Austrian Anadi Bank

your future bank – since 1896

The strong bank on your side.

Annual Financial Statements and
Management Report
31 December 2017

AUSTRIAN ANADI BANK AG
KEY DATA

in EUR m	2017	2016
Total assets	2,894	2,934
Primary funds (customer deposits, own funds)	2,223	2,372
Customer Assets	2,029	2,052
Total shareholder equity	166	184
Own Funds in accordance with CRR/CRD	160	157
Net interest income	40	26
Operating income	60	41
Operating expenses	–47	–49
Operating result	13	–8
Profit from ordinary activities	7	15
Cost: Income ratio	78.35%	negative
Net Interest Margin	1.37%	0.94%
Return on equity (RoE)	3.13%	6.23%
Return on assets (RoA)	0.18%	0.35%
Total number of employees	347	360

MANAGEMENT REPORT 2017

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1. GENERAL ECONOMIC ENVIRONMENT

Sustained by an upturn of the global economy and strong domestic demand the Austrian economy was able to set a strong signal of growth. Besides the good prospects for the export industry, also private consumption did not show any reduction in economic growth considering the expiry of tax reform induced effects. Overall, the mood in economy is consistently positive in the Euro zone. Neither the impending withdrawal of the Great Britain from the Union nor the protectionist policy of the new US President seem to dampen the outlook.

Whereas, in the past reporting year the growth forecasts for important economic areas were continually adjusted upwards by the IMF, the growth of Austrian economy was exceptionally strong as well. Regarding current OeNB forecast dated December 2017 real economic growth will be 3.1 percent in 2017. Since financial and economic crisis this percentage has not been achieved anymore.

Whereas predicted economic growth rate of 2.8 shall be strong for 2018 as well, a slowdown is forecasted in years 2019 and 2020. Even though growth is still expected to be close to 2 percent. Along with strong economic growth, positive effects on the Austrian labor market and a decline in unemployment rates can be recognised. These solid growth forecasts are also sustaining an improvement in the general government budget balance to -0.8 percent of GDP in 2017, and in total an ongoing improvement is anticipated in the following years. Regarding public debt ratio strong economic growth contributes to a positive development and a further decline towards 70 percent of GDP is forecasted over the next few years.

As the strong upturn in the Euro zone would only be threatened by a change in course of the ECB, the importance of the central banks in the most important economic areas has to be taken into account. The continued expansive monetary policy is decisive for the positive climate, which more and more has an impact on the real economy.

Low interest rates make corporate and household debt bearable and stimulate enhanced consumption and investments. The most recent appreciation of the Euro could have negative impact on the price competitiveness of European producers, but will probably not slow down growth in the long run.

In October 2017 the ECB decided to reduce the bond purchase program to EUR 30bn per month. However, ECB also emphasized that it will continue its expansive monetary policy as long as a sustained correction of inflation upwards is discernible. Probably, this will not occur in 2018, which means that an extension of the purchase program is expected until the first quarter of 2019, although with lower volumes. Therefore speculations about increasing interest rates are postponed even further in the future.

2. OVERVIEW

2.1 The Bank's positioning

Austrian Anadi Bank AG ("Anadi Bank") is an Austrian multi-channel hybrid bank active in the business segments Retail Banking, Corporate Banking and Public Finance. The bank offers its customers innovative digital services, a mobile sales team and a focused branch network. With 120 years of tradition in residential real estate financing

Anadi Bank is an experienced partner in all financing issues of private customers. As partner of the province of Carinthia, the institution has managed granting of subsidized mortgage loans for more than 60 years. It is the principal bank for small and medium-sized companies in retail, industry, real estate and a product specialist for companies in the import and export sector. Supported by its owner, Anadi Bank can provide unique access to the Indian growth market for corporate clients. The bank has 347 employees serving more than 57,000 clients at 10 locations in Carinthia, Salzburg, Styria and Vienna.

2.2 Switch to growth mode

Anadi Bank has opened a new chapter in its company history: Since inherited liabilities were settled successfully, the bank can entirely switch to growth mode again and score on the market with visible success. Working on development over the past years led to strong growth in new business in the bank's core segments, Retail, Corporate and Public Finance. Due to refinancing via the EIB Covered Bond the bank is also returning to the international finance stage.

As an Austrian hybrid bank with state-of-the-art online banking, branches at strategically selected locations and mobile sales teams, Anadi Bank has chosen an integrated multi-channel approach. According to the motto "The whole bank on the tablet" the mobile sales teams will soon be able to offer their clients everywhere and anytime all banking services, excepting cash transactions.

With 120 years of experience in residential real estate financing Anadi Bank is an attractive and reliable partner for private customers regarding home acquisition or construction. Anadi Bank scores with top conditions, speed and transaction flexibility; the bank can make financing commitments within 24 hours in many cases. The bank uses sales supporting marketing such as specific target group events or product campaigns on topics like online loans or residential real estate financing.

Anadi Bank is the principal bank of numerous SMEs in the commercial and manufacturing industry as well as in real estate. The bank specifically uses the benefits of its lean structures and as a product specialist focuses on tailor-made solutions for companies. Sales units in Vienna, Salzburg and Klagenfurt are based close to the customer. A recently set up Indian desk in Vienna offers consulting and bank services for Austrian SMEs, who are addressing the Indian market. From the financing agreement with the European Investment Bank reached in 2017, Anadi Bank will lend up to EUR 150m on favorable terms to domestic SMEs and mid-caps. In the real estate segment the bank covers the entire value chain of commercial and residential real estate financing.

As the principal bank of the province of Carinthia and many municipalities, Anadi Bank is well positioned in the segment Public Finance. Through the financing of the public health sector, technical infrastructure, educational establishments, tourism projects and many other projects of the public sector Anadi Bank is supporting development and growth of the region.

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 2017 the role as a hybrid bank was further expanded. The retail business model was strengthened through investments in digital technologies and the development of mobile sales operations.

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.

Business development in 2017

The results were characterized by the following focus areas:

- Growth in the customer loan business
- Expansion of digital services
- Increase in productivity
- Use of new products
- Growth in customer deposits

Growth in the customer loan business

The branch sector recorded substantial growth rates in its core task as a competent advisor in financing. Customers' interest in residential real estate financing remained at a high level. In general, new business in all product divisions increased significantly compared to the previous year.

In 2017 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 2017.

Expansion of digital services

Fully in line with the positioning as a hybrid bank, in addition to the implementation of the new corporate website "anadibank.com" in February 2017, online services have been continually extended.

An overview of the innovations:

- Online account
- Online loan
- securities account & online securities trading
- Anadi mobile-PAY app
- Replacement of Internet banking by online banking & app

Introduction of the online account

Since April 2017 on the website anadibank.com and in the Anadi online banking & app (existing clients) it has been possible to open online accounts in addition to online saving and online fixed deposits independent of banking hours. New customers can simply and conveniently identify themselves via video legitimization and also change accounts online.

Product innovation – Paperless online loan

As in previous years, further investments in innovations were done in in 2017. Anadi Bank is proud to be the first bank in Austria offering its customers entirely paperless online loans up to an amount of EUR 30,000 since 30 October 2017. This service can be used by existing as well as new customers; the latter can also register conveniently online by video legitimization.

Within seven minutes customers receive an individual loan offer, which is considered the contract at the same time. If the bank positively confirms all provided customer information, the money is available to the customer on the following banking day. Access to the loan account is subsequently given at any time via online banking and the online banking app.

Implementation of securities account with online securities trading

Another investment innovation was the implementation of online securities accounts. Customers can now trade their securities flexibly online. This service provides fast and flexible access to financial markets, either by customer advisory in the local branch or via securities trading online.

Our customers are able to check their account status at any time supported by comprehensive market data, charts, current market prices and key performance indicators. A notification service (alerting) is also available.

Introduction of the Anadi mobile-PAY app (mPAY)

With Anadi mobile-PAY app our customers can dispose of a practical digital wallet. ZOIN (person-to-person payments) can be used with the Maestro ATM card to send amounts directly to other persons. Furthermore, customer cards can be managed with the Anadi mobile-PAY app (mPAY).

The new online banking & app replaces conventional Internet banking

The old-fashioned Internet banking has been replaced by the new online banking & app. The new functions are available 24/7 and device-independent (laptop, PC, smartphone, tablet). The Anadi online banking app is available in the AppStore, on GooglePlay and in the Windows Phone Store. The online support handles customer requests with care (e.g. co-browsing).

Use of new products

Attractive account models

The branch sector repositioned its private current account and introduced three new attractive account models in October 2017. A particular highlight is the Anadi Prime^{Plus}

account, which offers a fully comprehensive service package for a fixed monthly price and special features such as a Maestro ATM card in premium design.

Product diversity through partnerships

Selective cooperation with professional partners means that our customers benefit from an even more comprehensive range of products.

Amundi Austria GmbH, one of the largest asset managers in Europe and also one of the largest fund companies worldwide, is now a cooperation partner. Together with Amundi, a mixed, global fund was launched, the Anadi Global Selection, expanding the investment portfolio for our customers.

In the areas of factoring (Autobank) and the leasing of movable property (abcfinance), further cooperations were initiated in 2017 that facilitated an expansion of the product range for commercial customers.

Growth in customer deposits

We are particularly delighted at our customers' faith in us, which has brought a further increase of 3,998 new customers and a savings volume of more than EUR 200m in savings deposits in the online sector. The attractive conditions and the simple online opening process is the basis for the popular form of savings among our customers.

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. Our Customer Care Center is always receptive to the customers' concerns. For instance, approx. 160,000 calls were received in 2017. Around two thirds of the customers' concerns were already satisfactorily managed in the first telephone call.

2.4 Corporate Banking

In 2017 the Corporate Banking division developed its strategy as a principal bank for small and medium-sized companies, in particular for the industries manufacturing and trade and has grown in this area. In addition, the "Trade Finance / India Business" team strengthened the expertise for export and India business. The real estate business has also developed very favourably.

In the previous year, with a total new business volume of EUR 232.8m, the portfolio was increased by 7 percent and the number of customers by 6 percent. This expansion of business activities led to an increase in the commission result by 44.5 percent compared to the prior period. This successful growth strategy will be continued in 2018.

Corporate Banking has long-standing experience in the financing sector for SME clients and in real estate transactions. Based on a structured analysis, corporate clients receive the best solutions for their challenges. These increasingly individualized and tailor-made solutions for SMEs and real estate financing in combination with fast decision making are the competitive advantage that will be developed further in 2018.

The Corporate Banking business therefore continues to concentrate on three areas:

Real estate

Anadi Bank has long-standing experience and expertise in its core business, real estate financing. Projects with a transaction volume from EUR 2m and more are financed for private and commercial real estate investors. Both, existing real estate and real estate developments are financed. The residential and commercial real estate financing is concentrated on central locations in Austria and Germany. The clients especially appreciate the solution expertise, flexibility and fast decision making at Anadi Bank for real estate developments.

Primary bank for SMEs and tailor-made solutions

The Corporate Banking division is the partner for small and medium-sized corporate clients in the industries trade and manufacturing. These target clients have comprehensive export-import activities that form the product focus area of the bank's corporate client business. Corporate Banking recognises the customer needs and quickly offers intelligent solutions for the multi-layered challenges of the companies. Together with customers, overall solutions for financing, investing, hedging and liquidity management are created. In the 2017 financial year, the number of customers was increased by 6 percent.

These individual financing and structuring solutions will be offered to increase business in the future.

Export financing and Indian business

The export activities of Austrian companies are growing considerably, even more strongly than the overall economy. By virtue of its export-oriented portfolio of services Anadi Bank occupies an interesting niche and can look forward to further growth. In this area, Corporate Banking offers e.g. solutions for documentary business, payment transactions as well as export financings covered by ECAs like OeKB.

In addition, economic analysts confirm that India is an attractive export market with high potential and growth rates above average. This offers excellent export opportunities to European companies with high technology know-how ("hidden champions"). Anadi Bank is supporting these companies to manage their diverse challenges in connection with the Indian business.

Markets / Sales structure

The acquisition of corporate clients and product sales is done by the bank's own sales team in Klagenfurt, Salzburg and Vienna, as well as by external cooperation partners, called Anadi business partners. The team in Klagenfurt serves the markets of Carinthia and Styria. The federal provinces Salzburg and Upper Austria are served by the team in Salzburg. The team in Vienna primarily serves the markets in Lower Austria, Vienna and Burgenland.

2.5 Public Finance

Despite the continued increased price pressure, the Public Finance segment was able to assert its position as a reliable partner of the public sector in 2017, through both its market presence and excellent service.

In the completed business year, financing was concentrated on Austrian municipalities, medical facilities as well as municipality-related companies. The Public Finance sector continues to be a stable source of liquidity for the entire bank through low-risk yet innovative investment products.

In the same period, the management of the subsidized housing loans of the province of Carinthia satisfied all involved (customers and province of Carinthia).

In 2017 the province of Carinthia adopted a rent reduction program that was successfully implemented through the technical and specialist know-how of Public Finance. Public Finance thus made an important contribution to cheaper housing for thousands of Carinthians.

Same as in the previous year, also in 2018 the focus will continue to be on digitalization of subsidized housing funding. As a result of the new subsidy housing law that entered into force at the beginning of 2018, we are anticipating an increase in the loan volume under management.

Both in financing and investing, the Public Finance department will continue to be a strong and competent partner for its customers beyond the boundaries of Carinthia in 2018. High-quality consulting and a maximum degree of security in investments remain the focus of the business strategy.

2.6 Treasury & Corporate Solutions

In the course of the year, the Treasury & Markets and Corporate & Market Solutions departments were aggregated to form the new Treasury & Corporate Solutions (T&CS) department. The goal of the aggregation was to eliminate overlapping within the organizational structure and to pool all treasury activities and further capital market activities with a lean and target-oriented structure.

Whereas Treasury & Corporate Solutions continues to focus on carrying out classical tasks within the framework of asset liability management; another focus is the development of an opportunist capital market portfolio and the collaboration and servicing of the corporate banking team regarding structuring and syndication. The new set-up is supplemented by the department Investor Relations & Financial Institutions, whose activities aim to strengthen the perception of the bank among investors on the capital market and to expand the relationships to other capital market participants.

In the completed reporting year, the focus was on optimization of the balance sheet and funding structure and on the dissolution of all business ties with the dismantled Heta Asset Resolution AG and on the fulfillment of regulatory specifications (e.g. MiFID II, MiFIR, etc.).

For the first time, the mortgage bond program rated by S&P was subjected to an update in the completed year of reporting. As a result, AA-rated mortgage bonds could continue to be offered to other capital market participants and additional funding generated.
At the end of the year, a fundamental transaction was concluded with the European Investment Bank (EIB) within the framework of which the EIB acquired mortgage bonds issued by the bank and in return provided low-cost funds for SMEs and mid-caps.

3. BUSINESS DEVELOPMENT OF ANADI BANK

Since Anadi Bank successfully settled its HETA matters, the bank was able to return its attention to core areas and to switch in growth mode in 2017.
Despite the still difficult general market conditions (low interest rate environment, increased regulatory requirements) and due to maturities above average of own issues as well as premature early loan repayments, developments in previous years are starting to show first successful results. Financial year 2017 is also characterized by an optimization of capital expenditures, a very pleasant development of new business and the continuous optimizing of cost structure. This progress is explained in more detail below.

3.1 Balance sheet development

As of 31 December 2017, Anadi Bank reports total assets amounting to EUR 2,893.5m (2016: EUR 2,934.0m) and was at previous year's level. In 2017 the balance sheet development on the one hand was mainly result of a stable performance in the core areas of retail, corporate banking and public finance, and on the other hand due to maturity of own issues above average and the related reduction of liquid funds built up in 2016.

Loans and advances to customers amounted to EUR 2,028.7m (2016: EUR 2,051.7m).

The development was characterized by a substantially increased volume of new business, which, however, was countered by exceptionally high premature loan repayments.

Nevertheless, the loan volume in total could be kept approx. at previous year's level due to the pleasing development of new business.

The asset quality has improved in 2017 compared to the prior year. Risk provisions totalled EUR 32.3m (2016: EUR 37.0m), relating to around 1.6 percent of the entire loan portfolio (2016: 1.8 percent). The NPL ratio was 2.8 percent (2016: 2.2 percent).

Treasury bills and debt securities including fixed-income securities are held as liquidity reserve only and reached EUR 473.5m (2016: EUR 620.2m), which was equal to a net outflow of EUR 146.7m. Repayments did not need to be replaced because of sufficient coverage in 2017.

Loans and advances to credit institutions were EUR 308.4m (2016: EUR 177.1m), increased by EUR 131.3m due to short-term investments.

Tangible assets increased by EUR 5.3m to EUR 11.3m (2016: EUR 6.0m) primarily as a result of purchasing real estate required for operations, which had previously been leased.

Other assets only changed insignificantly.

On the liabilities side primary funds (customer deposits and own issues) reached EUR 2,222.6m (2016: EUR 2,371.7m). Customer deposits slightly increased to EUR 1,527.1m (2016: EUR 1,495.1m). The net decline of own issues in the amount of EUR 181.1m to EUR 695.5m (2016: EUR 876.6m) resulted from matured debts, in particular those covered by limited Federal state guarantee, expired in September 2017.

As a result of solid primary funds basis due issues were not replaced.

The loan/deposit ratio of the bank (loans in relation to primary funds) was 91 percent (2016: 87 percent).

As of 31 December 2017 the LCR was in compliance with the minimum requirements at 308.7 percent (2016: 289.0 percent) as well as the NSFR at 116.8 percent (2016: 111.5 percent).

As of 31 December 2017 the bank's Leverage Ratio was at 5.4 percent (2016: 5.1 percent) and all key performance indicators were thus substantially above the prescribed minimum requirements pursuant to Basel III.

Liabilities to credit institutions amounted to EUR 467.3m (2016: EUR 326.9m).

The increase by EUR 140.4m primarily stemmed from drawing short-term and long-term tenders.

The subordinate liabilities eligible as Tier 2 capital were fully repaid at maturity in reporting period (2016: EUR 18.1m).

Other liabilities only changed insignificantly.

3.2 Own capital funds

The bank's own funds (Tier 1 capital reduced by deductions) according to CRR amounted to EUR 160.3m (2016: EUR 157.3m). The legally required level of capital was EUR 79.2m, resulting in a surplus of EUR 81.1m (2016: EUR 78.7m) and a coverage ratio of 202 percent (2016: 200 percent).

As of 31 December 2017 the Common Equity Tier 1 Ratio according to CRR/CRD regulations was 16.2 percent (2016: 15.75 percent). The bank's total capital ratio was 16.2 percent (2016: 16.0 percent). Compared to the previous year the capital ratios have improved further and are substantially above legally required minimum levels.

3.3 Profit and loss 2017

Anadi Bank's clearly positive result in the financial year 2017 is attributable to the satisfactory business development and cost optimization as well as to restructuring programs over the course of the previous years.

Net interest income reached EUR 39.9m (2016: EUR 26.3m). The net interest margin (ratio between net interest income and average of total assets) amounted to 1.37 percent (2016: 0.94 percent). The net interest income 2017 includes effects resulting from swap closures related to bond repurchase of EUR +14.9m (2016: EUR +11.5m) and provisions for negative interest (Retail segment) of EUR –1.5m (2016: EUR –2.8m). The prefinancing in considerable amount of own issues matured in Q3 had a notable negative impact on the net interest income due to the negative interest environment during the fiscal year. Due to valuation effects of the investment book in 2016 the current and the previous financial year can only be compared to a limited extent.

The commission result as a balance between commissions income and commissions expenses amounted to EUR 13.3m in the completed financial year (2016: EUR 10.9m) and thus resulted in an increase of EUR 2.4m. This positive development is primarily attributable to an increase of new loans.

The other operating income amounted to EUR 5.6m (2016: EUR 1.6m). The significant increase in 2017 was mainly caused by released legal risks provisions and book value gains from sales of tangible assets.

The operating income (net interest income, commission result, trading result and other income) thus amounted to EUR 59.5m for the completed financial year 2017 (2016: EUR 41.2m).

In the reporting period operating expenses were reduced to EUR 46.6m (2016: EUR 48.9m). Despite investments in expanding online banking and in modernizing the branch network, operating costs decreased in general. Cost optimizing programs introduced in the past few years are now showing their effect.

The operating result thus reached EUR 12.9m (2016: EUR –7.7m).

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 –6.2m (2016: EUR +22.9m).

The significant changes resulted from released value adjustments in 2016 related to the HETA topic in the amount of EUR +29.7m and accepting the offer from the Carinthian compensation fund as well as from repurchase of own issues at market price (EUR –5.1m) in the current financial year.

In the reporting year, the result of ordinary activities was EUR 6.7m (2016: EUR 15.2m).

Profit after tax for the financial year was EUR 5.2m (2016: EUR 10.3m).

3.4 Key profit indicators

The cost/income ratio (relation of operating expenses to operating income) was 78.35 percent in 2017 (2016: negative).

The return on equity after tax was 3.1 percent (2016: 6.2 percent), the return on assets was 0.18 percent (2016: 0.35 percent).

4. ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

4.1 Employees

As of 31 December 2017 Anadi Bank employed 347 people at 10 sites throughout Austria, which means a slight reduction of staff compared to the previous year (2016: 360 employees). As of 31 December 2017 129 employees (2016: 122 employees) took advantage of the diverse flexible part-time models offered by the bank. This resulted in a level of employment of 301 FTE (2016: 315 FTE). 50.8 percent of employees are women (176 female employees as of 31 December 2017), measured in FTE, the portion corresponds to 48.3 percent.

For years Anadi Bank had committed itself to apprentice training. As of 31 December 2017 4 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 assists its more than 57,000 customers with requirements-oriented support approaches as a reliable and competent partner in all finance issues. Entirely in line with a modern hybrid bank, different possibilities are offered in order to carry out bank transactions simply and quickly.

Depending on customer requirements, support in the local branch or by mobile consulting service is offered. In addition, customers can also contact the Customer Care Center with their concerns. For all those who like to do their banking transactions online, an interesting online service is available independently of banking hours.

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 2017. 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 2017. 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. Under the direct responsibility of the division management SRM, the following tasks of credit and operational risk are executed:

- Implementation and management of the Internal Capital Adequacy Assessment Process (ICAAP)
- Development of methods and models for credit risks (rating, scoring, credit risk models, validation and back-testing), country risks, participation risks, operational risks, 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.)
- Creation, further development and updating of the AAB bank recovery plan within the framework of the BaSAG (Federal Act on the Recovery and Resolution of Banks)
- Carrying out of the ICS functions for the entire bank

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

- Development of methods and models for market and liquidity risks (ICAAP, ILAAP)
- Ongoing reporting / ad-hoc reporting of market and liquidity risks
- Regulatory risk reporting (FMA, OeNB)
- Measurement and analysis 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

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: This department carries out annual revaluations of the collaterals. 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 2017 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.

The Watch Loan Committee meets once a month for the retail business.

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 has also continued on the implementation for the Additional Liquidity Monitoring Metrics (ALMM) and the report to the supervisory authority implemented. Currently, the implementation of the new reporting forms for the ALMM is taking place. From March 2018 a template for the maturity ladder will also have to be reported to the supervisory authority.

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.

The RTF 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 managing 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 alternative investments in the banking book

* Liquidity risk
* Operational risk
* Other risks with the sub-risks
  - Property risk
  - Macroeconomic risk
  - Model risk credit risk
  - Model risk market price risk measurement
  - Business, reputation and regulatory risk

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

The regular credit risk reporting is 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 procedure (ICAAP). The CRO is responsible for monitoring the risk-bearing capacity and the control of the venture capital required according to economic aspects pursuant to Pillar II.

At Board level, the Chief Financial Officer is responsible for compliance with the equity requirements under supervisory law pursuant to 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.

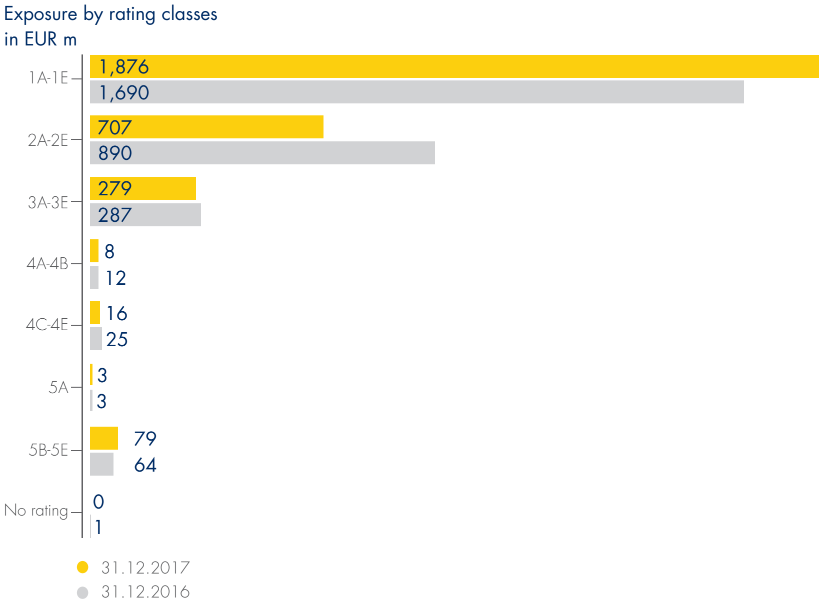
Limiting of credit risk

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

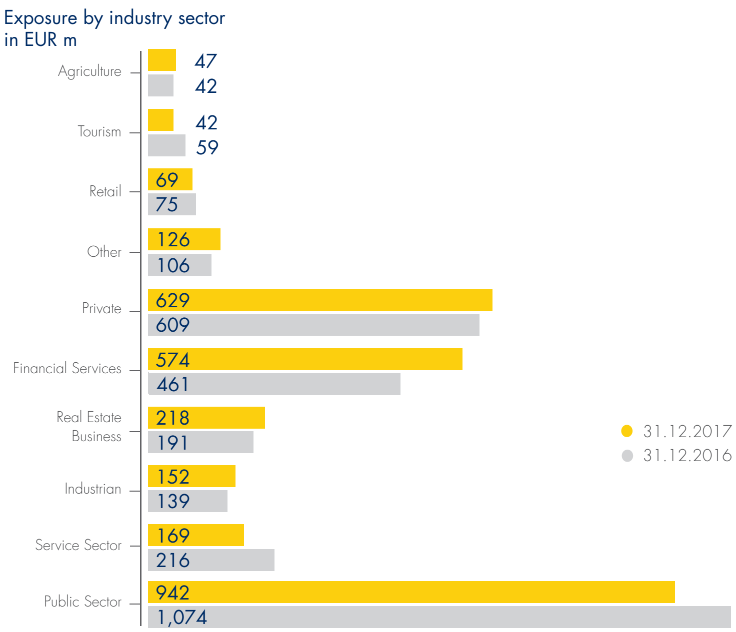
In the reporting year the bank's exposure fell by 6.0m or 0.2 percent respectively compared to the previous year. In total, there are free lines in the loan and credit sector of around EUR 138.0m.

Exposure by rating classes



Around 87 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 2.8 percent based on the total assets. After consideration of recoverable collaterals in the amount of EUR 33m, there is a blank exposure of EUR 50m. 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 51.1 percent. The well-diversified sector Private customers made up 21.2 percent.

Exposure by loan size

Loan size in EUR m	31.12.2017	31.12.2016
< 10,000	22	22
10,000–20,000	16	15
20,000–50,000	39	33
50,000–100,000	74	72
100,000–250,000	335	323
250,000–500,000	210	217
500,000–1,000,000	117	131
1,000,000–3,500,000	346	323
3,500,000–10,000,000	488	406
10,000,000–50,000,000	402	535
50,000,000–100,000,000	470	263
>100,000,000	449	632
Total	2,968	2,972

Around 55.5 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 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 & Corporate Solutions 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 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 are added 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 per day at the end of the year 2017, with a confidence interval of 99 percent. It comprises the VaR of the banking book in the amount of EUR 129,319 and the VaR of the trading book in the amount of EUR 8.

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 2017, the utilization amounted to 3.03 percent (2016: 5.15 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 & Corporate

Solutions 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 of 31 December 2017, the VaR of the foreign currency risks amounted to around EUR 6,548 daily with a confidence interval of 99 percent.

Credit spread risk

The bank-internal credit spread risk was around EUR 50,603 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 2017, there was no share price risk at Anadi Bank.

Limitation of market price risks

The entirety of the market price limits is documented in a limit compendium and serves as a basis for the corresponding market price risk reports. 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 2017, the LCR of Anadi Bank was 309 percent (2016: 289 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 basic indicator approach based on the methodology to determine the regulatory capital requirements from Pillar I.

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
- Consideration in planning Gone Concern risk-bearing capacity

The following sub-risks for other risks arose from the 2017 risk inventory:

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

Property risk

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

Macroeconomic risk

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

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

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

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

Model risk credit risk (rating model / LGD model)

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

With regard to the model risk in the LGD estimate, quantitative and qualitative aspects are taken into account. The qualitative aspect incorporates the model design, the internal usage and the data quality. The quantitative aspect deals with the methods which are based on an empirical data base, mathematical- statistical parameters are determined and interpreted. Any model risk within the framework of the LGD estimate is covered by the use of an extremely conservative confidence level and a non-parametric 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' is anticipated not to be available until March 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.

After the entry into force of the national law, the amendments with regard to transparency of the terms and conditions of contract, information obligations, liability of the payer for non-authorized payment transactions and value date will be updated and communicated to the end customer.

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 2017, 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)

At the level of the Supervisory Board, Dr. Franz Markus Nestl was appointed a new member of the Supervisory Board in March 2017.

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 2017, 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)
Gerhard Salzer (Deputy Chairman, COMO)
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.

7.1 ICS-related activities in 2017

After the use of the ICS tool to support the documentation and the effectiveness of the ICS towards the end of 2016, Anadi Bank expanded its ICS further in the course of 2017.

Successively, the already existing ICS of the individual departments of the bank were integrated into the new ICS tool and adapted and developed further in the course of the implementation (further risk identification, agreement of control targets, definition of control measures). In addition, a workflow-based control calendar was implemented to ensure regular implementation of checks.

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);
- Independent anti-money laundering officer, independent compliance officer for combating fraud and FATCA officer;
- Monitoring of legal amendments and developments in the judicature;
- Support in the creation of internal instructions and regulations;
- Training of bank employees.

8.1 Markets in Financial Instruments Directive II (MiFID II)

In the trade with securities, the EU Directive 2014/65 on Markets in Financial Instruments (MiFID II)*, implemented in Austria by the Securities Supervision Act 2018 (WAG 2018) and the EU Regulation 600/2014 on Markets in Financial Instruments (MiFIR) have applied since 3.1.2018.

These statutory specifications aim to strengthen investor protection. The goals are to increase market transparency and to create supervision rules harmonized throughout Europe for the provision of securities services.

MiFID II

The MiFID II replaces the Directive 2004/39/EC (MiFID I) and regulates specific requirements of the provision of securities services and of the organization of investment companies. The Directive also includes regulations on organizational requirements at trading centers, on the approval and the ongoing obligations of the providers of data services, regarding the authorizations of the responsible authorities and penalty provisions in the event of an infringement of the valid provisions.

For the customer, the MiFID II offers above all:

- Improved investor protection
- Increased cost transparency through cost statements that must be drawn up as a mandatory measure
- More robust market structures
- Increased documentation obligations (consulting record, telephone recording, ...)
- Adviser expertise (high specified qualification standards)
- Improvement in the quality of the order implementation ("Best execution")
- Avoidance of conflicts of interests, particularly with regard to monetary benefits.

MiFIR

The regulation on Markets in Financial Instruments (MiFIR) that entered into force at the same time as MiFID II stipulates requirements with regard to the publication of trading transparency data and the reporting of business data to the responsible authorities. It also eliminates barriers that prevented a discrimination-free access to clearing facilities.

In addition, to strengthen transparency on the derivative markets, regulations are introduced that aim at a relocation of a large part of the derivatives trading to organized trading centers and also specific supervisory measures defined with regard to financial instruments and derivative positions.

In summary, it can be recorded that the regulation of MiFID II and MiFIR apply throughout Europe for all banks and companies that offer services relating to the securities business, including Anadi Bank, and all specifications from it have been implemented in the best possible way at our company.

* DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of May 15, 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

** REGULATION (EU) No. 600/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of May 15, 2014 on markets in financial instruments and amending Regulation (EU) No. 648/2012

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 2017 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

Anadi Bank will continue to benefit from the successful development work of the past few years. A competitive and innovative product portfolio in retail and public finance and a pipeline with attractive projects in the corporate area are the basis for a planned growth of the institution. Anadi Bank will be able to set a visible impulse as the principal bank for domestic SMEs, due to the ongoing lendings via the EIB funds and the call of the third tranche of the EIB Covered Bond planned for December 2019. The new Carinthian residential real estate funding law also opens up new possibilities for public finance.

In line with the mission statement of the multi-channel hybrid bank, the retail product and service offering will be standardized over all channels and consistently aligned to customers' requirements. In the process, the bank will attach great importance to developing new hitherto unavailable digital products and services with customers. With the channel-overarching aggregation, all products and services will be available in each channel without restriction. In order to increase speed and cost efficiency, the downstream process handling will be fully automated on the basis of channel-independent processes wherever possible.

Anadi Bank will consistently pursue its positioning further and remain a reliable and innovative finance partner for its customers, impressing them with its speed and flexibility. The USP as a bridge for Austria's SMEs to India backed by the owner family will be specifically used for the benefit of companies and the bank.

The continuing low-interest rate phase means that the macroeconomic environment will remain challenging for banks in 2018. The pressure from the regulatory specifications remains high as well. A positive development to be noted is that the Austrian economy is in an economic upturn and that the outlook for turnover and profits is very pleasing in essential sectors.

Klagenfurt am Wörthersee, on 12.03.2018

THE MANAGEMENT BOARD:

GD Mag. Christoph Raninger m.p.

VDir. Gerhard Salzer m.p.

VDir. Mag. Franz Reif m.p.

FINANCIAL STATEMENTS 2017

BALANCE SHEET

ASSETS			31.12.2017 EUR	31.12.2016 TEUR
1.	Cash in hand, balances with central banks and post office banks		25,365,077.06	25,033
2.	Treasury bills and other bills eligible for refinancing with central banks treasury bills and similar securities		225,715,986.36	283,395
3.	Loans and advances to credit insititutions			
	a) repayable on demand	303,386,331.18		147,065
	b) other loans and advances	5,000,000.00		30,000
			308,386,331.18	177,065
4.	Loans and advances to customers		2,028,743,717.65	2,051,661
5.	Debt securities including fixed-income securities issued by other borrowers		247,741,247.53	336,834
	showing separately:			
	own debt securities EUR 91,635,188.67			
	(previous year: TEUR 135,281)			
6.	Shares and other variable-yield securities		21,230.82	21
7.	Participating interests		3,219,939.25	3,219
	showing separately:			
	participating interests in credit institutions EUR 710,887.30 (previous year: TEUR 711)			
8.	Intangible fixed assets		410,166.98	634
9.	Tangible assets		11,283,857.37	6,020
	showing separately:			
	land and buildings occupied by a credit institution for its own activities			
	EUR 9,470,376.00 (previous year: TEUR 3,927)			
10.	Other assets		37,892,974.12	44,752
11.	Prepayments and accrued income		686,820.55	514
12.	Deferred tax assets		4,043,573.00	4,862
Total assets			2,893,510,921.87	2,934,010

1.	Foreign assets	464,143,720.94	510,954

EQUITY AND LIABILITIES			31.12.2017 EUR	31.12.2016 TEUR
1.	Liabilities to credit institutions			
	a) repayable on demand	18,688,742.07		58,954
	b) with agreed maturity dates or period of notice	448,600,000.00		267,907
			467,288,742.07	326,861
2.	Liabilities to customers (non-banks)			
	a) saving deposits	482,459,591.99		487,529
	showing separately:			
	aa) repayable on demand EUR 122,500,191.94 (previous year: TEUR 101,282)			
	bb) with agreed maturity dates or period of notice EUR 359,959,400.05 (previous year: TEUR 386,247)			
	b) Other Liabilities	1,044,681,359.86		1,007,600
	showing separately:		1,527,140,951.85	1,495,128
	aa) repayable on demand EUR 698,759,423.11 (previous year: TEUR 614,964)			
	bb) with agreed maturity dates or period of notice EUR 345,921,936.75 (previous year: TEUR 392,635)			
3.	Securitised liabilities			
	a) debt securities issued		695,536,443.51	876,636
4.	Other liabilities		14,231,761.38	17,297
5.	Accruals and deferred income		728,903.21	1,042
6.	Provisions			
	a) provision for severance payments	6,244,886.00		6,275
	b) provisions for pensions	5,570,803.00		5,488
	c) provisions for taxation	0.00		4,400
	d) other provisions	10,735,766.92		16,924
			22,551,455.92	33,087
7.	Tier 2 capital pursuant to Part Two, Title I, Chapter 4 of Regulation (EU) No. 575/2013		0.00	18,122
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		11,508,440.05	6,182
11.	Liability reserve pursuant to Article 57 para. 5 BWG		36,995,640.00	36,996
12.	Net profit or loss for the year		5,196,468.51	10,326
Total liabilities			2,893,510,921.87	2,934,010

OFF BALANCE SHEET ITEMS: EQUITY AND LIABILITIES

		31.12.2017 EUR	31.12.2016 TEUR
1.	Contingent liabilities showing separately: b) Guarantees and assets pledged as collateral security	69,638,911.91	61,039
2.	Commitments	154,657,000.00	123,940
3.	Commitments arising from agency services	16,075,694.67	17,939
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	160,326,327.38 0.00	157,272 2,553
5.	Own Funds requirements as defined in Article 92 of Regulation (EU) No. 575/2013, thereof own funds requirements pursuant to Article 92 (1) a to c of Regulation (EU) No. 575/2013	989,756,444.41	982,652
	a) Common Equity Tier 1 Capital ratio	16.20%	15.75%
	b) Tier 1 capital ratio	16.20%	15.75%
	c) Total capital ratio	16.20%	16.00%
6.	Foreign liabilities	183,568,193.02	421.738

PROFIT AND LOSS ACCOUNT

				2017 EUR	2016 TEUR
1.	Interest receivable and similar income showing separately: from fixed-income securities EUR 13,987,699.53 (previous year: TEUR 4,830)			90,427,951.75	84,043
2.	Interest payable and similar expenses			(50,563,531.81)	(57,786)
I. Net interest income				39,864,419.94	26,257
3.	Income from securities and participating interests				
	a) income from shares and other variable-yield securities		0.00		0
	b) income from participating interests		35,920.00		1,786
	c) income from shares in affiliated undertakings		0.00		0
				35,920.00	1,786
4.	Commissions receivable			16,354,063.55	13,557
5.	Commissions payable			(3,074,826.07)	(2,666)
6.	Net profit or net loss on financial operations			735,099.22	684
7.	Other operating income			5,622,727.30	1,581
II. Operating income				59,537,403.94	41,198
8.	General administrative expenses				
	a) staff costs				
	aa) wages and salaries	(20,571,526.05)			(23,309)
	bb) expenses for statutory social contributions and compulsory contributions related to wages and salaries	(5,520,977.37)			(6,075)
	cc) other social expenses	(309,196.84)			(332)
	dd) expenses for pensions and assistance	(1,066,311.22)			(548)
	ee) allocation to provision for pensions	(149,777.00)			0
	ff) expenses for severance payments and contributions to severance and retirement funds	(1,129,842.58)			(451)
			(28,747,631.06)		(30,715)
	b) Other administrative expenses		(16,157,794.54)		(15,881)
				(44,905,425.60)	(46,596)
9.	Value adjustments in respect of asset items 8 and 9			(1,229,955.66)	(1,282)
10.	Other operating expenses			(510,860.89)	(973)
III. Operating expenses				(46,646,242.15)	(48,851)
IV. Operating result				12,891,161.79	(7,652)
11./12.	Value adjustments and re-adjustments in respect of loan and advances and provisions for contingent liabilities and for commitments			(6,307,827.20)	22,740
13./14.	Value adjustments and re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings			106,813.70	118
V. Profit or loss on ordinary activities				6,690,148.29	15,206
15.	Extraordinary expenses			0.00	0
16.	Extraordinary result			0.00	0
17.	Tax on profit or loss			92,647.55	(2,932)
18.	Other taxes not reported under item 17			(1,586,327.33)	(1,948)
VI. Profit for the year after tax				5,196,468.51	10,326
19.	Changes in reserves			0.00	0
VII. Net income for the year				5,196,468.51	10,326
20.	Profit brought forward			0.00	0
VIII. Net profit for the year				5,196,468.51	10,326

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2017

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 2.032 percent (31.12.2016: 2.458 percent) and a pension growth rate of 2 percent (31.12.2016: 2 percent).

Provisions for severance payments and provisions for anniversary bonuses disclosed under other provisions were calculated applying an interest rate of 2.032 percent (31.12.2016: 2.458 percent) and an assumed salary increase rate of 2 percent p.a. (31.12.2016: 1.50 percent). For severance payments a fluctuation discount of 0 percent (31.12.2016: 0 percent) was applied. For the 2017 anniversary provision, the fluctuation probabilities presented in the actuarial report were used. Provision was calculated assuming retirement at the earliest statutory pensionable age according to the General Social Insurance Act (ASVG, 2004 Pension Reform).

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

The provision for unused holidays was based on the actual vacation days per employee as at 31.12.2017.

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

NOTES TO THE BALANCE SHEET

1. MATURITIES OF BALANCE SHEET ITEMS

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

		31.12.2017	31.12.2016
A3.	Loans and advances to credit institutions	308,386,331.18	177,065
	– payable on demand	303,386,331.18	147,065
	– up to three months	0.00	0
	– three months to one year	5,000,000.00	30,000
	– one year to five years	0.00	0
	– over five years	0.00	0
A4.	Loans and advances to customers	2,028,743,717.65	2,051,661
	– payable on demand	99,345,160.74	104,398
	– up to three months	98,019,513.56	87,641
	– three months to one year	209,277,467.65	215,048
	– one year to five years	613,937,488.15	600,972
	– over five years	1,008,164,087.55	1,043,602
P1.	Liabilities to credit institutions	467,288,742.07	326,861
	– payable on demand	18,688,742.07	58,954
	– up to three months	205,000,000.00	72,307
	– three months to one year	600,000.00	60,600
	– one year to five years	243,000,000.00	135,000
	– over five years	0.00	0
P2.	Liabilities to customers	1,527,140,951.85	1,495.128
	– payable on demand	821,259,615.05	716,246
	– up to three months	133,053,851.42	236,042
	– three months to one year	352,938,881.11	236,864
	– one year to five years	183,759,151.94	225,603
	– over five years	36,129,452.33	80,373

2. SECURITIES INCLUDING ACCRUED INTEREST

		31.12.2017	31.12.2016
A2.	Treasury bills and other bills eligible for refinancing with central banks	225,715,986.36	283,395
	thereof listed	225,715,986.36	283,395
	thereof fixed assets	214,823,150.00	267,624
	thereof accrued interest in fixed assets	2,896,436.36	5,449
	thereof current assets	7,996,400.00	10,046
	thereof accrued interest in current assets	0.00	276
A4.	Loans and advances to customers	86,820,551.59	94,012
	thereof not listed	86,820,551.59	94,012
	thereof fixed assets	86,252,510.93	92,238
	thereof accrued interest in fixed assets	568,040.66	1,774
A5.	Bonds and other fixed-income securities	247,741,247.53	336,834
	thereof listed	156,106,058.85	218,796
	thereof not listed	91,635,188.68	118,038
	thereof fixed assets	154,391,210.00	186,954
	thereof accrued interest in fixed assets	1,714,848.85	3,316
	thereof current assets	91,581,141.58	146,085
	thereof accrued interest in current assets	54,047.10	479
A6.	Shares and other variable-yield securities	21,230.82	21
	thereof listed	0.00	0
	thereof not listed	21,230.82	21
	thereof current assets	21,230.82	21
A7.	Participating interests	3,219,939.25	3,219
	thereof not listed	3,219,939.25	3,219

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 31.12.2017	Write-downs until 31.12.2017	Reversal of impairment 31.12.2017
Germany	9,000,000	9,000,000.00	0.00	0.00
Belgium	6,000,000	6,000,000.00	65,400.00	808,800.00
Austria	93,500,000	93,262,400.00	456,850.00	715,388.70
France	29,690,000	29,266,800.00	104,480.00	65,280.00
Portugal	13,500,000	13,500,000.00	0.00	0.00
Netherlands	7,000,000	6,982,500.00	0.00	0.00
European Union	65,000,000	64,807,850.00	34,000.00	98,600.00

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

	31.12.2017	31.12.2016
Issued by others (without public authorities)	247,741,247.53	336,834
thereof:		
Own issues	91,635,188.67	135,281
Domestic bonds (credit instituitons)	0.00	7,025
Foreign bonds (credit instituions)	75,106,981.74	107,664
Mortgage bonds and municipal bonds	68,241,464.11	86,864
Other bonds	12,757,613.01	0

2.3 Other Disclosures Relating to Securities

The difference between the acquisition costs and the higher market value (Section 56 para. 5 BWG) for securities authorized for official dealing on a stock exchange and not held as financial fixed assets, which are stated at their higher market value, is EUR 0.00 (31.12.2016: TEUR 192).

In 2018 fixed-income securities from the bank's own holdings in the amount of EUR 129,403,246.21 (2017: TEUR 214,122) (euro-denominated securities) and EUR 0.00 (2017: TEUR 17,027) (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 158,749,066.70 (31.12.2016: TEUR 207,112), of which EUR 155,693,656.70 (31.12.2016: TEUR 203,443) were pledged as of the balance date.

As in the previous year, there were no subordinated securities as at 31.12.2017, as per Section 45(2) of the BWG.

The trading book comprises the following volume as at 31 December 2017:

	31.12.2017	31.12.2016
Forward exchange transactions (nominal value)	0.00	1,731
Interest swaps (nominal value) and interest rate contracts	115,255,848.43	144,795

There are no financial instruments held as fixed assets, which are recognised above their fair value (Section 237a (1) (2) UGB).

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 2018, issued bonds as defined in Section 64 (1) (7) BWG with a value of EUR 82,383,269.46 (2017: TEUR 237,720) 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 31.12.2017 is EUR 2,504,491.17 (31.12.2016: TEUR 1,281).

4. OTHER ASSETS

The breakdown of other assets is as follows:

	31.12.2017	31.12.2016
Other assets	37,892,974.12	44,752
– thereof payable after the balance sheet	*12,368,446.53*	*9,747*
– thereof with a residual term > 1 year	*25,524,527.59*	*33,474*
Interest receivable	40,203.37	4,777
Accrued income (upfront payment)	15,648,690.45	17,681
Offset claims	1,578,106.25	294
Receivables arising from FX measurement of banking book derivatives	6,162,019.99	1,356
Receivables from trading book derivatives	1,325,088.03	2,620
Deposits	8,234,254.03	12,740
Other receivables	4,904,612.00	5,284

5. OTHER LIABILITIES

The breakdown of other liabilities is as follows:

	31.12.2017	31.12.2016
Other liabilities	14,231,761.38	17,297
– thereof payable after the balance sheet	*10,006,982.91*	*14,408*
– thereof with a residual term > 1 year	*4,224,778.47*	*5,983*
Interest payable	391,567.01	774
Clearing account balances	5,912,045.86	7,402
Fees and levies	2,418,223.42	2,966
Liabilities arising from FX measurement of banking book derivatives	558,959.54	0
Liabilities from trading book derivatives	1,250,105.04	2,465
Trade payables	1,019,374.12	883
Other liabilities	2,681,486.39	2,806

6. PROVISIONS

The main items included under “other provisions” are as follows:

	31.12.2017	31.12.2016
Guarantees	263,705.57	218
Holidays not taken	557,198.56	662
Long-service bonuses	1,049,712.00	977
Association of mortgage banks § 1406 ABGB	368,971.25	426
Legal and consultancy fees	100,000.00	93
Costs for legal risks	2,995,270.94	7,387
Restructuring provisions	1,694,368.18	4,023
Negative market values of banking book derivatives incl. trading book CVA	845,819.00	729
Provision for collective liability „Pfandbriefstelle“	0.00	0
Miscellaneous provisions	2,860,721.42	2,409
Total	10,735,766.92	16,924

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 231,467.42 as at 31.12.2017.

Guarantees

The provisions for risks arising from the lending business (guarantees) include provisions for specific cases amounting to EUR 7,046.57 (31.12.2016: TEUR 18) as well as provisions at portfolio level amounting to EUR 256,659.00 (31.12.2016: TEUR 200).

Restructuring provisions

Based on the company agreement concluded in 2015 with the works council regarding the social plan (cushioning of social hardship when employees leave the company), the provision as at 31.12.2017 for the social plan amounts to EUR 1,537,050.71 (31.12.2016: TEUR 2,556). Social plan covers redundancy, severance payments and an employee foundation. In the financial year, EUR 1,034,192.86 of this was paid out.

In addition, there are provisions in the amount of EUR 157,317.47 (31.12.2016: TEUR 157) for restructuring measures of previous financial years.

The provision for restructuring dated 31.12.2016 for the redesign of the branch network in the amount of EUR 1,309,407.00 was entirely used in the financial year 2017.

Costs for legal risks

There are provisions in the amount of EUR 2,995,270.94 as at 31.12.2017 (31.12.2016: TEUR 7,387) 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 4,207,727.51 (31.12.2016: TEUR 276) were settled.

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 31.12.2017 a provision of EUR 735,631.00 (31.12.2016: TEUR 646) was required.

For derivatives in the trading book, a provision for the Credit Valuation Adjustment (CVA) in the amount of EUR 110,188.00 (31.12.2016: TEUR 84) was required.

7. DISCLOSURES ON RISK PROVISIONS

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

	31.12.2017	31.12.2016
Loans and advances to customers		
Balance at start of year	37,020,916.77	54,357
Additions	4,868,492.02	7,442
Releases	–1,182,866.38	–19,891
Utilised	–8,319,836.01	–7,568
Transfer	0.00	2,678
Foreign currency valuation	–65,628.23	3
Balance at year-end	32,321,078.17	37,021

For credit default risks incurred but not reported, the portfolio risk provisions were adjusted from the 2016 level (TEUR 4,153) to EUR 5,062,050.42 as at 31.12.2017.

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 18,000,000.00 as of 31.12.2016; this was repaid entirely in financial year 2017.

There were no new subordinated loans raised in 2017.

The interest expenses for the Tier 2 capital amount to EUR 584,450.00 (31.12.2016: TEUR 823).

9. SHARE CAPITAL

The issued share capital of Austrian Anadi Bank AG at the balance sheet date amounts to EUR 30,000,000.00 (31.12.2016: TEUR 30,000) and is divided into 30,000 (31.12.2016: 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 01.01.2017	Additions	Disposals	Utilised	Releases	Closing balance 31.12.2017
Capital reserves	82,332,115.37	0.00	0.00	0.00	0.00	82,332,115.37
Retained earnings	6,182,101.82	5,326,338.23	0.00	0.00	0.00	11,508,440.05
Liability reserve pursuant to Article 57 para. 5 BWG	36,995,640.00	0.00	0.00	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 8 May 2017.

OFF-BALANCE SHEET TRANSACTIONS

11. DERIVATIVE FINANCIAL INSTRUMENTS

The following transactions were unsettled at the balance sheet date:

	Nominal value			
	Purchase contracts		Sales contracts	
Futures transactions	31.12.2017	31.12.2016	31.12.2017	31.12.2016
a) Interest rate-related business				
OTC-products				
Interest swaps/Interest rate contracts	548,507,696.33	784,806	548,507,696.33	784,806
b) Currency-related business				
OTC-products				
Currency swaps	93,442,065.92	8,104	94,001,025.46	7,153
Cross-currency swaps	100,273,338.28	179,255	94,111,318.29	178,849
Forward exchange contracts	0.00	1,731	0.00	1,731

	Fair value			
	Positive		Negative	
Futures transactions	31.12.2017	31.12.2016	31.12.2017	31.12.2016
a) Interest rate-related business				
OTC-products				
Interest swaps/Interest rate contracts	47,062,535.00	76.969	41.956.960.00	54,593
b) Currency-related business				
OTC-products				
Currency swaps	0.00	1,095	690,767.00	0
Cross-currency swaps	6,123,393.00	864	0.00	1,461
Forward exchange contracts	0.00	82	0.00	82

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 31.12.2017 the net fair value of derivatives designated as hedging instruments, was EUR 5,000,316.00 (31.12.2016: TEUR 22,196).

In the year under review, some hedging relationships were early terminated - the net positive result, including the underlying transactions, amounts to EUR 14,887,802.43 (31.12.2016: TEUR 11,495). See notes 14 and 15.

On the 09.09.2013, Anadi Bank AG and Heta Asset Resolution AG (formerly Hypo Alpe-Adria-Bank International AG) entered into a netting agreement which governs contracts for financial futures trading, including the collateral annex (100 percent cash collateralization). In addition, an individual agreement supplementing the master agreement was signed, in order to apply netting for the purpose of reducing counterparty default risk and credit risk.

12. CONTINGENT LIABILITIES

	31.12.2017	31.12.2016
Contingent liabilities	69,638,911.91	61,039
Guarantees and other collateral securities	69,638,911.91	60,967
Letters of credit	0.00	71

13. OTHER OFF-BALANCE SHEET STATEMENTS

Loan exposures comprise unused credit lines totalling EUR 154,657,000.00 (31.12.2016: TEUR 123,940).

Liabilities from fiduciary activities amounted to EUR 16,075,694.67 (31.12.2016: TEUR 17,939) in the year under review. These activities mainly comprise assets held in trust refinanced by Austrian Control Bank and Heta Asset Resolution AG (formerly Hypo Alpe-Adria-Bank International AG).

In addition to the reported contingent liabilities, there is also an obligation with respect to the obligatory membership of "Hypo-Haftungs-Gesellschaft m.b.H" in relation to the safety of deposits under Section 93 BWG.

Obligations arising in connection with the use of fixed assets (leasing obligations) not included in the balance sheet of Anadi Bank amount to EUR 554,622.46 (31.12.2016: TEUR 848) for the year under review, EUR 552,850.06 are due in 2018 and totalling EUR 2,000,625.16 are due for the years 2018 to 2022.

Demerger liability

In 2012 Austrian Anadi Bank AG was restructured by means of a demerger of those segments that did not belong to its core business (assets and liabilities) into Heta Asset Resolution AG (Heta). Because of demerger liability according to SpaltG (Austrian Demerger Act) Austrian Anadi Bank AG is liable for all transferred liabilities to Heta, which were recognised prior to registration of demerger in Commercial Register as at 5 September 2012. Austrian Anadi Bank AG has obtained legal opinions from widely-recognised experts to evaluate potential risks resulting from the demerger liability. These opinions state, that there are good arguments regarding a limitation of demerger liability, if liabilities of principal debtor are due within five years starting at date of registration of demerger in Commercial Register. Accordingly, an enforcement of obligations is not possible for liabilities, which are or were due after 05.09.2017.

Regarding liabilities that were transferred to HETA, but which were not part of the public offer of the Kärntner Ausgleichszahlungs-Fonds (KAF), the last outstanding liability was repaid in the second half of 2017. As a consequence, a claim against Austrian Anadi Bank AG with regard to such liabilities is no longer possible.

In addition, any payment obligations of Austrian Anadi Bank AG deriving from the demerger liability are covered by an indemnity letter issued by its sole shareholder, Anadi Financial Holdings Pte. Ltd.

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. For any liabilities of the Pfandbriefbank which arose either before 2 April 2003 or after 2 April 2003 with a term not exceeding 30 September 2017, the guarantors of the member institutions (the relevant federal province of the member institution in question) are jointly and severally liable pursuant to Section 2(2) of the PfBrStG. In the audit report for Pfandbriefbank setting out the legal obligations on liabilities, the value of the liabilities to be covered by the guarantors was reported at around EUR 0.72bn (31.12.2016: EUR 1.93bn) as at the reporting date 31.12.2017. After taking into account the funds received by Pfandbriefbank and forwarded to Austrian Anadi Bank AG from issuances in the amount of EUR 0.0bn (31.12.2016: EUR 0.21bn), the resulting amount which must be reported pursuant to Section 237 8a of the UGB comes to EUR 0.72bn (31.12.2016: EUR 1.72bn). This joint and several liability according to Section 896 of the Austrian Civil Code can potentially amount to 1/16th of EUR 0.72bn.

NOTES TO THE INCOME STATEMENT

14. INTEREST AND SIMILAR INCOME

	31.12.2017	31.12.2016
From loans and advances to credit institutions and customers	45,144,851.10	47,522
thereof Austria	38,928,178.38	41,973
thereof International	6,216,672.72	5,549
From fixed-income securities	13,987,699.53	4,830
thereof Austria	7,064,543.61	4,506
thereof premium of securities held as fixed assets	*–70,900.00*	*–2,995*
thereof International	6,923,155.92	324
thereof premium of securities held as fixed assets	*0.00*	*–7,646*
From other assets	31,295,401.12	31,691
thereof Austria	31,295,401.12	31,691
thereof close outs	*20,783,679.79*	*13,911*
thereof International	0.00	0
Total	90,427,951.75	84,043

Interests and similar income from other assets includes EUR 20,783,679.79 (31.12.2016: TEUR 13,911) from early termination of derivatives which were designated in hedging relationships.

Interest earnings include negative interests from receivables in the amount of EUR 676,609.85 (31.12.2016: TEUR 669).

15. INTEREST AND SIMILAR EXPENSES

	31.12.2017	31.12.2016
From liabilities to credit institutions and customers	8,004,083.80	11,420
thereof Austria	5,656,226.54	6,339
thereof International	2,347,857.26	5,081
From debt securities in issue	23,347,290.57	28,074
thereof Austria	22,400,003.26	28,074
thereof International	947,287.31	0
From other liabilities	19,212,157.44	18,292
thereof Austria	19,212,157.44	18,292
thereof close outs	*5,895,877.36*	*2,416*
thereof International	0.00	0
Total	50,563,531.81	57,786

Interest and similar expenses from other liabilities includes EUR 5,895,877.36 (31.12.2016: TEUR 2,416) on the early termination of derivatives in 2017, which were designated in hedging relationships.

16. COMMISSION INCOME AND EXPENSES

	31.12.2017	31.12.2016
From the lending business		
Fee and commission income	7,191,093.60	4,426
Fee and commission expenses	–1,761,391.06	–765
From the securities business		
Fee and commission income	1,807,298.86	1,832
Fee and commission expenses	–212,169.10	–232
From other transactions		
Fee and commission income	7,355,671.09	7,299
Fee and commission expenses	–1,101,265.91	–1,668
Total income	**16,354,063.55**	**13,557**
Total expenses	**–3,074,826.07**	**–2,666**

17. OTHER ADMINISTRATIVE EXPENSES (OPERATING EXPENDITURE)

	31.12.2017	31.12.2016
Legal and consultancy expenses	2,072,350.61	2,713
Advertising and hospitality expenses	1,235,079.19	1,045
Rental, leasing and other building expenses	2,392,161.25	2,866
IT expenses	1,799,630.59	1,397
Data centre expenses	3,686,362.99	3,087
Training expenses	171,594.89	257
Issue expenses	285,740.87	101
Travel expenses	248,681.40	291
Fleet expenses	201,671.08	192
Insurance	406,936.90	427
Telephone/postage expenses	494,846.69	550
Expenses in connection with company legal structure	270,700.00	232
Office/stationery expenses	107,145.43	128
Single Resolution Fund (BaSAG)	1,143,791.00	1,330
Guarantee deposit (EiSi Hypo-Haftungs-GmbH)	992,776.00	452
Other operating expenditure	648,325.65	813
Total	**16,157,794.54**	**15,881**

18. OTHER OPERATING INCOME

	31.12.2017	31.12.2016
Rental and leasing agreements	146,489.36	149
Other opterationg income	5,476,237.94	1,432
Total	**5,622,727.30**	**1,581**

19. OTHER OPERATING EXPENSES

	31.12.2017	31.12.2016
Other operating expenses	510,860.89	973
Total	510,860.89	973

SUPPLEMENTARY INFORMATION

20. DEFERRED TAXES

Balance Sheet positions	31.12.2017	31.12.2016	Description
Securities held as Current Assets	0.00	–192	Deferred tax liabilities
Positive fair values of trading book derivatives	–1,325,088.00	–2,620	Deferred tax liabilities
Untaxed reserves	0.00	–30	Deferred tax liabilities
Securities held as Fixed Assets	5,905,641.00	13,809	Deferred tax assets
Loans and advances to customers	2,628,262.00	0	Deferred tax assets
Participating interest	11,374.00	22	Deferred tax assets
Provisions	8,954,103.00	8,459	Deferred tax assets
Total	*16,174,292.00*	*19,448*	*Net deferred tax assets*
Excess deferred tax 25%	4,043,573.00	4,862	

21. 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.

22. OWN CAPITAL FUNDS

Own Funds in accordance with CRR/CRD	31.12.2017	31.12.2016
Common Equity Tier 1 Capital	160,326,327.38	154,720
Paid up capital instruments	30,000,000.00	30,000
Retained earnings	82,332,115.37	82,332
Other reserves	48,504,080.05	43,178
Value adjustments due to the requirements for prudent valuation (Fair value exposures)	99,701,063.38	156,346
thereof 0.1% deduction	–99,701.06	–156
Deducting intangible assets	–410,166.98	–634
Deducting deferred Tax (currently under the exemption limit)	0.00	0
Deducting investments (currently under the exemption limit)	0.00	0
Additional Tier 1 Capital	0.00	0
Additional Tier 1 Capital	0.00	0
Tier 2 Capital	0.00	2,553
Supplementary Capital total	0.00	18,000
Supplementary Capital allowable	0.00	2,553
Deducting investments (currently under the exemption limit)	0.00	0
Own funds	160,326,327.38	157,272

Own funds requirement	79,180,515.55	78,612
Surplus of total capital	81,145,811.83	78,660
Coverage ratio	202.48%	200.06%

Own Funds Requirement Austrian Anadi Bank AG	31.12.2017	31.12.2016
Risk-Weighted Assets (banking book)	864,070,578.65	854,507
thereof 8% minimum capital requirement	69,125,646.29	68,361
Credit Value Adjustment	695,044.81	873
Own funds requirement for trading book	8,305.32	41
Own funds requirement for open currency position	113,293.23	45
Capital requirment for operational risk	9,238,225.90	9,293
Total own funds requirement	79,180,515.55	78,612
Total risk exposure amount	989,756,444.41	982,652

Common Equity Tier 1 Capital ratio	16.20%	15.75%
Additional Tier 1 Capital ratio	0.00%	0.00%
Tier 1 capital ratio	16.20%	15.75%
Supplementary Capital ratio	0.00%	0.26%
Total capital ratio	16.20%	16.00%

23. SECURITIES

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.

	31.12.2017	31.12.2016
Financial collateral	54,551,308.52	42,514
Cash deposits	40,072,323.93	24,049
Securities	14,478,984.59	18,465
Real estate collateral	813,121,628.17	763,517
Guarantees	312,266,791.85	333,328
Other collateral	110,304,208.59	118,782
Insurance	50,844,741.16	54,621
Movable property	11,427,211.26	12,655
Others	48,032,256.17	51,506
Total	1,290,243,937.13	1,258,141

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

	31.12.2017	31.12.2016
Collateral received	11,440,000.00	17,050
Collateral provided	4,270,000.00	4,370

24. TRUSTEE SAVING ACCOUNTS

Liabilities to customers includes trustee savings accounts with amounting to EUR 3,306,522.10 (31.12.2016: TEUR 2,474).

25. FOREIGN CURRENCY

The balance sheet contains the following foreign currency amounts:

	31.12.2017	31.12.2016
Assets	190,873,862.91	271,098
Liabilities	12,979,703.66	159,313

The main part of the difference amounting to EUR 177,894,159.25 (31.12.2016: TEUR 111,785) is hedged with swap agreements.

26. MORTGAGE BOND ACTIVITIES PURSUANT TO THE AUSTRIAN MORTGAGE BOND ACT (PFANDBG)

	Debt securities in issue		Covering loans		Surplus/shortfall in cover	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Mortgage bonds A	60,000,000.00	0	349,104,294.59	360,942	289,104,294.59	360,942
Mortgage bonds B	55,633,073.90	37,666	71,138,195.68	73,809	15,505,121.78	36,143
Public sector mortgage bonds	464,200,536.66	561,169	587,957,994.04	644,730	123,757,457.38	83,561

Anadi Bank has deposited own not issued covered bonds (mortgage bonds) with the Austrian National Bank amounting to EUR 220,000,000.00. This compares to mortgage collateral stock (covering loans) amounting to EUR 349,104,294.59. As at 31.12.2017 no refinancing funds were utilised.

27. OTHER INFORMATION RELATED TO THE BALANCE SHEET

In accordance with Section 64 (1) (8) BWG, securities with amounting to EUR 368,316,799.00 (31.12.2016: TEUR 762,932) and loans in the amount of EUR 259,802,680.37 (31.12.2016: TEUR 267,795) were pledged as collateral for liabilities to credit institutions amounting to EUR 443,000,000.00 (31.12.2016: TEUR 135,000) as well as for liabilities to customers amounting to EUR 2,614,182.77 (31.12.2016: TEUR 2,119).

As at 31.12.2017 the return on assets in accordance with Section 64 (19) BWG is 0.18 percent (31.12.2016: 0.35 percent).

28. 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). A 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.

Availing itself of the contractually agreed right to termination, notice was given by Austrian Anadi Bank AG to terminate the guarantee commission agreement as at 31 December 2011, whereby the contractual obligation to pay guarantee commission from 1 January 2012 ceased to apply. Irrespective of the termination of this contractual guarantee commission agreement, the statutory guarantee provided under Section 5 of the Carinthian State Holding Law (K-LHG) continues in effect. The supervisory commissioner of the Carinthian State Holding company will continue to be given access to all relevant information at Anadi Bank.

Anadi Bank has not yet paid the guarantee commission for the year 2011 amounting to EUR 1.4m plus interest due to differing legal positions. It is assumed that the out-of-court dispute between the federal state of Carinthia and Anadi Bank regarding the question of the guarantee commission will continue.

On the basis of the timely termination of the guarantee commission agreement on 31 December 2011 by Anadi Bank, no further guarantee commission has been paid by Anadi Bank to the federal state of Carinthia for the period from 1 January 2012. The federal state of Carinthia has not yet issued a legally relevant response to the termination of the liability commission agreement.

As at 31 December 2017, the federal state of Carinthia must extend guarantees for fixed term and non-fixed term commitments from Anadi Bank with a total value of EUR 19,840,000.00 (31.12.2016: TEUR 295,466).

29. 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 2017, the annual contribution payable by Austrian Anadi Bank AG amounted to EUR 992,776.00 (31.12.2016:

TEUR 452). 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.

30. 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 2017, Anadi Bank has paid EUR 1,143,791.00 (31.12.2016: TEUR 1,331). 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.

31. 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.

32. DISCLOSURE

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

33. CASH FLOW STATEMENT

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

34. AUDITING EXPENSES

The expenses in respect of the company's auditor are EUR 204,814.00 (31.12.2016: TEUR 213) as at the reporting date, and comprise other auditing and consulting services in the amount of EUR 0.00 and the audit of the annual financial statements in the amount of EUR 204,814.00.

35. EMPLOYEES

Average number of employees according to Section 239 UGB:

	31.12.2017	31.12.2016
Salaried employees	293.71	331.49

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

As at 31.12.2017, the members of the Management Board had received advances, loans or guarantees totalling EUR 131,427.87 (31.12.2016: TEUR 126) from Anadi Bank.

As at 31.12.2017, 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 133,426.34 (31.12.2016: TEUR 146) 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 2017:

	31.12.2017 Severance payments	31.12.2017 Pensions	31.12.2016 Severance payments	31.12.2016 Pensions
Management Board members	32,083.36	238,473.80	6	238
Senior employees	41,454.44	61,531.97	20	55
Other employees	1,056,304.78	916,082.45	424	255
Total	**1,129,842.58**	**1,216,088.22**	**451**	**548**

In 2017 payments to the employee pension fund amounted to EUR 185,365.62 (31.12.2016: TEUR 191). As a result of the addition of the severance payment provision amounting to EUR–724,839.00 (31.12.2016: TEUR 260), the actual expenses for severance charge in 2017 were EUR 1,129,842.58 (31.12.2016: TEUR 451). In the financial year, severance payments in the amount of EUR 219,637.96 (31.12.2016: TEUR 2,090) 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 -119,006.81 (31.12.2016: TEUR -122) will be paid for 2017. In the financial year, anniversary bonuses in the amount of EUR 46,513.81 (31.12.2016: TEUR 44) were booked against the allocated provisions.

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

	31.12.2017	31.12.2016
Management Board thereof fixed	1,700,991.09	1,607
Supervisory Board	251,500.00	213
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	**1,952,491.09**	**1,820**

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

36. 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 2017.

Klagenfurt am Wörthersee, on 12.03.2018

THE MANAGEMENT BOARD:

GD Mag. Christoph Raninger m.p.

VDir. Gerhard Salzer m.p.

VDir. Mag. Franz Reif 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 from 27.03.2017

Delegated to the Supervisory Board by the Workers' Council
Mag. Gabriele Oberlercher, Krumpendorf
Barbara Perchtold, St. Paul

State Commissioner
Mag. Angelika Schlögel, MBA, Vienna until 30.06.2017
Mag. Renate Platzer, Vienna from 01.07.2017

Deputy State Commissioner
Mag. Stefan Wieser, Vienna

Trustee
Mag. Franz Krug, Feldkirch

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

Management Board
Mag. Christoph Raninger, Hagenbrunn
Gerhard Salzer, Maria Saal
Mag. Franz Reif, Langenlebarn

SCHEDULE 2 TO THE NOTES

FIXED ASSETS MOVEMENT SCHEDULE

Assets	Acquisition costs 01.01.2017	Additions 2017	showing seperate: Interest	Disposals 2017	Transfers 2017	Acquisition costs 31.12.2017
Pos. 2						
Treasury bills						
Fixed-interest securities in fixes assets	282,801,183.86	69,234,100.00	0.00	121,969,686.30	0.00	230,065,597.56
Pos. 4						
Loans and advances to customers						
Fixed-interest securities in fixed assets	92,237,367.09	0.00	0.00	5,984,856.16	0.00	86,252,510.93
Pos. 5						
Debt securities incl. fixed-income securities						
Fixed-interest securities in fixed assets	198,170,702.02	39,693,500.00	0.00	72,250,940.00	0.00	165,613,262.02
Pos. 7						
Participating interests	6,642,445.91	1,000.00	0.00	0.00	0.00	6,643,445.91
Pos. 8						
Intangible fixed assets	2,883,897.50	109,915.54	0.00	30,913.93	0.00	2,962,899.11
Pos. 9						
Tangible assets	18,872,871.90	8,158,520.95	0.00	3,530,988.18	0.00	23,500,404.67
Total	601,608,468.28	117,197,036.49	0.00	203,767,384.57	0.00	515,038,120.20

Cumulative Depreciation 01.01.2017	Additions 2017	Provisions from 2015	Attribution	Transfers 2017	Disposals 2017	Cumulative Depreciation 31.12.2017	Book value 31.12.2017	Book value 31.12.2016
15,177,047.56	65,400.00	0.00	0.00	0.00	0.00	15,242,447.56	214,823,150.00	267,624,136.30
0.00	0.00	0.00	0.00	0.00	0.00	0.00	86,252,510.93	92,237,367.09
11,216,552.02	5,500.00	0.00	0.00	0.00	0.00	11,222,052.02	154,391,210.00	186,954,150.00
3,423,506.66	0.00	0.00	0.00	0.00	0.00	3,423,506.66	3,219,939.25	3,218,939.25
2,249,902.50	333,743.56	0.00	0.00	0.00	30,913.93	2,552,732.13	410,166.98	633,995.00
12,852,402.81	2,205,619.10	1.309.407,00*	0.00	0.00	2,841,474.61	12,216,547.30	11,283,857.37	6,020,469.09
44,919,411.55	2,610,262.66	1,309,407.00	0.00	0.00	2,872,388.54	44,657,285.67	470,380,834.53	556,689,056.73

** The provision formed in 2015 for impending losses from excessively high contractual acquisition costs of leasing items of EUR 1,309,407.00 was used against the nominal write-offs in the amount of EUR 2,205,619.10.*

SCHEDULE 3 TO THE NOTES

CASH FLOW STATEMENT

	31.12.2017 (EUR)	31.12.2016 (TEUR)
Pre-tax profit	6,690,148	15,206
Appreciation in value	0	0
Depreciation	2,544,863	5,843
of tangible fixed assets	2,205,619	910
of intangible fixed assets	333,744	371
of financial assets	5,500	4,561
Change in loans and advances and other assets	–106,883,966	174,769
Loans and advances to credit institutions	–131,321,077	–18,968
Loans and advances to customers	16,932,243	206,777
Other assets	6,859,198	–11,432
Deferred assets	645,670	–1,609
Change in provisions	–6,135,960	–20,997
For severance payments	–30,572	–1,830
For pensions	83,150	–593
Other provisions	–6,188,538	–18,573
Change in payables and other liabilities	–12,037,723	–121,601
Liabilities to credit institutions	140,427,759	–212,209
Liabilities to customer	32,012,837	265,343
Debt securities in issue	–181,099,560	–170,419
Other liabilities	–3,065,642	–5,076
Deferred liabilities	–313,117	760
Change in securities classified as current assets	56,528,913	–28,684
Bonds and other fixed-income securities	56,529,363	–28,687
Shares and other variable-yield securities	–450	3
Taxes	–5,893,680	–479
Taxes on income	92,648	–2,932
Other taxes	–1,586,327	–1,948
Tax provisions	–4,400,000	4,400
Cash flow from operating activities	–65,187,406	24,055
Changes in tangible and intangible fixed assets	–7,578,923	–856
Investments	–8,268,436	–930
Proceeds from sales	689,514	74
Changes in financial assets	38,541,296	–12,860
Securities classified as fixed assets	38,542,296	–12,783
Associates and affiliated companies	–1,000	–77
Cash flow from investments activities	30,962,373	–13,716
Dividends paid	–5,000,100	0
to shareholders of the parent company	–5,000,100	0
Changes in subordinated and equity capital	–18,121,600	0
Subordinated liabilities	–18,121,600	0
Cash flow from financing activities	–23,121,700	0
Cash flow	–57,346,732	10,339

	31.12.2017 (EUR)	31.12.2016 (TEUR)
Cash and cash equivalents at the beginning of the period	308,427,796	298,089
Cash in hand, balances with central bank	25,032,530	27,432
Treasury bills and bills of exchange eligible for refinancing	283,395,265	270,657
Cash and cash equivalents at the end of the period	251,081,063	308,428
Cash in hand, balances with central bank	25,365,077	25,033
Treasury bills and bills of exchange eligible for refinancing	225,715,986	283,395
Effective change in cash and cash equivalents	–57,346,732	10,339

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 12.03.2018

THE MANAGEMENT BOARD:

GD Mag. Christoph Raninger m.p.

VDir. Gerhard Salzer m.p.

VDir. Mag. Franz Reif m.p.

AUDITOR'S REPORT

REPORT ON THE FINANCIAL STATEMENTS

Audit Opinion

We have audited the financial statements of

Austrian Anadi Bank AG,
Klagenfurt, Austria,

which comprise the Balance Sheet as of 31 December 2017, 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 2017 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 ("EU 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 in the "Auditors' Responsibility" section of our report. We are independent of the Company, in accordance with Austrian Generally Accepted Accounting Principles and professional regulation, 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 2.0 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 37.4 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 empirical values 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 have audited the individual specific loan loss provision on the basis of a sample of loans and assessed whether credit defaults were identified in time and whether loan loss provisions have been recognized in an adequate amount. The selection of the sample was performed risk-oriented and with special regard to industries and ratings with higher probability of default risk. In the case of identified impairment triggers we assessed the bank's assumptions with respect to conclusiveness and consistency and whether they are free of contradictions. In doing so we especially analyzed the economic development of the costumer as well as the valuation 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 control as management determines is 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 reporting process.

Auditors' Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement – whether due to fraud or error - and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU 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 EU 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 Generally Accepted Accounting Principles 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 the Austrian Generally Accepted Accounting Principles 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 EU Regulation

At the Annual General Meeting dated 12 December 2016, we were elected as auditors. We were appointed by the supervisory board on 20 January 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 EU Regulation.

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

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:

- Regulatory Consulting
- Tax-Consulting

Auditor in Charge

The auditor in charge is Mr Bernhard Mechtler.

Vienna, 12 March 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:
Bernhard Mechtler
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid. The financial statements together with our auditor's opinion may only be published if the financial statements and the management report are identical with the audited version attached to this report.
section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

PUBLISHING INFORMATION

Responsible for the content of this report:

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Forward looking statements and forecasts are based on information and data available at the time of finalising the financial statements (12.03.2018). 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

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