Austrian Anadi Bank

your future bank – since 1896

Welcome to the bank of the future.

Annual Financial Statement
and Management Report 31.12.2016

AUSTRIAN ANADI BANK AG
KEY DATA

in EUR m	2016	2015
Total assets	2,934	3,062
Primary funds (customer deposits, own funds)	2,372	2,277
Customer Assets	2,052	2,264
Total shareholder equity	184	174
of which Tier 1	166	156
Net interest income	26	66
Operating income	41	84
Operating expenses	–49	–61
Operating result	–8	23
Profit from ordinary activities	15	3
Cost: Income ratio	negative	72.07%
Net Interest Margin	1.79%	2.10%
Return on equity (RoE)	6.23%	2.37%
Return on assets (RoA)	0.35%	0.12%
Total number of employees	360	438

FINANCIAL REPORT 2016

MANAGEMENT REPORT 2016

MANAGEMENT REPORT

Anadi Bank is a **dynamic Austrian multichannel bank** active in the business segments of Retail Banking, Corporate Banking and Public Finance.

1. GENERAL ECONOMIC ENVIRONMENT

The beginning of 2016 was marked by a gradually increasing renewal of confidence in the Austrian and European economies. However, the British Brexit decision and uncertain geopolitical developments (including the US elections, growth prospects in China and India, the conflict in the Middle East and the refugee crisis) negatively affected the Austrian economy in the second half of 2016. Nevertheless, demand increased, resulting in a rise in Austria's economic output.

Following subdued growth between 2012 and 2015 (+0.6 per cent p. a.), the domestic economy again expanded more strongly in 2016. Private households increased their consumption due to higher levels of income as a result of tax relief, and equipment investment markedly increased. The share of exports continued to remain at a high level in 2016. These positive trends are expected to continue throughout 2017 and beyond – particularly in the context of a close connection between the Austrian and German economies. Although the high Austrian export ratio is supportive for the Austrian Anadi Bank AG (Anadi Bank) as specialist bank focussing on export business and India, it is expected that the markets will continue to remain challenging.

In 2016 the European Central Bank (ECB) adhered to its programme of purchasing bonds to provide the markets with low-cost liquidity. Short-term reference interest rates approached the ECB deposit rate of minus 40 basis points. Middle and long-term reference interest rates sank accordingly; the spreads of all instruments included in the purchase programme and issuers involved also narrowed significantly. At the end of 2016, the yield curves for maturities of up to four years were negative.

Towards the end of 2016, inflation rose slightly due to higher energy prices (oil). However, the economic upswing is viewed as fragile and there are no indications of lasting inflationary pressure. Growth is considered to be more resilient and stable in the USA, with higher inflation and an increase in interest rates expected as a consequence.

2. OVERVIEW

2.1 The Bank's positioning

Anadi Bank is a dynamic Austrian multichannel bank active in the business segments of Retail Banking, Corporate Banking and Public Finance. It offers clients user-friendly digital services, a mobile team of consultants and a focused branch network. As a principal bank for mid-sized businesses in trade, industry and real estate, and a product specialist for businesses in the import and export sector, the bank provides companies and their proprietors with unique access to the Indian growth market. The bank has 360 employees serving more than 50,000 clients at 10 locations in Carinthia, Salzburg, Styria and Vienna.

2.2 Vision and transformation

Anadi Bank has a strong base in the Retail, Corporate and Public Finance sectors, from which it is developing into a specialised Austrian bank with a new mobile banking approach. The bank met considerable external challenges in 2016, while also taking decisive steps to expand both its presence in the Austrian market and its international capabilities.

In the face of uncertainties regarding the results of a potential Heta insolvency, the bank employed a risk-adjusted approach with respect to new business and financing operations in the first quarter. The primary focus was on liquidity and capital-strengthening measures, which were successfully implemented. At the beginning of 2016, this had an effect on core business and income development. Meanwhile, new business has again reached an attractive level. Due to ECB monetary policy measures and the current interest rate environment, margins still remain under pressure.

In September 2016, the Kärntner Ausgleichszahlungs-Fonds (KAF) released a revised offer for the purchase of a range of the senior and subordinated instruments issued by Heta. This offer was subsequently accepted by a majority of bond investors. Anadi Bank also accepted the offer and received the agreed zero-coupon bond with a redemption date of 14.01.2032. The term of the bond was based on establishing a discounted valuation for the bond of 90 per cent of the face value of Heta's unsubordinated debts. Anadi Bank's claim against Heta of EUR 77.4m applied to Heta's senior debt obligations, for which Anadi Bank assumed responsibility when Heta did not fulfil its obligations to the Pfandbriefbank AG. These changes led to a release of risk provisions in the financial year of EUR 29.7m.

In response to the aforementioned market developments, Anadi Bank continued with the adjustments to its financing structure which had commenced in 2015. Interest expenses were reduced through measures taken by management with respect to own issues management and new business activities successfully improved margins.

With a Tier 1 capital ratio of 15.75 per cent and a loan/deposit ratio (primary funds, i.e. liabilities to customers plus debt securities issued in relation to loans) of 87 per cent, the bank is in 2017 again in a strong position to grow. The same is true for support of the bank's import and export clientele through the provision of advisory services and finance.

2.3 Retail Banking

In 2016 the course was set to create a new hybrid bank - a combination of a branch-based bank and an online bank.

In Carinthia, the branch network was optimised and strengthened financially. The locations in Vienna, Graz and Salzburg gathered momentum and are now well-equipped for future business growth.

In online banking, the customer service functions were expanded in early 2016 and the new Anadi Mobile Banking App for Android and iOS was rolled out. This first-class application in the context of the Austrian market has a host of customer-friendly functions, such as the Personal Finance Manager (online transactions are allocated to fully-automated, predefined expenditure categories and give customers a clear overview of the use of their funds), cash transactions in real-time between Anadi accounts, or the option to specify and manage savings goals. In the area of savings and financial investments, the online products offering (savings investments and fixed-term deposits) was expanded. These first steps were positively received by customers. As a result of these measures, the bank increased its online deposits by around EUR 100m.

The bank **met** considerable **external challenges** in 2016, while also taking decisive steps to **expand** both its **presence in the Austrian market** and its **international capabilities.**

User-driven digital services, a mobile team of consultants and a focused branch network. For customers who want **fast, simple, and convenient solutions to their financial affairs.**

Since the beginning of 2016, customers in the catchment area of an Anadi Bank branch can make use of the consultation services offered by highly-qualified mobile advisors specialising in financing and asset management.

Anadi Bank took another important step with the establishment of the Customer Care Centre in August 2016. Receiving around 13,000 calls per month, of which around 80 per cent are resolved at first contact, this increases the efficiency of internal processes, allowing a focus on advisory services, and thereby notably contributes to simpler and more service-oriented customer care. Anadi Bank can point to a successful record as a financing specialist. In order to meet the customer's needs more successfully, the product range was further expanded with the help of external experts in vehicle financing (Autobank) and housing loans (Wüstenrot Bausparkasse). The risk strategy of the past few years has created a stable basis for the future. The quality of the credit portfolio is high, and in 2016 there were no significant provisioning requirements.

In accordance with the "simpler and faster" vision, in 2016 the bank invested in innovations which will be ready to bring to market in the first quarter of 2017. The website is being redesigned and the product range expanded with online accounts and online loans. The new website goes live in February 2017 and, alongside the already available online opening of savings and fixed-term savings accounts, online video verification will also be offered. To this end, the bank entered into a partnership with the FinTech "WebID Solutions" in the 4th quarter of 2016.

Furthermore, within the framework of a partnership with the FinTech "FinReach", Anadi Bank has begun work on a solution for a fully-automated service which will allow future customers of the bank to switch from one bank account to another in less than 10 minutes. Whether carried out on a tablet, PC or Smartphone, irrespective of the device used time-consuming searches for documents and statements should no longer be needed as the account switch service automatically recognises the customer's payment partners. Direct debits, standing orders and cash receipts of the existing account are clearly listed. With just a few clicks, the customer can decide when payments should commence through Anadi Bank, and which payment partners should be automatically informed of the new bank details. Closure of the existing account is prompted and the bank is informed automatically as well. Automatic account switching will come into effect in the 2nd quarter of 2017.

2.4 Corporate Banking

In 2016 the Corporate Banking segment further developed its strategy as a primary bank for mid-sized companies in Austria, and as a specialised bank for exports and for business relating to India. In the future, there will be a greater focus on the manufacturing, trade and real estate sectors.

The Corporate Banking business has many years of experience in financing SME customers in the real estate business. Corporate customers are offered the best financial solutions for a wide range of demands on the basis of a structured analysis.

As a specialised bank, Anadi Bank pursues the goal of servicing the goods and capital flows between central Europe and the growing Indian market. The bank's owners, as well as its network of Indian companies, ensure Anadi Bank enjoys access to a unique network in India. The bank's Indian expertise is also of interest to large firms in Austria and neighbouring markets.

The Corporate Banking business therefore focuses on two areas:

Primary Bank for SMEs (Austria)

The Corporate Banking division intends to strengthen its function as a primary bank and become the first-choice partner for mid-sized corporate clients in the manufacturing, trade and real estate sectors. The Corporate Banking area identifies the customer's needs and offers the right solutions, in an enterprising, flexible, simple and fast manner. Together with the customer, overall solutions are established based on financial, investment, risk management and liquidity requirements.

Specialised Bank in Central Europe for Indian and Export Business

Economic indicators confirm that India is a future market with high potential and above-average positive economic development. The country is one of the ten largest economies in the world, and is expecting the strongest economic growth by far in the coming two years, with high demand for technology arising as a result. This offers extensive export opportunities for European firms with a high level of technology know-how ("Hidden Champions"). Anadi Bank has set itself the goal of accompanying these firms to India and offering them expert support there.

In 2016 Corporate Banking developed advisory services for the business development in India as well as bank products for the successful execution of business with India. Additionally, Corporate Banking has established a cooperation with the Indian SREI Group and is now in the position to offer European firms the support of this network on their way to India.

Anadi Bank has adapted its products to the Indian market, strengthened relationships with local banks and SREI companies, became a member of the German-Indian Chamber of Commerce in 2016, and started the access process with Euler Hermes and KfW-IPEX in Germany, through which the existing relationship with the OeKB was expanded.

Corporate Banking also organised export fairs in Vienna, Graz, Salzburg and Munich. Together with external partners, customers were informed about business opportunities in India and the services offered by Anadi Bank. In addition, the bank took part in an Indian delegation under the guidance of the Austrian Economic Chambers and supported its "India – Back to Business" event.

2.5 Public Finance

Over the course of 2016, it was the bank's goal to retain its regional market coverage. Despite the continued effects of the stability pact in the public sector, the Public Finance division was able to remain selectively active in the market and be a reliable partner to the public sector.

The management of subsidised residential building loans in Carinthia was also carried out to the complete satisfaction of the partners (customers and the Province of Carinthia) in the financial year given. The switch to digital communication has resulted in an environmentally-friendly optimisation which will be extended in 2017.

In 2017 the Public Finance division will continue to assist its customers in both the financing and investment sectors as a strong and competent partner beyond the

Austrian Anadi Bank specializes in the growth markets of India and Southeast Asia. **The strong bank that connects worlds.**

borders of Carinthia. Qualitative, high-value advice and a maximum level of security for investments remain the focus of the business strategy.

2.6 Treasury and Markets

In 2016 the Corporate & Market Solutions department was established. It will function as a platform for new products and markets within the framework of the business strategy, and expand the bank's internal structuring expertise in collaboration with other departments, in order to further diversify the bank's revenue base.

The focus of the Treasury & Markets department was placed on optimising the bank's funding and balance sheet structure. In this context, efforts were made to expand and intensify business relationships with other banks and investors. In addition, the implementation of new regulatory requirements as well as the preparation for pending regulatory specifications in relation to asset/liability management were a priority.

Within the context of the diversification of additional funding sources, last year new primary funds were raised over an online platform in Germany. This new sales channel represents a significant building block for the bank's overall financing structure.

3. BUSINESS DEVELOPMENT OF ANADI BANK

In 2016 Anadi Bank continued to implement balance sheet optimisation measures. In continuously challenging environment (low interest rate environment, Heta moratorium, increased regulatory requirements) the focus lay on the implementation of the transformation strategy, cost optimisation, the improvement of capital utilisation, and investments for implementing the steps required for the long-term sustainable future vision. The result for the financial year 2016 was influenced by uncertainties, the events related to Heta and one-off effects. The developments are outlined below in detail.

3.1 Balance sheet development

As at 31.12.2016 Anadi Bank had total assets of EUR 2,934m (2015: EUR 3,062m) and therefore successfully continued the balance sheet optimisation process in 2016. As before, the focus lay on reducing assets with a low degree of profitability (measured as the correlation between income and capital consumption) and on selective reinvestment into assets with better returns. In general, 2016 was a further year of consolidation.

Assets in TEUR	31.12.2016	31.12.2015
Loans and advances to credit institutions	177,065	158,097
Loans and advances to customers	2,051,661	2,264,423
Debt securities	620,250	564,620
Participating interests	3,219	3,142
Other assets	81,815	71,599
Total Assets	2,934,010	3,061,881

Liabilities in TEUR	31.12.2016	31.12.2015
Liabilities to credit institutions	326,861	539,070
Liabilities to customers	1,495,128	1,229,785
Debt Securities in issue	876,636	1,047,055
Primary Funds	*2,371,764*	*2,276,840*
Subordinated Capital	18,122	18,122
Own Capital	155,510	151,787
Other liabilities incl net profit for the year	61,753	76,062
Total Liabilities	2,934,010	3,061,881

Nevertheless, customer deposits rose to EUR 1,495m (2015: EUR 1,230m), which, overall, demonstrates a very stable customer base as well as a strong primary funding base.

Loans and advances to customers were reduced to EUR 2,052m in 2016 (2015: EUR 2,264m) as part of the portfolio optimisation. The amount held as a liquidity reserve and receivables from credit institutions rose to EUR 797m (2015: EUR 723m).

Asset quality improved slightly in 2016 in comparison to the previous year. Overall, risk provisions amounted to EUR 37.02m in 2016 (2015: EUR 39.02m without risk provisions for Heta), corresponding to around 1.8 per cent of the entire credit portfolio (2015: 1.7 per cent).

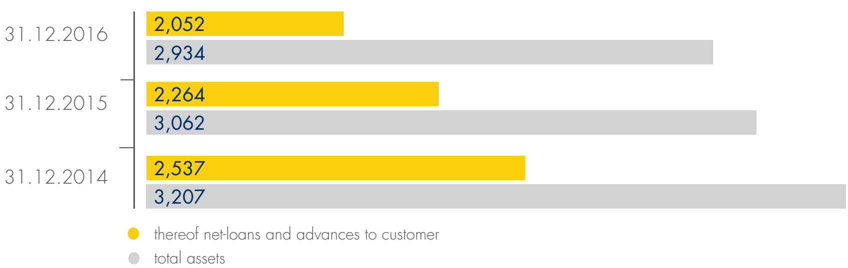
The proportion of loans overdue at the balance sheet date accounted for 2.2 per cent (2015: 3.5 per cent, including Heta financing) of the overall exposure, reflecting the good credit quality of the bank's assets.

The primary funds, defined as liabilities to customers plus debt securities issued, reached a total of EUR 2,372m (2015: EUR 2,277m). The bank's loan to deposit ratio (loans in relation to primary funds) stood at 87 per cent (2015: 99 per cent).

As at 31.12.2016 the LCR was significantly above the minimum requirements at 289.0 per cent (2015: 169.6 per cent), as was the NSFR at 111.5 per cent (2015: 95.05 per cent).

The bank's Leverage Ratio was at 5.1 per cent on 31.12.2016 (2015: 4.7 per cent) and is thus well above the prescribed minimum requirement of 3 per cent under Basel III.

Total assets in EUR m



Higher customer deposits, decrease in loans and advances to customers, slight year-on-year **improvement in asset quality.**

3.2 Own capital funds

The bank's own capital funds (Tier 1 Capital and Tier 2 Capital, less deductions) in accordance with CRR amounted to EUR 157.3m as at 31.12.2016 (2015: EUR 157.0m). The legally required level of capital was EUR 78.6m, resulting in an excess of EUR 78.7m (2015: EUR 73.2m) and a coverage ratio of 200 per cent (2015: 187 per cent).

As at 31.12.2016 the Common Equity Tier 1 Ratio under CRR/CRD regulations was 15.75 per cent (2015: 14.4 per cent). The bank's total capital ratio was 16.0 per cent (2015: 15.0 per cent). The capital ratios have further improved in comparison to the previous year and are significantly above the legally required minimum levels.

The **capital ratios** have further improved in comparison to the previous year and are **significantly above the legally required minimum levels.**

3.3 Profit and loss 2016

Due to positive one-off effects of EUR 21.1m in total in the 2015 financial year (mostly due to the termination of derivative transactions with Heta) the comparability of the 2015 and 2016 financial results is not meaningful. Given the events around Heta and the related management measures which had to be taken, managements P/L focus in 2016 was to deliver a strong profit on ordinary activities. Therefore a comparison or analysis of the operating result is of only limited value.

The 2016 financial year was influenced by one-off effects and the necessary limitation of business activities in the first four months due to the uncertainties and developments connected with Heta.

After adjustments for one-off effects from swap closures in the amount of EUR +11.5m (2015: EUR +41.1m), valuation effects from the investment book of EUR -10.6m (2015: EUR -9.9m), and effects based on the negative interest rate environment of EUR -2.8m (2015: EUR -0.9m), the net interest income amounted to EUR 28.2m (2015: EUR 35.4m). This was predominantly a result of the reduced business activities in the first four months of 2016 due to precautionary measures. The resulting lower business volume led to reduced interest and commission income.

Net interest income to average total assets was 1.79 per cent (2015: 2.10 per cent).

To optimise interest expenses, the bank reduced the volume of its own issues during the 2016 financial year.

After adjustment for one-off effects, operating income was EUR 43.1m (2015: EUR 53.7m), with a net interest margin of 0.94 per cent (2015: 1.1 per cent). In 2016 the net commission income of EUR 10.9m was below the previous year's result of EUR 14.2m. Other income totaled EUR 4.1m (2015: EUR 4.1m).

Operating Expenses in 2016 fell significantly, from EUR 60.6m to EUR 48.9m, a reduction of approximately 19.3 per cent. After adjustment for restructuring costs of EUR 0.9m (2015: EUR 6.7m; additionally in 2015 costs of EUR 2.5m were incurred in connection with the volatility in the Swiss franc exchange rate), and despite the rise of contributions to the deposit protection fund (EiSi) and the bank resolution fund (BaSAG) to EUR 1.8m (2015: EUR 1.4m), operating expenses decreased by 6.7 per cent to EUR 48.0m (2015: EUR 51.4m). These cost developments, together with increases in efficiency, reflect the bank's strict cost management policy. The structural measures introduced are therefore already having a positive effect.

Despite substantial cost savings, which will have a positive effect on the bank's further development in the long term, the operating result was EUR -7.7m (2015: EUR 23.5m). Due to the aforementioned one-off effects, as well as the reduced level of business activities in the first four months, the operating result is only of limited information.

The positive value adjustments with regard to loans and advances as well as provisions for contingent liabilities amounted to 22.9m (2015: -20.7m) and contributed significantly to the profit from ordinary activities.

The risk provisions in connection to the Heta/Pfandbriefstelle liabilities had a negative impact on the financial results for 2015 of EUR 21.8m. As a result of accepting the offer from the Carinthian compensation fund, the previous year's provision changed by EUR 37.5m (utilised EUR 7.8m, release EUR 29.7m).

The bank's solid customer-focused business model provides comfort to possible market disruptions as a result of Brexit.

In the reporting year the result from ordinary business activities was EUR 15.2m (2015: EUR 2.8m).

The profit after tax for the financial year amounted to EUR 10.3m (2015: EUR 3.7m).

3.4 Key profit indicators

A comparison between the results for 2016 and 2015 is greatly distorted by the one-off effects outlined above.

The cost/income ratio, the proportion of operating expenses to operating income, is negative (2015: 72 per cent). This matter is referred to in the explanation in section 3.3.

The return on equity after tax is 6.2 per cent for 2016 (2015: 2.4 per cent), and the return on assets is 0.35 per cent (2015: 0.12 per cent).

These indicators will further improve with the ongoing development of the business strategy as well as through the implementation of initiatives for cost optimisation within the framework of the restructuring programme.

4. ANALYSIS OF NON-FINANCIAL PERFORMANCE INDICATORS

4.1 Employees

As at 31.12.2016 Anadi Bank had 360 employees at 10 locations across Austria, which is a significant reduction of staff compared to the previous year, linked to an improvement in processes and efficiency (2015: 438 employees). The bank offers its employees many part-time options, of which 122 employees were making use of as at 31.12.2016. The resulting employment level in terms of FTE was 315 (2015: 397 FTE); 49.5 per cent of employees are women (178 female employees as at 31.12.2016), measured in FTE and corresponding to 46.80 per cent.

For more than 25 years, Anadi Bank has been successfully training apprentices, allowing them to gain experience on the job. The training strategy was also continued in 2016. As at 31.12.2016 the bank employed 5 apprentices. These are trained according to various models including both high school day release as well as traditional banking training.

For Anadi Bank, ongoing training of employees and organisational development, as well as a motivational work environment and healthcare provision are a high priority. To promote the professional and personal development of employees, a number of specialist and management training events, together with sales and product training and internal training possibilities are offered. Through this diverse range of training opportunities the bank ensures that employees are appropriately trained and also that the attractiveness of Anadi Bank as an employer is assured.

The new positioning and development of the bank into a multichannel provider of financial services is accompanied by improved mobile and digital service capabilities as well as a more streamlined and efficient overall structure. Where existing units can be reorganised or reduced as part of this reconfiguration, employees will be transferred to other roles within the bank wherever possible.

4.2 Customers

For its 50,000 customers, Anadi Bank is a strong and reliable partner for all financial issues and has offered advice and support based on requirements for many years. The bank has set itself the goal of rendering the handling of money and financial affairs as easy and as successful as possible for its customers – whenever, however, and wherever they desire. As a modern hybrid bank, it offers its customers a variety of contact points – from modern online banking with easy-to-use services and products via a customer care centre and a mobile advice team, to the traditional branches.

4.3 The environment and social responsibility

The "Green Bank" working group, created in 2012, is working on sustainable resource utilisation and supports environmental protection. Examples of its activities include the use of environmentally-friendly e-bikes for journeys between individual locations, the reduction of travel through video conferences for internal meetings, and the wide scale avoidance of colour printouts.

The bank clearly sees its remit in providing fast and effective help and in taking its social responsibility seriously. In April 2016 the bank organised a day of solidarity together with "Lebenshilfe Kärnten" (Carinthia Counselling). Employees and customers of the bank took part in the varied programme which included undertaking practical exercises as well as the "Self-discovery through mindfulness" meditation.

In addition, the bank took on four sponsorship opportunities as part of the „Sun for Children" programme, thus making it possible for handicapped children or children from socially disadvantaged circumstances to go on holiday to Italy. For the children, this stay with caring support meant an unforgettable time that their parents were unable to provide.

As a long-time pioneer and supporter of the culture festivals „Trigonale" and „Kultur. Raum.Kirche.", in 2016 the bank again sponsored a high-quality festival of old music in

Carinthia. This cultural initiative, which is unique in the Alpe-Adria region, supports high quality music ensembles performing at striking venues.

At the Vienna Natural History Museum, the bank sponsored the special "Andere Welten/ Otherworlds" exhibition by the American artist Michael Benson, offering an impressive excursion into the universe with satellite images of distant landscapes in our solar system.

4.4 Research and development

In common with others in the banking sector, Anadi Bank is not involved in any research or development activities.

5. RISK MANAGEMENT

The acceptance of risk based on our business activity and the professional steering and handling of these risks is a core function of Anadi Bank.

Risk management tasks are carried out within the bank by Credit Risk Management and Strategic Risk Management. Both divisions report directly to the Chief Risk Officer (CRO), who is a member of the bank's Management Board.

5.1 Risk strategy, risk control and risk monitoring

The risk strategy of the bank defines the basic principles of its risk policies, the aims of which are the creation of a consistent risk profile and preservation of an adequate capital base. It was developed on the basis of the business strategy adopted by the Management Board and Supervisory Board. All employees and management fully adhere to the risk strategy when carrying out their operative activities.

The risk policy principles for the risk strategy form the basis for a consistent understanding of the risks within Anadi Bank, which is reflected by the risk awareness of all employees. This is supported by clearly defined risk management processes as well as the relevant organisational structures.

The risk strategy also includes the goals of risk control for all existing business activities as well as measures for the achievement of these goals. It covers risk concentration and provides general statements about the processes for identification, assessment, limitation, control, monitoring and communication of the existing risks.

The following premises have been formulated within the risk strategy framework:

- The definition and regulation of the risk strategy lies within the collective responsibility of the Management Board.
- There is a strict separation of functions in accordance with the regulatory requirements as well as a risk-related organisational structure with clearly defined risk processes.
- Defined risk limits are closely linked to economic capital allocation and are derived from the risk coverage potential. As part of the operationalisation of risk limits, other limits with indirect reference can be established for risk-bearing capacity purposes.
- There are clearly defined reporting processes for risk communication with regular risk reports to the Management Board and senior management.

Anadi Bank's goal is to make **handling money and financial affairs as easy and successful as possible** for its customers – whenever, however, and wherever they desire.

- The elements of risk control, its methods and assumptions, are reviewed at least annually for correctness.

Institutions are required to ensure through their risk management that the risk-bearing capacity of the bank is continuously ensured. This means in particular that the material risks that a bank identifies are adequately quantified and must be constantly covered by the risk coverage potential, taking into account risk concentrations. At Anadi Bank this is an institutionalised and integrated risk management process. The internal risk management of the bank includes risk identification and evaluation, planning and proactive management, quantification, limitation and monitoring, control and communication of risks.

The aim of the risk inventory is to identify existing risks for the institution, which could pose a lasting threat to the bank's solvency. The risks primarily arise from the direction of business policy and the business conducted. Additionally, regulatory requirements can considerably influence the analysis of risks and their management.

The risk inventory procedure is scheduled to take place at least annually or upon certain ad-hoc developments. The implementation is the obligation of those with the highest risk inventory responsibilities (from Strategic Risk Management), with the results being analysed in cooperation with those responsible for the different types of risk.

The bank controls and monitors its risks in all business areas with the aim of optimising its risk/return profile and to ensure its risk-bearing capacity at any time. The bank's depositors and investors are therefore protected.

5.2 Risk management organisation

Ensuring adequate risk management and control structures and processes is the responsibility of the CRO, who is a member of the bank's Management Board. In accordance with the requirements of the Austrian regulatory regime and other European standards, the CRO acts independently of all market and trading units.

In the role of overseeing the adequacy of internal risk management and monitoring, the CRO's responsibilities are divided into two risk areas:

Strategic Risk Management (SRM):

The Strategic Risk Management department is responsible for the structured recording of overall banking risks as the basis for the risk strategy as part of an annual risk inventory, as well as for the development of the Risk Strategy, risk appetite and risk management policies underlying the business strategy including an annual review and update. In addition, SRM is responsible for the specification of methods and models developed for the overall bank risk management in accordance with ICAAP and ILAAP, and carries out the monitoring of the bank's economic capital and liquidity risk management.

SRM is an independent risk control unit responsible for the following tasks:

Credit & Operational Risk:

- Implementation and management of the Internal Capital Adequacy Assessment Process (ICAAP)

- Development of methods and models for credit risks (rating, scoring, credit risk model, validation and back-testing), country risks, participation risks, operational risks, other risks
- Credit risk parameters (EaD, PD, LGD, correlation, PRP)
- Delivery of credit risk data (risk data) for planning/budgeting
- Measurement of credit and country risk, macroeconomic risk, risk from property and other risks
- Limit setting and monitoring for banks, counterparties, issuers and country risks in accordance with the risk strategy
- Development of stress scenarios and reverse stress testing
- External and internal risk reporting (Supervisory Board, FMA, OeNB, Banking Association)
- Core team member in NPNM processes (New Products/ New Markets Implementation Processes)

Market & Liquidity Risk:

- Development of methods and models for market and liquidity risks (ICAAP, ILAAP)
- Regulatory risk reporting (FMA, OeNB)
- Measurement and analysis of market and liquidity risks
- Limit setting, monitoring and escalation of market and liquidity risks
- Continuous reporting/ad-hoc reporting of market and liquidity risks
- Stress testing and back-testing for market and liquidity risks
- Controls and assurance of data quality (market conformity check) for the treasury business of individual positions as well as at the portfolio level
- Middle-office service functions in accordance with the Austrian Commercial Code (UGB), accounting standards, hedge effectiveness measurement, and fair value determination
- Cash collateral management for derivatives
- European Market Infrastructure Regulation (trade repositories reports, clearing, CVA/ DVA, etc.)
- Measurement, analysis, monitoring and reporting of the OeNB-interest risk statistics (ALM)
- Controlling the liquidity reserve (haircut definition, derivation of liquidity buffer, diversification)
- Liquidity contingency planning
- Calculation of the Basel III liquidity ratios LCR and NSFR as well as asset encumbrance
- Development, implementation and reporting of Additional Liquidity Monitoring Metrics (ALMM)
- Core team member in the product implementation process (NPNM) for market and liquidity risks

Credit Risk Management (CRM):

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

- Underwriting for Corporate/Financial institutions/Public Finance/Retail: The tasks are to analyse the credit applications from the risk point of view and to provide a second opinion, also with conditions if necessary. The balance sheets of the clients are also analysed by this department and the ratings are confirmed by Credit Risk Management.
- Workout: This department includes restructuring and collection of non-performing corporate and private loans. Following successful restructuring, customers should be transferred back to the market units. If the customer goes into bankruptcy, the insolvency proceedings will be completed by the workout unit.
- Collateral management: This department carries out annual evaluations of collaterals. This includes mortgages, liens on shares, movable objects, assignments, etc.
- Credit risk management support: This is where the credit-relevant regulations are drawn up and annually reviewed. Additional activities include central NPL reporting as well as monitoring of risk budgets.

5.3 Risk Governance

Overall responsibility for risk governance lies with the CRO, who is supported by a number of decision-making and governance committees within the bank.

Risk Committee:

The Risk Committee meets the requirements in accordance with Section 39d of the Austrian Banking Act (BWG):

- Advice on the current and future risk appetite of the bank and the risk strategy
- Monitoring the implementation of the risk strategy in connection with the management, monitoring and limitation of risks in accordance with the bank's risk-bearing capacity with regard to capital and liquidity
- Reviewing the pricing of products and services of the bank in accordance with the business model and risk strategy
- Assessment of the internal remuneration system

The Risk Committee is made up of the Supervisory Board, the Management Board, the Head of Strategic Risk Management and the Head of Credit Risk Management.

Risk Governance Committee (GRC):

The Risk Governance Committee met quarterly in 2016 as a decision-making body in relation to activities and measures of operational risk management as well as a sponsor for OpRisk projects. The committee is composed of the Management Board, of the Head of Strategic Risk Management and the ORC (Operational Risk Controller), the Heads of Compliance & Legal, Audit as well as of Operations.

The contents of the report include the loss data for the period between the GRC meetings, key performance indicators, and current topics such as implementation of measures or results of scenario analyses, an overview of current priorities /actions as well as reviews of cases of reported delays in addressing loss events in the OpRisk database.

In addition, the areas of Compliance, Money Laundering, Fraud and Information Security & Safety, and Security Issues were dealt with.

Furthermore, the SRM participates in the following committees in its advisory and reporting role:

Asset Liability Committee (ALCO):

The ALCO serves the exchange of information and decision-making on issues of overall bank ALM management and particularly of the treasury, together with capital steering management according to Pillar I and II, as well as the management of country limits.

Liquidity Round (LR):

The LR is used to exchange information and take decisions for the management of liquidity and liquidity ratios, together with the liquidity gap balance and liquidity potential (counterbalancing capacity). Furthermore, the coordination of funding activities over a period of 4–6 weeks is carried out under the LR based on the funding plan.

Market & Liquidity Round (MLR):

The MLR takes place quarterly as an extension of the ALCO. In addition to the analysis of the current business situation (assets and liabilities), the variance analysis to plans, and the analysis of competitors, it serves as a decision-making body for the conditions applied to products, product specifications and campaigns.

Risk Executive Committee (RECO):

The RECO deals with the following risk issues on a monthly basis as part of the regular management board meeting:

- Risk-bearing capacity
- Credit risk portfolio management
- Early warning, events and recoveries
- Risk budget & forecast (SRP, PRP)
- Reports watchlist
- Market risk in the trading book and the banking book
- Liquidity risk (incl. liquidity risk strategy, liquidity stress test, liquidity contingency plans)
- Operational risk
- Total bank stress test
- Results of the risk inventory
- Risk strategy and monitoring of exceptions to the risk strategy
- Decision/discussion of risk-relevant models and methods

Among the most important committees for which credit risk management exercises its supervisory function 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 established a Watch Loan Committee Corporate, also chaired by the CRO. This committee considers and discusses all loans with a rating worse than 4A and all work-out cases from corporate clients with an exposure larger than EUR 250,000 once per quarter. In addition, all loans affected by unforeseen market movements or developments are also discussed in this committee.

For the retail business, the Watch Loan Committee operates on a monthly basis.

5.4 Measures to improve risk management

Basel III – Liquidity risk and liquidity risk management

To ensure liquidity on an ongoing basis, Anadi Bank holds cash reserves consisting of freely disposable short-term cash investments with Oesterreichische Nationalbank (OeNB). In addition, the bank holds "liquidity portfolios" of highly liquid, central bank eligible securities which can be sold at short notice or used as refinancing collateral for monetary policy transactions with the central bank.

The liquidity-relevant requirements in accordance with Basel III were implemented and the LCR figures (Liquidity Coverage Ratio), NSFR (Net Stable Funding Ratio) and Asset Encumbrance reported in accordance with the regulatory requirements. Furthermore, the calculation of the LCR was implemented and registered in accordance with the regulatory requirements. Further work was also carried out on implementing the Additional Liquidity Monitoring Metrics (ALMM) and reporting to the authorities.

European Market Infrastructure Regulation (EMIR)

In order to fulfil EMIR regulations the bank has implemented the requirements for:

- Central Counterparty Clearing (CCP) of standardised OTC derivative contracts through a clearing broker at the London Clearing House (LCH)
- Implementation of the electronic trade platform "Markit Wire" (contract platform – electronic confirmation)
- Timely reporting of all traded OTC and ETD derivative contracts to a transaction register

The daily notification of all derivatives to the transaction register, including notification of collateral and valuation updates, has been operational since 2014. Work continues with ongoing changes in accordance with the regulatory requirements.

Project "Anadi Rise"

In 2016 the Anadi Rise project was completed in the context of the further development of the ICAAP and ILAAP concepts of Anadi Bank.

ICAAP:

The existing ICAAP concept of the bank was revised in respect to:

- Risk inventory
- ICAAP basic concept on a Gone and Going Concern level
- RBC concept at consolidated and bank stand-alone level
- Implementation of the new RBC Tool and RBC Reporting
- Operationalisation from RBC-derived credit risk limits
- ICAAP stress testing (overall bank) and reverse stress tests
- Revision of risk strategy
- Adjustment/additions/extensions of the ICAAP documentation
- Validation of rating systems
- Rating segmentation
- Further development of rating systems
- Revision of the LGD parameters
- Further development of concepts regarding credit risk concentrations and collateral concentrations
- Update of the policies and manuals
- Risk measurement in the trading book
- Interest rate risk measurement adjustments
- Special topics on market risks

ILAAP:

The existing ILAAP concept of the Anadi Bank was revised with regards to the following focal points:

- Revision of the liquidity buffer concept
- Parameterisation of the liquidity stress test
- Implementation in systems and processes as well as reporting
- Revision of the liquidity contingency plans
- Revision of the liquidity risk strategy
- Adjustment/additions/extensions of ILAAP documentation

In addition, the following areas have been redefined and revised within the context of project "Anadi Rise":

- Implementation processes for new products/new markets (NPNM)
- Revision of the FTP concept
- Revision of the haircuts for foreign real estate
- Evaluation of capital and liquidity requirements as part of the planning process
- Enhancements of methods and processes for the pre-calculation of treasury products

5.5 Reporting

The results of the risk-bearing capacity (RBC) calculation and RBC monitoring is assessed monthly by the SRM in the form of the risk-bearing capacity report which is made available to the Management Board, the RECO and the relevant division heads. In addition to the RBC report, the market risk report, the overall credit risk portfolio, the liquidity report, and the OpRisk report are also provided.

The RBC report is generated on both the gone-concern and going-concern basis, for both the stand-alone bank and at a consolidated level.

The report is divided into several areas relevant for the risk control of the bank on a gone-concern basis as follows:

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

Risks are quantified from both gone-concern and going-concern perspectives:

- Credit risk with the sub-risks of
  - Single name risk
  - Single name credit risk
  - Country risk
  - Credit Vale Adjustments (CVA) charge
  - FX-induced credit risk
  - Credit risk of other assets
- Market price risk with the sub risks of
  - 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
- Funding spread risk
- Operational risk
- Other risks/model risks with the sub-risks of
  - Property risk
  - Macroeconomic risk
  - Model risk credit risk
  - Model risk market risk
  - Business, reputational and regulatory risk

Timely, independent and risk-adequate reporting for decision-makers is ensured for all risk types. Ad-hoc reporting requests are met at all times.

The regular credit risk reporting takes place on a monthly basis. The standardised liquidity risk reporting takes place either weekly or monthly.

In the event of adverse conditions the frequency of reporting is increased as necessary. Market risk reports are compiled on a daily basis.

5.6 Capital Management

Anadi Bank's capital management is based on a multi-dimensional planning process which consolidates strategic, risk-oriented and regulatory aspects as part of a long-term operational plan.

The CRO is responsible for the ICAAP, in relation to which he is responsible for monitoring risk-bearing capacity and managing the risk capital which is required from an economic point of view under Pillar II.

Within the Management Board, the Chief Financial Officer is responsible for monitoring compliance with regulatory capital adequacy requirements under Pillar I.

Regulatory capital adequacy

Capital resource planning is the starting point for the allocation of regulatory capital. Capital constitutes the liable equity made up of core capital and supplementary equity, including Tier III capital.

Capital resource planning is mainly based on an internal target core capital ratio (relationship between core capital and risk position) and an internally set target total equity ratio (relationship between equity capital and risk position) for the bank.

Economic view (Risk-Bearing Capacity)

Besides ensuring regulatory capital requirements are met, ensuring the bank's ability to bear economic risks (RBC) is the central component of controlling activities. To this end, the bank has institutionalised the Internal Capital Adequacy Process (ICAAP) in regard to risk-bearing capacity. The economic capital represents an internal measure that limits the bank's risk appetite in its internal management.

The calculation of the available capital for risk allocation is based on the annual capital planning process, in which all major individual components are planned or derived from other key figures. Alongside the requirements of compliance with minimum regulatory capital requirements (in accordance to Pillar I), the bank's risk appetite is reflected in the risk coverage potential. The Gone and Going Concern view is used in the calculation of risk coverage.

In the Going Concern view, the institution's continued existence is assumed, leading to the derivation of the risk coverage potential from the available capital including hidden reserves and liabilities, less the regulatory capital. The risk coverage potential in the Gone-Concern view assumes payment to creditors in the event of liquidation. As a result, the Gone Concern view orientates itself towards the intrinsic value of the bank. It is therefore dealing with pure portfolio valuation, in which compliance with regulatory capital requirements is not required. In Anadi Bank, the gone-concern basis is the predominant risk view. This implies that the derivation of the risk appetite, the capital allocation, and the limitation and control of the risks is carried out on a gone-concern basis.

In the course of managing risks associated with economic capital, the bank's risk profile is monitored by means of risk-bearing capacity reporting. Control measures are implemented as required.

The types of risk relevant to determining the risk capital requirements include credit, market and other risks including their sub-risk types, together with liquidity and operational risks. For the confirmation of the level of the risk capital required according to risk type, it is primarily the Value at Risk method that is applied (VaR methodology).

In the course of managing risks associated with economic capital, the bank monitors its risk profile and ensures its adequate risk-bearing capacity by comparing its capital available for risk coverage with the risk capital requirement. The upper loss limit, and thus the available risk capital, is determined from the sum of the capital components.

5.7 Credit risk

In terms of scale, credit risks are the most significant risks for the bank.

Within the framework of risk-bearing capacity, credit risk is further differentiated according to various risk types. The bulk of the credit risk is attributable to single name credit risk. Furthermore, the country risk (country-specific default and transfer risk), counterparty risk from derivatives (CVA risk), the FX-induced credit risk, the concentration risk (granularity risk), as well as credit risks for other assets are reported.

The single name credit risk is assessed on the basis of the IRB formula for the calculation of unexpected loss.

Business segment specific risks and segment concentrations are implicitly considered, with the differentiation between asset classes with different risk correlations. However, the IRB model also assumes a high degree of granularity in the portfolio and thereby does not consider the negative effects of concentration on the unexpected loss. As a result, concentration risk has an additional risk premium, determined on the basis of the Herfindahl-Hirschman index.

Migration risks are recorded in the IRB model with the parameter for the remaining term. This statement of the migration risk is implicitly considered as part of the unexpected loss (UL). Since a maturity adjustment is not explicitly provided for in the IRB formula for retail portfolios, the migration risks for retail exposures must be treated separately. They are considered within the macroeconomic risks.

The assumptions for risk measurement on a rolling 12-months-basis and the assumption of static portfolios are used for credit risk for all relevant portfolios, i.e. alongside conventional loans also for loan substitutions, securities (assets) and derivatives (incl. add-on) in the banking book and trading book. For the counterparty risk from derivatives, the CVA charge from Pillar I is applied.

Credit risks for other assets are considered according to the risk weights of the standard approach of Pillar I. The resulting risk figures can be identified according to the IRB formula with a confidence level of 99.9 per cent. This approach corresponds to a flat-rate risk evaluation.

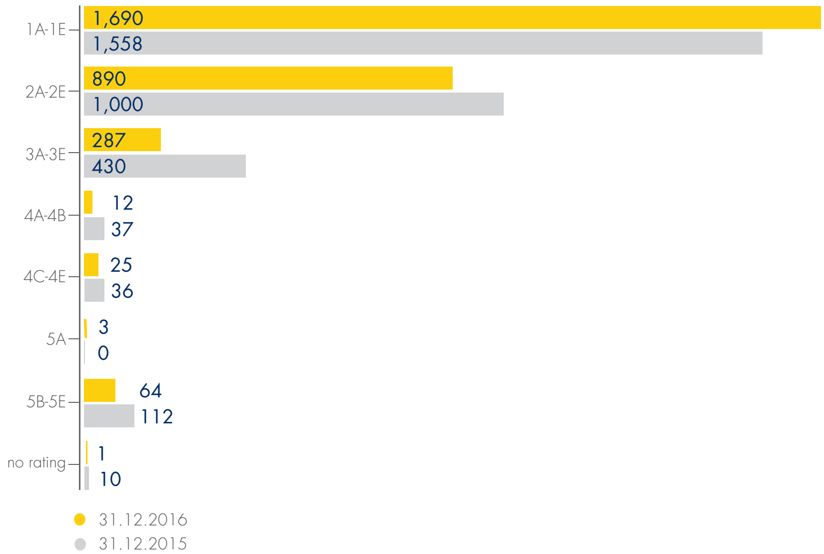
Limitation of credit risk

The limit system uses static VaR limits, i.e. performance results from the impact of past risks are not counted against the VaR limits. Accrued performance values do not dynamically change the limits. Past risk performance has an indirect effect on the limit system, as this reduces the risk coverage potential at the reporting date and if necessary leads to a reallocation of the limits or a reduction in the Value at Risk limits.

Exposure distribution

In the year under review, the bank's exposure decreased by EUR 211m or 6.66 per cent. Total unused lines for loans and credit stand at approximately EUR 106.2m.

Exposure by rating class
in EUR m

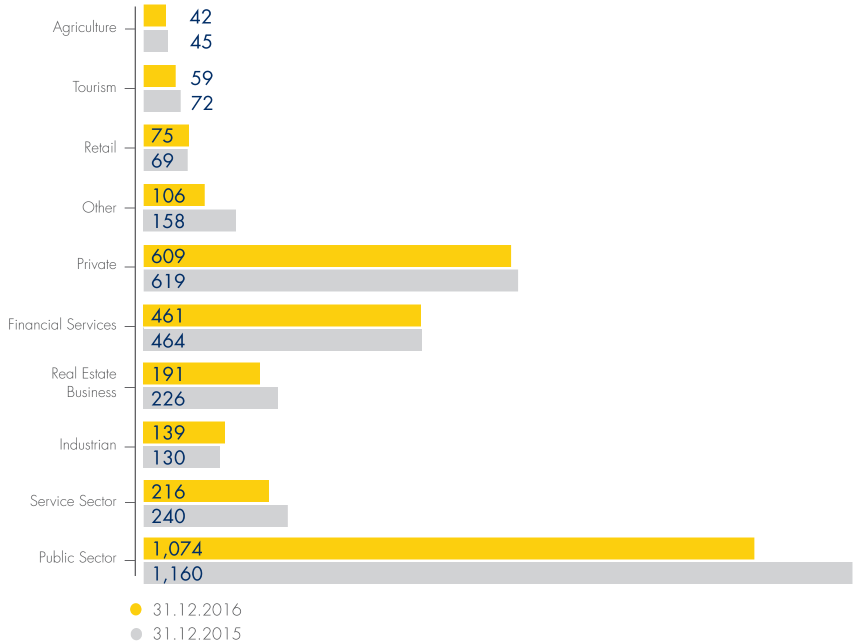


Around 87 per cent of the exposures have a rating of 1A to 2E. This is predominantly due from banks and public institutions. The non-performing portfolio (ratings classes 5A to 5E) is 2.2 per cent based on the total bank assets. After considering collateral of EUR 15m, there remains a net exposure of EUR 51m which is adequately covered by risk provisions.

Exposure by industry sector

The management of economic capital and strategic direction is undertaken, inter alia, on the basis of industry exposure. The lower-risk industry groups, credit institutions and public sector represent 51.6 per cent of exposure. The well diversified private clients sector has a share of 20.5 per cent.

Exposure by industry sector
in EUR m



Exposure by loan size

Loan size in EUR m	31.12.2016	31.12.2015
< 10,000	22	24
10,000–20,000	15	16
20,000–50,000	33	37
50,000–100,000	72	75
100,000–250,000	323	343
250,000–500,000	217	231
500,000–1,000,000	131	145
1,000,000–3,500,000	323	388
3,500,000–10,000,000	406	547
10,000,000–50,000,000	535	709
50,000,000–100,000,000	263	231
>100,000,000	623	437
Total	2,972	3,183

Around 51.9 per cent of the exposure comprises individual exposures of less than EUR 10m. The larger part of the EUR 1.4bn comprising individual exposures of more than EUR 10m relates to banks and public authorities/government.

5.8 Market risk

Market risks consist of potential losses arising from a change in market prices. The bank classifies market risks according to changes in interest rates, credit spread, currency, volatility and share price risks, as well as risks associated with alternative investments. At Anadi Bank, particular attention is paid to identifying, measuring, analysing, limiting and managing market risk. The Strategic Risk Management division is responsible for all market risk oversight.

All market risks are monitored centrally by Strategic Risk Management, which is independent of the trading areas. The control of interest rate risk is carried out on an institutionalised basis in compliance with the regulatory requirements related to interest rate risk statistics. The Asset and Liability Committee, which consists of the bank's Management Board as well as key staff in Treasury & Markets, Strategic Risk Management and Finance, meets on a regular basis to analyse and decide on measures related to balance sheet structure and liquidity control.

The market risk of the bank is differentiated in the banking book according to different individual types of risk. In addition, risk is measured in the trading book. The risks arising from the trading book and the banking book are assumed to be additive – this means no diversification effects between these two books will be considered.

Risk measurement in the banking book

In the banking book, risk is measured separately for interest rate risk, credit spread risk, FX risk, equity price risk and risk of alternative investments. The quantification is based in each case on the Value at Risk concept. Following the Gone Concern logic a confidence level of 99.9 per cent and a holding period/risk horizon of one year (250 trading days) is assumed. Risk measurement is static, which means that the risk-based calculation of potential losses in the market value occurs based on an ad-hoc shift of risk factors without residual maturity shortening. Risk measurement calculates the loss potential based on the starting present values, which affect the Risk Cover Potential (consistent consideration of balance sheet items and undisclosed reserves/liabilities in risk cover and risk). Diversification effects are taken into account within individual categories of risk: interest rate risk of each maturity band of interest rates, FX risk for the relevant exchange rates and the credit spread risk on the specific credit spread structures. However, no diversification benefits are assumed across risk types under the market price risks, so that the overall calculation is conservative in respect to the market risks in the banking book.

Risk measurement in the trading book

In the trading book, the individual categories of interest rate risk, credit spread risk, currency risk and equity risk are quantified. The interest rate risk in the trading book is presented on a full present value basis. The risk is measured through the Value at Risk approach. Operationally this is considered using a risk horizon of one day at 99.0 per cent confidence level. The risk value on this risk horizon is calculated using the "square-root of t" rule for the risk-bearing capacity horizon of 250 trading days (1 year) and using the normal distribution assumption for calculating the confidence level of 99.9 per cent, and included in the Gone Concern risk-bearing capacity as a risk capital requirement. Diversification effects between individual types of risk are not considered in the trading book. The risks of the individual types of risk are added for the purposes of risk-bearing capacity.

Overview – market risk

Interest rate risks: The interest rate risk (excl. non-interest bearing items, incl. interest rate risk in the trading book) of the bank stood at EUR 343,836 per day at year end 2016 with a confidence interval of 99 per cent. It consists of the VaR for the banking book in the amount of EUR 343,784 and the VaR for the trading book in the amount of EUR 52.

The methodology of the interest risk calculation is orientated towards the Austrian

National Bank's (OeNB) specifications for the calculation of interest rate risk statistics.

The regulatory limit of 20 per cent was not even close to being reached or exceeded at any point in the year. The utilisation stood at 5.15 per cent as at 31.12.2016 (2015: 2.64 per cent).

The main instruments used to control the interest rate gap are derivatives on a micro hedge basis, which establish a hedging relationship for both assets and liabilities, thereby mitigating interest rate risk.

Foreign currency risk: The management of foreign currency risk is the responsibility of the Treasury & Markets division. The foreign currency risk for Anadi Bank can be classified as not significant, since open positions are managed on a daily basis and positions arising from non-trading business are closed immediately. The VaR for the foreign currency risks amounted to around EUR 4,163 per day as at 31.12.2016 with a confidence interval of 99 per cent.

Credit spread risk: The credit spread risk within the bank stood at approximately EUR 76,134 at year end with a 1-day VaR and 99 per cent confidence level. The key influencing factor is the liquidity reserve in the form of securities. Consequently, there is very limited scope for reducing risk from these positions.

Equity price risk: As at 31.12.2016 Anadi Bank held no equity risk.

Limiting market risk

The overall market risk limit is documented in a limit compendium and serves as the basis for the corresponding market risk reports. In the context of market price risk limits the trading book and the banking book portfolios as well as the other sub-portfolios are separately distinguished.

The following operational limits are defined for the above books:

- Value at Risk limits
- Loss limits
- Currency restrictions
- Product restrictions
- Volume

Only the VaR limits and the trading book loss limits are relevant for the risk-bearing capacity calculation.

5.9 Liquidity risk

Liquidity risk is defined as the risk of not being able to meet payment obligations as they fall due, in full or on time, or in the event of a liquidity crisis, only being able to procure refinancing at increased market rates or only being able to sell assets at a discount to market prices. Within the risk-bearing capacity calculation all effects from liquidity risks on capital and profit have to be considered – the Funding Spread Risk is one type of liquidity risk.

Liquidity risk is an unavoidable risk of the bank's business model. Thus, the objective of the liquidity risk strategy is to set the goals of the liquidity risk management and define the respective framework conditions. Based on these goals, the liquidity risk strategy defines principles for ensuring liquidity from an economic perspective, whilst ensuring compliance with regulatory requirements. Furthermore, the liquidity risk strategy specifies clear responsibilities and makes statements about the allocation of tasks to the different organisational units. It applies to the processes for identifying, assessing, limiting, managing, monitoring and communicating the liquidity risk. The liquidity risk strategy was based on the business strategy that has been formulated and adopted by the Management Board by means of the Strategic Plan.

In addition, the bank has a liquidity contingency plan in place. The liquidity contingency plan is the central guideline at Anadi Bank for managing liquidity under various contingencies and preceding early warning levels. It defines procedures in terms of business, organisation and processes to ensure identification of a liquidity contingency event or preceding early warning levels, and defines tools for controlling or managing liquidity under early warning and contingency levels.

The liquidity risk strategy together with the Funds Transfer Pricing (FTP) concept is the basis for liquidity risk management. FTP enables balance sheet structure management which establishes a direct link to funding planning.

Liquidity risk is measured and managed by means of an implemented management process. Its individual phases can be described as follows: regular identification and measurement of the liquidity risk using the maturity ladder; cumulative net cash flows relevant for liquidity (balance sheet and off-balance sheet) are compared with the liquidity buffer; and the counter-balancing capacity (CBC) for the different stress scenarios is assessed.

The funding spread risk measurement uses an L-VaR concept. The present value of refinancing losses caused by an unexpected increase in the covered and uncovered funding spreads is calculated at a confidence level of 99.9 per cent over a one year holding period. Risk management is therefore consistent with the theoretical orderly resolution in the event of liquidation, in which a refinancing of banking transactions is still required on the basis of the bank's spreads.

The utilisation of the specific limits is examined during risk analysis and assessment. The limit utilisation and the risk status are published in different internal reports to the respective departments. In addition to internal reports, the regulatory key figures of LCR and NSFR are calculated in accordance with the prescribed time intervals and reported to the regulator. Based on the liquidity risk profile, as well as the limits and key limit utilisation information, management measures are implemented, with a differentiation between operational and strategic measures.

The bank's liquidity risk management considers the relationship between individual components. The utilisation of selected limits to monitor the illiquidity risk within stress scenarios are taken into consideration as early warning indicators for initiating liquidity contingency and preceding early warning plans. Thus, on the one hand, there is an interrelation of stress scenarios for the contingency plan. On the other hand, the liquidity buffer is included in the contingency concept in addition to further contingency measures.

Besides structural control, care is also taken to ensure that general regulatory requirements are adhered to. The new liquidity ratios under Basel III (LCR and NSFR) are also taken into account in the management systems. The LCR for Anadi Bank at 31.12.2016 was in compliance with the minimum requirements at 289 per cent (31.12.2015: 170 per cent).

When designing the FTP concept and funding planning, the key regulatory requirements (in particular LCR and NSFR) are fully considered. This also applies to the derivation of (operational and strategic) measures for managing the liquidity risk profile.

Liquidity risk limits

The monitoring and limiting of liquidity risk is carried out at Anadi Bank from several perspectives. Firstly, the short term Liquidity Gap Balance and the available liquidity potential as part of the theoretical stress survival scenarios is monitored and limited. The structural liquidity risk and funding spread risk is monitored and limited via the long term Liquidity Gap Balance. For concentration risks in refinancing and the liquidity buffer, specific limits and monitoring mechanisms exist. This is also true for the intra-day liquidity risk as well as the early warning and contingency indicators (key risk indicators). Finally, limits exist in respect to the LCR, and the NSFR is currently monitored closely.

5.10 Operational risk

At Anadi Bank, operational risk is defined as the risk of losses resulting from the inadequacy or failure of internal processes, systems and employees or from external events. Legal risks are included, strategic and reputational risks are not.

Operational risk at the bank is determined within the Gone Concern risk-bearing capacity of the basic indicator approach, taking into account the methodology for determining the regulatory capital requirements from Pillar I. The regulatory capital requirement is consistent with determining the credit risk capital requirements in the IRB model based on a confidence level of 99.9 per cent.

5.11 Other risks and model risks

The capital requirement for other risks and model risks in the Gone Concern risk-bearing capacity assessment uses a separate quantification. This is done on the basis of the risk inventory and the materiality assessment of risks and risk concentrations with respect to capital and earnings effects. Depending on the materiality and the type of effect (capital effect and income effect), a differentiated picture for other risks/model risks is made in the risk-bearing capacity calculation as follows:

- Consideration in an explicit quantification in the operational Gone Concern risk-bearing capacity
- Consideration in a conservative establishment of the risk coverage
- Consideration in stress tests for Gone Concern risk-bearing capacity
- Consideration in planning of Gone Concern risk-bearing capacity

The following sub-risks resulted from the risk inventory of 2016 for other risks:

- Property risk
- Macroeconomic risk
- Model risk – Credit risk

- Model risk – Market price risk measurement
- Business, reputational and regulatory risk

Property risk: The economic risk capital for the property risk is quantified using the Pillar I regulatory capital requirements in accordance with the standard approach.

Macroeconomic risk: The risk capital requirement for the macroeconomic risk is quantified based on the stress test results in the macroeconomic stress test scenarios.

Additional risk effects, which are identified in the risk inventory as significant and are not incorporated in the economic risk capital for credit risks, market risks and liquidity risks in the Gone Concern risk-bearing capacity, are taken into account in the macroeconomic risk risk-bearing capacity:

- Migration risks in the Retail portfolio
- Collateral recovery risk for defaulted loans

Model risk – Credit risk (rating model/LGD model): The model risk inherent in credit risk may result from parameter uncertainty for default rates (PDs) due to model and application weakness in the rating process. An indication of this would be the result of validation reports of the rating model and a necessary recalibration of the relevant models. If the last validation of the rating model is older than 15 months, a PD shift by one notch will be carried out against all individual transactions of the underlying segment.

An analogous approach is used to determine the model risk resulting from the parameter uncertainty of internal estimates of LGD.

Model risk – Market risk measurement: The model risk of the market risk models is quantified using back testing.

Currently, three market risk models are included in the model risk assessment:

- Model risk for interest risk in the banking book model
- Model risk for FX risk in the banking book model
- Model risk VaR model in PMS (based on all risk factors of the securities)

Model weakness can be identified on the basis of the comparison between the historical P&L results over a 1-day risk horizon and the historical VaR risk values over a period of 250 days. The requirements and the back testing procedure for market price risk models under the "Basel Traffic Light Approach" are applicable for the purposes of the comparison.

5.12 Payment services directive 2 (PSD2)

Directive (EU) 2015/2366 entered into force on 18.01.2016 and is to be implemented into national law by member countries by 13.01.2018.

The national legislative process is expected to be scheduled for autumn 2017.

The resulting technical adaptation (expansion of scope, limitation of the exemption provisions, strong client authentication) will be implemented jointly with our partner banks in the ARZ data centre network.

In the banks adequate risk mitigation measures and control mechanisms must be implemented to manage the operational and security risks as well as to notify the competent authorities in the case of a serious operational or security incident.

Changes regarding the transparency of the terms, obligations to inform, liability of the payer for unauthorised payment transactions and value dates must be updated and communicated to the end customer.

6. CORPORATE GOVERNANCE

The Supervisory Board consists of four elected members drawn from a range of different backgrounds and areas of responsibility. The Board is led by the Chairman, Srinivasan Sridhar, a banking expert with many years of international experience. The Works Council delegates two employees to the Board. The members of the Supervisory Board are set out in more detail on Schedule 1, but comprise as at 31.12.2016:

Srinivasan Sridhar (Chairman)

Dr. Sanjeev Kanoria (Deputy Chairman)

Hemant Kanoria

Mag. Gabriele Oberlercher (Works Council)

Barbara Perchtold (Works Council)

Werner Wutscher left his position on the Supervisory Board in July 2016 due to other work commitments. A selection process for the appointment of a suitable and experienced replacement is currently underway.

The Supervisory Board is responsible for the oversight of the bank's strategy, the course of business and the bank's risk management. The Supervisory Board has established the scope of the delegation of authority to the Management Board, and by doing so has also set out the extent to which business transactions (whether by their size or nature) are subject to its approval.

The Supervisory Board meets at least once per quarter in accordance with Statutory Provisions, although additional meetings are held as required. In 2016 the Board held a total of seven meetings.

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

The Management Board is directly empowered by the Supervisory Board to undertake the operational management of the bank within the risk and governance framework approved by the Supervisory Board. The Management Board is led by the Chairman, Christoph Raninger, a banker of many years international experience. The members of the Management Board are set out in more detail in Schedule 1, but comprise:

Christoph Raninger (Chairman, Chief Executive and Chief Financial Officer)

Gerhard Salzer (Deputy Chairman)

Franz Reif (Chief Risk Officer)

7. INTERNAL CONTROL SYSTEM

The bank has an internal control system (ICS) in relation to the financial reporting process, in which the appropriate structures and processes are defined and implemented organisationally.

The ICS of Anadi Bank is based on the COSO framework (Committee of Sponsoring Organizations of the Treadway Commission), although the Management Board has independently designed the scope and direction of the established internal control system in terms of the specific requirements of the organisation.

The ICS, as part of the risk management system of the bank, comprises the following general objectives:

- Safeguarding and implementing the business and risk strategies as well as company policies
- Effective and efficient use of all company resources to achieve the targeted business goals
- Ensuring the reliability of financial reporting
- Supporting adherence to all relevant laws, regulations and rules

The Management Board of Anadi Bank is responsible for the implementation and monitoring of the internal control system in relation to the financial reporting process of the financial statements, and is responsible for the proper and timely execution of the accounting processes and systems. The internal control system itself is not a static system, but instead is constantly adapted to changing conditions. The ongoing review of risk assessments as well as the review of the effectiveness of controls is a central component. For the purpose of monitoring compliance with the ICS, the Management Board uses the Internal Audit function and the Compliance department. As part of their regular auditing activity, Internal Audit reviews the effectiveness of the ICS and the reliability of the accounting system.

The effectiveness of the ICS is monitored by the Audit Committee and the Supervisory Board in accordance with the requirements of the Stock Corporation Act.

The basis for implementation of the internal control system does however primarily rely on the integrity and ethical behaviour of employees. The role of the Management Board and senior management in setting an example in this regard is consciously and actively exercised.

It should be noted that an ICS, regardless of the design, does not provide absolute assurance that material misstatements in financial reporting will be prevented or detected.

7.1 ICS-related activities in 2016

Over the course of 2016, Anadi Bank completed its planned review of an IT software solution which should further strengthen the efficiency of the ICS environment. The selected software solution is now rapidly being implemented and rolled out. In addition, the mapping of processes across the entire bank is currently taking place in order to expand upon the existing risk control matrices.

8. COMPLIANCE & LEGAL

The Legal Department advises the departments throughout the bank, together with the Management Board and all legal concerns,and draws up terms and conditions for all contractual agreements with partners and clients.

Compliance & Legal is responsible for ensuring that the bank and employees act in accordance with legal requirements, working instructions and guidelines.

Key roles undertaken by Compliance & Legal include:

- Legal consultancy/advice for the Management Board and employees
- Internal communication (reports to the Management Board, Supervisory Board, etc.)
- Company representation in external committees and associations in relation to legal and AML/CFT concerns
- Anti-Money Laundering Officer
- Single point of contact for Austrian Financial Market Authority (FMA) and OeNB
- Fraud Officer
- Responsible officer under FATCA
- Continuous monitoring of jurisdiction and legislation
- Support and consulting with regard to relevant regulations (i.e. interpretation of guidelines)
- Supporting the New Products/New Markets (NPNM) process

The Compliance team ensures compliance with capital market regulations, in particular the Austrian Securities Supervision Act and the stock exchange and trade rules and Directive 2004/39/EG on Markets in Financial Instruments Directive (MiFID). Furthermore, the team supports the anti-money laundering officer in adhering to the requirements relating to the prevention of money laundering and combating the financing of terrorism. The aim is to achieve maximum operational quality in these areas, to ensure compliance with all provisions and regulations, to promote fairness, solidarity and confidence between the client, the bank and its employees and to implement applicable provisions.

8.1 Markets in financial instruments directive II (MiFID II)

Directive 2014/65/EU (commonly referred to as MiFID II) enters into force on 02.01.2018, and replaces Regulation 2004/39/EG (MiFID I), together with Regulation (EU) No. 600/2014 (MiFIR). MiFID II/MiFIR forms an updated, harmonised legal framework for the requirements imposed on investment firms, regulated markets, data deployment services and third-country firms which provide securities services or investment services in the European Union.

MiFID II/MiFIR is intended to improve the efficiency, resilience and integrity of financial markets, in particular through:

- Greater transparency
- Increased trade on regulated markets
- Fulfilling G20 requirements of the European Union with respect to derivatives
- Facilitating SME access to capital

- Stronger investor protection
- Keeping pace with technological developments: regulation of high-frequency trading
- Introduction of provisions for discrimination-free access to pre-trade and post-trade services when trading financial instruments, in particular for derivatives traded on the stock exchange
- Strengthening and harmonisation of sanctions as well as ensuring effective cooperation between all the relevant competent authorities

The overall objective of the MiFID II-/MiFIR legal framework is to create a level playing field on the financial markets, and ensure they work for the benefit of the economy by promoting employment and growth.

9. INTERNAL AUDIT

Internal Audit is an important part of the bank's risk and control framework, and provides independent assurance to the Management Board, Audit Committee and Supervisory Board on the quality and effectiveness of governance, risk management and internal controls.

Internal Audit acts as a "3rd line of defence" in the bank's risk management model and provides assurance especially on:

- Design and operational efficiency of the governance structures and processes of the bank
- Compliance with legal and internal regulations
- Quality of strategic and management information presented to the Management and Supervisory Board
- Risk and control structure of the organisation
- Procedure for dealing with the major credit, capital and liquidity risks
- Significant changes to the business processes and the introduction of new products, markets and services
- Appropriateness, effectiveness and sustainability of action plans

The frequency and scope of internal audits are determined from the ongoing assessment of risks and the plans are regularly reviewed by the Audit Committee. The approved plan for 2016 was fully executed.

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

10. OUTLOOK

2016 was marked by significant changes. Anadi Bank was able to improve the efficiency of its internal processes, significantly reduce its cost base, optimise the balance sheet, resolve the Heta issue and sustainably strengthen its capital and liquidity position.

In 2017 Anadi Bank will benefit from these accomplishments on the way to becoming a specialised Austrian bank with a new online banking approach. The bank is working towards a modern combination of a direct banking model with innovative, customer-friendly and easy-to-use products and services, complemented by a streamlined network of branches in urban areas and a mobile advisory team which brings state-of-the-art banking services directly to retail and SME customers.

Anadi Bank will continue to benefit from the measures executed in 2015 and 2016, and remains a reliable and innovative financial partner for its customers. In addition, it will connect its customers to growth markets such as India, utilising the strong position and experience in these markets of the Indian company network held by the family of the owner.

Economically, the 2017 financial year will remain challenging, due to the continuing low interest rate environment, the ongoing pressure on margins in a subdued economic environment and the regulatory burdens.

Klagenfurt am Wörthersee, on 13.03.2017

The Management Board

GD Mag. Christoph Raninger m.p.

VDir. Gerhard Salzer m.p.

VDir. Mag. Franz Reif m.p.

FINANCIAL STATEMENTS 2016

BALANCE SHEET

ASSETS			31.12.2016 EUR	31.12.2015 TEUR
1.	Cash in hand, balances with central banks and post office banks		25,032,530.43	27,432
2.	Treasury bills and other bills eligible for refinancing with central banks treasury bills and similar securities		283,395,265.29	270,657
3.	Loans and advances to credit insititutions			
	a) repayable on demand	147,065,254.45		151,117
	b) other loans and advances	30,000,000.00		6,980
			177,065,254.45	158,097
4.	Loans and advances to customers		2,051,660,816.99	2,264,423
5.	Debt securities including fixed-income securities issued by other borrowers showing separately: own debt securities EUR 135,281,191.34 (previous year: TEUR 95,657)		336,833,550.63	293,939
6.	Shares and other variable-yield securities		20,780.82	24
7.	Participating interests showing separately: participating interests in credit institutions EUR 710,887.30 (previous year: TEUR 636)		3,218,939.25	3,142
8.	Intangible fixed assets		633,995.00	802
9.	Tangible assets showing separately: land and buildings occupied by a credit institution for its own activities EUR 3,926,604.72 (previous year: TEUR 3,913)		6,020,469.09	6,278
10.	Other assets		44,752,172.19	33,320
11.	Prepayments and accrued income		514,172.08	380
12.	Deferred tax assets		4,861,891.00	3,387
Total assets			2,934,009,837.22	3,061,881
1.	Foreign assets		510,953,838.55	494,540

EQUITY AND LIABILITIES		31.12.2016 EUR	31.12.2015 TEUR
1. Liabilities to credit institutions			
a) repayable on demand	58,953,692.67		15,942
b) with agreed maturity dates or period of notice	267,907,290.45		523,128
		326,860,983.12	539,070
2. Liabilities to customers (non-banks)			
a) saving deposits	487,528,523.68		500,969
showing separately:			
aa) repayable on demand EUR 101,281,536.45 (previous year: TEUR 63,445)			
bb) with agreed maturity dates or period of notice EUR 386,246,987.23 (previous year: TEUR 437,524)			
b) Other liabilities	1,007,599,590.88		728,816
showing separately:		1,495,128,114.56	1,229,785
aa) repayable on demand EUR 614,964,229.61 (previous year: TEUR 545,858)			
bb) with agreed maturity dates or periods of notice EUR 392,635,361.27 (previous year: TEUR 182,958)			
3. Securitised liabilities			
a) debt securities issued		876,636,004.02	1,047,055
4. Other liabilities		17,297,403.28	22,374
5. Accruals and deferred income		1,042,020.44	282
6. Provisions			
a) provision for severance payments	6,275,458.00		8,106
b) provisions for pensions	5,487,653.00		6,081
c) provisions for taxation	4,400,000.00		0
d) other provisions	16,924,305.38		35,498
		33,087,416.38	49,684
7. Tier 2 capital pursuant to Part Two, Title I, Chapter 4 of Regulation (EU) No 575/2013		18,121,600.00	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	82,332
10. Retained earnings			
other reserves		6,182,101.82	2,459
11. Liability reserve pursuant to Article 57 para. 5 BWG		36,995,640.00	36,996
12. Net profit or loss for the year		10,326,438.23	3,723
Total liabilities		2,934,009,837.22	3,061,881

OFF-BALANCE SHEET ITEMS: EQUITY AND LIABILITIES

		31.12.2016 EUR	31.12.2015 TEUR
1.	Contingent liabilities showing separately b) Guarantees and assets pledged as collateral security	61,038,522.29	79,400
2.	Commitments	123,940,000.00	171,490
3.	Commitments arising from agency services	17,939,098.06	23,462
4.	Eligible capital in accordance with Part Two of Regulation (EU) No 575/2013,	157,272,334.66	156,989
	of which Tier 2 capital pursuant to Part Two, Title I, Chapter 4 of Regulation (EU) No 575/2013	2,552,818.83	6,159
5.	Own Funds requirements as defined in Article 92 of Regulation (EU) No 575/2013, of which own funds requirements pursuant to Article 92 (1) a to c of Regulation (EU) No 575/2013	982,652,416.53	1,047,654
	a) Common Equity Tier 1 Capital ratio	15.75%	14.40%
	b) Tier 1 capital ratio	15.75%	14.40%
	c) Total capital ratio	16.00%	14.98%
6.	Foreign liabilities	421,737,761.71	286,493

PROFIT AND LOSS ACCOUNT

				2016 EUR	2015 TEUR
1.	Interest receivable and similar income showing separately: from fixed-income securities EUR 4,830,185.63 (previous year: TEUR 3,716)			84,042,734.92	152,591
2.	Interest payable and similar expenses			(57,786,174.88)	(86,846)
I. Net interest income				26,256,560.04	65,745
3.	Income from securities and participating interests				
	a) income from shares and other variable-yield securities		0.00		0
	b) income from participating interests		1,785,922.06		911
	c) income from shares in affiliated undertakings		0.00		0
				1,785,922.06	911
4.	Commissions receivable			13,556,780.59	17,017
5.	Commissions payable			(2,665,706.72)	(2,818)
6.	Net profit or net loss on financial operations			684,203.83	1,585
7.	Other operating income			1,580,700.99	1,587
II. Operating income				41,198,460.79	84,028
8.	General administrative expenses				
	a) staff costs				
	aa) wages and salaries	(23,309,442.19)			(30,834)
	bb) expenses for statutory social contributions and compulsory contributions related to wages and salaries	(6,075,037.66)			(6,595)
	cc) other social expenses	(331,781.10)			(414)
	dd) expenses for pensions and assistance	(547,696.39)			(454)
	ee) allocation to provision for pensions	0.00			0
	ff) expenses for severance payments and contributions to severance and retirement funds	(450,679.96)			(168)
			(30,714,637.30)		(38,465)
	b) Other administrative expenses		(15,881,099.92)		(17,351)
				(46,595,737.22)	(55,816)
9.	Value adjustments in respect of asset items 8 and 9			(1,281,695.30)	(1,387)
10.	Other operating expenses			(973,370.38)	(3,356)
III. Operating expenses				(48,850,802.90)	(60,559)
IV. Operating result				(7,652,342.11)	23,469
11./12.	Value adjustments and re-adjustments in respect of loan and advances and provisions for contingent liabilities and for commitments			22,740,327.44	(20,689)
13./14.	Value adjustments and re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings			117,919.00	34
V. Profit or loss on ordinary activities				15,205,904.33	2,814
15.	Extraordinary expenses			0.00	0
16.	Extraordinary result			0.00	0
17.	Tax on profit or loss			(2,931,943.72)	2,754
18.	Other taxes not reported under item 17			(1,947,522.38)	(1,886)
VI. Profit for the year after tax				10,326,438.23	3,682
19.	Changes in reserves			0.00	41
VII. Net income for the year				10,326,438.23	3,723
20.	Profit brought forward			0.00	0
VIII. Net profit for the year				10,326,438.23	3,723

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2016

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.

In accordance with the Austrian Law on Changes in Accounting 2014 (RÄG 2014), the balancing and valuation methods applicable for the business years beginning after 31.12.2015, have been respected in the financial statements for Anadi Bank. Explanations of the effects of the initial application of the affected balance sheet items are subsequently described in the respective chapter of the appendix.

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 rates of exchange 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 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 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 1 to 4) 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.

Investments in associated companies and shares in affiliated companies 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 per cent; for movable assets they range from 4 to 33 per cent; and for software they are 25 per cent. 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.

As at the reporting date of 31.12.2016 a voluntary valuation change in the provisions for pension obligations, severance payments and anniversary bonuses was made at Anadi Bank. The previous actuarial valuation according to IAS 19 under the application of a cut-off interest rate was adjusted in such a way that an average interest rate is now used as the basis for the actuarial valuation. 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 reasoning lies in the legal adjustments demanded by the Law on Changes in Accounting 2014 (RÄG 2014) for calculation according to actuarial principles in the UGB.

The financial effect from the application of the actuarial interest rate (average interest rate as of 31.12.2016: 2.458 per cent; cut-off interest rate 31.12.2016: 1.41 per cent) results in a positive result to the amount of EUR 1,364,937.00 as at the reporting date of 31.12.2016.

The provision for pension obligations was applied at an interest rate of 2.458 per cent (31.12.2015: 2.06 per cent) and a pension growth rate of 2 per cent (31.12.2015: 2 per cent).

Provisions for severance payments and provisions for anniversary bonuses disclosed under other provisions were applied at an interest rate of 2.458 per cent (31.12.2015: 2.06 per cent) and an assumed salary increase rate of 1.50 per cent p.a. (31.12.2015: 1.75 per cent) were calculated for a severance payment, taking into account a deduction of 0 per cent (31.12.2015: 0 per cent).
For the 2016 anniversary provision, the fluctuation probabilities presented in the 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).

The provision for unused holidays was based on the actual unused leave days per employee as at 31.12.2016.

Other provisions were formed for uncertain liabilities and impending losses in the amount of the foreseeable 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 estimation uncertainties relating to amount or timing.

As per RÄG 3014, the balance sheet item "**Untaxed reserves**" in accordance with Section 205 of the UGB has been eliminated.

Derivative financial transactions (forward transactions, swaps, options) are allocated either to the hedging book or to the trading book, depending on their purpose. Derivatives with a negative market value which are not being used to hedge an underlying transaction and anticipated losses for not entirely effective hedges are treated as provisions. Paid for and received option premiums are disclosed under other assets and other liabilities respectively. Option pricing models based on generalised Black-Scholes models, Bachelier Models or Hull-White models, drawing on current market parameters, are used to measure options and financial instruments with similar characteristics.

For Overnight Indexed Swaps (OIS) discounting, the following calculations are used:

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

In the last reporting year as at 31.12.2015, Austrian Anadi Bank AG exercised the option to recognise **deferred tax** in the balance sheet, in accordance with Section 198(9) of the UGB. A total difference consideration was carried out in the form of a net presentation as the tax receivables and tax debts are with the same tax authority and can be offset. The deferred tax assets are valued at a uniform interest rate of 25 per cent.

No other changes were made to accounting and assessment methods in the financial year.

NOTES TO THE BALANCE SHEET

1. MATURITIES OF BALANCE SHEET ITEMS

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

		31.12.2016	31.12.2015
A3.	Loans and advances to credit institutions	177,065,254.45	158,097
	- payable on demand	147,065,254.45	151,117
	- up to three months	0.00	2,376
	- three months to one year	30,000,000.00	0
	- one year to five years	0.00	0
	- over five years	0.00	4,604
A4.	Loans and advances to customers	2,051,660,816.99	2,264,423
	- payable on demand	104,398,361.33	56,726
	- up to three months	87,640,764.27	75,567
	- three months to one year	215,047,798.09	218,932
	- one year to five years	600,971,694.46	687,336
	- over five years	1,043,602,198.84	1,225,863
P1.	Liabilities to credit institutions	326,860,983.12	539,070
	- payable on demand	58,953,692.67	15,941
	- up to three months	72,307,290.45	165,000
	- three months to one year	60,600,000.00	42,757
	- one year to five years	135,000,000.00	315,372
	- over five years	0.00	0
P2.	Liabilities to customers	1,495,128,114,56	1,229,785
	- payable on demand	716,245,766.06	609,304
	- up to three months	236,042,038.41	157,173
	- three months to one year	236,864,423.80	112,186
	- one year to five years	225,602,600.64	252,485
	- over five years	80,373,285.65	98,637

2. SECURITIES INCLUDING ACCRUED INTEREST

		31.12.2016	31.12.2015
A2.	Treasury bills and other bills eligible for refinancing with central banks	**283,395,265.29**	**270,657**
	of which listed	283,395,265.29	270,657
	of which fixed assets	267,624,136.30	229,892
	of which accrued interest in fixed assets	5,449,419.15	3,776
	of which current assets	10,046,300.00	36,318
	of which accrued interest in current assets	275,409.84	671
A4.	Loans and advances to customers	**94,011,645.30**	**98,926**
	of which not listed	94,011,645.30	98,926
	of which fixed assets	92,237,367.09	98,222
	of which accrued interest in fixed assets	1,774,278.21	704
A5.	Bonds and other fixed-income securities	**336,833,550.63**	**293,939**
	of which listed	218,795,288.25	198,184
	of which not listed	118,038,262.38	95,755
	of which fixed assets	186,954,150.00	172,747
	of which accrued interest in fixed assets	3,315,956.56	2,681
	of which current assets	146,084,627.89	118,210
	of which accrued interest in current assets	478,816.18	302
A6.	Shares and other variable-yield securities	**20,780.82**	**24**
	of which listed	0.00	0
	of which not listed	20,780.82	24
	of which current assets	20,780.82	24
A7.	Participating interests	**3,218,939.25**	**3,142**
	of which not listed	3,218,939.25	3,142

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 31.12.2016	Write-downs until 31.12.2016	Write-ups until 31.12.2016
Germany	32,500,000	32,500,000.00	0.00	0.00
Belgium	21,000,000	21,000,000.00	0.00	0.00
Austria	110,500,000	110,514,586.30	3,611,470.00	234,349.00
France	36,290,000	36,290,000.00	1,755,456.00	0.00
Portugal	13,500,000	13,500,000.00	857,250.00	0.00
European Union	64,000,000	63,865,850.00	472,500.00	0.00

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

	31.12.2016	31.12.2015
Issued by others (without public authorities)	336,833,550.63	293,939
of which:		
Own issues	135,281,191.34	95,812
Domestic bonds (credit institutions)	7,025,145.48	7,982
Foreign bonds (credit institutions)	107,663,690.53	97,225
Mortgage bonds and municipal bonds	86,863,523.28	92,920

2.3 Other Disclosures Relating to Securities

The difference between the acquisition cost and the higher market value (Section 56 para. 4 BWG), for trading book securities not held as financial fixed assets which are recognised at their acquisition cost, is EUR 0.00 (31.12.2015: TEUR 3).

The difference between the cost and the higher market value (Section 56 para. 5 BWG), for trading book securities not held as financial fixed assets which are stated at their higher market value, is EUR 191,541.18 (31.12.2015: TEUR 4,950).

In 2017 fixed-income securities from the bank's own holdings in the amount of EUR 214,122,486.30 (2016: TEUR 90,889) (euro-denominated securities) and EUR 17,026,725.02 (2016: TEUR 0) (foreign currency-denominated securities) will be due.

Fixed-income securities of private issuers, which were eligible to be refinanced at the Austrian National Bank on the balance date, amounted to EUR 207,111,737.60 (31.12.2015: TEUR 200,921), of which EUR 203,442,827.60 (31.12.2015: TEUR 199,425) were pledged as of the balance date.

As in the previous year, there were no subordinated securities as at 31.12.2016, as per Section 45(2) of the BWG.

The trading book comprised the following as at 31 December 2016:

	31.12.2016	31.12.2015
Currency forward transactions (nominal value)	1,731,499.00	4,426
Interest swaps (nominal value) and interest rate contracts	144,794,605.82	153,775

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

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

In addition 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 2017, issued bonds as defined in Section 64 (1) (7) BWG with a value of EUR 237,719,573.52 (2016: TEUR 136,093) 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 31.12.2016 is EUR 1,280,778.72 (31.12.2015: TEUR 974).

4. OTHER ASSETS

The breakdown of other assets is as follows:

	31.12.2016	31.12.2015
Other assets	44,752,172.19	33,320
– of which payable after the balance sheet	*9,746,876.96*	*9,693*
– thereof with a residual term > 1 year	*33,474,288.82*	24,254
Interest income receivable	4,777,177.84	5,165
Accrued income (upfront payment)	17,680,850.38	6,561
Offset claims	294,411.64	492
Receivables arising from FX measurement of banking book derivatives	1,356,251.86	476
Receivables from trading book derivatives	2,619,861.00	3,527
Deposits	12,739,614.78	12,536
Other receivables	5,284,004.69	4,563

5. OTHER LIABILITIES

The breakdown of other liabilities is as follows:

	31.12.2016	31.12.2015
Other liabilities	17,297,403.28	22,374
– of which payable after the balance sheet	*14,408,134.91*	*18,727*
– thereof with a residual term > 1 year	5,982,944.00	6,391
Interest expenses payable	774,491.56	141
Clearing account balances	7,401,753.69	8,635
Fees and levies	2,965,858.14	6,054
Liabilities arising from FX measurement of banking book derivatives	0.00	215
Liabilities from trading book derivatives	2,465,436.00	3,303
Trade payables	883,390.65	1,330
Other liabilities	2,806,473.24	2,697

6. PROVISIONS

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

	31.12.2016	31.12.2015
Guarantees	217,707.90	265
Holidays not taken	661,815.79	946
Long-service bonuses	977,219.00	1,143
Association of mortgage banks § 1406 ABGB	425,722.95	496
Legal and consultancy fees	93,000.00	172
Costs for legal risks	7,387,339.41	4,792
Restructuring provisions	4,022,658.00	8,062
Negative market values of banking book derivatives incl trading book CVA	729,320.00	1,034
Provision against Pfandbriefstelle obligations	0.00	16,046
Miscellaneous provisions	2,409,522.33	2,542
Total	**16,924,305.38**	**35,498**

Other provisions

In accordance with RÄG 2014 and Section 211 of the UGB, other provisions with a term longer than one year must be discounted using a market interest rate. Initial application has resulted in a difference in the amount of EUR 974,393.87, as at 01.01.2016. The bank has exercised the transitional provision for the difference of a deferred income to be distributed evenly over a period of no more than 5 years in accordance with Section 906(33f) of the UGB. The positive effect in the profit and loss account amounts to EUR 231,467.42 as at 31.12.2016.

Guarantees

The provisions for risks arising from the lending business (guarantees) include provisions for specific cases amounting to EUR 18,060.90 (31.12.2015: TEUR 30) as well as provisions at portfolio level amounting to EUR 199,647.00 (31.12.2015: TEUR 235).

Restructuring provisions

In relation to the operating agreement (redundancy agreement) concluded with the Works Council in 2015 for the mitigation and alleviation of the negative social and financial impact on employees leaving the company, and the associated provision in the amount of EUR 6,041,000.00 as at 31.12.2015, in the 2016 financial year the restructuring measures were largely executed (2016 utilisation of EUR 4,369,756.43). As a result of the strategic plan, further measures are necessary which have led to an increase of EUR 900,000.00 in the provision in the year under review. The provision for the redundancy plan which covers severance and termination benefits and the establishment of an employee foundation amounted to EUR 2,555,933.53 as at 31.12.2016 (31.12.2015: TEUR 6,041). The employee foundation supports employees in approaching the employment market.

In addition, there are provisions in the amount of EUR 157,317.47 (31.12.2015: TEUR 277) for restructuring measures in previous financial years.

Furthermore, there is a restructuring provision as at 31.12.2016 for the reorganisation of the branch network in the amount of EUR 1,309,407.00 (31.12.2015: TEUR 1,744), which was formed in the 2015 financial year.

Costs for legal risks

A provision in the amount of EUR 7,387,339.41 exists as at 31.12.2016 (31.12.2015: TEUR 4,792) in respect of legal risks and may cover any possible customer compensation and legal costs. In the current financial year payments totalling EUR 275,805.09 (31.12.2015: TEUR 127) were made against the provision.

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

Through the creation of provisions for expected losses, a loss sustained in off balance sheet transactions, as defined in Section 198 (8) UGB, is recorded in the period in which such loss becomes probable and recognisable as a result of the developments of prevailing market conditions. The amount of the provision is dependent on the size of the expected loss. Austrian Anadi Bank AG uses the market values of derivatives in 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". This means that provisions for expected losses are only made for derivative transactions for which, in hedging terms, there was no 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. All micro hedges are subjected to a check at Austrian Anadi Bank AG and the effectiveness of the hedging relationship is documented. 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 31.12.2016 a provision of EUR 645,757.00 (31.12.2015: TEUR 607) was required.

For derivatives in the trading book, a provision for the Credit Valuation Adjustment (CVA) in the amount of EUR 83,563.00 (31.12.2014: TEUR 427) was required.

Provision for Pfandbriefstelle obligations

Heta Asset Resolution AG ("Heta") is the wind-down unit that was separated from the Hypo Alpe-Adria-Bank International AG Group. Its sole owner is the Republic of Austria. Pursuant to BaSAG, the Austrian Financial Market Authority (FMA) assumes the function of the national resolution authority on 01.01.2015. The FMA is responsible for the orderly resolution of Heta in accordance with the public interest. On 01.03.2015 the FMA issued an administrative ruling extending the maturity of all liabilities of Heta due to its creditors until 31.05.2016 (including liabilities arising from short-term senior and subordinated debt). On 10.04.2016 the FMA issued another administrative ruling ordering a bail-in of creditors, the cancellation of interest as of 01.03.2015 and the setting of maturity dates of all eligible liabilities to 31.12.2023. As a result, the creditors of Heta are subject to a loss-sharing process within the bail-in. Heta's subordinated debt was written down to zero and the senior debt was reduced to 46.02 per cent of its nominal value.

Heta had a variety of debt instruments in issue, which were issued through Pfandbriefbank. Due to the effects of the administrative ruling of 01.03.2015, Heta was unable to honour these commitments. The member institutions of Pfandbriefstelle (including Austrian Anadi Bank AG), along with the relevant Austrian provinces, are jointly and severally liable for all obligations of Pfandbriefbank. For this reason, they had to step in to honour the Pfandbriefbank maturing debt obligations of Heta. Based on a 1/16th share of the joint and several liability, Austrian Anadi Bank AG's share of the obligation was EUR 77.4m. As at 31.12.2016 payments have been made to the Pfandbriefbank by Austrian Anadi Bank AG totalling EUR 49.8m.

In 2015 Austrian Anadi Bank AG recognised provisions for probable losses as a result of the joint and several liability with respect to Pfandbriefbank. These reflect the projected loss that the bank would incur if claims against Heta and the Province of Carinthia for payments made in the name of Heta for these liabilities to Pfandbriefbank were made valid. This relates to a provision of EUR 24.1m for payments of EUR 49.8m, which had already been paid as at 30.06.2016, plus EUR 13.4m for outstanding liabilities which Heta was likely to default on in the future. The total amount of this provision was EUR 37.5m.

In the course of 2016 the Austrian Minister of Finance was authorised under FinStaG to acquire debt instruments for which an Austrian province has provided a guarantee, so long as the purchase is in the public interest. The Kärntner Ausgleichszahlungs-Fonds (KAF) was established to purchase a number of senior and subordinated debt instruments (issued by Heta). The offer was accepted by Austrian Anadi Bank AG and a large number of bond investors. On the basis of the majority acceptance of the offer by the creditors, the repayment of claims from Heta's senior debt obligations is fixed at 90 per cent. As a result, EUR 29.7m of the risk provision for Heta (provisions and specific value adjustments) was reversed in the reporting year. As part of this process, the Pfandbriefbank (and therefore the member institutions of the Pfandbriefstelle, including the Austrian Anadi Bank AG) now assumes liability for those debt instruments which were paid out after the successful offer. Consequently, Anadi Bank has reported a direct liability to the Pfandbriefbank in the amount of 10 per cent of its 1/16-share, corresponding to EUR 2.8m. As at 31.12.2016 this liability amounts to EUR 2.3m.

7. INFORMATION ON RISK PROVISIONS

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

	31.12.2016	31.12.2015
Loans and advances to customers		
Balance at start of year	54,357,387.61	38,045
Additions	7,442,131.64	20,551
Releases	–19,891,140.42	–1,710
Utilised	–7,567,751.10	–10,145
Transfer	2,677,555.00	7,555
Foreign currency valution	2,734.04	62
Balance at year-end	37,020,916.77	54,357

For credit default risks existing on the balance sheet date but not yet identified as such, the portfolio risk provision were adjusted from the 2015 level (TEUR 6,249) to EUR 4,152,651.05 as at 31.12.2016.

8. TIER 2 CAPITAL PURSUANT TO PART TWO, TITLE I, CHAPTER 4 OF REGULATION (EU) NO 575/2013

The nominal value of Tier 2 capital as defined in (EU) No 575/2013 is EUR 18,000,000.00 (31.12.2015: TEUR 18,000). The Tier 2 capital has a maturity of approximately 1 year.

Number	Designation	Volume	Curr.	Interest rate 31.12.2016	Issue date	Maturity date
S51953	Loan against a promissory note	1,500,000.00	EUR	4.560 %	31.08.2006	31.08.2017
S51954	Loan against a promissory note	1,500,000.00	EUR	4.560 %	31.08.2006	31.08.2017
S51955	Loan against a promissory note	5,000,000.00	EUR	4.560 %	31.08.2006	31.08.2017
S53185	Loan against a promissory note	5,000,000.00	EUR	4.575 %	15.02.2007	29.09.2017
S53186	Loan against a promissory note	5,000,000.00	EUR	4.575 %	15.02.2007	29.09.2017

The loans constitute an unsecured subordinated liability on the part of the borrower, as defined in Tier 2 capital pursuant to part two, title I, chapter 4 of Regulation (EU) No 575/2013, which are equal in status to each other and to all other subordinated liabilities of the borrower. In the event of the winding up, liquidation or insolvency of the borrower, entitlements resulting from the loan may only be honoured after the entitlements of the other, non-subordinated creditors of the borrower have been honoured, i.e. payments on the loan may not be made until the claims of other, non-subordinated creditors have been settled in full. Tier 2 capital may not be repaid ahead of term nor may it be pledged or assigned to a third party. In the event of liquidation or bankruptcy, claims are subordinate to all other creditors' claims and may not be offset against receivables of Anadi Bank.

There were no new subordinated loans raised in 2016.

The interest expenses for the supplementary capital amount to EUR 823,234.92 (31.12.2015: TEUR 822).

9. EQUITY

The issued share capital of Austrian Anadi Bank AG as at the balance sheet date amounts to EUR 30,000,000.00 (31.12.2015: TEUR 30,000) and is divided into 30,000 (31.12.2015: 30,000) non-par value bearer shares. The shares are held 100 per cent by Anadi Financial Holdings Pte. Ltd., whose headquarters are in Singapore.

10. RESERVES

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

Designation	Opening balance 01.01.2016	Additions	Disposals	Utilised	Releases	Closing balance 31.12.2016
Capital reserves	82,332,115.37	0.00	0.00	0.00	0.00	82,332,115.37
Retained earnings	2,459,384.02	3,722,717.80	0.00	0.00	0.00	6,182,101.82
Liability reserves	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 24 May 2016.

Untaxed reserves

Under the transitional provision of Section 906(36) of the Austrian Commercial Code (UGB), the untaxed reserves with a book value as at 31.12.2015 of EUR 70,967.00 were reclassified as earnings reserves amounting to EUR 53,225.25 (75 per cent) and as a deferred tax liability amounting to EUR 17,741.75 (25 per cent).

OFF-BALANCE SHEET TRANSACTIONS

11. DERIVATIVE FINANCIAL INSTRUMENTS

The following transactions were unsettled as at the balance sheet date:

Futures transactions	Nominal value Purchase contracts 31.12.2016	Nominal value Purchase contracts 31.12.2015	Nominal value Sales contracts 31.12.2016	Nominal value Sales contracts 31.12.2015
a) Interest rate-related business				
OTC-products				
Interest swaps/Interest rate contracts	784,806,150.48	991,773	784,806,150.48	991,773
b) Currency-related business				
OTC-products				
Currency swaps	8,103,727.71	7,630	7,153,000.00	7,153
Cross-currency swaps	179,254,512.98	81,263	178,848,988.83	81,478
Forward exchange contracts	1,731,499.00	4,426	1,731,249.68	4,424

Futures transactions	Fair value Positive 31.12.2016	Fair value Positive 31.12.2015	Fair value Negative 31.12.2016	Fair value Negative 31.12.2015
a) Interest rate-related business				
OTC-products				
Interest swaps/Interest rate contracts	76,968,622.00	83,680	54,593,499.00	59,209
b) Currency-related business				
OTC-products				
Currency swaps	1,095,362.00	732	0.00	0
Cross-currency swaps	864,266.00	270	1,460,789.00	529
Forward exchange contracts	82,081.00	13	81,878.00	12

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 31.12.2016 the net fair value of derivatives designated as hedging instruments, was EUR 22,196,017.00 (31.12.2015: TEUR 24,888).

In the year under review, some hedging relationships were terminated early - the net positive result, including the underlying transactions, came to EUR 11,494,758.23 (31.12.2015: TEUR 41,068). 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 per cent cash collateralisation). In addition, an individual agreement supplementing the master agreement was signed, in order to use netting for the purpose of reducing counterparty default risk and credit risk.

12. CONTINGENT LIABILITIES

	31.12.2016	31.12.2015
Contingent liabilities	61,038,522.29	79,400
Guarantees and other collateral securities	60,967,371.55	79,225
Letters of credit	71,150.74	175

13. OTHER OFF-BALANCE SHEET STATEMENTS

Loan exposures comprise unused credit lines totalling EUR 123,940,000.00 (31.12.2015: TEUR 171,490).

Liabilities from fiduciary activities amounted to EUR 17,939,098.06 (31.12.2015: TEUR 23,462) 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 848,409.62 (31.12.2015: TEUR 895) for the year under review, EUR 525,497.60 falling due in 2017 and EUR 3,668,237.70 in total for the years 2017 to 2021.

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 – formerly Hypo Alpe-Adria-Bank International AG). The demerger was executed pursuant to the provisions of the Austrian Demerger Act (SpaltG), utilising the exemptions from taxes and duties pursuant to the Austrian Reorganisation Tax Act (UmgrStG), retroactively with effect as of midnight on the reference date of 31.12.2011.

According to statutory provisions, Heta bears the primary responsibility for the obligations assumed as part of the demerger. Additionally, under the provisions of the Austrian Demerger Act, Austrian Anadi Bank AG retains joint and several liability for all liabilities transferred to Heta which were incurred prior to the entry of the demerger in the Commercial Register on 5 September 2012. This demerger liability is limited to the market value of the net assets allocated on the date the demerger was entered in the Commercial Register. Since the net assets of Austrian Anadi Bank AG as of 5 September 2012 were not valued as of that date, this amount and the related amount of the demerger liability cannot be quantified exactly. In the view of Austrian Anadi Bank AG, the purchase price of approximately EUR 65m for which the bank was acquired in December 2013 in a public offer process is an indicator of the market value of the net assets as at 5 September 2012.

For the assessment of potential risks resulting from the demerger liability, the Austrian Anadi Bank AG has obtained legal opinions from widely-recognised experts. According to these opinions, there are good arguments in favour of the view that the demerger liability only takes effect if the obligations of the main debtor become due within five years of the entry of the demerger in the commercial register. Accordingly, on the basis of the demerger liability, an enforcement of obligations that become due after 05.09.2017 would not be possible. Furthermore, the bank and the experts are of the opinion that the assumption of payment obligations of Heta vis-à-vis the Pfandbriefbank reduces the amount of the demerger liability. As a consequence of its statutory joint and several liability as a member institution of the Pfandbriefbank, the Austrian Anadi Bank AG has assumed payment obligations amounting to around EUR 77.4m and has made payments amounting to EUR 49.8m in total to the Pfandbriefbank as at 31.12.2016. Hence, there is a good basis for the view that these payments have reduced the demerger liability by the same amount.

The Austrian Minister of Finance was authorised under the Financial Markets Stability Act (FinStaG) to buy back certain debt instruments of Heta in the public interest. For this purpose, the Kärntner Ausgleichszahlungs-Fonds (KAF) was established. The offer to buy back the Heta debt instruments on the basis of the FinStaG made by the KAF on 06.09.2016 has been accepted by the legally required majorities of creditors concerned. In particular, all creditors of those Heta debt instruments which in principle are covered by the demerger liability have accepted the buy-back offer. The Austrian Anadi Bank AG has accepted the offer as well.

The buyback of Heta debt instruments by the KAF and the receipt of the purchase price has, in principle, led to a reinstatement of the demerger liability – a counter-development to its prior reduction brought about by the payments made to the Pfandbriefbank on behalf of Heta. With regard to the remaining risks resulting from the demerger liability, a distinction must be made between the Heta debt instruments taken over by the KAF and the other liabilities that were not part of the KAF's offer (and hence have not been assumed by the KAF):

With regard to the Heta debt instruments taken over by the KAF the assertion of any claims in relation to the demerger is highly improbable, because of the offer conditions and certain clarifying declarations provided to Austrian Anadi Bank AG in connection its acceptance of the offer. In the event of claims being asserted against Austrian Anadi Bank AG in relation to these Heta debt instruments, Austrian Anadi Bank AG would be entitled to take full recourse and enforce securities.

With regard to other liabilities, which were transferred to Heta in the course of the demerger but which have neither been covered by the KAF offer nor otherwise been met, the assertion of a claim against the Austrian Anadi Bank AG with respect to its demerger liability is, in principle, possible. Of these Heta liabilities, only an unsubordinated liability amounting to EUR 2.6m remains outstanding, thus limiting the risk of Austrian Anadi Bank AG from the demerger liability. Since this particular liability becomes due after 05.09.2017, it is also very likely that the temporal limitation of the demerger liability to five years will take effect and that Austrian Anadi Bank AG cannot be held liable. Should Austrian Anadi Bank AG nevertheless be held liable for this liability, it would have a recourse claim towards Heta. However, this recourse claim would be restricted to 46.02 per cent of the nominal amount, since it would be subject to the debt haircut decreed by the FMA on 10.04.2016 on the basis of the Federal Act on the Recovery and Resolution of Banks (BaSAG).

It should be noted that, as at the reporting date, there are also existing guarantees from the shareholders of the Austrian Anadi Bank AG with regard to the liability risks deriving from the demerger liability.

As a result, the risks for Austrian Anadi Bank AG resulting from the demerger liability have decreased significantly over 2016, so that the recognition of a provision for risks resulting from the demerger liability is not required. It is also no longer necessary to collateralise the risks resulting from the demerger liability by means of guarantees from the shareholders of the Austrian Anadi Bank AG.

The bank points to the fact that there is largely no case law and only limited literature regarding the subject matters in connection with the demerger liabilities. Although the board has obtained relevant opinions from recognised experts and formed a legal opinion on that basis, the risk remains that the courts may not ultimately follow the opinions of these experts and may come to a different conclusion.

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 the Pfandbriefbank liabilities. 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 30.09.2017, 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 1.93bn (31.12.2015: EUR 3.34bn) as at the reporting date 31.12.2016. After taking into account the funds received by Pfandbriefbank and forwarded to Austrian Anadi Bank AG from issuances in the amount of EUR 0.21bn (31.12.2015: EUR 0.33bn), the resulting amount which must be reported pursuant to Section 237 8a of the UGB comes to EUR 1.72bn (31.12.2015: EUR 3.01bn). This joint and several liability according to Section 896 of the Austrian Civil Code can potentially amount to 1/16th of EUR 1.72bn.

NOTES TO THE INCOME STATEMENT

14. INTEREST RECEIVABLE AND SIMILAR INCOME

	31.12.2016	31.12.2015
From loans and advances to credit institutions and customers	47,522,033.07	59,344
of which Austria	41,973,138.00	53,034
of which International	5,548,895.07	6,310
From fixed-income securities	4,830,185.63	3,716
of which Austria	4,506,040.29	7,502
of which write down to par of securities held as fixed assets	−2,995,250.00	−935
of which International	324,145.34	−3,786
of which write down to par of securities held as fixed assets	−7,646,025.00	−8,942
From other assets	31,690,516.22	89,532
of which Austria	31,690,516.22	89,532
of which close outs	*13,911,148.14*	*64,665*
of which International	0.00	0
Total	84,042,734.92	152,592

Interests and similar income from other assets includes EUR 13,911,148.14 (31.12.2015: TEUR 64,665) from premature scheduling of derivatives which were designated in hedging relationships.

Interest earnings include negative interests from receivables in the amount of EUR 668,604.65 (2015: TEUR 147).

15. INTEREST PAYABLE AND SIMILAR EXPENSES

	31.12.2016	31.12.2015
From liabilities to credit institutions and customers	11,420,167.24	10,211
of which Austria	6,339,415.34	6,363
of which International	5,080,751.90	3,848
From debt securities in issue	28,073,908.49	32,979
of which Austria	28,073,908.49	32,979
of which International	0.00	0
From other liabilities	18,292,099.15	43,656
of which Austria	18,292,099.15	43,656
of which close outs	*2,416,389.91*	*23,597*
of which International	0.00	0
Total	57,786,174.88	86,846

Interest and similar expenses from other liabilities includes EUR 2,416,389.91 (31.12.2015: TEUR 23,597) on the early termination in 2016 of derivatives which were designated in hedging relationships.

16. COMMISSIONS RECEIVABLE AND PAYABLE

	31.12.2016	31.12.2015
From the lending business		
Fee and commission income	4,426,212.41	6,875
Fee and commission expenses	–764,976.69	–1,427
From the securities business		
Fee and commission income	1,831,538.79	2,543
Fee and commission expenses	–231,764.28	–464
From other transactions		
Fee and commission income	7,299,029.39	7,599
Fee and commission expenses	–1,668,965.75	–927
Total income	13,556,780.59	17,017
Total expenses	–2,665,706.72	–2,818

17. OTHER ADMINISTRATIVE EXPENSES (OPERATING EXPENDITURE)

	31.12.2016	31.12.2015
Legal and consultancy costs	2,712,752.78	3,705
Advertising and hospitality expenses	1,044,915.39	1,133
Rental, leasing and other building costs	2,865,828.58	3,584
IT costs	1,396,723.49	1,611
Data centre costs	3,086,748.60	2,912
Training expenses	257,076.63	307
Issue costs	100,863.10	228
Travel expenses	290,883.51	295
Fleet costs	192,039.68	216
Insurance	427,316.02	465
Telephone/postage costs	549,608.24	584
Costs in connection with company legal structure	232,350.00	155
Office/stationery costs	128,245.32	155
Single Resolution Fund (BaSAG)	1,330,584.00	1,159
Guarantee deposit (EiSi Hypo-Haftungs-GmbH)	451,756.00	212
Other operating expenditure	813,408.58	630
Total	15,881,099.92	17,351

18. OTHER OPERATING INCOME

	31.12.2016	31.12.2015
Rental and leasing agreements	148,607.99	249
Miscellaneous other operationg income	1,432,093.00	1,339
Total	1,580,700.99	1,588

19. OTHER OPERATING EXPENSES

	31.12.2016	31.12.2015
Other operating expenses	973,370.38	3.356
Total	973,370.38	3.356

SUPPLEMENTARY INFORMATION

20. DEFERRED TAXES

Balance Sheet positions	31.12.2016	31.12.2015	Description
Securities held as Current Assets	–191,541.00	–4,950	Deferred tax liabilities
Positive fair values of trading book derivatives	–2,619,861.00	–3,527	Deferred tax liabilities
Untaxed reserves	–30,414.00	0	Deferred tax liabilities
Securities held as Fixed Assets	13,808,693.00	8,971	Deferred tax assets
Investments	21,919.00	1,743	Deferred tax assets
Provisions	8,458,768.00	11,310	Deferred tax assets
Total	*19,447,564.00*	*13,549*	*Net deferred tax assets*
Excess deferred tax 25%	4,861,891.00	3,387	

21. IMPORTANT LONG TERM CONTRACTS

With effect from 01.07.2015 a service agreement was established 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 provided include payment orders, including domestic and EU countries express payments, plus non-EU countries, integrated with the payment system of the Austrian Anadi Bank AG, together 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 our 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	31.12.2016	31.12.2015
Common Equity Tier 1 Capital	154,719,515.83	150,830
Paid up capital instruments	30,000,000.00	30,000
Retained earnings	82,332,115.37	82,332
Other reserves	43,177,741.82	39,455
Value adjustments due to the requirements for prudent valuation (Fair value exposures)	*156,346,357.07*	*154,806*
thereof 0.1% deduction	–156,346.36	–155
Other intangible assets	–633,995.00	–802
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	2,552,818.83	6,159
Supplementary Capital total	18,000,000.00	18,000
Supplementary Capital allowable	2,552,818.83	6,159
Deducting investments (currently under the exemption limit)	0.00	0
Own funds	157,272,334.66	156,989
Own funds requirement	78,612,193.32	83,812
Surplus of total capital	78,660,141.34	73,177
Coverage ratio	200.06%	187.31%

Own Funds Requirement Austrian Anadi Bank AG	31.12.2016	31.12.2015
Risk-Weighted Assets (banking book)	854,506,966.40	905,097
thereof 8% minimum capital requirement	68,360,557.31	72,408
Credit Value Adjustment	872,700.68	1,008
Own funds requirement for trading book	40,611.92	157
Own funds requirement for open currency position	45,287.51	35
Capital requirment for operational risk	9,293,035.90	10,205
Total own funds requirement	78,612,193.32	83,812
Total risk exposure amount	982,652,416.53	1,047,654

Common Equity Tier 1 Capital ratio	15.75%	14.40%
Additional Tier 1 Capital ratio	0.00%	0.00%
Tier 1 capital ratio	15.75%	14.40%
Supplementary Capital ratio	0.26%	0.59%
Total capital ratio	16.00%	14.98%

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.

	31.12.2016	31.12.2015
Financial collateral	42,514,012.21	66,770
Cash deposits	24,049,136.81	45,844
Securities	18,464,875.40	20,926
Real estate collateral	763,516,614.24	839,687
Guarantees	333,327,721.39	459,393
Other collateral	118,782,126.92	90,295
Insurance	54,621,200.24	56,194
Movable property	12,654,837.68	11,409
Others	51,506,089.00	22,692
Total	1,258,140,474.76	1,456,145

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

	31.12.2016	31.12.2015
Collateral received	17,050,000.00	13,720
Collateral	4,370,000.00	6,980

24. TRUSTEE SAVING ACCOUNTS

Liabilities to customers includes trustee savings accounts with a value of EUR 2,474,143.83 (31.12.2015: TEUR 2,687).

25. FOREIGN CURRENCY

The balance sheet contains the following foreign currency amounts:

	31.12.2016	31.12.2015
Assets	271,097,585.79	301,876
Liabilities	159,312,536.24	272,344

The greater part of the EUR 111,785,049.55 (31.12.2015: TEUR 29,532) difference is hedged with currency swap agreements.

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

	Debt securities in issue		Covering loans		Surplus/shortfall in cover	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Martgage bonds A	0.00	0	360,942,123.91	334,096	360,942,123.91	334,096
Martgage bonds B	37,666,034.49	40,597	73,809,378.50	75,325	36,143,344.01	34,728
Public sector mortgage bonds	561,168,634.15	584,803	644,729,820.95	683,592	83,561,186.80	98,789

Anadi Bank has deposited unissued securities (mortgage bonds) with the Austrian National Bank of EUR 280,000,000.00. This compares to mortgage collateral stock (cover loans) of EUR 360,942,123.91. As at 31.12.2016 no funding has been drawn.

27. OTHER INFORMATION RELATED TO THE BALANCE SHEET

In accordance with Section 64 (1) (8) BWG, securities with a value of EUR 762,932,045.00 (31.12.2015: TEUR 468,163) and loans in the amount of EUR 267,795,041.09 (31.12.2015: TEUR 339,835) were pledged as collateral for liabilities to credit institutions amounting to EUR 135,000,000.00 (31.12.2015: TEUR 338,000) as well as for liabilities to customers of EUR 2,119,135.62 (31.12.2015: TEUR 2,441).

The return on assets in accordance with Section 64 (19) BWG is 0.35 per cent (31.12.2015: 0.12 per cent).

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 legal 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 2016, 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 295,466,000.00 (31.12.2015: TEUR 475,071).

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 per cent 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 2016, the annual contribution payable by Austrian Anadi Bank AG amounted to EUR 451,756.00 (31.12.2015: TEUR 212 for six months). 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 per cent 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 authorised institutions in Austria. These contributions are adapted according to the risk profile of the institution. For the year 2016, Anadi Bank has paid EUR 1,330,584.00 (31.12.2015: TEUR 1,159). 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 (i.S.d. 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 (www.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 come to a total of EUR 213,248.64 (31.12.2015: TEUR 345) 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 213,248.64.

35. EMPLOYEES

Average number of employees according to Section 239 UGB:

	31.12.2016	31.12.2015
Salaried employees	331.49	381.07

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

As at 31.12.2016, the members of the Management Board had received advances, loans or guarantees totalling EUR 125,899.60 (31.12.2015: TEUR 15) from Anadi Bank.

As at 31.12.2016, the members of the Supervisory Board had received, either for themselves or on behalf of the companies for which they are personally liable, had loans or guarantees totalling EUR 145,495.77 (31.12.2015: TEUR 148) from Anadi Bank.

Expenses for severance payments, pensions and anniversary bonus

The bank incurred the following amounts for payments and provisions for severance pay and pension payments in 2016:

	31.12.2016 Severance payments	31.12.2016 Pensions	31.12.2015 Severance payments	31.12.2015 Pensions
Management Board members	6,115.73	237,929.98	19	112
Senior employees	20,076.26	54,774.35	70	38
Other employees	424,487.97	254,992.06	79	304
Total	450,679.96	547,696.39	168	454

In 2016 payments to the employee pension fund amounted to EUR 190,625.67 (31.12.2015: TEUR 188). As a result of the termination of the severance payment provision amounting to EUR 260,054.29 (31.12.2015: TEUR 19), the actual severance charge paid in 2016 was EUR 450,679.96 (31.12.2015: TEUR 168). In the financial year, severance payments in the amount of EUR 2,090,200.29 (31.12.2015: TEUR 734) were continuously recorded against the allocated provisions.

As a result of the termination of the anniversary bonus provisions, an actual anniversary bonus expenditure of EUR -121,806.49 (31.12.2015: TEUR +6) will be paid for 2016. In the financial year, anniversary bonuses in the amount of EUR 44,176.51 (31.12.2015: TEUR 75) were booked against the allocated provisions.

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

	31.12.2016	31.12.2015
Management Board of which fixed	1,607,297.54	1,200
Supervisory Board	213,150.00	136
Remuneration of former members of the Management and Supervisory Boards and their surviving dependents	0.00	0
of which related to termination	0.00	0
Total	1.820.447.54	1,336

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 2016.

Klagenfurt am Wörthersee, on 13.03.2017

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
Mag. Werner Wutscher, Vienna until 18.07.2016

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

State Commissioner:
Mag. Angelika Schlögel, MBA, Vienna

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	Acqusition costs 01.01.2016	Addititions 2016	showing seperate: Interest	Disposals 2016	Transfers 2016
Pos. 2 Treasury bills Fixed-interest securities in fixed assets	238,988,878.86	68,770,456.00	0.00	24,958,151.00	0.00
Pos. 4 Loans and advances to customers Fixed-interest securities in fixed assets	98,222,223.25	0.00	0.00	5,984,856.16	0.00
Pos. 5 Debt securities incl fixed-income securities Fixed-interest securities in fixed assets	179,402,513.02	65,695,819.00	0.00	46,927,630.00	0.00
Pos. 7 Participating interests	6,565,164.65	77,281.26	0.00	0.00	0.00
Pos. 8 Intangible fixed assets	2,680,901.98	203,338.12	0.00	342.60	0.00
Pos. 9 Tangible assets	19,638,166.81	726,711.18	0.00	1,492,006.09	0.00
Total	545,497,848.57	135,473,605.56	0.00	79,362,985.85	0.00

Acqusition costs 31.12.2016	Cumulative Depreciation 01.01.2016	Additions 2016	Attribution	Transfers 2016	Disposals 2016	Cumulative Depreciation 31.12.2016	Book value 31.12.2016	Book value 31.12.2015
282,801,183.86	9,096,591.56	6,080,456.00	0.00	0.00	0.00	15,177,047.56	267,624,136.30	229,892,287.30
92,237,367.09	0.00	0.00	0.00	0.00	0.00	0.00	92,237,367.09	98,222,223.25
198,170,702.02	6,655,733.02	4,560,819.00	0.00	0.00	0.00	11,216,552.02	186,954,150.00	172,746,780.00
6,642,445.91	3,423,506.66	0.00	0.00	0.00	0.00	3,423,506.66	3,218,939.25	3,141,657.99
2,883,897.50	1,879,020.38	371,224.72	0.00	0.00	342.60	2,249,902.50	633,995.00	801,881.60
18,872,871.90	13,360,015.32	910,470.58	0.00	0.00	1,418,083.09	12,852,402.81	6,020,469.09	6,278,151.49
601,608,468.28	34,414,866.94	11,922,970.30	0.00	0.00	1,418,425.69	44,919,411.55	556,689,056.73	511,082,981.63

SCHEDULE 3 TO THE NOTES – CASH FLOW STATEMENT

	31.12.2016 (EUR)	31.12.2015 (TEUR)
Pre-tax profit	15,205,904	2,814
Appreciation in value	0	0
Depreciation	5,842,515	11,265
of tangible fixed assets	910,471	1,069
of intangible fixed assets	371,225	318
of financial assets	4,560,819	9,877
Change in loans and advances and other assets	174,768,591	246,414
Loans and advances to credit institutions	–18,967,831	–13,729
Loans and advances to customers	206,776,862	266,716
Other assets	–11,431,763	–3,260
Deferred assets	–1,608,677	–3,312
Change in provisions	–20,996,898	7,379
for severance payments	–1,830,146	–754
for pensions	–593,304	–619
Ohter provisions	–18,573,448	8,752
Change in payables and other liabilities	–121,601,098	–155,027
Liabilities to credit institutions	–212,208,849	59,374
Liabilities to customers	265,342,738	70,515
Debt ssecurities in issue	–170,418,636	–287,190
Other liabilities	–5,076,341	2,372
Deferred liabilities	759,991	–98
Change in securities classified as current assets	–28,683,956	–11,663
Bonds and other fixed-income securities	–28,687,296	–12,679
Shares and other variable-yield securities	3,339	1,016
Taxes	–479,466	–722
Taxes on income	–2,931,944	2,754
Other taxes	–1,947,522	–1,886
Tax provisions	4,400,000	–1,590
Cash flow from operating activities	24,055,592	100,458
Changes in tangible and intangible fixed assets	–856,126	–2,834
Investments	–930,049	–2,900
Proceeds from sales	73,923	66
Changes in financial assets	–12,860,614	–45,939
Securities classified as fixed assets	–12,783,333	–45,935
Associates and affiliated companies	–77,281	–6
Cash flow from investments activities	–13,716,740	–48,774
Cash flow from financing activities	0	0
Cash flow	10,338,852	51,685

	31.12.2016 (EUR)	31.12.2015 (TEUR)
Cash and cash equivalents at the beginning of the period	298,088,944	246,404
Cash in hand, balances with central bank	27,431,783	26,780
Treasury bills and bills of exchange eligible for refinancing	270,657,161	219,604
Cash and cash equivalents at the end 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
Effective change in cash and cash equivalents	10,338,852	51,685

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 13.03.2017

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,

that comprise the statement of the financial position, the income statement and the notes as of 31 December 2016.

In our opinion, the financial statements, in all material respects, is presented fairly by the financial position of the Company as of 31 December 2016 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 Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the "Auditors' Responsibility" section of our report. We are independent of the Company within the meaning of Austrian commercial law and professional regulations, and 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. Key audit matters are selected from the matters communicated with the audit committee, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

In the course of our audit we have identified two key audit matters:

Valuation of loans and advances to customers

Risk to the financial statements

Loans and advances to customers amount to EUR 2.1 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 41.2 mn are recognized within the loans and advances.

The approach regarding determination of risk provisions is described in the notes section "Accounting and Measurement Policies" and in the management report section "Credit Risk". The development of risk provisions is described in section 7 "Information on risk provisions" of the notes.

The bank evaluates in the context of credit risk management whether there are identifiable risks and therefore specific loan loss provisions 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 estimation of the 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 audit approach

We have analyzed the existing documentation regarding the processes of underwriting, monitoring and risk provisioning for customer loans and critically 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 through sample testing.

We have examined 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 through re-calculations.

Furthermore, we have evaluated the adequacy of the disclosures on the valuation of loans and advances to customers in the notes.

Demerger liability

Risk to the financial statements

In the course of the restructuring of Austrian Anadi Bank AG during the year 2012 the bank demerged its non-core Business to HETA ASSET Resolution AG (formerly Hypo Alpe-Adria-Bank International AG) according to the Austrian Demerger Act ("SpaltG") with effective date 31 December 2011. The demerger has been recorded in the Austrian Commercial Register on 5 September 2012. Due to the legal provisions of § 15 SpaltG Austrian Anadi Bank AG is liable to all former creditors up to the amount of the net asset value transferred in course of the demerger. A limitation of the tenure of the demerger liability is not governed by the law. According to legal expert opinions, the tenure of the demerger liability is derived at a five year period in analogy with prevailing court rulings and the liability limitations of the seller in the case of a business takeover.

By accepting the offer of Kärntner Ausgleichszahlungsfonds the claims of entitled creditors from the titel of demerger liability were transferred to Kärntner Ausgleichszahlungsfonds. The claim of one remaining creditor amouting to approximately EUR 2.6 mn, was exempt from this transfer since the instrument was not part of the offer. This claim will be due five years after the record date of the demerger in Commerical Register. The bank therefore assumes based on legal opinions available, that at time of the maturity of the claim, the demerger liability will have expired. In case the demerger liability should still exist after the expiration of five years and the bank was approached with such a claim, a recourse against HETA is possible. This claim would be limited to 46.02 % of the nominal value, because the claim would fall under the debt haircut due to the adminstrative decision dated 10 April 2016 issued by FMA ("Austrian Financial Market Authority") based on BaSAG.

The risk evaluation in connection with the demerger liability is described by management board in the notes section 13 "Other Off-balance Sheet Statements".

Management's assessment regarding demerger liability and the recognition of respective risk provisions is based on legal opinions of external experts and evaluations of the legal representative of the bank.

The risk for the financial statements results from the uncertainty that the remaining existing claim based on the demerger liability is executed and that court decisions regarding the limitation of the tenure of the demerger liability will present other conclusions.

Our audit approach

We have obtained and examined the legal opinions of external experts as well as the assessments of the legal department of the bank regarding the demerger liability, whether there is an increased risk for claims and a respective risk provision in the financial statements. Moreover, we received and analyzed the representation made by the legal representative of the bank regarding this issue.

Hereby we assessed the legal opinions supported by our internal legal experts and analyzed, whether the management assessment is conclusive and is in line with prevailing court rulings as well as literature. Additionally, we analyzed whether the assessment of the management board is consistent with the expert opinions and whether probability of a claim due to the demerger liability would require a provision. Moreover, we have analyzed recourse options against HETA in case of claims of former creditors.

Finally, we have evaluated whether the disclosures regarding demerger liability are adequate in the notes.

Management's Responsibility and Responsibility of the Audit Committee for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these 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, and, where appropriate, to disclose matters that are relevant to the Company's ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Company or closure of operations is planned or cases in which such measures appear unavoidable.

The audit committee is responsible for the oversight of the financial reporting process of the Company.

Auditors' Responsibility

Our aim is to obtain reasonable assurance about whether the financial statements taken as a whole, are free of material – intentional or unintentional– misstatements and to issue an audit report containing our audit opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if they could, individually or as a whole, be expected to influence the economic decisions of users based on the financial statements.

As part of an audit in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements – intentional or unintentional – in the financial statements, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation or override of internal control.

- We consider 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 as well as related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In case we conclude that there is a material uncertainty about the entity's ability to continue as a going concern, we are required to draw attention to the respective note in the financial statements in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions however may result in the Company departing from the going concern assumption.
- We assess the overall presentation, structure and content of the financial statements including the notes as well as whether the financial statements give a true and fair view of the underlying business transactions and events.
- We communicate to the audit committee the scope and timing of our audit as well as significant findings including significant deficiencies in internal control that we identify in the course of our audit.
- We report to the audit committee that we have complied with the relevant professional requirements in respect of our independence and that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, related measures taken to ensure our independence.
- From the matters communicated with the audit committee we determine those matters that required significant auditor attention in performing the audit and which are therefore key audit matters. We describe these key audit matters in our audit report except in the circumstances where laws or other legal regulations forbid publication of such matter or in very rare cases, we determine that a matter should not be included in our audit report because the negative effects of such communication are reasonably expected to outweigh its benefits for the public interest.

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 as to whether it has been 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].

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 has been prepared in accordance with legal requirements and is consistent with the financial statements.

Statement

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

Other Information

The legal representatives of the Company are responsible for the other information. Other information comprises all information provided in the annual report, with the exception of the financial statements, the management report, and the auditor's report thereon.

Our opinion on the financial statements does not cover other information, and we will not provide any assurance on it.

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

Auditor in Charge

The auditor in charge is Mr Bernhard Mechtler.

Vienna, 13 March 2017

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:

Austrian Anadi Bank AG
Domgasse 5
9020 Klagenfurt am Wörthersee
Phone: +43 (0)50 202
Fax: +43 (0)50 202 3000
austria@anadibank.com
anadibank.com

Forward looking statements and forecasts are based on information and data available at the time of finalising the financial statements (13.03.2017). 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

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Austrian Anadi Bank AG | Domgasse 5 | 9020 Klagenfurt am Wörthersee
Tel. +43 (0)50202 0 | Montag bis Freitag von 07:30 bis 18:00 Uhr
austrian@anadibank.com | anadibank.com/anadi-online

FN 245157a/LG Klagenfurt
DVR2110537