Austrian Anadi Bank

your future bank – since 1896

Banking, that impresses!

Annual Financial Statements and Management Report
31.12.2018

AUSTRIAN ANADI BANK AG
KEY DATA

in EUR m	2018	2017
Total assets	3,072	2,894
Primary funds (customer deposits, own funds)	2,328	2,223
Customer Assets	2,166	2,029
Total shareholder equity	192	166
Own Funds in accordance with CRR/CRD	187	160
Net interest income	33	40
Operating income	52	60
Operating expenses	–45	–47
Operating result	6	13
Profit from ordinary activities	7	7
Cost: Income ratio	87.48%	78.35%
Net Interest Margin	1.19%	1.37%
Return on equity (RoE)	4.00%	4.01%
Return on assets (RoA)	0.22%	0.23%
Total number of employees	337	347

TABLE OF CONTENTS

MANAGEMENT REPORT 2018

MANAGEMENT REPORT 2018

1. GENERAL ECONOMIC ENVIRONMENT

Supported by a global economic upturn of recent years, the Austrian economy recorded strong growth in the first half of the year. Growth weakened slightly in the third quarter. The domestic economy grew by 0.4 percent compared to the previous quarter according to WIFO calculations (second quarter: +0.6 percent). In 2018, domestic growth slowed noticeably due to the slightly weaker global economy and the high level of uncertainty caused by the unclear effects of the Brexit and the trade policy of individual countries with protectionist tendencies. According to the OeNB forecast of December 2018, the Austrian economy in late 2018 is in the late-stage of a strong economic upturn. According to OeNB calculations, both the gross domestic product and private consumption remained stable at +2.7 percent and +1.7 percent respectively in 2018 compared to the previous year.

The pace of expansion of the global economy slowed significantly after a global economic upturn at the beginning of 2018 (IHS forecast 2018-2020). At the same time, the differences in economic momentum between the countries increased. In particular, the entire euro zone slowed in the second half of the year, while growth in the USA was accelerated by strong fiscal stimuli (according IHS analysis).

Of course, the economic slowdown in the euro area had an impact on the Austrian economy as well. The boom in the Austrian economy lasted from the fourth quarter of 2016 to the first quarter of 2018, and since then the pace of growth has slowed significantly. According to IHS, economic growth was only 0.6 percent and 0.4 percent, respectively, in the second and third quarters after 0.8 percent at the beginning of the year. Nevertheless, Austria's economic growth in 2018 was significantly higher than in the euro zone, and according to IHS this is likely to converge in subsequent years. In its latest forecasts for 2019, WIFO also expects an economic slowdown.

Private consumption continues to be a major pillar of the domestic economy. 2018 will be the third consecutive year in which domestic consumption will grow relatively strongly, supported not least by dynamic employment growth and higher wage settlements. According to Eurostat, the unemployment rate fell from 6.0 percent in 2016 to 5.5 percent in 2017 as a result of the strong employment dynamic. A further sharp decline to 4.9 percent is expected for 2018.

The OeNB expects the coming years to be marked by a continuous economic decline, albeit from a very high level. According to OeNB and WIFO forecasts, 2019 and the following years will be characterized by a stable growth path following a phase of economic boom. Gross domestic product is expected to grow by around 2 percent in 2019 (compared to +2.7 percent in 2017 and 2018).

2. OVERVIEW

2.1 The Bank's positioning

Austrian Anadi Bank AG ("Anadi Bank") is a mid-sized Austrian Bank positioned to challenge traditional banking models through a unique value proposition based on a modern hybrid approach in retail and corporate banking. Whilst offering face to face client coverage through a multi-channel approach comprising branches in urban areas, mobile advisors and a team of customer care agents, the bank increasingly leverages its continuously evolving digital value chain for its retail and corporate client base. The value proposition of the Bank is simplicity, time-to-market and efficiency in terms of products and services offered, whilst maintaining highest quality standards. For this purpose, the Bank has implemented a standardized digital settlement process for its core products, which is used both for online banking customers and for traditional sales customers. This „one system fits all" approach is a unique competitive edge as it enables the Bank to be a leader in terms of time-to-market, with its services offering based on a harmonized process and IT infrastructure.

2.2 Growth year 2018 after successful strategic realignment

On the basis of its strategic realignment, Anadi Bank successfully continued its growth course in 2018. With an increase in the new business volume of around 44 percent compared to the previous year, the Bank recorded a very pleasing business development. The successful course has continued throughout this year. With a new business volume of EUR 285 million (+67 percent), the Corporate segment exceeded the previous year's level.

An important milestone for Anadi Bank was its return to the capital market. In order to continue the good development and positive dynamics in its core business, the Bank has issued supplementary capital of EUR 25 million in the form of a private placement to an institutional investor. The issue has a term of ten years and carries a coupon of 6.25 percent. This is well below the interest rate level of comparable emissions.

The ongoing digitization and implementation of a complete digital value chain remains a central strategic focus. The Bank follows „Banking as a Service"approach. To offer every customer, whether more or less digital-affine, the choice of being able to handle banking transactions as easily and efficiently as possible, regardless of location and according to their preferences, under the motto „One system fits all". The claim „smart hybrid bank" expresses this, namely that all sales channels - focused branch network, online and mobile - are connected smoothly and the bank reaches its customers with simple products. The paperless consumer loan iLoan, which had a volume of EUR 18 million at the end of 2018, developed excellently. The iLoan scores with the simplest application, fast credit approval and payment. Following the successful iLoan, the next development steps are the iSME Loan for SMEs, the iMortgage Loan for real estate financing and the fully automated bank guarantee. The Digital Banking & Innovation department continuously pursues new opportunities in the digitization of products and processes. For example, Virtual Reality is applied as a new approach to real estate valuation in the context of real estate financing.

The appointment of Ganesh Krishnamoorthi as of June 1, 2018, to the Management Board also strengthened the digitization aspect of the bank.
Mr. Krishnamoorthi has many years of experience in the banking sector and extensive know-how in the digital sector. He is driving the Bank's technical development forward and will pay particular attention to expanding the digital segment to further strengthen the already well-positioned retail segment. The mandate of Franz Reif, member of the Management Board, was also extended until 2021. The experienced risk expert is responsible for the Bank's risk management. Gerhard Salzer, the former member of the Management Board, will be switching to the position of Regional Director for Carinthia and Styria with effect from 01.02.2019. Christoph Raninger was extended prematurely in December 2018 until 30 June 2023. With this decision, the Supervisory Board is setting an example for continuity and consistent further development of the institute.

Anadi Bank is the principal bank of numerous SMEs in trade, industry and real estate. The institute makes targeted use of the advantages of its lean structure and quick decision-making speed by focusing as a product specialist on smart and tailor-made solutions for companies. In addition to the branches in Vienna, Styria and Carinthia, mobile sales units in Vienna, Styria and Carinthia form customer-oriented sales bases. With new business growth of 67 percent, Corporate Banking posted strong growth in 2018. In the real estate sector, the bank covers the entire value chain in commercial real estate and private housing loans. Under the financing agreement concluded with the European Investment Bank in 2017, Anadi Bank has so far lent around EUR 16 million to domestic SMEs and midcaps on favourable terms. This agreement is in force until 2023.

As the principal bank of the province of Carinthia and many municipalities, the institute is strongly positioned in the area of public finance. By financing public health, technical infrastructure, education, tourism and many other public sector projects, Anadi Bank supports the development and growth of the region.

120 years of experience in housing loans make Anadi Bank an attractive and reliable partner for private customers when it comes to buying or building their own home. Anadi Bank scores with top conditions, speed and flexibility in processing - the bank can often provide a financing commitment within 24 hours.

Anadi Bank can refer to a healthy balance sheet. The capital and risk ratios are solid and, with stable liquidity, offer potential for further growth. The Total Capital Ratio as of 31.12.2018 was 16.13 percent, while the NPL ratio remained very low at 2.15 percent. Ongoing improvements to risk management processes, state-of-the-art algorithms and scoring models minimise potential risks in loan growth.

The bank demonstrated its social commitment by providing fast and uncomplicated financial services and support following the storms in southern Austria in November 2018. The bank provided an emergency loan at very favourable conditions for the people affected by the storms.
Once again, the bank demonstrated its high decision-making speed and short time-to-market.

2.3 Retail Banking

Strategy

The retail segment of Anadi Bank serves more than 57,000 private and commercial clients via a centrally controlled branch network and via online and mobile sales channels supplemented by a Customer Care Center.

In 2018 the role as a hybrid bank was further expanded. The retail business model was strengthened through investments in digital technologies.

Thus, our customers enjoy a high degree of flexibility – they can conveniently decide whether they want to make use of our branch network or our mobile consulting service. In addition, our attractive digital offer can be used independently of banking hours. The further expansion and development of the digital value chain offers our customers the opportunity to handle banking transactions even faster and easier.

Business development in 2018

The results were characterized by the following focus areas:

- Growth in housing loans business (+52.6 percent)
- significant growth in consumer loans business (+101.2 percent)
- Expansion of digital services
- productivity gains
- Use of new products
- Growth in customer deposits (+4.7 percent)

Growth in the customer loan business

In its core function as a competent advisor on financing, the branch division recorded significant growth rates.
In this area, a significant increase was achieved in the past financial year with a new business volume of approximately EUR 150 million. Customer demand for housing loans and consumer finance remains high. In general, new business in all product lines increased significantly year-on-year.

In 2018 a loan efficiency project was carried out in order to offer our clients improved service and faster decision processes. This objective was achieved by streamlining and optimization of internal processes. The consistent application of our risk strategy for retail business did not lead to any notable value adjustments in 2018.

Consistent continuation of digitization strategy

At the beginning of September, a paperless consumer loan following the hybrid approach and based on the online consumer loan was also offered in the branches.

The most important task was to focus the customer advisor's attention on the customer's needs. In order to achieve this ambition, the front-end enables the customer advisor to tailor the consumer loan very precisely to the customer's requirements. In addition, the focus was on providing the customer with a very transparent presentation of the services and costs associated with the loan. We have significantly reduced administrative activities or excessive data requirements, which limit the advisor's consulting time, by means of an extensive connection of the front-end to the core banking system. As a result, applying for a consumer loan in our branches has become much easier.
The follow-up handling processes are in the background and are largely automated.

The total processing time has been reduced by 75 percent with these steps and in the standard case the time-2-cash (from application to payment) is significantly less than half an hour. As a result, we succeeded in significantly increasing our business with consumer loans.

Online-Banking & App

The development of online banking and the App with customer-focused new functions continued in 2018. For example, the contact details of the individual customer advisor were integrated into online banking. The customer can use „service orders", for example, to change an address. With the introduction of comprehensive FAQs, customers can find answers to the most frequently asked questions about online banking and the App. Furthermore, the usability was increased by optimizing the navigation.

A further focus is the completion of the digital value chain. In addition to the successful introduction of the iLoans (online consumer loan), the introduction of the iMortgage Loan (online housing loan) is planned for 2019.

Growth in online savings deposits

The liquidity targets for 2018 were achieved with the Bank's own online savings products (online savings and online fixed-term deposits).

Product diversity through partnerships

The cooperation was intensified with Amundi Austria GmbH, one of the largest asset managers in Europe and one of the largest investment companies worldwide. The jointly launched fund, Anadi Global Selection, a mixed, globally diversified fund with which the investment portfolio for our clients could be extended by another interesting fund, was successfully marketed in 2018. Further Amundi funds supplemented the product range in 2018. Cooperation partners on the topic of Robo Advisory have been evaluated and are about to be concluded.

Since September 2018 there has been a new, very successful cooperation with Nürnberger Versicherung with a product in the form of a general insurance for the purpose of credit risk protection for personal loans. The risks of death, inability to work and unemployment can be covered with just a few clicks within the application process. The penetration rates as an additional or cross-selling product to the iLoan are >70 percent.

The cooperation agreements concluded in 2017 in the areas of factoring (Autobank) and movables leasing (abcfinance) were successfully continued.

Fit 4 MiFID II

In order to be equipped for all regulatory requirements in the future as well, an internal project was carried out on the topic of MiFID II (Markets in Financial Instruments Directive). The project was successfully completed in a timely manner before the new provisions entered into force.

Focus on the customer

Last but not least, customer satisfaction is an important concern for us. The Customer Care Center is always receptive to the customers' concerns. In 2018, approximately 138,000 calls were received. Around three-quarters of the customer requests could already be resolved in a satisfying manner in the first telephone call.

2.4 Corporate Banking

In 2018, the Corporate Banking division consistently pursued its focused market positioning and is fulfilling its market claim of a competent principal bank for medium-sized companies, especially owner-managed companies, very well. The financing volume reached a new record high of around EUR 285 million in new business, documenting the high level of customer confidence in the Bank and its employees. Despite not inconsiderable repayments due to the low interest rate environment, loans to corporate customers also reached a new high of around EUR 640 million.

The Corporate Banking division bundles both the Bank's corporate customer business and its real estate business, whereby the different needs of both customer groups are very consistently taken into account here. The highest process efficiency and decision-making speed in the core offerings and thus the shortest „time to market" are seen as essential success factors to ensure sustainable growth.

Real Estates

In the real estate segment, the Bank continues to consistently expand its good relations with reputable project developers and is benefiting in particular from its high level of adherence to delivery dates and reliability in decision-making with regard to content. In this way, the company benefited to a high degree from positive customer recommendations already in 2018 and will consistently develop this further as a decisive success criterion in 2019. The high level of customer satisfaction with the Bank's structuring expertise in this area is to be emphasised. On the one hand, this ensures the highest possible individualisation of financing solutions for customers, while at the same time ensuring that the Bank's lending policy is consistently aimed at minimising risk.

Corporate clients

In consideration of current market developments, customers particularly appreciate the very personal, competent and, above all, reliability-based support competence of the company's employees. In the spirit of a focused niche policy, the Bank has deliberately avoided competition on terms and conditions, some of which was purely aimed at expanding market share and has focused much more on deepening existing relationships and solving more complex financing requirements. Anadi Bank will continue to focus on this path in 2019 and further expand its position as a solution-oriented bank for entrepreneurs. In addition to traditional investment financing, 2018 also saw a particularly pleasing development in guarantee business, with the Bank benefiting strongly from its high level of expertise in project-based financing situations.

Overall, Corporate Banking was able to continue its risk-aware growth strategy very satisfactorily in 2018 and will build on strong customer relationships characterized by mutual trust in the coming years. Core topics for 2019 will be in particular the even stronger emphasis on the company's competencies in export and documentary business, but also a stronger focus on special entrepreneurial situations, such as the technical structuring of entrepreneur succession situations or the acquisition of companies in the medium-sized sector.

Austrian Anadi Bank will also enter the market in 2019 as an innovation with a digitised online credit offer for SME customers and further underpin its unique selling proposition as a modern Austrian hybrid bank. With its promises of personal customer focus, competence, punctuality and reliability, Corporate Banking is ideally equipped for the coming years on the basis of a very strong 2018 result and continues to focus on solid, risk-aware growth.

2.5 Public Finance

Despite the continued increase in 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 100 Carinthian municipalities in 2018 thanks to its market presence and excellent service. Outside Carinthia, more than 600 public entities trust in the services of Anadi Bank. Due to the competition in terms and conditions, the focus was deliberately not on growth, but limited to financing activities in the Carinthian region. This led to a 14.8 percent reduction in the financing volume in 2018.

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 again handled 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 past 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 loans 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 investment („individual fixed-term deposits") were also used as a tailor-made alternative 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 2019, the Public Finance segment will continue to support its customers as a strong and competent partner beyond the borders of Carinthia in both the financing and investment areas. High-quality consulting and a maximum degree of security in investments remain the focus of the business strategy.

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 2018 was on optimising the funding structure and meeting regulatory requirements (e.g. MiFID II, MiFIR etc.).

The Mortgage Bond Programme rated by S&P was updated further in the year under review. As a result, AA-rated mortgage bonds could continue to be offered to other capital market participants and capital market funding generated. At the end of the year, a supplementary capital issue in the form of a private placement was successfully issued to an institutional investor in order to strengthen the capital base.

3. BUSINESS DEVELOPMENT OF ANADI BANK

The positive growth trend of the second half of 2017 continued throughout the reporting year 2018. Driven by the pleasing development of new business in the core segments of Retail and Corporate, loans and advances to customers increased substantially by EUR 137.5 million over the previous year. Due to the continued challenging market environment (low interest rate environment, increased regulatory requirements), the strategic focus continues to be on optimising the use of capital and increasing cost efficiency. The developments are explained in detail below.

3.1 Balance sheet development

As at 31 December 2018, Anadi Bank had total assets of EUR 3,072.3 million (2017: EUR 2,893.5 million). The main reason for the EUR 178.8 million increase compared to the previous year was the pleasing development of new business in the core segments Retail and Corporate, whereas in the Public Finance segment the new business volume declined due to the competition on terms and conditions and the associated focus on the Carinthian market. Net loans and advances to customers increased by EUR 137.8 million to EUR 2,166.5 million (2017: EUR 2,028.7 million).

Asset Quality 2018 also improved further compared to the previous year. In total, risk provisions amounted to EUR 30.0 million in 2018 (2017: EUR 32.3 million). This corresponds to around 1.4 percent of the total loan portfolio (2017: 1.6 percent). The non-performing loan ratio is 2.1 percent (2017: 2.8 percent).

The balance sheet item Treasury bills and debt securities including fixed-income securities relate exclusively to the liquidity reserve and amount to EUR 394.2 million (2017: EUR 473.5 million), representing a net outflow of EUR 79.3 million. Due to sufficient cover, repayments were not replaced in 2018.

Loans and advances to credit institutions amounted to EUR 422.9 million (2017: EUR 308.4 million). The increase of EUR 114.5 million was used for short-term investments.

The increase in the balance sheet item Shares and other variable-yield securities to EUR 14.5 million (2017: EUR 0.0 million) is mainly due to the purchase of investment funds for own long-term investments.

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

On the liabilities side, primary funds (customer deposits and own issues) reached EUR 2,328.2 million (2017: EUR 2,222.8 million). The development of customer deposits was pleasing, increasing by EUR 143.2 million to EUR 1,670.3 million (2017: EUR 1,527.1 million). The net decrease in own issues from EUR 37.6 million to EUR 657.9 million (2017: EUR 695.5 million) results from regular issuance maturities, while new issues in the year under review amounted to EUR 44.8 million.

The Bank's loan/deposit ratio (loans in relation to primary funds) is 93.1 percent (2017: 91.3 percent).
The LCR was 172.4 percent (2017: 308.7 percent) and the NSFR 117.9 percent (2017: 116.8 percent) as at 31 December 2018 in line with the minimum requirements.
The Bank's leverage ratio was 5.1 percent on 31 December 2018 (2017: 5.4 percent), and hence all ratios are well above the Basel III minimum requirements.

Liabilities to credit institutions amounted to EUR 518.4 million (2017: EUR 467.3 million).

The increase of EUR 51.1 million is mainly due to the short-term availability of refinancing.

To optimise the capital structure, a supplementary capital issue in the amount of EUR 25.0 million (2017: EUR 0.0 million), which is eligible as Tier 2 capital, was successfully placed to an institutional investor in the year under review. The Bank has thus strengthened its capital base for further growth.

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

3.2 Own capital funds

The bank's own funds (Tier 1 capital reduced by deductions) according to CRR/CRD amounted to EUR 186.8 million (2017: EUR 160.3 million). The legally required minimum level of capital was EUR 92.6 million, resulting in a surplus of EUR 94.2 million (2017: EUR 81.1 million) and a coverage ratio of 201.7 percent (2017: 202.3 percent).

As at 31 December 2018, the common equity tier 1 (CET1) ratio was 14.0 percent (2017: 16.2 percent) in line with CRR/CRD requirements. The decline in the CET1 ratio is due to the Bank's satisfactory credit growth. The total capital ratio was 16.1 percent (2017: 16.2 percent) and is stable compared to the previous year due to the successful issue of supplementary capital.

The capital ratios are thus well above the regulatory minimum.

3.3 Profit and loss 2018

The significant growth in new business from the core business had a positive effect on the Bank's earnings. Net interest income reached EUR 33.3 million (2017: EUR 39.9 million). Adjusted for one-off effects (effects from premature swap closures mainly in connection with measures to optimise the interest rate profile in the amount of EUR +4.2 million (2017: EUR +14.9 million) and from other one-off effects in the amount of EUR +1.5 million in 2018, which mainly result from interest income from previous periods in connection with refinancing under the TLTRO II programme (Targeted Longer-Term Refinancing Operations), net interest income increased by EUR 2.6 million. The net interest margin (ratio of net interest income to average balance sheet total) was 1.19 percent (2017: 1.37 percent).

Net commission income, the result from commission income and commission expenses, amounted to EUR 15.3 million in the financial year (2017: EUR 13.3 million) and thus increased by EUR 2.0 million. This positive development is mainly attributable to commission income from higher new business volumes.

Other operating income amounted to EUR 2.1 million (2017: EUR 5.6 million). The decline is mainly due to the positive effects of the previous year, which resulted from the release of provisions from legal risks and profits from the book value of assets sold.

Operating income (net interest income, net commission income, net trading income and other income) thus amounted to EUR 51.7 million (2017: EUR 59.5 million) unadjusted for one-off effects in the past financial year.

Despite unforeseen expenses of EUR 0.4 million resulting from the update of the mortality schedule (calculated in accordance with AVÖ 2018-P), further efficiency improvements and strict cost management enabled operating expenses to be reduced by EUR 1.4 million to EUR 45.2 million (2017: EUR 46.6 million).

The operating result thus reached EUR 6.5 million (2017: EUR 12.9 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 amounted to EUR +0.2 million (2017: EUR -6.2 million). The changes mainly result from the lower net risk provisions compared to the previous year, the one-off effect from the repurchase of an own issue at market value (EUR -5.1 million) in 2017 and the sale of the warrant to „Entitlement to Payment of the Conditional Additional Purchase Price" derived from the KAF offer from 2016 to settle receivables against HETA Asset Resolution AG. This right was partially sold on the open market in the year under review, generating a profit of EUR 2.6 million.

The Profit on ordinary activities reached EUR 6.7 million in the reporting year (2017: EUR 6.7 million) despite significantly lower one-off effects.

Profit after tax for the 2018 financial year amounted to EUR 4.0 million (2017: EUR 5.2 million).

3.4 Key profit indicators

The cost/income ratio (relation of operating expenses to operating income) was 87.48 percent in 2018 (2017: 78.35 percent).

The return on equity before tax was 4.00 percent (2017: 4.03 percent), the return on assets before tax was 0.22 percent (2017: 0.23 percent).

In order to improve the comparability of the key figures RoE and RoA in a year-on-year comparison, the tax component was removed from the calculation basis. The Profit from ordinary activities is used as the new basis for calculation.

4. ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

4.1 Employees

As of 31 December 2018, Anadi Bank employed 337 people at 15 sites throughout Austria, which means a slight reduction of staff compared to the previous year (2017: 347 employees). As of 31 December 2018, 119 employees (2017: 129 employees) took advantage of the diverse flexible part-time models offered by the bank. This resulted in a level of employment of 295 FTE (2017: 301 FTE). 52.8 percent of employees are women (178 female employees as of 31 December 2018), measured in FTE, the portion corresponds to 50.2 percent.

For years Anadi Bank had committed itself to apprentice training. As of 31. December 2018 5 apprentices are being educated 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 employee.

4.2 Customers

Anadi Bank provides demand-oriented services as a reliable and competent partner in all financial matters to more than 58,000 customers. Entirely in accordance of a modern hybrid bank, there are different ways to carry out banking transactions simply and quickly.

Traditionaly, a customer can get 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 giro accounts to consumer loans as new or existing customers. Another additional digital product, housing loans, will be implemented at the beginning of 2019. Customers also have the option of contacting the Customer Care Center by telephone with their concerns and wishes. The Customer Care Center also supports customers in their online product transactions even outside opening hours and advises 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" engaged 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 color prints to a large extent.

For Anadi Bank it is important task to help fast and efficiently and to comply with its social responsibility. In this context, the bank organized a collaboration with "Lebenshilfe Carinthia" a "Day of Togetherness" in May 2018. The bank's employees and customers took part in the multi-faceted program, which included practical exercises such as "self-experience through mindfulness and meditation".

In addition, the bank has taken over four 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.

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 2018. This cultural initiative, which is unique in the Alpine-Adria region, supports high-quality music ensembles at impressive locations.

As a main sponsor, the bank supported the weekend charity event "Skirennen mit Herz" ("Ski racing with a heart"). The proceeds went to the foundation "Kindertraum" ("Children's Dream"). The foundation is an Austrian organization that has helped to fulfill the heart's desires of children and young people with a serious illness or disability in order to provide them with a strengthening and motivating experience since 1998.

4.4 Research and development

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

5. RISK MANAGEMENT

The taking over of risks within the scope of our business activities and the professional control and handling of these risks are among the core tasks of Anadi Bank.

Risk management tasks are carried out within the bank by the (operational) Credit Risk Management and by the 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 endowment. It was drawn up on the basis of 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 handling of the risks and ensures that decision-making processes result in balanced decisions under risk aspects. 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 the 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 organization

As a member of the Management Board of the bank, the Chief Risk Officer (CRO) is responsible for the adequate organizational 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:

- Implementation and management of the Internal Capital Adequacy Assessment Process (ICAAP)
- Development of methods and models for country risks, participation risks and other risks
- Credit risk parameterization (EaD, PD, LGD, correlation, PRP)
- Delivery of the credit risk data (risk data) for planning/budgeting

- Measurement of the credit and country risk, macroeconomic risk, property risk from real estate and other risks
- Limit determination and monitoring of bank, counterparty, issuer and country risks in compliance with the risk strategy
- Development of scenario stress tests and reverse stress test
- Internal and external risk reporting (Supervisory Board, FMA, OeNB, Federation)
- Core team member in NPNM processes ("new products – new markets" introduction processes)

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:

- Development and implementation of the risk inventory,
- 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 executed 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), country risks, participation risks, other risks
- Ongoing reporting / ad-hoc reporting of market and liquidity risks
- Regulatory risk reporting (FMA, OeNB)
- Measurement and analyis of the market and liquidity risks
- Limit determination, monitoring and escalation of market and liquidity risks
- Stress testing and back-testing for market and liquidity risks
- Control and safeguarding of the data quality (market conformity check) for the treasury business at individual position as well as portfolio level
- Middle Office service functions in connection with accounting standards according to Austrian GAAP (UGB), hedge efficiency measurement, fair value determination, calculation of CVA/DVA
- Cash collateral management for derivatives
- European Market Infrastructure Regulation (transaction register report, clearing, etc.)
- Measurement, analysis, monitoring and reporting of the OeNB interest rate risk statistics (ALM)
- Controlling of the liquidity reserve (haircut determination, derivation liquidity buffer, diversification)
- Liquidity contingency plan
- Determination of the Basel III liquidity ratio LCR and NSFR as well as asset encumbrance
- Development, implementation and reporting of the Additional Liquidity Monitoring Metrics (ALMM)
- Core team member in the product implementation process (NPNM) for market and liquidity risks

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

- Preparation, further development and updating of the AAB bank restructuring plan within the framework of BaSAG
- Performing the ICS functions for the entire division
- Development of methods and models for operational risks
- Participation in product implementation process (NPNM) for OpRisk

- Measurement, analysis, reporting and monitoring of operational risks
- Carrying out annual risk assessments with regard to operational risks
- Internal and External Reporting

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 done. Other tasks include the rating confirmation and the 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, is done. After a successful restructuring, the customers will be transferred again to the market departments. In the case of insolvencies, the insolvency proceedings will also be accompanied by the Workout team.
- 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 budget for provisions.
- Back Office: The 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 required pursuant to Section 39d of the BWG.

- Consulting on the current and future risk willingness 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 overall portfolio
- Segment control and risk limitation
- Early warning, event and recovery portfolio
- Risk Budget & Forecast (SRP, PRP)
- Watch list reporting
- Market risk trading book and banking book plus reporting pursuant to the Securities Supervision Act (WAG)
- Liquidity risk (including liquidity risk strategy, liquidity stress test, liquidity contingency plan)
- 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 2018 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 the Treasury, the equity requirements of Pillar I and II as well as the control of country limits.
- 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 the 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 (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 with a rating worse than 4A and all workout-cases of corporate clients with an obligation greater than EUR 250,000 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

ICAAP – Loss Given Default (LGD)

The existing ICAAP concept of Anadi Bank was revised with regard to the LGD estimation methodology for RRE and CRE to reflect a possible economic downturn adequately.

Basel III – Liquidity risk and liquidity risk management

To safeguard liquidity on a continuous basis, Anadi Bank holds cash reserves comprising freely available, short-term money deposits at the Austrian National Bank (OeNB). The bank also holds "liquidity portfolios" of highly liquid and central bank-compatible securities that can be sold at short notice or used as refinancing-compatible securities for monetary policy transactions with the central bank.

The liquidity-relevant requirements pursuant to Basel III have been implemented and the key ratios LCR (Liquidity Coverage Ratio), NSFR (Net Stable Funding Ratio) and Asset Encumbrance are being reported in line with regulations. Work also continued on the implementation of the Additional Liquidity Monitoring Metrics (ALMM) and the new requirements were implemented. Therefore, the entire report can be carried out according to regulations.

European Market Infrastructure Regulation (EMIR)

To meet the EMIR specifications, the bank has dealt with the following aspects:

- Central Counterparty Clearing (CCP) of standardized OTC derivative contracts via a clearing broker of the London Clearing House (LCH)
- Timely reporting of all traded OTC and ETD derivative contracts to a transaction register including collateral and valuation update reports
- Ongoing further development of the transaction register report pursuant to the regulatory requirements
- Implementation of the adjusted specifications pursuant to the technical regulation standards (RTS) and implementation standards (ITC) revised by ESMA and to be applied since 1 November 2017.

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 perspective (continuation) and the Gone Concern perspective both for Anadi Bank on a stand-alone basis as well as 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 in the trading book
  - Credit spread risk in the trading book
  - FX risk in the trading book
  - Share price risk in the trading book
  - Interest rate risk in the banking book
  - Credit spread risk in the banking book
  - FX risk in the banking book
  - Share price risk in the banking book
  - Market price risk for the fund risk or the risk from alternative investments in the banking book
- Liquidity risk
- Operational risk (since 2018 incl. ICR-Risks)
- 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 done on a monthly basis. The liquidity risk reporting is done 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 intended 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 done 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 the 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 form 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 their volume, credit risks are the most significant risks 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 on the side of the unexpected loss (UL).

As an adjustment of the residual term is not explicitly envisaged in the IRB formula for retail portfolios, the migration risks for retail receivables must be handled separately. They are 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 also for the credit substitute business, securities (assets) and derivatives (incl. add-on) in the bank book and in the bank's trading book. 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

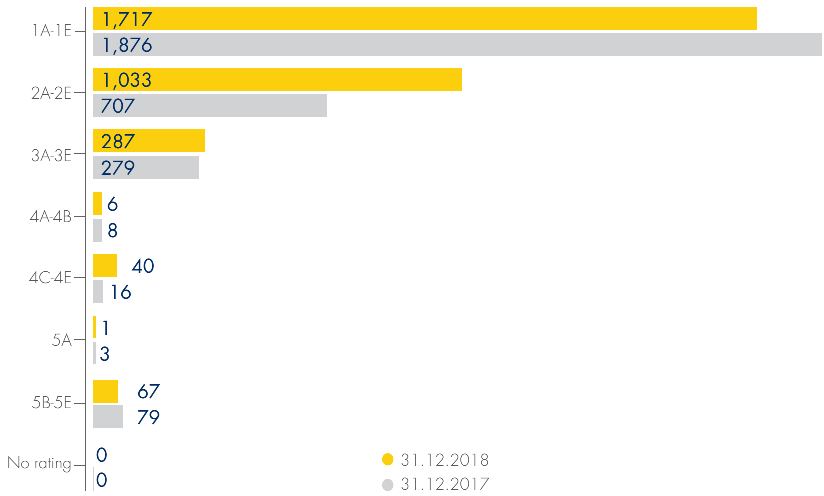
The limit system for the VaR limits is static, i.e. no previous risks affecting performance results will be offset against the VaR limits. Thus there is no dynamic development of the limits based on the accrued performance values. Risks that materialize from the past have an indirect effect on the limit 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 value-at-risk limits.

Distribution of the exposure

In the reporting year the bank's exposure fell by EUR 185.7m or 6.3 percent respectively compared to the previous year. In total, there are free lines in the loan and credit sector of around EUR 174.4m.

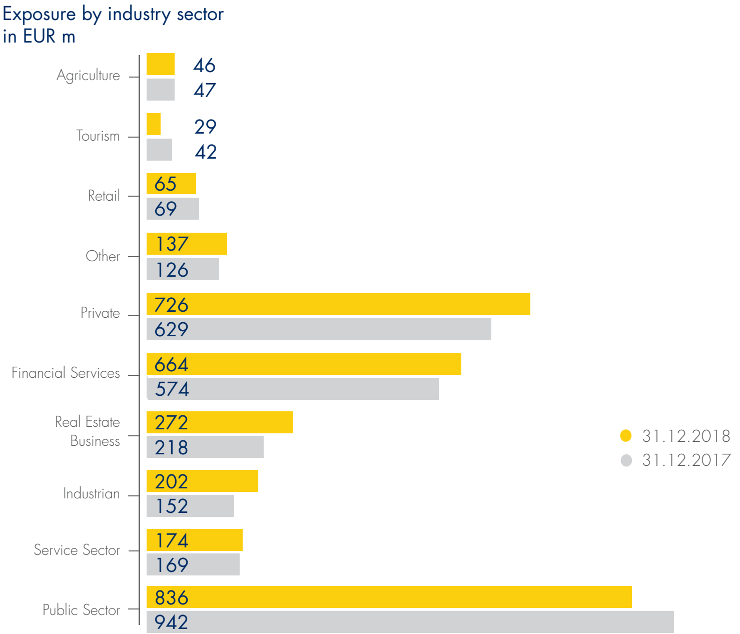
Exposure by rating classes

Exposure by rating classes
in EUR m



Around 87.3 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 2.1 percent based on the total assets. After consideration of recoverable collaterals in the amount of EUR 20.6m, there is a blank exposure of EUR 47.0m. This exposure was covered by adequate provisions.

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 47.6 percent. The well-diversified sector Private customers made up 23.0 percent.

Exposure by loan size

Loan Size in EUR m	31.12.2018	31.12.2017
< 10,000	23	22
10,000–20,000	19	16
20,000–50,000	54	39
50,000–100,000	76	74
100,000–250,000	363	335
250,000–500,000	246	210
500,000–1,000,000	119	117
1,000,000–3,500,000	369	346
3,500,000–10,000,000	577	488
10,000,000–50,000,000	626	402
50,000,000–100,000,000	262	470
>100,000,000	417	449
Total	3,151	2,968

Around 58.6 percent of the exposure are in a range < EUR 10m. A predominant percentage of EUR 1.3bn in the area > EUR 10m 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, currency and share price risks as well as risks from funds/alternative investments. 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) area is responsible for the monitoring of all market price risks.

All market price risks are centrally monitored by the trading-independent unit SRM. The control of the interest rate risk is done on an institutionalized basis, in compliance with the supervisory law requirements of the interest rate risk statistics. The ALCO (Asset Liability Committee) that comprises the Management Board and managing employees in the Treasury & Investor Relation areas, the Strategic Risk Management and Finance & Accounting, analyses and decides during regular meetings on measures for balance sheet structure and liquidity control.

The market price risk of Anadi Bank is differentiated in the banking book according to various sub-risk types. A risk measurement is also carried out in the trading book. The risks from trading book and banking book are assumed to be additive, i.e. no diversification effects are taken into account between these two books.

Risk measurement in the banking book

The risk measurement is done separately for the sub-risk types interest rate risk, credit spread risk, FX risk, share price risk and risk from funds/alternative investments. 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. The risk measurement is done in static form, i.e. a potential loss in value is determined on the risk side that occurs under an ad-hoc shift in the risk factors without a reduction in the residual term. The risk measurement calculates the loss potential on the initial cash values that are included in the risk coverage potential (consistent consideration of balance sheet items and hidden reserves/charges in risk coverage potential and risk). Diversification effects are taken into account within the sub-risk types: with the interest rate risk over the term bands of the interest rates, with the FX risk via the relevant exchange rates and with the credit spread risk via the credit standing-specific credit spread structures. 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.

Risk measurement in the trading book

In the trading book, the sub-risk types interest rate risk, credit spread risk, currency rate risk and share risk are quantified. The interest rate change risks in the trading book are depicted under an entirely cash-value perspective. The risk measurement is done via the value-at-risk approach. For this purpose, a risk horizon of one day below 99.0 percent confidence level is viewed. The risk value on this risk horizon is converted based on the root law to the corresponding risk horizon relevant for the RBC of 250 trading days (1 year) and taking into account the normal distribution assumption to a confidence level of 99.9 percent and taken into account in the Gone Concern risk-bearing capacity. Diversification effects between sub-risk types are not considered in the trading book. The risks of the sub-risk types, with the exception of currency risk, which is determined within the framework of the banking book for the entire open currency position, are added together for the risk-bearing capacity concept.

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 129,327.00 per day at the end of the year 2018, with a confidence interval of 99 percent. It comprises the VaR of the banking book in the amount of EUR 90,088.19 and the VaR of the trading book in the amount of EUR 3.86.

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 not even nearly in danger of being reached or exceeded at any point in the year. As of 31 December 2018, the utilization amounted to 2.44 percent (2017: 3.03 percent).

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

Foreign currency risk

The management of foreign currency risks 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 2018, the VaR of foreign currency risks amounted to EUR 2,131.98 with a confidence level of 99 percent and a holding period of 1 day.

Credit spread risk

The bank-internal credit spread risk was around EUR 103,917.97 at the end of the year with a daily VaR and 99 percent confidence interval. The biggest influencing factor is the holding of a liquidity reserve in the form of securities. There is thus very limited scope for action to reduce risk from these positions.

Share price risk

As of 31 December 2018, there was no share price risk at Anadi Bank.

Risk from funds/alternative investments

The risk from funds/alternative investments amounted to EUR 25,168.11 as at 31 December 2018 with daily VaR and 99 percent confidence level. As at the reporting date, the portfolio consisted exclusively of fund positions.

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. Within the market price risk limitation, the main ledgers trading book and bank book as well as other sub-books are differentiated.

The following operational limits are defined for the aforementioned books:

- 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 done 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 checked during the risk analysis and/or assessment. The limit utilization and/or the risk status is sent in various internal reports to the respective addressees. In addition to internal reports, the supervisory law 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 viewed 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 2018, the LCR of Anadi Bank was 172.4 percent (2017: 308.7 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 done 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 done 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 for the Intraday liquidity risk and the early-warning and contingency indicators. Finally, there is a limiting of the LCR, whereas solely an internal warning limit is currently 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 not included.

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 risks 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 2018 risk inventory:

- Property risk
- Macroeconomic risk
- Model risk credit risk
- Model risk market price risk measurement
- Business, reputation and regulatory risk
- Leverage ratio risk
- Equity Risk
- ICT risk (5 sub-risk types): ICT availability and continuity risk, ICT security risk, ICT change risk, ICT data integrity risk, ICT outsourcing 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 modeling of the LGD distribution.

Model risk market price risk measurement

The quantification of the model risk of the market price risk models is done 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)

The Directive (EU) 2015/2366 entered into force on 18 January 2016 and is to be implemented by the Member States into national law by January 13, 2018.

As a result of our local circumstances (new elections, formation of the government), the national law „ZaDiG 2018“ was finally passed by the National Parliament in March 2018 and became applicable on 01.06.2018.

If an EU Directive is not implemented by the Member States into national law or if it is not implemented in full or with a delay, the affected party can invoke the EU Directive directly before the national courts.

On the basis of these legal boundary conditions, the directly necessary amendments were made pursuant to the EU Directive.

The resulting need for technical adjustment (expansion of the area of application, restriction in the exception provisions, strong customer authentication) will be implemented jointly with our partner banks in the ARZ Data Center Association.

Appropriate risk reduction measures and control mechanisms have been carried out at the bank to manage the operational and security-relevant risks. All precautionary measures have also been taken to comply with the reporting obligation to the responsible authority from the point in time when the national law becomes valid, in the event of a serious operational or security incident.

Towards the customer, the general terms and conditions, the customer guidelines for the card service and for the contactless function as well as the ZaDiG information brochure were adapted and made available when the national law came into force.

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 2018, the Supervisory Board comprises the following members explained in more detail in Schedule 1:

Srinivasan Sridhar (Chairman)
Dr. Sanjeev Kanoria (Deputy Chairman)
Hemant Kanoria
Dr. Franz Markus Nestl
Mag. Gabriele Oberlercher (works council)
Barbara Perchtold (works council)

The Supervisory Board watches over 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).

According to the Articles of Association, the Supervisory Board meets at least once a quarter, whereby further meetings can be convened as required. In 2018, the Supervisory Board met a total of five 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. Mr. Christoph Raninger, a banking expert with many years of international experience, acts as the Chairman of the Board.

The Management Board comprises the following members explained in more detail in Schedule 1:

Mag. Christoph Raninger (Chairman, CEO and CFO)
GaneshKumar Krishnamoorthi
Mag. Franz Reif (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 organizationally implemented.

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 checks, 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 2018

All processes identified as ICS-relevant, which serve to ensure a proper operational sequence, were entered into the ICS tool.

Risk-relevant processes and activities were continuously evaluated for each division and subjected to a risk analysis using the Anadi Bank risk catalogue. On the basis of the risk analyses, key controls were defined, which are to be carried out periodically and, if necessary, require corrective action. The ICS is therefore integrated into the business processes and is exercised at all levels.

Internal controls are measures derived from the monitoring and assessment of risks. In this way, the ICS contributes to ensuring compliance with corporate objectives.

Based on this, reports on risks, controls, frequency of controls and effectiveness are prepared and communicated periodically within the bank.

8. LEGAL, COMPLIANCE & REGULATORY AFFAIRS

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

- The Legal area that deals with all legal issues that concern the bank internally and externally.
- The Compliance area 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 on their 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 support of the internal specialist departments and of the Management Board in all legal matters;
- Representation of the bank in external committees and associations;
- Monitoring of compliance with and implementation of regulatory, supervisory law and legal requirements;
- Point of contact of the Austrian Financial Market Supervisory Authority (FMA) and OeNB (single point of contact);
- Position of the independent money laundering officer, the independent compliance officer, the anti-fraud officer, the customer asset protection officer under WAG 2018 („Safeguarding Officer") and the FATCA officer,
- Monitoring of legal amendments and developments in the judicature;
- Support in the creation of internal instructions and regulations;
- Training of bank employees.

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.

The Internal Audit department acts as the "third line of defense" 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
- Quality of the strategy and management information submitted to the Management Board and the Supervisory Board
- Risk and control structure of the company
- Procedure for handling the most important credit, capital and liquidity risks
- Major changes in business processes and the introduction of new products, markets and services
- Aptitude, efficiency and sustainability of action plans

The frequency and the extent of the internal audits are determined on the basis of the permanent risk assessment. The plans are regularly reviewed by the Audit Committee. The plan decided upon for 2018 was implemented with regard to all fundamental audit areas.

The Head of the Internal Audit department regularly reports to the Management Board and to the Chairman of the Audit Committee and its members.

10. OUTLOOK

In 2018, Anadi Bank was able to further successfully establish itself in the market as a smart hybrid bank for private customers and SMEs and has grown from a regional bank in Carinthia to a supra-regional hybrid bank. With the continued strong development in both new loans and customer deposits, it has laid the foundation for the continued expansion of its business.

The bank will consistently further develop its hybrid banking strategy in three areas:

- Extending the digital value chain by expanding digital offerings and processes,
- Standardization of the core product portfolio in the sense of simplicity and therefore scalability, and
- Modernization of the branch network.

Based on this hybrid approach with a clear focus on digital innovation, the bank focuses on efficiency, quick decision-making and simplicity combined with the highest quality standards in its clearly defined services. The Bank thus considers itself well positioned as a challenger to larger competitors in its home market.

The Bank is examining concepts for further expansion into new markets via „Hybrid Rep Offices". A simple SME front-end platform will enable standardized input of customer and core business parameters, which will be processed directly in the bank's existing systems. A team of local sales staff („Rep Officers") can then concentrate fully on generating customer business. This concept allows entry into target markets without the need to build expensive infrastructure or overcome complex regulatory hurdles. In addition, Anadi Bank is evaluating cooperation with so-called „market places", i.e. online auction platforms for credit segments, which could facilitate additional asset growth.

The bank works continuously on further improving performance and efficiency. Processes and workflows are optimized through the use of digital possibilities in order to significantly increase profitability. Examples of this include: the contracts for the opening of accounts will be revised with the aim of minimising paperwork and the necessary number of signatures; the core product portfolio will be streamlined in terms of simplicity and thus better scalability; a digital tool will make the account opening process easier. There is also ongoing work on new online offerings, such as iSME Loan for SMEs, iMortgage Loan or fully automated bank guarantees.

The historic period of low interest rates in the euro zone and thus a challenging macroeconomic environment for banks will continue in 2019. Regulatory pressure will remain high. Although the peak economic levels are already behind us, the economic outlook remains positive, which will support Anadi Bank's promising growth path. The bank's goal here is to maintain the momentum in increasing customer business volumes. The bank will exploit the advantages it has over its larger competitors as a small agile bank. Efficient processes, high decision-making speeds and great innovative strength set the bank apart from the market and will continue to be the success factors.

Klagenfurt am Wörthersee, on 26.03.2019

The Management Board

GD Mag. Christoph Raninger m.p.

VDir. Mag. Franz Reif m.p.

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

FINANCIAL STATEMENTS 2018

BALANCE SHEET

ASSETS			31.12.2018 EUR	31.12.2017 TEUR
1.	Cash in hand, balances with central banks and post office banks		28,283,924.90	25,365
2.	Treasury bills and other bills eligible for refinancing with central banks treasury bills and similar securities		205,725,776.34	225,716
3.	Loans and advances to credit insititutions			
	a) repayable on demand	422,852,501.64		303,386
	b) other loans and advances	0.00		5,000
			422,852,501.64	308,386
4.	Loans and advances to customers		2,166,458,138.09	2,028,744
5.	Debt securities including fixed-income securities issued by other borrowers		188,522,664.83	247,741
	showing separately:			
	own debt securities EUR 47,807,466.89			
	(previous year: TEUR 91,635)			
6.	Shares and other variable-yield securities		14,470,135.30	21
7.	Participating interests		3,219,939.25	3,220
	showing separately:			
	participating interests in credit institutions EUR 710,887.30 (previous year: TEUR 711)			
8.	Intangible fixed assets		369,448.54	410
9.	Tangible assets		10,812,551.09	11,284
	showing separately:			
	land and buildings occupied by a credit institution for its own activities			
	EUR 9,254,223.17 (previous year: TEUR 9,470)			
10.	Other assets		27,023,153.34	37,893
11.	Prepayments and accrued income		979,797.17	687
12.	Deferred tax assets		3,561,626.00	4,044
Total assets			3,072,279,656.49	2,893,511
1.	Foreign assets		546,610,988.59	464,144

EQUITY AND LIABILITIES			31.12.2018 EUR	31.12.2017 TEUR
1.	Liabilities to credit institutions			
	a) repayable on demand	8,405,699.20		18,689
	b) with agreed maturity dates or period of notice	510,000,000.00		448,600
			518,405,699.20	467,289
2.	Liabilities to customers (non-banks)			
	a) saving deposits	475,223,775.98		482,460
	showing separately:			
	aa) repayable on demand EUR 158,488,311.79 (previous year: TEUR 122,500)			
	bb) with agreed maturity dates or period of notice EUR 316,735,464.19 (previous year: TEUR 359,959)			
	b) Other Liabilities	1,195,119,015.48		1,044,681
	showing separately:		1,670,342,791.46	1,527,141
	aa) repayable on demand EUR 928,811,604.31 (previous year: TEUR 698,759)			
	bb) with agreed maturity dates or period of notice EUR 266,307,411.17 (previous year: TEUR 345,922)			
3.	Securitised liabilities			
	a) debt securities issued		657,853,989.23	695,536
4.	Other liabilities		12,707,749.16	14,232
5.	Accruals and deferred income		559,666.54	729
6.	Provisions			
	a) provision for severance payments	6,712,519.00		6,245
	b) provisions for pensions	5,934,196.00		5,571
	c) provisions for taxation	357,000.00		0
	d) other provisions	7,819,516.76		10,736
			20,823,231.76	22,551
7.	Tier 2 capital pursuant to Part Two, Title I, Chapter 4 of Regulation (EU) No. 575/2013		25,039,062.50	0
8.	Subscribed capital		30,000,000.00	30,000
9.	Capital reserves			
	a) committed	82,008,562.42		82,009
	b) uncommitted	323,552.95		324
			82,332,115.37	82,333
10.	Retained earnings			
	other reserves		13,203,908.56	11,508
11.	Liability reserve pursuant to Article 57 para. 5 BWG		36,995,640.00	36,996
12.	Net profit or loss for the year		4,015,802.71	5,196
Total liabilities			3,072,279,656.49	2,893,511

OFF BALANCE SHEET ITEMS: EQUITY AND LIABILITIES		31.12.2018 EUR	31.12.2017 TEUR
1.	Contingent liabilities showing separately: b) Guarantees and assets pledged as collateral security	86,440,850.17	69,639
2.	Commitments	189,508,000.00	154,657
3.	Commitments arising from agency services	9,097,633.41	16,076
4.	Eligible capital in accordance with Part Two of Regulation (EU) No. 575/2013, thereof Tier 2 capital pursuant to Part Two, Title I, Chapter 4 of Regulation (EU) No. 575/2013	186,839,087.88 24,740,250.00	160,326 0
5.	Own Funds requirements as defined in Article 92 of Regulation (EU) No. 575/2013,	1,158,076,229.13	989,756
	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	14.00%	16.20%
	b) Tier 1 capital ratio	14.00%	16.20%
	c) Total capital ratio	16.13%	16.20%
6.	Foreign liabilities	140,184,500.22	183,568

PROFIT AND LOSS ACCOUNT

				01.01.–31.12 2018 EUR	01.01.–31.12 2017 TEUR
1.	Interest receivable and similar income [1] showing separately: from fixed-income securities EUR 5,243,403.10 (previous year: TEUR 9,469)			52,638,921.84	70,356
2.	Interest payable and similar expenses [1]			(19,313,770.37)	(30,491)
I. Net interest income				**33,325,151.47**	**39,864**
3.	Income from securities and participating interests				
	a) income from shares and other variable-yield securities		92,799.00		0
	b) income from participating interests		355,155.00		36
	c) income from shares in affiliated undertakings		0.00		0
				447,954.00	36
4.	Commissions receivable			18,756,778.58	16,354
5.	Commissions payable			(3,500,716.20)	(3,075)
6.	Net profit or net loss on financial operations			558,882.33	735
7.	Other operating income			2,101,859.42	5,623
II. Operating income				**51,689,909.60**	**59,537**
8.	General administrative expenses				
	a) staff costs				
	aa) wages and salaries	(20,092,780.11)			(20,572)
	bb) expenses for statutory social contributions and compulsory contributions related to wages and salaries	(5,574,010.05)			(5,521)
	cc) other social expenses	(303,475.23)			(309)
	dd) expenses for pensions and assistance	(1,140,166.27)			(1,066)
	ee) allocation to provision for pensions	(363,393.00)			(150)
	ff) expenses for severance payments and contributions to severance and retirement funds	(1,224,498.57)			(1,130)
			(28,698,323.23)		(28,748)
	b) Other administrative expenses		(15,326,167.59)		(16,158)
				(44,024,490.82)	(44,905)
9.	Value adjustments in respect of asset items 8 and 9			(1,003,206.93)	(1,230)
10.	Other operating expenses			(190,693.48)	(511)
III. Operating expenses				**(45,218,391.23)**	**(46,646)**
IV. Operating result				**6,471,518.37**	**12,891**
11./12.	Value adjustments and re-adjustments in respect of loan and advances and provisions for contingent liabilities and for commitments			(2,463,600.87)	(6,308)
13./14.	Value adjustments and re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings			2,655,800.00	107
V. Profit or loss on ordinary activities				**6,663,717.50**	**6,690**
15.	Extraordinary expenses			0.00	0
16.	Extraordinary result			0.00	0
17.	Tax on profit or loss			(1,135,983.47)	93
18.	Other taxes not reported under item 17			(1,511,931.32)	(1,586)
VI. Profit for the year after tax				**4,015,802.71**	**5,196**
19.	Changes in reserves			0.00	0
VII. Net income for the year				**4,015,802.71**	**5,196**
20.	Profit brought forward			0.00	0
VIII. Net profit for the year				**4,015,802.71**	**5,196**

[1] In the reporting year 01.01.2018 to 31.12.2018, the income and expenses from hedging derivatives are reported in the income statement item in which the income or expenses from the underlying transaction are also reported. Previously, they were reported gross in P&L item 1 „ Interest receivables and similar income „ and P&L item 2 „ Interest payable and similar expenses". The previous year's figures were adjusted in the same way in the P&L items mentioned above.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2018

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.

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 liability of EUR 150,000.00 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 liability of EUR 150,000.00, 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 checks 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 1.764 percent (31.12.2017: 2.032 percent) and a pension growth rate of 2.00 percent (31.12.2017: 2.00 percent).

Provisions for severance payments and **provisions for anniversary bonuses** disclosed under other provisions were calculated applying an interest rate of 1.764 percent (31.12.2017: 2.032 percent) and an assumed salary increase rate of 2.75 percent p.a. (31.12.2017: 2.00 percent). For severance payments a fluctuation discount of 0.00 percent (31.12.2017: 0.00 percent) was applied. For the 2018 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.

In the year under review, the provisions for pension obligations, severance payments and anniversary bonuses were calculated according to the parameters of the new calculation basis in accordance with the „AVÖ 2018-P neue Sterbetafeln" (Aktuarvereinigung Österreichs) published on August 15, 2018. The one-off higher difference between the new basis of calculation and the old basis of calculation amounts to EUR 390,399.00. No use was made of the authorisation to distribute this difference over a maximum period of five years in accordance with the Austrian GAAP (Override-VO).

The **provision for unused holidays** was based on the actual vacation days per employee as at 31.12.2018.

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. Derivatives with a negative market value, which are not declared to hedge accounting as wells 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

In accordance with AFRAC Statement 15 „Derivatives and hedging instruments (UGB)", income and expenses from a derivative that is in a hedging relationship are reported in the same income statement item as the income and expenses from the underlying transaction as of 1 January 2018. Previously, they were reported gross under interest income or expenses.

NOTES TO THE BALANCE SHEET

1. MATURITIES OF BALANCE SHEET ITEMS

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

		31.12.2018	31.12.2017
A3.	Loans and advances to credit institutions	422,852,501.64	308,386
	– payable on demand	422,852,501.64	303,386
	– up to three months	0.00	0
	– three months to one year	0.00	5,000
	– one year to five years	0.00	0
	– over five years	0.00	0
A4.	Loans and advances to customers	2,166,458,138.09	2,028,744
	– payable on demand	89,980,722.30	99,345
	– up to three months	110,305,553.49	98,020
	– three months to one year	208,633,622.88	209,277
	– one year to five years	721,262,306.18	613,938
	– over five years	1,036,275,933.24	1,008,164
P1.	Liabilities to credit institutions	518,405,699.20	467,289
	– payable on demand	8,405,699.20	18,689
	– up to three months	267,000,000.00	205,000
	– three months to one year	0.00	600
	– one year to five years	243,000,000.00	243,000
	– over five years	0.00	0
P2.	Liabilities to customers	1,670,342,791.46	1,527,141
	– payable on demand	1,087,299,916.10	821,260
	– up to three months	161,296,275.15	133,054
	– three months to one year	287,238,665.00	352,939
	– one year to five years	111,021,037.76	183,759
	– over five years	23,486,897.45	36,129

2. SECURITIES INCLUDING ACCRUED INTEREST

		31.12.2018	31.12.2017
A2.	Treasury bills and other bills eligible for refinancing with central banks	205,725,776.34	225,716
	thereof listed	205,725,776.34	225,716
	thereof fixed assets	194,056,873.36	214,823
	thereof accrued interest in fixed assets	1,581,524.37	2,897
	thereof current assets	10,085,950.00	7,996
	thereof accrued interest in current assets	1,428.61	0
A4.	Loans and advances to customers	80,768,240.18	86,821
	thereof not listed	80,768,240.18	86,821
	thereof fixed assets	80,267,654.87	86,253
	thereof accrued interest in fixed assets	500,585.31	568
A5.	Bonds and other fixed-income securities	188,522,664.83	247,741
	thereof listed	140,715,197.93	156,106
	thereof not listed	47,807,466.90	91,635
	thereof fixed assets	134,006,510.00	154,391
	thereof accrued interest in fixed assets	1,175,372.25	1,715
	thereof current assets	53,276,048.08	91,581
	thereof accrued interest in current assets	64,734.50	54
A6.	Shares and other variable-yield securities	14,470,135.30	21
	thereof listed	0.00	0
	thereof not listed	14,470,135.30	21
	thereof fixed assets	14,470,135.30	0
	thereof current assets	0.00	21
A7.	Participating interests	3,219,939.25	3,220
	thereof not listed	3,219,939.25	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 31.12.2018	Write-downs until 31.12.2018	Reversal of impairment 31.12.2018
Germany	19,000,000	19,085,950.00	52,450.00	0.00
Belgium	6,000,000	6,000,000.00	0.00	0.00
Austria	74,000,000	73,738,100.00	0.00	0.00
France	39,690,000	38,527,673.36	32,500.00	0.00
Netherlands	7,000,000	6,982,500.00	0.00	0.00
European Union	60,000,000	59,808,600.00	0.00	25,950.00

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

	31.12.2018	31.12.2017
Issued by others (without public authorities)	188,522,664.83	247,741
thereof:		
Own issues	47,807,466.89	91,635
Foreign bonds (credit instituions)	60,565,485.28	75,107
Mortgage bonds and municipal bonds	75,902,644.17	68,241
Other bonds	4,247,068.49	12,758

2.3 Other Disclosures Relating to Securities

In 2019 fixed-income securities from the bank's own holdings in the amount of EUR 158,502,458.28 (2018: TEUR 129,403) (euro-denominated securities) and EUR 0.00 (2018: 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 141,310,899.00 (31.12.2017: TEUR 158,749), of which EUR 137,806,384.00 (31.12.2017: TEUR 155,694) were pledged as of the balance date.

As in the previous year, there were no subordinated securities as at 31.12.2018, as per Section 45(2) of the BWG.

The trading book comprises the following volume as at 31 December 2018:

	31.12.2018	31.12.2017
Forward exchange transactions (nominal value)	301,964.97	0
Interest swaps (nominal value) and interest rate contracts	23,420,130.76	115,256

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

	Carrying amount 31.12.2018	Losses not yet recognised 31.12.2018	Carrying amount 31.12.2017	Losses not yet recognised 31.12.2017
Bonds and other fixed-income securities	0.00	0.00	18,000	–1
Investments in associated companies	14,470,135.30	–284,329.40	0	0
Total	14,470,135.30	–284,329.40	18,000	–1

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

The bank checks 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 2019, issued bonds as defined in Section 64 (1) (7) BWG with a value of EUR 15,609,089.65 (2018: TEUR 82,383) will be become due in Anadi Bank.

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 31.12.2018 is EUR 2,504,491.17 (31.12.2017: TEUR 2,504).

4. OTHER ASSETS

The breakdown of other assets is as follows:

	31.12.2018	31.12.2017
Other assets	27,023,153.34	37,893
– thereof payable after the balance sheet	*4,476,303.87*	*12,368*
– thereof with a residual term > 1 year	*22,546,849.47*	*25,525*
Interest receivable	725,488.14	40
Accrued income (upfront payment)	13,846,916.01	15,649
Offset claims	168,895.60	1,578
Receivables arising from FX measurement of banking book derivatives	0.00	6,162
Receivables from trading book derivatives	346,803.76	1,325
Deposits	8,353,129.70	8,234
Other receivables	3,581,920.13	4,905

5. OTHER LIABILITIES

The breakdown of other liabilities is as follows:

	31.12.2018	31.12.2017
Other liabilities	12,707,749.16	14,232
– thereof payable after the balance sheet	*10,249,826.88*	*10,007*
– thereof with a residual term > 1 year	*2,457,922.28*	*4,225*
Interest payable	280,775.28	392
Clearing account balances	6,661,274.54	5,912
Fees and levies	2,233,714.62	2,418
Liabilities arising from FX measurement of banking book derivatives	1,864,475.59	559
Liabilities from trading book derivatives	332,061.98	1,250
Trade payables	780,282.00	1,019
Other liabilities	555,165.15	2,682

6. PROVISIONS

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

	31.12.2018	31.12.2017
Guarantees	254,103.17	264
Holidays not taken	454,474.71	557
Long-service bonuses	1,266,385.00	1,050
Association of mortgage banks § 1406 ABGB	358,560.14	369
Legal and consultancy fees	93,000.00	100
Costs for legal risks	2,033,502.88	2,995
Restructuring provisions	65,050.71	1,694
Negative market values of banking book derivatives incl. trading book CVA	848,188.00	846
Miscellaneous provisions	2,446,252.15	2,861
Total	7,819,516.76	10,736

Other provisions

In accordance with Section 211 of the UGB, other provisions have to be discounted applying a market rate in case duration is more than one year. Initial application has resulted in a difference in the amount of EUR 974,393.87, as at 01.01.2016. In accordance with transitional rule in Section 906 (33f) of UGB the bank allocates the difference over a period of no more than 5 years. The positive effect in the profit and loss account amounts to EUR 170,486.34 as at 31.12.2018 (31.12.2017: TEUR 231).

Guarantees

The provisions for risks arising from the lending business (guarantees) include provisions for specific cases amounting to EUR 0.00 (31.12.2017: TEUR 7) as well as provisions at portfolio level amounting to EUR 254,103.17 (31.12.2017: TEUR 257).

Restructuring provisions

Based on the company agreement concluded with the Workers' Council in 2015 on the social plan (ease social burdens in the event of employees leaving the company), the provision as at 31 December 2018 for the social plan - which covers compensation and severance payments and was used to set up an employee foundation - amounts to EUR 65,050.71. In the 2018 financial year, EUR 162,000.00 of this amount was paid out by 31 December 2018. Based on the expiry of the company agreement on the social plan, a further EUR 1,200,000.00 was released as of 30 June 2018. A further EUR 110,000.00 was transferred to a liability from agreements on partial retirement models. The remaining amount will be used in the future for restructuring measures already agreed in the past.

EUR 30,000.00 of the additional provision of EUR 157,317.47 from restructuring measures from previous financial years was paid out in the financial year 2018 until 30 June 2018. As no measures will be derived from this provision in the future, this provision in the amount of EUR 127,317.47 was released in total as of 30 June 2018.

Costs for legal risks

There are provisions in the amount of EUR 2,033,502.88 as at 31.12.2018 (31.12.2017: TEUR 2,995) 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 626,107.31 (31.12.2017: TEUR 4,208) were settled and an amount of EUR 358,691.91 (31.12.2017: TEUR 0) was released.

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

Expected losses from pending transactions for non 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. Austrian Anadi Bank AG 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 paper, 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 checked 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.

As at 31.12.2018 a provision of EUR 832,750.00 (31.12.2017: TEUR 736) was required.

For derivatives in the trading book, a provision for the Credit Valuation Adjustment (CVA) in the amount of EUR 15,438.00 (31.12.2017: TEUR 110) was required.

7. DISCLOSURES ON RISK PROVISIONS

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

	31.12.2018	31.12.2017
Loans and advances to customers		
Balance at start of year	32,321,078.17	37,021
Additions	4,859,834.98	4,869
Releases	–1,259,522.65	–1,183
Utilised	–5,962,607.08	–8,320
Foreign currency valuation	4,185.16	–66
Balance date	29,962,968.58	32,321

For credit default risks incurred but not reported, the portfolio risk provisions were adjusted from the 2017 level (TEUR 5,062) to EUR 4,117,370.35 as at 31.12.2018.

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 (31.12.2017: TEUR 0) as of 31.12.2018; which was issued in the year under review.

The interest expenses for the Tier 2 capital amount to EUR 39,062.50 (31.12.2017: TEUR 584).

The interest expenses from the previous year are to be assigned to the repaid supplementary capital from 2017.

9. SHARE CAPITAL

The issued share capital of Austrian Anadi Bank AG at the balance sheet date amounts to EUR 30,000,000.00 (31.12.2017: TEUR 30,000) and is divided into 30,000 (31.12.2017: 30,000) non-par value bearer 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 01.01.2018	Utilised	Releases	Closing balance 31.12.2018
Capital reserves	82,332,115.37	0.00	0.00	82,332,115.37
Retained earnings	11,508,440.05	1,695,468.51	0.00	13,203,908.56
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 22 March 2018.

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	31.12.2018	31.12.2017	31.12.2018	31.12.2017
a) Interest rate-related business				
OTC-products				
Interest swaps/Interest rate contracts	410,041,424.43	548,508	410,041,424.43	548,508
b) Currency-related business				
OTC-products				
Currency swaps	97,612,920.40	93,442	97,612,920.40	94,001
Cross-currency swaps	81,000,000.00	100,273	82,777,931.65	94,111
Forward exchange contracts	301,964.97	0	301,222.23	0

	Fair value Positive		Fair value Negative	
Futures transactions	31.12.2018	31.12.2017	31.12.2018	31.12.2017
a) Interest rate-related business				
OTC-products				
Interest swaps/Interest rate contracts	38,233,470.70	47,063	35,004.949.12	41,957
b) Currency-related business				
OTC-products				
Currency swaps	0.00	0	87,872.90	691
Cross-currency swaps	29,321.04	6,123	1,800,048.59	0
Forward exchange contracts	4,360.61	0	3,617.83	0

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 31.12.2018 the net fair value of derivatives designated as hedging instruments, was EUR 3,213,748.51 (31.12.2017: TEUR 5,000).

In the year under review, some hedging relationships were early terminated - the net positive result, including the underlying transactions, amounts to EUR 4,187,688.18 (31.12.2017: TEUR 14,888). See notes 14 and 15.

12. CONTINGENT LIABILITIES

	31.12.2018	31.12.2017
Contingent liabilities	86,440,850.17	69,639
Guarantees and other collateral securities	86,440,850.17	69,639

13. OTHER OFF-BALANCE SHEET STATEMENTS

Loan exposures comprise unused credit lines totalling EUR 189,508,000.00 (31.12.2017: TEUR 154,657).

Liabilities from fiduciary activities amounted to EUR 9,097,633.41 (31.12.2017: TEUR 16,076) 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 552,815.86 (31.12.2017: TEUR 555) for the year under review, EUR 552,815.86 are due in 2019 and totalling EUR 1,491,456.24 are due for the years 2019 to 2023.

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 31.12.2018, there were no liabilities left to be covered.

It is to be noted that with effect from 15 January 2015, the business operations of the Pfandbriefstelle were transferred to Pfandbriefbank (Österreich) AG with retroactive effect to the reporting date of 31 December 2013 and that Pfandbriefbank (Österreich) AG has been in liquidation since 1 June 2018 in accordance with the decision of the FMA on the rescission of the bank licence.

NOTES TO THE INCOME STATEMENT

14. INTEREST AND SIMILAR INCOME

	31.12.2018	31.12.2017
From loans and advances to credit institutions and customers	43,206,743.77	39,865
thereof Austria	35,439,766.89	33,647
thereof International	7,766,976.88	6,218
From fixed-income securities	5,243,403.10	9,469
thereof Austria	1,341,988.03	3,181
thereof premium of securities held as fixed assets	*–79,500.00*	*–71*
thereof International	3,901,415.07	6,288
thereof premium of securities held as fixed assets	*0.00*	*0*
From other assets	4,188,774.97	21,022
thereof Austria	4,188,774.97	21,022
thereof close outs	*4,187,688.18*	*20,784*
thereof International	0.00	0
Total	52,638,921.84	70,356

Interests and similar income from other assets includes EUR 4,187,688.18 (31.12.2017: TEUR 20,784) from early termination of derivatives which were designated in hedging relationships.

Interest earnings include negative interests from receivables in the amount of EUR 655,577.00 (31.12.2017: TEUR 677) and interest from previous periods with an amount of EUR 480,158.23 (31.12.2017: TEUR 0).

The change in classification (netting derivatives) is described on page 44 of the Notes.

15. INTEREST AND SIMILAR EXPENSES

	31.12.2018	31.12.2017
From liabilities to credit institutions and customers	3,704,112.06	8,004
thereof Austria	2,362,923.02	5,656
thereof International	1,341,189.04	2,348
From debt securities in issue	15,609,658.31	16,591
thereof Austria	15,609,658.31	16,591
thereof International	0.00	0
From other liabilities	0.00	5,896
thereof Austria	0.00	5,896
thereof close outs	*0.00*	*5,896*
thereof International	0.00	0
Total	19,313,770.37	30,491

Interest and similar expenses from other liabilities includes EUR 0.00 (31.12.2017: TEUR 5,896) on the early termination of derivatives in 2018, which were designated in hedging relationships.

Interest expenses include negative interest from liabilities to credit institutions, in this case refinancing from the TLTRO II programme (Targeted Longer-Term Refinancing Operations), amounting to EUR 2,005,682.94 (31.12.2017: TEUR 0). This negative interest includes interest from previous periods of EUR 1,021,288.83 (31.12.2017: TEUR 0).

The change in classification (netting derivatives) is described on page 44 of the Notes.

16. COMMISSION INCOME AND EXPENSES

	31.12.2018	31.12.2017
From the lending business		
Fee and commission income	9,810,562.51	7,191
Fee and commission expenses	–2,470,554.14	–1,762
From the securities business		
Fee and commission income	1,575,376.59	1,807
Fee and commission expenses	–147,574.13	–212
From other transactions		
Fee and commission income	7,370,839.48	7,356
Fee and commission expenses	–882,587.93	–1,101
Total income	18,756,778.58	16,354
Total expenses	–3,500,716.20	–3,075

17. OTHER ADMINISTRATIVE EXPENSES (OPERATING EXPENDITURE)

	31.12.2018	31.12.2017
Legal and consultancy expenses	1,426,244.87	2,072
Advertising and hospitality expenses	1,230,706.40	1,235
Rental, leasing and other building expenses	2,591,923.51	2,392
IT expenses	1,478,436.42	1,800
Data centre expenses	3,449,021.72	3,686
Training expenses	210,981.56	172
Issue expenses	483,319.71	286
Travel expenses	246,772.39	249
Fleet expenses	257,972.00	202
Insurance	413,989.71	407
Telephone/postage expenses	493,090.88	495
Expenses in connection with company legal structure	355,700.00	271
Office/stationery expenses	121,525.80	107
Single Resolution Fund (BaSAG)	901,824.46	1,143
Guarantee deposit (EiSi Hypo Haftungs-GmbH)	979,676.02	993
Other operating expenditure	648,982.14	648
Total	15,326,167.59	16,158

18. OTHER OPERATING INCOME

	31.12.2018	31.12.2017
Rental and leasing agreements	152,962.39	147
Other operating income	1,948,897.03	5,476
Total	2,101,859.42	5,623

19. OTHER OPERATING EXPENSES

	31.12.2018	31.12.2017
Other operating expenses	190,693.48	511
Total	190,693.48	511

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 2,620,000.00 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	31.12.2018	31.12.2017	Description
Positive fair values of trading book derivatives	–346,804.00	–1,325	Deferred tax liabilities
Securities held as Fixed Assets	1,910,083.00	5,906	Deferred tax assets
Loans and advances to customers	3,701,801.00	2,628	Deferred tax assets
Participating interest	4,959.00	11	Deferred tax assets
Provisions	8,976,464.00	8,954	Deferred tax assets
Total	*14,246,503.00*	*16,174*	*Net deferred tax assets*
Excess deferred tax 25%	3,561,626.00	4,044	

22. IMPORTANT LONG TERM CONTRACTS

On 01.07.2015 (effective date) a service agreement was agreed between the Austrian Reporting Services GesmbH (AuRep) and Austrian 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 Austrian 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 Austrian Anadi Bank AG, and with Nostro account reconciliation.

A shareholder agreement was signed on 13.09.2005 between ARZ (Allgemeines Rechenzentrum GmbH) and Austrian 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	31.12.2018	31.12.2017
Common Equity Tier 1 Capital	162,098,837.88	160,326
Paid up capital instruments	30,000,000.00	30,000
Retained earnings	82,332,115.37	82,332
Other reserves	50,199,548.56	48,504
Value adjustments due to the requirements for prudent valuation (Fair value exposures) 0.1%	63,377,513.93	99,701
thereof 0.1% deduction	–63,377.51	–100
Deducting intangible assets	–369,448.54	–410
Tier 2 Capital	24,740,250.00	0
Supplementary Capital total	25,000,000.00	0
Supplementary Capital allowable	24,740,250.00	0
Own funds	186,839,087.88	160,326
Own funds requirement	92,646,098.33	79,181
Surplus of total capital	94,192,989.55	81,146
Coverage ratio	201.67%	202.48%

Own Funds Requirement Austrian Anadi Bank AG	31.12.2018	31.12.2017
Risk-Weighted Assets (banking book)	1,050,804,541.49	864,071
thereof 8% minimum capital requirement	84,064,363.32	69,126
Credit Value Adjustment	920,157.60	695
Own funds requirement for trading book	3,734.50	8
Own funds requirement for open currency position	36,554.19	113
Capital requirment for operational risk	7,621,288.72	9,238
Total own funds requirement	92,646,098.33	79,181
Total risk exposure amount	1,158,076,229.13	989,756
Common Equity Tier 1 Capital ratio	14.00%	16.20%
Tier 1 capital ratio	14.00%	16.20%
Total capital ratio	16.13%	16.20%

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.

	31.12.2018	31.12.2017
Financial collateral	55,499,447.34	54,551
Cash deposits	43,802,577.11	40,072
Securities	11,696,870.23	14,479
Real estate collateral	920,546,822.24	813,122
Guarantees	260,681,686.84	312,267
Other collateral	104,327,049.71	110,304
Insurance	47,888,359.37	50,845
Movable property	8,051,805.90	11,427
Others	48,386,884.44	48,032
Total	1,341,055,006.13	1,290,244

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

	31.12.2018	31.12.2017
Collateral received	5,320,000.00	11,440
Collateral provided	9,140,000.00	4,270

25. TRUSTEE SAVING ACCOUNTS

Liabilities to customers includes trustee savings accounts with amounting to EUR 3,108,340.84 (31.12.2017: TEUR 3,307).

26. FOREIGN CURRENCY

The balance sheet contains the following foreign currency amounts:

	31.12.2018	31.12.2017
Assets	193,394,994.94	190,874
Liabilities	13,124,130.56	12,980

The main part of the difference amounting to EUR 180,270,864.38 (31.12.2017: TEUR 177,894) 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	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Mortgage bonds A	100,000,000.00	60,000	392,818,786.47	349,104	292,818,786.47	289,104
Mortgage bonds B	54,922,321.62	55,633	68,800,852.34	71,138	13,878,530.72	15,505
Public sector mortgage bonds	437,530,259.00	464,201	494,101,955.78	587,958	56,571,696.78	123,757

Anadi Bank has deposited own not issued covered bonds (mortgage bonds) with the Austrian National Bank amounting to EUR 180,000,000.00. This compares to mortgage collateral stock (covering loans) amounting to EUR 392,818,786.47. As at 31.12.2018 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 with amounting to EUR 348,196,981.00 (31.12.2017: TEUR 368,317) and loans in the amount of EUR 211,461,837.30 (31.12.2017: TEUR 259,803) were pledged as collateral for liabilities to credit institutions amounting to EUR 503,000,000.00 (31.12.2017: TEUR 443,000) as well as for liabilities to customers amounting to EUR 2,884,347.23 (31.12.2017: TEUR 2,614).

As at 31.12.2018 the return on assets in accordance with Section 64 (19) BWG is 0.22 percent (31.12.2017: 0.23 percent).

In order to improve the comparability of the RoA key figure year-on-year, the tax component was removed from the calculation basis. The profit on ordinary activities is used as the new calculation base.

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 31.12.2018, the federal state of Carinthia still had guarantees for perpetual liabilities of Anadi Bank amounting to EUR 18,296,613.33 (31.12.2017: TEUR 19,840).

The guarantee commission agreement between the federal state of Carinthia and Anadi Bank (and others) provided for a guarantee commission to be paid, of EUR 1 per thousand p.a. of the amount guaranteed. This guarantee commission agreement was terminated by Anadi Bank on 31 December 2011 by exercising the contractually agreed ordinary right of termination, which means that the contractual obligation to pay the guarantee commission is no longer applicable since 1 January 2012. Notwithstanding this termination of the contractual guarantee commission agreement, the statutory default guarantee of the Province of Carinthia pursuant to § 5 K-LHG - as described above - continues to apply. Due to diverging legal positions between Anadi Bank and the federal state of Carinthia, the payment of the guarantee commission, in particular for the year 2011, was disputed until the end of the year. Finally, an agreement on the final settlement of the claims of the Province of Carinthia against Anadi Bank was reached in the 2018 financial year.

30. DEPOSIT GUARANTEE

In accordance with Section 8 paragraph 1 ESAEG Austrian Anadi Bank AG, as a deposit taking Institution (CRR Institute) with its headquarters in Austria, is a member of the Deposit Guarantee Scheme referred to in Section 1 para 1 Z 1 ESAEG. Under the transitional provisions of Section 59 Z 3 ESAEG the Hypo-Haftungs-GmbH, as part of the Association of Hypo mortgage banks, is

to establish a Deposit Protective scheme by 31.12.2018. Any protective scheme must establish a deposit guarantee fund consisting of available funding of at least 0.8 percent of the amount of covered deposits of member institutions. The contribution obligation depends on the amount of covered deposits under basic interpretation of predetermined risk factors (known as risk-based calculation of contributions). For 2018, the annual contribution payable by Austrian Anadi Bank AG amounted to EUR 979,676.02 (31.12.2017: TEUR 993). In addition, in the case of an event giving rise to depositor claims, the Hypo-Haftungs-GmbH is obliged to request special contributions from Association members in case of insufficient resources in the Fund to cover the depositor claims. These special contributions, in accordance with Section 22 (1) ESAEG, may be an annual maximum contribution of 0.5 percent of each institution's covered deposits.
As of 01.01.2019 the responsibility for sector based guarantee schemes (trade associations of banks and building societies) will be transferred to the Single Guarantee Scheme being established by the Austrian Federal Chamber of Commerce. The Single Guarantee Scheme at this time will also integrate the activities of the Guarantee Scheme of the Austrian Bankers' Association and Association of Volksbanken.

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 2018, Anadi Bank has paid EUR 901,824.46 (31.12.2017: TEUR 1,144). 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, Austrian 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 (www.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 193,184.00 (31.12.2017: TEUR 204) as at the reporting date, and comprise other auditing and consulting services in the amount of EUR 5,910.00 and the audit of the annual financial statements in the amount of EUR 187,274.00.

36. EMPLOYEES

Average number of employees according to Section 239 UGB:

	31.12.2018	31.12.2017
Salaried employees	292.11	293.71

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

As at 31.12.2018, the members of the Management Board had received advances, loans or guarantees totalling EUR 126,536.74 (31.12.2017: TEUR 131) from Anadi Bank.

As at 31.12.2018, 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 8,358,586.17 (31.12.2017: TEUR 133) 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 2018:

	31.12.2018 Severance payments	31.12.2018 Pensions	31.12.2017 Severance payments	31.12.2017 Pensions
Management Board Members	35,949.42	246,295.29	32	238
Senior employees	56,654.15	53,341.83	42	62
Other employees	1,131,895.00	1,203,922.15	1,056	916
Total	1,224,498.57	1,503,559.27	1,130	1,216

In 2018 payments to the employee pension fund amounted to EUR 206,834.05 (31.12.2017: TEUR 185). As a result of the addition of the severance payment provision amounting to EUR 966,755.00 (31.12.2017: TEUR 725), the actual expenses for severance charge in 2018 were EUR 1,224,498.57 (31.12.2017: TEUR 1,130). In the financial year, severance payments in the amount of EUR 50,909.52 (31.12.2017: TEUR 220) 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 –281,052.28 (31.12.2017: TEUR –119) will be paid for 2018. In the financial year, anniversary bonuses in the amount of EUR 64,379.28 (31.12.2017: TEUR 47) were booked against the allocated provisions.

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

	31.12.2018	31.12.2017
Management Board thereof fixed	2,132,219.83	1,701
thereof variable	61,500.00	0
Supervisory Board	336,500.00	252
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	2,468,719.83	1,953

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

37. PROFIT DISTRIBUTION

At the time of the preparation of the annual financial statements, the amount of the distribution of profit is not yet foreseeable.

38. EVENTS AFTER THE BALANCE SHEET DATE

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 after the reporting date of 31 December 2018.

Klagenfurt am Wörthersee, on 26.03.2019

The Management Board

GD Mag. Christoph Raninger m.p.

VDir. Mag. Franz Reif m.p.

VDir. GaneshKumar Krishnamoorthi, B.E. 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
Mag. Gabriele Oberlercher, Krumpendorf

Barbara Perchtold, St. Paul

State Commissioner
Mag. Renate Platzer, BMF Vienna

Deputy State Commissioner
Mag. Stefan Wieser, BMF Vienna

Trustee
Mag. Franz Krug, Feldkirch (until 31.08.2018)

Mag. Natascha Nehammer, BMF Vienna (from 01.09.2018)

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

Management Board
Mag. Christoph Raninger, Hagenbrunn

Gerhard Salzer, Maria Saal (until 31.01.2019)

Mag. Franz Reif, Langenlebarn

GaneshKumar Krishnamoorthi, B.E., Vienna (from 01.06.2018)

SCHEDULE 2 TO THE NOTES

FIXED ASSETS MOVEMENT SCHEDULE

Assets	Acquisition costs 01.01.2018	Additions 2018	thereof Interest 2018	Disposals 2018	Acquisition costs 31.12.2018
Pos. 2 Treasury bills Fixed-interest securities in fixed assets	230,065,597.56	20,266,223.36	0.00	41,000,000.00	209,331,820.92
Pos. 4 Loans and advances to customers Fixed-interest securities in fixed assets	86,252,510.93	0.00	0.00	5,984,856.06	80,267,654.87
Pos. 5 Debt securities incl. fixed-income securities Fixed-interest securities in fixed assets	165,613,262.02	18,057,300.00	0.00	38,395,000.00	145,275,562.02
Pos. 6 Shares and other variable-yield securities	0.00	14,470,135.30	0.00	0.00	14,470,135.30
Pos. 7 Participating interests	6,643,445.91	0.00	0.00	0.00	6,643,445.91
Pos. 8 Intangible fixed assets	2,962,899.11	176,328.60	0.00	112,220.38	3,027,007.33
Pos. 9 Tangible assets	23,500,404.67	330,523.06	0.00	653,310.44	23,177,617.29
Total	515,038,120.20	53,300,510.32	0.00	86,145,386.88	482,193,243.64

Cumulative Depreciation 01.01.2018	Additions 2018	Attribution 2018	Disposals 2018	Cumulative Depreciation 31.12.2018	Book value 31.12.2018	Book value 31.12.2017
15,242,447.56	32,500.00	0.00	0.00	15,274,947.56	194,056,873.36	214,823,150.00
0.00	0.00	0.00	0.00	0.00	80,267,654.87	86,252,510.93
11,222,052.02	47,000.00	0.00	0.00	11,269,052.02	134,006,510.00	154,391,210.00
0.00	0.00	0.00	0.00	0.00	14,470,135.30	0.00
3,423,506.66	0.00	0.00	0.00	3,423,506.66	3,219,939.25	3,219,939.25
2,552,732.13	217,047.04	0.00	112,220.38	2,657,558.79	369,448.54	410,166.98
12,216,547.30	786,159.89	0.00	637,640.99	12,365,066.20	10,812,551.09	11,283,857.37
44,657,285.67	1,082,706.93	0.00	749,861.37	44,990,131.23	437,203,112.41	470,380,834.53

SCHEDULE 3 TO THE NOTES

CASH FLOW STATEMENT

	31.12.2018 (EUR)	31.12.2017 (TEUR)
Pre-tax profit	6,663,717.50	6,690
Appreciation in value	0.00	0
Depreciation	1,082,706.93	2,545
of tangible fixed assets	786,159.89	2,206
of intangible fixed assets	217,047.04	334
of financial assets	79,500.00	6
Change in loans and advances and other assets	–247,106,655.80	–106,884
Loans and advances to credit institutions	–114,466,170.46	–131,321
Loans and advances to customers	–143,699,276.50	16,932
Other assets	10,869,820.78	6,859
Deferred assets	188,970.38	646
Change in provisions	–2,085,224.16	–6,136
For severance payments	467,633.00	–31
For pensions	363,393.00	83
Other provisions	–2,916,250.16	–6,189
Change in payables and other liabilities	154,943,093.57	–12,038
Liabilities to credit institutions	51,116,957.13	140,428
Liabilities to customers	143,201,839.61	32,013
Debt securities in issue	–37,682,454.28	–181,100
Other liabilities	–1,524,012.22	–3,066
Deferred liabilities	–169,236.67	–313
Change in securities classified as current assets	38,855,113.52	56,529
Bonds and other fixed-income securities	38,833,882.70	56,529
Shares and other variable-yield securities	21,230.82	0
Taxes	–2,290,914.79	–5,894
Taxes on income	–1,135,983.47	93
Other taxes	–1,511,931.32	–1,586
Tax provisions	357,000.00	–4,400
Cash Flow from operating activities	–49,938,163.23	–65,187
Changes in tangible and intangible fixed assets	–491,182.21	–7,579
Investments	–506,851.66	–8,268
Proceeds from sales	15,669.45	690
Changes in financial assets	11,819,920.76	38,541
Securities classified as fixed assets	11,819,920.76	38,542
Associates and affiliated companies	0.00	–1
Cash flow from investments activities	11,328,738.55	30,962
Dividends paid	–3,501,000.00	–5,000
to shareholders of the parent company	–3,501,000.00	–5,000
Changes in subordinated and equity capital	25,039,062.50	–18,122
Tier 2 capital pursuant to Part Two, Title I, Chapter 4 of Regulation (EU) No 575/2013	25,039,062.50	–18,122
Cash flow from financing activities	21,538,062.50	–23,122
Cash flow	–17,071,362.18	–57,347

	31.12.2018 (EUR)	31.12.2017 (TEUR)
Cash and cash equivalents at the beginning of the period	251,081,063.42	308,428
Cash in hand, balances with central bank	25,365,077.06	25,033
Treasury bills and bills of exchange eligible for refinancing	225,715,986.36	283,395
Cash and cash equivalents at the end 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
Effective change in cash and cash equivalents	–17,071,362.18	–57,347

STATEMENT OF LEGAL REPRESENTATIVES

"We confirm to the best of our knowledge that the separate financial statements of Austrian Anadi Bank AG, which have been prepared according to the applicable accounting standards, present a true and fair view of the net assets, financial position and results of operations of the company, that the management report provides a true and fair view of the development and performance of the business together with a description of the principal risks and uncertainties which the company faces."

Klagenfurt am Wörthersee, on 26.03.2019

Managment Board

GD Mag. Christoph Raninger m.p.

VDir. Mag. Franz Reif m.p.

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

AUDITOR'S REPORT

Report on the Financial Statements

AUDIT OPINION

We have audited the financial statements of

Austrian Anadi Bank AG,
Klagenfurt,

which comprise the Balance Sheet as of 31 December 2018, the income statement and the year then ended, and the notes. In our opinion, the financial statements, in all material respects, is presented fairly by the financial position of the Company as of 31 December 2018 and its financial performance for the financial year in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory 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. In the course of our audit we have identified following key audit matter:

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 34.1 mn 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 analyzed the existing documentation regarding the processes of underwriting, monitoring and risk provisioning for customer loans and assessed whether these processes are appropriate to assess the valuation of loans and advances to customers. Moreover, 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.

We examined, based on a sample of total loan portfolio, whether credit defaults were identified in time. 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 on the basis of 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 other legal or regulatory 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 the financial reportingprocess.

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 supervisory board 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 supervisory board 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 supervisory board, 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. The legal representatives of the Company are responsible for the preparation of the management report in accordance with Austrian Generally Accepted Accounting Principles and other legal or regulatory 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

At the extraordinary shareholder meeting dated 20 September 2017, we were elected as auditors. We were appointed by the supervisory board on 20 September 2017. We have been the Company's auditors from the year ended 31 December 2016, without interruption. 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 auditor in charge is Mr Bernhard Mechtler.

Vienna, on 26.03.2019

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

Mag. Bernhard Mechtler
Wirtschaftsprüfer

PUBLISHING INFORMATION

Responsible for the content of this report:

Austrian Anadi Bank AG
Domgasse 5
9020 Klagenfurt am Wörthersee
Tel. +43 (0)50202
Fax +43 (0)50202 3000
austrian@anadibank.com
anadibank.com

Forward looking statements and forecasts are based on information and data available at the time of finalising the financial statements (26.03.2019). 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.

Austrian Anadi Bank

your future bank - since 1896

Austrian Anadi Bank AG | Domgasse 5 | 9020 Klagenfurt am Wörthersee
Tel. +43 (0)50202 0 | austrian@anadibank.com | anadibank.com

FN 245157a/LG Klagenfurt
DVR2110537