency-denominated securities) will be due.

Fixed-income securities of private issuers, which were eligible to be refinanced at the Austrian National Bank on the balance date, amount to EUR 133,812,856.94 (31.12.2018: TEUR 141,311), of which EUR 134,285,730.00 (31.12.2018: TEUR 137,806) were pledged as of the balance date.

As in the previous year, there were no subordinated securities as at 31.12.2019, as per Section 45(2) of the BWG.

The trading book comprises the following volume as at 31 December 2019:

	31.12.2019	31.12.2018
Forward exchange transactions (nominal value)	0.00	302
Interest swaps (nominal value) and interest rate contracts	18,125,179.14	23,420

Financial instruments held as fixed asset and recognised above at fair value (Section 238 (1) (2) UGB) are analysed as follows:

	Carrying amount 31.12.2019	Losses not yet recognised 31.12.2019	Carrying amount 31.12.2018	Losses not yet recognised 31.12.2018
Treasury bills	10,000,000.00	–94,411.02	0	0
Investments in associated companies	0.00	0.00	14,470	–284
Total	10,000,000.00	–94,411.02	14,470	–284

No write-ups of securities classified as fixed assets were undertaken in the financial year.

The bank reviews as appropriate, and at least once a year, whether a permanent impairment has arisen in the financial assets. A permanent deterioration in the creditworthiness of the issuers was not identified.

In 2020, Anadi Bank issued bonds as defined in Section 64 (1) (7) BWG with a value of EUR 25,283,897.15 (2019: TEUR 15,609) will become due.

3. Intangible and tangible assets

An analysis of individual items and of changes during the financial year is shown in the fixed assets movement schedule (Schedule 2 to the notes).

The value of land included in land and buildings as at 31.12.2019 is EUR 3,226,502.69 (31.12.2018: TEUR 2,504).

4. Other assets

The breakdown of other assets is as follows:

	31.12.2019	31.12.2018
Other assets	27,941,156.13	27,023
– therof payable after the balance sheet	*1,361,206.58*	*1,656*
– therof with a residual term > 1 year	*12,045,141.60*	*13,847*
Interest receivable	737,921.03	725
Accrued income (upfront payment)	12,045,141.60	13,847
Offset claims	272,289.56	169
Receivables from trading book derivatives	248,010.71	347
Deposits	8,471,885.17	8,353
Other receivables	6,165,908.06	3,582

5. Other liabilities

The breakdown of other liabilities is as follows:

	31.12.2019	31.12.2018
Other liabilities	13,090,151.89	12,708
– thereof payable after the balance sheet	*1,946,421.73*	*2,294*
– thereof with a residual term > 1 year	*175,576.45*	*213*
Interest payable	236,914.82	281
Clearing account balances	7,380,838.33	6,661
Fees and levies	2,148,855.59	2,234
Liabilities arising from FX measurement of banking book derivatives	1,637,591.56	1,865
Liabilities from trading book derivatives	236,577.56	332
Trade payables	1,145,255.32	780
Other liabilities	304,118.71	555

6. Provisions

The main items included under "other provisions" are as follows:

	31.12.2019	31.12.2018
Guarantees	135,610.16	254
Holidays not taken	302,624.16	454
Long-service bonuses	1,335,092.00	1,266
Association of mortgage banks § 1406 ABGB	359,459.38	359
Legal and consultancy fees	112,000.00	93
Costs for legal risks	528,724.73	2,034
Restructuring provisions *	0.00	65
Negative market values of banking book derivatives incl. trading book CVA *	0.00	848
Miscellaneous provisions	1,053,463.47	2,446
Total	3,826,973.90	7,819

These amounts are shown in the above table as of 31.12.2019 under the item "Miscellaneous provisions".

Other provisions

According to section 211 UGB, other provisions with a term of more than one year are subject to a discounting obligation at a market interest rate. The first-time application results in a difference of EUR 974,393.87 as of 01.01.2016. Use is made of the transitional provision for distributing the difference evenly over deferred income over a maximum of 5 years in accordance with section 906 (33f) UGB. In the reporting year the entire remaining accruals and deferrals in the amount of EUR 340,972.69 were released to the profit and loss statement (31.12.2018: TEUR 170), due to the likewise full release of the base legal risk provision.

Guarantees

The provisions for risks arising from the lending business (guarantees) include provisions for specific cases amounting to EUR 0.00 (31.12.2018: TEUR 0) as well as provisions at portfolio level amounting to EUR 135,610.16 (31.12.2018: TEUR 254).

Restructuring provisions

Based on the social plan agreement concluded with the works council in 2015 (cushioning of social hardship upon departure of employees) and the expiry of the social plan agreement in the 2018 financial year, the provision as of 31.12.2019 amounts to EUR 65,050.71 (31.12.2018: TEUR 65). This remaining amount will be used in the future for restructuring measures that have already been completed from the past.

Costs for legal risks

There are provisions in the amount of EUR 528,724.73 as at 31.12.2019 (31.12.2018: TEUR 2,034) in respect of legal risks, which will cover possible customer compensations and legal costs. In the current financial year payments related to these provisions totalling EUR 77,682.26 (31.12.2018: TEUR 626) were settled and an amount of EUR 1,507,995.16 (31.12.2018: TEUR 359) was released.

Negative market values of derivatives in the banking book incl. trading book CVA

Expected losses from pending transactions for off balance sheet related pending transactions according to Section 198 (8) UGB is recognised by accounting provisions in the period, in which loss is possible and recognizable due to the developments of prevailing market conditions. The amount of the provision is dependent on the size of the expected loss. Anadi Bank includes market values of all derivatives of the regulatory banking book in its analysis.

The provision for expected losses from banking book derivatives was calculated in compliance with the position of the Austrian Financial Reporting and Auditing Committee (AFRAC) as outlined in its official publication "Accounting for derivatives and hedging instruments under commercial law". There provisions for expected losses are only recognised for derivative transactions, which are not designated in a hedging relationship with an underlying transaction.

According to the AFRAC position on this issue, a provision for expected losses should be formed for the ineffective parts of a derivative with a negative market value. In the case of a micro hedge, if all the parameters of the underlying transaction and the hedging transaction, which determine the extent of the hedged impairment, are identical but offset each other, this is an indicator of a fully effective hedging relationship. In Austrian Anadi Bank AG all micro hedges are reviewed and documented regarding hedge effectiveness. On the assets side, own securities and loans form the underlying transactions for hedging. On the liabilities side, underlying transactions from own issues and promissory notes form the underlying transaction of a hedging relationship. The hedging period is substantially the same as the term of the underlying transaction. The hedge efficiency for fair value hedges is calculated on the basis of the accumulated theoretical change in price of the underlying transaction as well as the hedge transaction from the start of the hedge using a regression model (advanced dollar offset method) for the hedged risk factors on a monthly basis. The calculation of hedge effectiveness for fair value hedges for which the simplified determination of effectiveness ("critical term match" method) is not applicable is performed monthly on the basis of the cumulative theoretical price changes of the underlying transaction and the hedging transaction since the start of the hedging relationship using a regression model (Advanced Dollar Offset) for the hedged risk factors.

As at 31.12.2019 a provision of EUR 31,058.00 (31.12.2018: TEUR 833) was required.

For derivatives in the trading book, a provision for the Credit Valuation Adjustment (CVA) in the amount of EUR 8,744.00 (31.12.2018: TEUR 15) was required.

7. Disclosures on risk provisions

Development of risk provisions (loans and advances to customers):

	31.12.2019	31.12.2018
Loans and advances to customers		
Opening balance	**29,962,968.58**	32,321
Additions	29,593,946.84	4,861
Releases	–897,235.90	–1,260
Utilised	–9,798,682.32	–5,963
Foreign currency valuation	5,458.46	4
Closing balance	**48,866,455.66**	29,963

For credit default risks incurred but not reported, the portfolio risk provisions were adjusted from the 2018 level (TEUR 4,117) to EUR 4,792,721.15 as at 31.12.2019.

8. Tier 2 capital pursuant to Part 2, Title I, Chapter 4 of Regulation (EU) No 575/2013

The nominal value of the Tier 2 capital pursuant to Part 2 Title I Chapter 4 of the Regulation (EU) No. 575/2013 was EUR 25,000,000.00 (31.12.2018: TEUR 25,000) as of 31.12.2019, which was issued in the year 2018.

The interest expenses for the Tier 2 capital amount to EUR 1,562,500.00 (31.12.2018: TEUR 39).

9. Share Capital

The issued share capital of Austrian Anadi Bank AG at the balance sheet date amounts to EUR 30,000,000.00 (31.12.2018: TEUR 30,000) and is divided into 30,000 (31.12.2018: 30,000) registered shares. The shares are held 100 percent by Anadi Financial Holdings Pte. Ltd., whose headquarters is in Singapore.

10. Reserves

The development of capital and retained earnings, and of the liability reserves, was as follows:

Designation	Opening balance 01.01.2019	Additions	Releases	Closing balance 31.12.2019
Capital reserves	82,332,115.37	0.00	–4,229,354.58	78,102,760.79
Retained earnings	13,203,908.56	4,015,802.71	–17,219,711.27	0.00
Liability reserve pursuant to Article 57 para. 5 BWG	36,995,640.00	0.00	0.00	36,995,640.00

The allocation to the retained earnings was made out of the previous year's net profit, based on a resolution adopted during the general meeting of shareholders held on 11 July 2019. The reserves were released to offset the accumulated loss in the year under review.

OFF-BALANCE SHEET TRANSACTIONS

11. Derivative Financial Instruments

The following transactions were unsettled at the balance sheet date:

	Nominal value Purchase contracts		Nominal value Sales contracts	
Futures transactions	31.12.2019	31.12.2018	31.12.2019	31.12.2018
a) Interest rate-related business				
OTC-products				
Interest swaps/Interest rate contracts	414,091,119.25	410,041	414,091,119.25	410,041
b) Currency-related business				
OTC-products				
Currency swaps	101,010,101.02	97,613	101,010,101.02	97,613
Cross-currency swaps	71,100,000.00	81,000	72,489,110.30	82,778
Forward exchange contracts	0.00	302	0.00	301

	Fair value positive		Fair value negative	
Futures transactions	31.12.2019	31.12.2018	31.12.2019	31.12.2018
a) Interest rate-related business				
OTC-products				
Interest swaps/Interest rate contracts	38,033,711.80	38,233	39,336,347.77	35,005
b) Currency-related business				
OTC-products				
Currency swaps	0.00	0	327,260.62	88
Cross-currency swaps	0.00	29	1,424,789.10	1,800
Forward exchange contracts	0.00	4	0.00	4

The trading and banking book derivatives are used to hedge interest rates, exchange rates and market prices. Derivative contracts are mainly formed to hedge individual asset and liability positions in the banking book. As at 31.12.2019 the net fair value of derivatives designated as hedging instruments, was EUR 1,314,307.36 (31.12.2018: TEUR 3,214).

No hedging relationships were terminated early in the year under review.

12. Contingent Liabilities

	31.12.2019	31.12.2018
Contingent liabilities	70,098,320.82	86,441
Guarantees and other collateral securities	70,098,320.82	86,441

13. Other Off-balance Sheet Statements

Loan exposures comprise unused credit lines totalling EUR 156,687,085.30 (31.12.2018: TEUR 189,508).

Liabilities from fiduciary activities amounted to EUR 13,826,071.18 (31.12.2018: TEUR 9,098) in the year under review. These activities mainly comprise assets held in trust refinanced by Austrian Control Bank.

Obligations arising in connection with the use of fixed assets (leasing obligations) not included in the balance sheet of Anadi Bank amount to EUR 553,815.94 (31.12.2018: TEUR 553) for the year under review, EUR 553,815.94 are due in 2020 and totalling EUR 1,079,297.03 are due for the years 2020 to 2024.

Pfandbriefstelle

As a member of the Mortgage Bond Division of the Austrian State Mortgage Banks (Pfandbriefstelle), Austrian Anadi Bank AG is, in accordance with Section 2(1) of the Austrian Pfandbriefstelle Act (PfBrStG), jointly and severally liable with the other member institutions for all liabilities of Pfandbriefbank. This liability applies equally for all other member institutions and their legal universal successors as listed in Section 1(2) of the articles of association of the Pfandbriefstelle. As of the balance sheet date 31.12.2019, there were no liabilities left to be covered.

The Pfandbriefstelle has been in liquidation since 1 June 2018. The liquidation closing balance sheet was prepared as at 31.8.2019. The final accounts were presented at the Supervisory Board meeting on 13 September 2019. The deletion of Pfandbriefstelle Verwertungsgesellschaft AG i.A. and the share management of Pfandbriefstelle der österreichischen Landes-Hypothekenbanken AG i.A. in the commercial register took place on 29 October 2019 and 6 November 2019 respectively.

NOTES TO THE INCOME STATEMENT

14. Interest and similar income

	31.12.2019	31.12.2018
From loans and advances to credit institutions and customers	**46,657,179.98**	43,207
thereof Austria	37,380,039.38	35,440
thereof International	9,277,140.60	7,767
From fixed-income securities	**2,748,853.48**	5,243
thereof Austria	902,671.44	1,342
thereof premium of securities held as fixed assets	*0.00*	*–80*
thereof International	1,846,182.04	3,901
thereof premium of securities held as fixed assets	*–32,872.10*	*0*
From other assets	**988.19**	4,189
thereof Austria	988.19	4,189
Total	**49,407,021.65**	52,639

Interests and similar income from other assets include EUR 0.00 (31.12.2018: TEUR 4,188) from early termination of derivatives which were designated in hedging relationships.

Interest earnings include negative interests from receivables in the amount of EUR 699,991.33 (31.12.2018: TEUR 656) and interest from previous periods with an amount of EUR 0.00 (31.12.2018: TEUR 480).

15. Interest and similar expenses

	31.12.2019	31.12.2018
From liabilities to credit institutions and customers	**3,432,488.37**	3,705
thereof Austria	2,226,766.81	2,363
thereof International	1,205,721.56	1,341
From debt securities in issue	**17,457,812.56**	15,610
thereof Austria	17,457,812.56	15,610
thereof International	0.00	0
Total	**20,890,300.93**	19,314

Interest expenses include negative interest from liabilities to credit institutions, in this case refinancing from the TLTRO II program (Targeted Longer-Term Refinancing Operations), amounting to EUR 985,499.99 (31.12.2018: TEUR 2,006). This negative interest includes interest from previous periods of EUR 0.00 (31.12.2018: TEUR 1,021).

16. Commission income and expenses

	31.12.2019	31.12.2018
From the lending business		
Fee and commission income	8,506,428.41	9,811
Fee and commission expenses	–1,538,937.36	–2,471
From the securities business		
Fee and commission income	1,689,648.15	1,575
Fee and commission expenses	–147,602.93	–148
From other transactions		
Fee and commission income	7,604,154.12	7,371
Fee and commission expenses	–862,120.40	–883
Total income	**17,800,230.68**	18,757
Total expenses	**–2,548,660.69**	–3,501

17. Other administrative expenses (operating expenditure)

	31.12.2019	31.12.2018
Legal and consultancy expenses	1,038,470.31	1,426
Advertising and hospitality expenses	899,866.33	1,231
Rental, leasing and other building expenses	2,405,184.55	2,592
IT expenses	1,503,223.95	1,478
Data centre expenses	3,646,695.82	3,449
Training expenses	157,463.44	211
Issue expenses	254,091.78	483
Travel expenses	178,421.33	247
Fleet expenses	254,366.93	257
Insurance	347,394.66	414
Telephone/postage expenses	506,806.79	493
Expenses in connection with company legal structure	353,200.00	356
Office/stationery expenses	141,294.68	122
Single Resolution Fund (BaSAG)	733,899.23	902
Guarantee deposit (EiSi Hypo Haftungs-GmbH)	907,869.00	980
Other operating expenditure	670,996.77	685
Total	13,990,245.57	15,326

18. Other operating income

	31.12.2019	31.12.2018
Rental and leasing agreements	121,503.71	153
Other operating income	2,588,688.94	1,949
Total	**2,710,192.65**	2,102

19. Other operating expenses

	31.12.2019	31.12.2018
Other operating expenses	318,221.43	191
Total	318,221.43	191

20. Value adjustments and re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings

The profit and loss item 14 Value adjustments and re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings includes the income of EUR 1,945,000.00 (31.12.2018: TEUR 2,620) from the partial sale of the warrant for "Entitlement to Payment of the Conditional Additional Purchase Price" derived from the KAF offer from 2016 for the settlement of receivables against HETA Asset Resolution AG. This transaction was processed over-the-counter (OTC).

SUPPLEMENTARY INFORMATION

21. Deferred taxes

Balance Sheet positions	31.12.2019	31.12.2018	Beschreibung
Positive fair values of trading book derivatives	–248,010.00	–347	Deferred tax liabilities
Securities held as Fixed Assets	409,506.00	1,910	Deferred tax assets
Loans and advances to customers	4,334,804.00	3,702	Deferred tax assets
Participating interest	0.00	5	Deferred tax assets
Provisions	6,437,507.00	8,976	Deferred tax assets
Total	*10,933,807.00*	*14,247*	*Net deferred tax assets*
Excess deferred tax 25%	2,733,452.00	3,562	

22. Important Long Term Contracts

On 01.07.2015 (effective date) a service agreement was agreed between the Austrian Reporting Services GesmbH (AuRep) and Anadi Bank AG, in respect of reporting requirements to the Oesterreichische Nationalbank (OeNB). AuRep will replace the existing paper-based OeNB reporting in the medium term, through a common reporting system (GMP). The intention is to supply a single data pool at the individual transaction level.

On 01.11.2015 a service agreement was signed between the VB Services Banken GesmbH and Anadi Bank AG. The services cover payment orders, including express payments to domestic and EU countries, plus non-EU countries, integrated in the payment system of the Anadi Bank AG, and with Nostro account reconciliation.

A shareholder agreement was signed on 13.09.2005 between ARZ (Allgemeines Rechenzentrum GmbH) and Anadi Bank AG. ARZ is a strategic IT provider with 2 sites in Innsbruck and Vienna. Essentially the services include: the core banking system in the areas of business customers, current accounts, savings, credit, securities, electronic banking; the General Ledger including Accounting; various sub-systems such as SAP, the securities settlement system GEOS (incl. Nostro); workflow and document management; regulatory reporting solutions (national/prudential); as well as various other reporting options. Furthermore, ARZ provides the infrastructure in respect of mainframe computer; application and database servers; client server; the entire IT network; security (firewall, intrusion detection); end user support; as well as basic services monitoring; and fault management, incl. contingency planning.

23. Own capital funds

Own Funds in accordance with CRR/CRD	31.12.2019	31.12.2018
Common Equity Tier 1 Capital	144,599,165.07	162,099
Paid up capital instruments	30,000,000.00	30,000
Retained earnings	78,102,760.79	82,332
Other reserves	36,995,640.00	50,200
Value adjustments due to the requirements for prudent valuation (Fair value exposures) 0.1%	95,537,787.71	63,378
thereof 0.1% deduction	–95,537.79	–63
Deducting intangible assets	–403,697.93	–369
Tier 2 Capital	24,740,250.00	24,740
Supplementary Capital total	25,000,000.00	25,000
Supplementary Capital allowable	24,740,250.00	24,740
Own funds	169,339,415.07	186,839

Own funds requirement	96,274,217.09	92,646
Surplus of total capital	73,065,197.98	94,193
Coverage ratio	175.89%	201.67%

Own Funds Requirement	31.12.2019	31.12.2018
Risk-Weighted Assets (banking book)	1,094,773,680.62	1,050,805
thereof 8% minimum capital requirement	87,581,894.45	84,064
Credit Value Adjustment	706,456.17	920
Own funds requirement for trading book	0.00	4
Own funds requirement for open currency position	27,222.95	37
Capital requirment for operational risk	7,958,643.52	7,621
Total own funds requirement	96,274,217.09	92,646
Total risk exposure amount	1,203,427,713.61	1,158,076

Common Equity Tier 1 Capital ratio	12.02%	14.00%
Tier 1 capital ratio	12.02%	14.00%
Total capital ratio	14.07%	16.13%

24. Collaterals

In the context of business relationships with customers, different types of collateral are held. The collateral values refer to an internal calculation without regulatory deductions.

	31.12.2019	31.12.2018
Financial collateral	42,893,827.39	55,499
Cash deposits	30,635,927.56	43,802
Securities	12,257,899.83	11,697
Real estate collateral	962,958,454.25	920,547
Guarantees	233,136,351.29	260,682
Other collateral	103,260,774.84	104,327
Insurance	44,812,647.37	47,888
Movable property	9,195,048.20	8,052
Others	49,253,079.27	48,387
Total	1,342,249,407.77	1,341,055

Collateral received and collateral provided (collateral deals) under derivative transactions:

	31.12.2019	31.12.2018
Collateral received	5,380,000.00	5,320
Collateral provided	12,140,000.00	9,140

25. Trustee saving accounts

Liabilities to customers includes trustee saving accounts amounting to EUR 1,931,446.65 (31.12.2018: TEUR 3,108).

26. Foreign currency

The balance sheet contains the following foreign currency amounts:

	31.12.2019	31.12.2018
Assets	185,160,396.60	193,395
Liabilities	11,217,032.97	13,124

The main part of the difference amounting to EUR 173,944,155.07 (31.12.2018: TEUR 180,271) is hedged with swap agreements.

27. Mortgage bond activities pursuant to the Austrian Mortgage Bond Act (PfandBG)

	Debt securities in issue		Covering loans		Surplus/shortfall in cover	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Mortgage bonds A	120,000,000.00	100,000	394,875,499.20	392,819	274,875,499.20	292,819
Mortgage bonds B	46,374,568.47	54,922	59,746,911.44	68,801	13,372,342.97	13,879
Public sector mortgage bonds	437,380,479.42	437,530	486,345,377.21	494,102	48,964,897.79	56,572

Anadi Bank has deposited own not issued covered bonds (mortgage bonds) with the Austrian National Bank amounting to EUR 200,000,000.00. This compares to mortgage collateral stock (covering loans) amounting to EUR 394,875,499.20. As at 31.12.2019 refinancing in the full amount was used for this purpose.

28. Other information related to the balance sheet

In accordance with Section 64 (1) (8) BWG, securities amounting to EUR 492,774,390.00 (31.12.2018: TEUR 348,197) and loans in the amount of EUR 164,585,794.32 (31.12.2018: TEUR 211,462) were pledged as collateral for liabilities to credit institutions amounting to EUR 423,000,000.00 (31.12.2018: TEUR 503,000) as well as for liabilities to customers amounting to EUR 1,931,175.25 (31.12.2018: TEUR 2,884).

As at 31.12.2019 the return on assets in accordance with Section 64 (19) BWG is negative (31.12.2018: 0.22 percent).

29. Liability State of Carinthia

The statutory guarantee of the federal state of Carinthia for all commitments of Anadi Bank (and others) is a default guarantee pursuant to Section 1356 of the Austrian Civil Code (ABGB) and covers all commitments entered into prior to 3 April 2003, as well as all commitments created between 3 April 2003 and 1 April 2007 whose term does not extend beyond 30 September 2017. The federal state of Carinthia will not guarantee any commitments entered into after 1 April 2007. The terms of the guarantee are regulated by the Carinthian State Holding Law (K-LHG). As at 31.12.2019, the federal state of Carinthia still had guarantees for perpetual liabilities of Anadi Bank amounting to EUR 16,937,966.09 (31.12.2018: TEUR 18,297).

30. Deposit Guarantee

In accordance with section 8 ESAEG para. 1, Austrian Anadi Bank AG, as a deposit-taking institution (CRR Institute) with its headquarters in Austria, is a member of the deposit guarantee scheme according to section 1 para. 1 line 1 ESAEG. As of January 1, 2019, the task of the sectoral protection scheme will be transferred to the uniform protection scheme Einlagensicherung Austria GmbH, which was set up by the WKO. The agendas of the protection schemes of the banking and bankers' associations and of Volksbanken will also be taken over by the uniform protection scheme at that time. Each protection scheme has to set up a deposit guarantee fund consisting of available financial resources in the amount of at least 0.8 percent of the sum of the covered deposits of the member institutions as target funding. The contribution obligation is based on the amount of covered deposits on the basis of previously determined risk factors (so-called risk-based contribution calculation). An annual contribution of EUR 907,869.00 (31.12.2018: TEUR 980) was payable for the entire 2019 financial year. As of 1 January 2019, Einlagensicherung Austria GmbH is also obliged to collect special contributions from its member institutions in the event of a guarantee claim - if the fund resources are not sufficient to cover the depositor claims. These special contributions may amount to a maximum of 0.5 percent of the respective covered deposits per year pursuant to section 22 (1) ESAEG. Hypo Haftungs Ges.m.b.H. was the responsible protection scheme for Austrian Anadi Bank AG until 31 December 2018. On 13 March 2019, the shareholders passed a resolution to dissolve the company. The liquidation was completed on 22 November 2019 and the company was deleted from the commercial register on 28 January 2020.

31. BaSAG - Resolution Fund

In accordance with EU Directive 2014/59/EU, BaSAG established a framework for the recovery and resolution of credit institutions and investment firms in Austria.

To finance the statutory resolution funding mechanism, an ex-ante fund i.S.d. Section 123 BaSAG was established through regular contributions in accordance with Section 125 BaSAG. The level of contributions, in accordance with Section 126 BaSAG, is in proportion to the amount of liabilities minus guaranteed deposits of the institution, compared to the aggregate liabilities less guaranteed deposits of all authorized institutions in Austria. These contributions are adapted according to the risk profile of the institution. For the year 2019, Austrian Anadi Bank has paid EUR 733,899.23 (31.12.2018: TEUR 902). Irrevocable payment obligations were not used. In addition, the resolution authority, can if necessary, in accordance with Section 127 BaSAG, introduce extraordinary subsequent contribution requirements. The calculation of the amount of these extraordinary contributions follow the rules of the ordinary contributions (Section 126 BaSAG) and may not exceed three times the annual amount of the ordinary contributions.

32. Consolidation

As at the reporting date, Anadi Bank does not show any shares in affiliated companies in its balance sheet and therefore does not prepare consolidated financial statements. Pursuant to Section 30 (9a) BWG, a regulatory consolidation takes place, comprising Anadi Bank and its Singapore based parent company, Anadi Financial Holdings Pte. Ltd. Pursuant to Sections 59 and 59a of the BWG, Anadi Bank AG, as the superior credit institution of Anadi Financial Holdings Pte. Ltd., the financial holding group, prepares consolidated financial statements which include the financial holding.

33. Disclosure

In order to comply with disclosure requirements according to Article 431 ff seq Corrigendum of Regulation (EU) No. 575/2013 of the European Parliament (26 June 2013) on prudential requirements for credit institutions and investment companies, and amending Regulation (EU) No. 648/2012, all information is made public on the website of Austrian Anadi Bank AG (anadibank.com) in the section "Investors Annual Reports".

34. Cash flow statement

The cash flow statement is presented in Schedule 3 to the notes.

35. Auditing expenses

The expenses in respect of the company's auditor are EUR 206,848.00 (31.12.2018: TEUR 193) as at the reporting date and comprise other auditing and consulting services in the amount of EUR 5,280.00 and the audit of the annual financial statements in the amount of EUR 201,568.00.

36. Employees

Average number of employees according to Section 239 UGB:

	31.12.2019	31.12.2018
Salaried employees	279.82	292.11

Advances, loans and guarantees in respect of members of the management bodies

As at 31.12.2019, the members of the Management Board had received advances, loans or guarantees totalling EUR 0.00 (31.12.2018: TEUR 127) from Anadi Bank.

As at 31.12.2019, the members of the Supervisory Board received, either for themselves or on behalf of the companies for which they are personally liable, loans or guarantees totalling EUR 8,411,658.25 (31.12.2018: TEUR 8.359) from Anadi Bank.

Expenses for severance payments, pensions and anniversary bonus

The bank spent the following amounts for payments and provisions for severance pay and pensions in 2019:

	31.12.2019 Severance payments	31.12.2019 Pensions	31.12.2018 Severance payments	31.12.2018 Pensions
Management Board Members	29,994.67	82,876.44	36	246
Senior employees	53,907.89	89,342.25	57	53
Other employees	732,859.31	–214,248.70	1,132	1,204
Total	816,761.87	–42,030.01	1,225	1,504

In 2019 payments to the employee pension fund amounted to EUR 207,623.84 (31.12.2018: TEUR 207). As a result of the addition of the severance payment provision amounting to EUR 578,114.00 (31.12.2018: TEUR 967), the actual expenses for severance charge in 2019 were EUR 816,761.87 (31.12.2018: TEUR 1,224). In the financial year, severance payments in the amount of EUR 31,024.03 (31.12.2018: TEUR 51) were continuously recorded against the allocated provisions.

As a result of the addition of the anniversary bonus provisions, an actual anniversary bonus expenditure of EUR –110,788.75 (31.12.2018: TEUR –281) will be paid for 2019. In the financial year, anniversary bonuses in the amount of EUR 42,081.75 (31.12.2018: TEUR 64) were booked against the allocated provisions.

Breakdown of compensation for members of the Management and Supervisory Boards:

	31.12.2019	31.12.2018
Management Board		
thereof fixed	2,293,672.36	2,132
thereof variable	20,500.00	62
Supervisory Board	334,000.00	337
Remuneration of former members of the Management and Supervisory Boards and their surviving dependents	0.00	0
thereof related to termination	0.00	0
Total	2,648,172.36	2,531

Members of the Management and Supervisory Boards who served during the year under review are detailed in Schedule 1 to these notes.

37. Events after the balance sheet date

Despite the far-reaching measures taken to contain the pandemic in connection with Covid-19 and the serious consequences for the Austrian economy, banking operations can continue smoothly. Appropriate protective and security measures were immediately implemented in the branches, and thanks to the high degree of digitalization and state-of-the-art IT equipment, Anadi Bank was able to transfer about two thirds of its staff to its home office within a very short time frame. An uninterrupted service for customers both online and offline was ensured, which enabled the bank to continue to offer all banking services at the highest level.

Anadi Bank is 100% committed to the support measures taken by the Austrian government in the banking sector and fully supports customers and business partners. For this reason, corresponding internal bank guidelines were created with regard to lending criteria and a procedural overview for initial positions, which are continually adapted due to changes in laws and subsidies. This is also reflected in the fact that deferrals in accordance with the moratorium in the amount of EUR 3.5 million and liability financing (COFAG/ AWS/ ÖHT) in the amount of just under EUR 14.0 million were agreed with over 650 customers. To date, no defaults due to the economic effects of Covid-19 have been recorded.

In addition to securing operating activities and fulfilling banking measures, the focus of risk management is on securing liquidity. This concerned not only our own liquidity, but also the supply of liquidity or the supply of sufficient liquidity to customers.

As a result of the aforementioned daily calculation of all liquidity ratios and positions during 2020, it was possible to steer the daily Covid-19 task force operations through the availability of current daily reports.

The effects of the Corona crisis on the P&L result and the capital situation of the Bank for 2020 were the subject of a stress test. The risk provisions to be expected due to the economic effects of Covid-19 were determined using a simulation of the expected loss. This took into account both corresponding rating downgrades at sector level and a decline in real estate prices and thus a reduction in the collateral deposited. The negative effects of the corona crisis calculated on the basis of the stress test can be compensated for by operational business development and specific countermeasures.

The Bank's focus in 2020 will be to achieve a sustainable increase in the capital ratios again. This will be achieved primarily by reducing total assets through contractual repayments of the existing portfolio in combination with selective new business volumes. The operating profit base will also be improved and strengthened through structural optimization of the cost base.

No further events of particular significance for the bank, which could have led to a change in the presentation of the financial position and results of operations, were recorded.

Klagenfurt am Wörthersee, on 28.05.2020

The Management Board

VDir. GaneshKumar Krishnamoorthi, B.E. m.p.

VDir. Mag. Franz Reif m.p.

VDir. Dr. Ferdinand Wenzl MBA m.p.

SCHEDULE 1 TO THE NOTES

Management Bodies

Chairman of the Supervisory Board
Srinivasan Sridhar, Mumbai

Deputy Chairman of the Supervisory Board
Dr. Sanjeev Kanoria, London

Members of the Supervisory Board
Hemant Kanoria, Kalkutta

Dr. Franz Markus Nestl, Vienna

Delegated to the Supervisory Board by the Workers' Council
MMag. Gabriele Oberlercher, Krumpendorf

Barbara Perchtold, St. Paul

State Commissioner
Mag. Renate Platzer, BMF Vienna

Deputy State Commissioner
Mag. Stefan Wieser, BMF Vienna

Trustee
Mag. Natascha Nehammer, BMF Vienna

Deputy Trustee
Ing. Mag. (FH) Jakob Köhler, BMF Vienna

Management Board
Mag. Christoph Raninger, Hagenbrunn (until 31.12.2019)

Mag. Martin Rauchenwald, Graz (from 01.01.2020 until 13.04.2020)

GaneshKumar Krishnamoorthi, B.E., Vienna

Gerhard Salzer, Maria Saal (until 31.01.2019)

Mag. Franz Reif, Langenlebarn

Dr. Ferdinand Wenzl, MBA, Vienna (from 14.04.2020)

SCHEDULE 2 TO THE NOTES

Fixed assets movement schedule

Assets	Acquisition costs 01.01.2019	Additions 2019	thereof Interest 2019	Disposals 2019	Acquisition 31.12.2019
Pos. 2 Treasury bills Fixed-interest securities in fixed assets	209,331,820.92	18,623,647.39	0.00	82,676,800.00	145,278,668.31
Pos. 4 Loans and advances to customers Fixed-interest securities in fixed assets	80,267,654.87	0.00	0.00	5,651,522.82	74,616,132.05
Pos. 5 Debt securities incl. fixed-income securities Fixed-interest securities in fixed assets	145,275,562.02	27,523,250.00	0.00	69,479,500.00	103,319,312.02
Pos. 6 Shares and other variable-yield securities	14,470,135.30	0.00	0.00	14,470,135.30	0.00
Pos. 7 Participating interests	6,643,445.91	9,100.00	0.00	72,125.00	6,580,420.91
Pos. 8 Intangible fixed assets	3,027,007.33	210,299.04	0.00	48,456.54	3,188,849.83
Pos. 9 Tangible assets	23,177,617.29	1,936,474.67	0.00	1,501,259.82	23,612,832.14
Total	482,193,243.64	48,302,771.10	0.00	173,899,799.48	356,596,215.26

Cumulative Depreciation 01.01.2019	Additions 2019	Attribution 2019	Disposals 2019	Cumulative Depreciation 31.12.2019	Book value 31.12.2019	Book value 31.12.2018
15,274,947.56	5,072.10	0.00	0.00	15,280,019.66	129,998,648.65	194,056,873.36
0.00	0.00	0.00	0.00	0.00	74,616,132.05	80,267,654.87
11,269,052.02	27,800.00	0.00	0.00	11,296,852.02	92,022,460.00	134,006,510.00
0.00	0.00	0.00	0.00	0.00	0.00	14,470,135.30
3,423,506.66	0.00	0.00	0.00	3,423,506.66	3,156,914.25	3,219,939.25
2,657,558.79	176,049.65	0.00	48,456.54	2,785,151.90	403,697.93	369,448.54
12,365,066.20	821,206.00	0.00	1,421,421.67	11,764,850.53	11,847,981.61	10,812,551.09
44,990,131.23	1,030,127.75	0.00	1,469,878.21	44,550,380.77	312,045,834.49	437,203,112.41

SCHEDULE 2 TO THE NOTES

Cash Flow statement

	31.12.2019 (EUR)	31.12.2018 (TEUR)
Pre-tax profit or loss	–19,073,469.62	6,664
Appreciation in value	0.00	0
Depreciation	1,030,127.75	1,083
of tangible fixed assets	821,206.00	786
of intangible fixed assets	176,049.65	217
of financial assets	32,872.10	80
Change in loans and advances and other assets	–32,661,653.28	–247,107
Loans and advances to credit institutions	–10,372,535.14	–114,466
Loans and advances to customers	–22,342,142.81	–143,699
Other assets	918,002.79	10,870
Deferred assets	971,027.46	189
Change in provisions	–5,213,091.86	–2,085
For severance payments	–61,766.00	468
For pensions	–1,158,783.00	363
Other provisions	–3,992,542.86	–2,916
Change in payables and other liabilities	18,426,056.44	154,943
Liabilities to credit institutions	–87,830,358.93	51,117
Liabilities to customers	106,441,034.20	143,202
Debt securities in issue	–167,486.95	–37,682
Other liabilities	382,402.73	–1,524
Deferred liabilities	–399,534.61	–169
Change in securities classified as current assets	–19,327,281.58	38,855
Bonds and other fixed-income securities	–19,327,281.58	38,834
Shares and other variable-yield securities	0.00	21
Taxes	–2,732,596.23	–2,291
Taxes on income	–870,179.57	–1,136
Other taxes	–1,505,416.66	–1,512
Tax provisions	357,000.00	357
Cash Flow from operating activities	–59,551,908.38	–49,938
Changes in tangible and intangible fixed assets	–2,066,935.56	–491
Investments	–2,146,773.71	–507
Proceeds from sales	79,838.15	16
Changes in financial assets	62,135,861.02	11,820
Securities classified as fixed assets	62,072,836.02	11,820
Associates and affiliated companies	63,025.00	0
Cash flow from investments activities	60,068,925.46	11,329
Dividends paid	0.00	–3,501
to shareholders of the parent company	0.00	–3,501
Changes in subordinated and equity capital	0.00	25,039
Tier 2 capital pursuant to Part Two, Title I, Chapter 4 of Regulation (EU) No 575/2013	0.00	25,039
Cash flow from financing activities	0.00	21,538
Cash flow	517,017.08	–17,071

	31.12.2019 (EUR)	31.12.2018 (TEUR)
Cash and cash equivalents at the beginning of the period	234,009,701.24	251,081
Cash in hand, balances with central bank	28,283,924.90	25,365
Treasury bills and bills of exchange eligible for refinancing	205,725,776.34	225,716
Cash and cash equivalents at the end of the period	234,526,718.32	234,010
Cash in hand, balances with central bank	81,779,426.37	28,284
Treasury bills and bills of exchange eligible for refinancing	152,747,291.95	205,726
Effective change in cash and cash equivalents	517,017.08	–17,071

AUDITOR'S REPORT
Report on the Financial Statements

Audit Opinion
We have audited the financial statements of

Austrian Anadi Bank AG,
Klagenfurt,

In our opinion, the financial statements, in all material respects, is presented fairly by the financial position of the Company as of 31 December 2019 and its financial performance for the financial year in accordance with Austrian Generally Accepted Accounting Principles and with Austrian Banking Act requirements.

Basis for our Opinion
We conducted our audit in accordance with Regulation (EU) 537/2014 ("AP Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the Company, in accordance with Austrian company law, Austrian Banking act and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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. These matters were addressed in the context of our audit of the financial statements as a whole, however, we do not provide a separate opinion thereon.

Valuation of loans and advances to customers

Risk to the financial statements
Loans and advances to customers amount to EUR 2.2 bn and are mainly comprised of the segments "Public Finance", "Corporate Banking" and "Retail Banking". Loan loss provisions (individual value adjustments and portfolio value allowance) amounting to EUR 53.7 mil are recognized within the loans and advances.

The approach regarding determination of risk provisions is described in the notes section "Recognition and Measurement Principles" and in the management report section "Credit Risk". The development of risk provisions is described in section 7 "disclosures to risk provisions" of the notes.

The bank's credit risk management evaluates whether there are identifiable risks and therefore specific loan loss provisions that need to be recognized. This includes an assessment whether customers are able to meet their contractual liabilities in full.

The calculation of the risk provision for defaulted individually significant customers is based on an analysis of the estimated future recoveries. This analysis reflects the assessment of the economic situation and development of the individual customer, the valuation of collaterals and the estimated amount and timing of future cash flows.

For defaulted, individually non-significant customers the individual allowance is calculated by considering the valuation of utilizable collaterals.

For all non-defaulted loans, a rating based portfolio loan loss provision is recognized. Individual customer-specific parameters as well as statistical assumptions and utilizable collaterals are used to determine the amount of the provision.

The risk to the financial statements results from the fact that the identification of impending loan defaults as well as the calculation of the provisioning amounts significantly depend on the assumptions and estimates stated above, leading to margins of discretions and estimate uncertainty with regard to the amount of the provision.

Our Response

We have audited valuation of loans and advances to customers as following:

- We have analyzed the processes of monitoring and risk provisioning for customer loans and assessed whether these processes are appropriate to assess the valuation of loans and advances to customers.
- We have evaluated the process workflows as well as significant controls by inspecting the IT systems and testing the design and implementation of key controls. Furthermore, we have evaluated the effectiveness of key controls by sample testing.
- The selection of the sample was performed risk-oriented considering borrower ratings and with statistical and randomized methods.
- In the case of defaults – related to outstanding net exposure – of individually significant loans we have audited based on a sample, whether assumptions made by the bank regarding risk provision are conclusive, consistent and free of contradictions. In doing so we especially analyzed the economic development of the costumer as well as the valuation and the enforceability of collaterals.
- With regard to the portfolio provision we have analyzed the models used as well as the parameters used. Based on the bank's back testing of historical provisions and validations of actual parameters, we have evaluated the adequacy of the assumptions regarding the customers or the customer portfolio. We have tested the calculation of the provision amount by re-calculations.
- Furthermore, we have evaluated the adequacy of the disclosures on the valuation of loans and advances to customers in the notes.

Responsibilities of Management and the Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Austrian Generally Accepted Accounting Principles and Austrian Banking Act requirements and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibility

Our objectives 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 an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the AP Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in 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 AP Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements in the financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misprepresentations or the override of internal control.
- We 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 entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on other Legal Requirements

Management Report

In accordance with Austrian company law, the management report is to be audited as to whether it is consistent with the financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the management report in accordance with Austrian company law and other legal or regulatory requirements.

We have conducted our audit in accordance with generally accepted standards on the audit of management reports as applied in Austria.

Opinion

In our opinion, the management report is consistent with the financial statements and has been prepared in accordance with legal requirements.

Statement

Based on our knowledge gained in the course of the audit of the financial statements and our understanding of the Company and its environment, we did not note any material misstatements in the management report.

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the financial statements, the management report and the auditor's report.

Our opinion on the financial statements does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

Additional Information in accordance with Article 10 AP Regulation

We were elected as auditors at the Annual General Meeting on 26 September 2018 and were appointed by the supervisory board on 26 September 2018 to audit the financial statements of Company for the financial year ending on that date.

In addition, during the Annual General Meeting as of 16 September 2019, we have been elected as auditors for the following financial year and appointed by the supervisory board as at 16 September 2019.

We have been auditors of the Company, without interruption, since the financial statements at 31 December 2016.

We declare that our opinion expressed in the "Report on the Financial Statements" section of our report is consistent with our additional report to the audit committee, in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 AP Regulation) and that we have ensured our independence throughout the course of the audit from the audited Company.

In addition to audit services, we have provided the below services to the audited Company and the entities under its control. These services have not been disclosed in the financial statements or in the management report:

- Tax-Consulting
- Regulatory Consulting

Auditor in Charge

The engagement partner is Mr Bernhard Mechtler.

Vienna, on 28.05.2020

signed by:
Bernhard Mechtler
Wirtschaftsprüfer
(Austrian Chartered Accountant

This report is a translation of the original report in German, which is solely valid.

PUBLISHING INFORMATION

Responsible for the content of this report:

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Forward looking statements and forecasts are based on information and data available at the time of finalising the financial statements (28.05.2020). Changes after this date may influence the facts and forecasts given in the Annual Report. The information presented in this report and the data contained therein has been compiled and checked with the greatest possible degree of care and circumspection. However, errors arising from rounding, transmission, typesetting or printing cannot be ruled out.

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