Austrian Anadi Bank

...your bank since 1896

ANNUAL REPORT 2015

AUSTRIAN ANADI BANK AG
KEY DATA

in EURm	2015	2014
Total Assets	3,062	3,207
Primary funds (customer deposits, own funds)	2,277	2,494
Customer Assets	2,264	2,537
Total shareholder equity	174	170
of which Tier 1	156	152
Net interest income	66	41
Operating income	84	61
Operating expenses	–61	–50
Operating result	23	10
Profit from ordinary activities	3	2
Cost: Income ratio	72.07%	83.24%
Net Interest Margin	2.10%	1.28%
Return on equity (RoE)	2.37%	0.41%
Return on assets (RoA)	0.12%	0.02%
Total number of employees	438	439

AUSTRIAN ANADI BANK AG
MANAGEMENT REPORT AND FINANCIAL STATEMENTS

AUSTRIAN ANADI BANK AG
MANAGEMENT REPORT 2015

MANAGEMENT REPORT

1. GENERAL ECONOMIC ENVIRONMENT

After moderate growth of the Austrian GDP in 2014 (0.3%) economists report an improvement to 1.1% in 2015 and a further positive development expected in 2016. This development is in line with the outlook for the European Union, from which the export oriented Austrian economy is benefiting. Nevertheless Austria has seen a significant increase in the unemployment rate from 7.9% in 2011 to 10.6% (national calculation method) by 31.12.2015. Although the government has passed tax reforms which are expected to increase GDP growth in 2016, this is not expected to significantly reduce the unemployment rate.

The rating agency Fitch downgraded the Austrian Federal Government long-term rating by one notch to "AA+" (outlook stable) in February 2015 and particularly referred to the increasing Austrian public debt ratio. Moody's changed the outlook from "Aaa" (stable) to "Aaa" (negative) in Oct 2015 whilst S&P have maintained their rating of "AA+" (stable).

The broader economic environment remains finely balanced between the optimism for growth and the risks of further recession. Whilst uncertainties within the Eurozone continue, in Austria there are specific uncertainties still playing important roles: the discussion around the Heta debt obligations and the deficiency guarantee from the Province of Carinthia on the one hand, as well as the negative effects on the Austrian banking sector of the problems in Eastern Europe and Russia, together with the broader economic uncertainties linked to the Middle East refuge crisis. The Heta moratorium has also had an impact on the Province of Carinthia, resulting in Moody's downgrading the Province twice in the summer of 2015, to B3 with a negative outlook.

The economic development in the Euro area remains mixed, as does the broader global economy. The monetary policy measures of the European Central Bank (ECB) and the US Central Bank are still playing an important role in the evolution of long-term interest rates in Austrian financial markets. Whilst the ECB implemented a bond purchase programme which has kept the long term rates low, with negative short term rates, in December 2015 the US Central Bank finally announced the first rate increase since 2006. The announcement of a zero interest rate environment in the Euro area in March 2016 is a further challenge for all banks. The ECB is expected to continue its quantitative easing programme throughout 2016.

2. OVERVIEW OF AUSTRIAN ANADI BANK

2.1 Vision and Transformation

Austrian Anadi Bank AG has core strength in the Carinthian market in Retail, Corporate and Public Finance Banking. This is a key platform on which the bank has now decided to create a specialised Austrian-based bank with a new approach to Mobile Banking. In the second half of 2015 Anadi made decisive steps both towards establishing a broader presence in the Austrian market and also towards improving its international capability. The bank will become a unique combination of a direct banking model featuring innovative, client friendly and easy to use digital channels and service units, complimented by a lean network of physical branches mainly in urban areas. Featuring mobility and flexibility as major USPs, experienced banking staff will operate on a mobile basis to bring state of the art banking services to the doorsteps of the bank's Retail and SME client base. The bank is also a specialised and preferred banking partner for cross-border business and investment opportunities in growth markets across Europe, India and Asia, offering its expertise to SME clients, focusing on trade or manufacturing in particular.

2.2 Positioning of the bank

In view of the difficult market conditions, Austrian Anadi Bank AG continues to manage its balance sheet cautiously, with measured growth to well rated counterparties and a focus on primary deposits as an important source of funding. During 2015, the bank has responded positively to the impact on the financial markets, and in particular the impact of the Heta moratorium on Pfandbriefbank AG. The bank has taken adequate measures to ensure that capital and liquidity is enhanced and protected to support the ongoing needs of the business whilst honouring the funding commitment of EUR 77m to support Pfandbriefbank, which the bank agreed in April 2015 – related to the default by Heta. In the current year the bank has created additional provisions totalling EUR 21.8m against the Pfandbriefbank Heta commitments. The bank has also taken prudent measures to limit its exposure to Heta in 2015, and in particular has closed a number of derivative contracts with Heta, which crystallised positive results in 2015. A part of these gains, from risk reduction measures, have been prudently applied to invest in low risk, higher yield investments which have been written down to par in 2015.

In the second half of 2015, the bank has invested in the transformation required to deliver the vision outlined above. Business restructuring provisions have been created, covering inter alia, financial support to the staff during the transformation period and also provisions related to the restructuring of the bank's real estate portfolio and branch network.

To expand the bank's funding potential, the mortgage cover pool was split and a portion subjected to a rating process. In December 2015, Austrian Anadi Bank AG became the first Austrian bank to undergo a cover pool rating from Standard and Poor's, and achieved an AA rating for its issuance programme with a conditional pass-through structure. This was the first time such a structure has been implemented in Austria.

In late 2015 the Treasury & Markets team established a new primary funding channel for the bank, through an on-line deposit taking platform in the German market. The bank will continue to develop this funding channel in the years ahead.

Profit before taxation and banking levies is EUR 4.2m (2014: EUR 2.3m). Banking levies comprise the core banking levy for Austrian banks of EUR 1.9m (2014: EUR 1.9m) and two new levies in 2015 (Deposit Guarantee Scheme EUR 0.2m; and the Bank Resolution levy EUR 1.2m), both of which are disclosed as part of Operating Expenses. After these new levies, Profit on Ordinary Activities is EUR 2.8m (2014: EUR 2.3m).

2.3 Retail Banking

Early 2015 was dominated by the focus on the mortgage business, generated through our branches and in cooperation with the bank's external intermediary partners ("success partners"). At the same time the comprehensive advice service ("future dialogue") that the bank provides to its customers has gathered pace, with a particular focus on the more complex needs of private clients, doctors/professionals and business banking customers. This service provides technology based support for a broad ranging dialogue with customers, to identify and service their needs.

Partly linked to the genuine value that customers gain from the future dialogue process, the bank has seen commission income increase by over 16% in the area of securities investments. Furthermore, in the second half of 2015, the bank saw a considerable increase in customers making use of the investment advice service. The bank has also developed new partnerships with external partners such as Wüstenrot (loans and long term savings) and Auto Bank (Leasing), as the bank develops its range of products and services for the benefit of its customers.

In line with the strategy to expand, in addition to its home market of Carinthia, whilst focusing on branches in urban areas, in 2015 the bank opened its first branch in the Styrian capital, Graz. In Vienna the retail branch was relocated into one of the most prominent shopping streets, boosting visibility and accessibility. The service of the existing branch in Salzburg was expanded, and now also serves retail clients.

Taking into account the future positioning of the bank and its business targets, at the end of December the bank decided to relocate two of its Carinthian branches by merging their retail service with larger branches nearby, commencing in 2016. After the merger, there will be 15 Anadi branches in total, with the bank still being present, with at least one outlet, in every district capital in Carinthia.

During 2015, there were more than 37,000 customer calls undertaken by customer account managers. This emphasises the bank's strong commitment to personal contact and support of its customers. Both qualities serve as an important foundation for the future development of Anadi's Retail Banking, towards a more mobile and flexible approach, both in traditional and on-line channels. With most of the bank's competitors focusing on Mobile Banking merely as a technical solution, Anadi's aim is to highlight the human aspect of modern financial services, for example by employing a mobile team of advisors or state of the art customer support centres providing a wide range of services.

2.4 Corporate Banking

In line with its overall strategy, in 2015 the bank reduced its risk exposure and restructured its corporate portfolio, resulting in significant improvements in capital efficiency and profitability. The primary focus of the Corporate Banking business continues to be medium-sized companies within the manufacturing/trade and industry sectors with cross-selling potential.

Additionally the bank promotes products for the financing and management of imports and exports. For export-oriented companies, the bank held an „Export breakfast" in 2015 in cooperation with the Österreichische Kontrollbank, the Export Fund of Austria Wirtschaftsservice GmbH. In addition, the bank extended its range of advisory services in 2015 in the field of company pension schemes.

Corporate Banking continues to develop customer relationships which are mutually beneficial to both the bank and the customer. 2015 has seen the bank improve the balance between profitability and risk capital consumption, yet continue to focus on those key accounts where the bank can bring real value to those customers. The focus has enhanced the relative and absolute profitability of the Corporate Banking segment.

The business performance is based on the bank's customer focused, needs-based consulting approach. The bank's focus on the „Business Dialogue" process continues – a semi-automated counselling method, which makes a comprehensive assessment of the client's current business situation and future objectives, and based on customer needs, tailor-made solutions are offered in order to add real value to customers.

2.5 Public Finance

Taking care of the public sector provides a stable and enduring mainstay of the bank.

During 2015, in addition to its core focus on Carinthia, the bank sought to broaden its regional coverage. Although the impact of the Stability Pact continues to be felt strongly in the public sector, and has led to a reduction or postponement of major public projects by the bank's clients, the Public Finance business has been able to continue to operate successfully and broaden its remit.

Despite the persistent very low interest rates, the bank has continued to operate as a reliable partner of the public sector in terms of investments and financial solutions. Sustainability and energy efficiency will continue to be fields where Austrian Anadi Bank AG will provide strong leadership.

2.6 Treasury and Markets

During 2015 activities in Treasury & Markets were influenced by events surrounding Heta Asset Resolution and Pfandbriefbank Austria, the strengthening of the Swiss Franc and the continuing impact of declining interest rates, and so a substantial focus was placed on liquidity and foreign currency management.

In order to reduce the bank's exposure to Heta, approximately 50% of the derivatives contacts with Heta were either closed or assigned – a process which will continue in 2016.

Treasury & Markets has also strengthened still further the bank's existing business relations to other banks and investors and has ensured the implementation of new regulatory requirements within the framework of asset and liability management.

3. BUSINESS DEVELOPMENT IN AUSTRIAN ANADI BANK AG

2015 has been a year of significant progress for Austrian Anadi Bank AG as it deals with the difficult external environmental factors of low interest rates and the Heta moratorium, whilst at the same time investing in the transformation required to deliver against its vision. The results for the year demonstrate the bank's underlying stability of earnings, together with the increased income associated with the derivative contract closures, and higher expenses due to the transformation costs as outlined earlier. Provisions and other value adjustments largely reflect the provisions for Pfandbriefbank linked to the Heta haircut. All these movements are explained in more detail in the notes and on the following pages.

Profit and Loss in EUR m	2015	2014
Operating income	84,029	60,634
Operating expenses	–60,559	–50,473
Operating result	**23,469**	**10,161**
Provision for joint and several liability	–21,774	–15,690
Other value adjustment	1,119	7,831
Profit on ordinary activities	**2,814**	**2,302**

3.1 Balance sheet development

At 31.12.2015 Austrian Anadi Bank AG has total assets of EUR 3,062m (31.12.2014: EUR 3,207m) which reflects the impact of the balance sheet optimisation that has taken place in 2015.

Assets in EUR m	31.12.2015	31.12.2014
Loans and advances to credit institutions	158,097	144,368
Loans and advances to customers	2,264,423	2,537,123
Debt securities incl. fixed-income securities, shares and other investments	564,620	459,863
Participating interests	3,142	3,136
Other assets	71,599	62,947
Total assets	3,061,881	3,207,437

Liabilities in EUR m	31.12.2015	31.12.2014
Liabilities to credit institutions	539,070	479,695
Liabilities to customers	1,229,785	1,159,271
Debt Securities in issue	1,047,055	1,334,245
Primary Funds	*2,276,840*	*2,493,516*
Subordinated Capital	18,122	18,122
Own Capital	151,805	151,180
Other liabilities incl. net profit for the year	76,044	64,924
Total Liabilities	3,061,881	3,207,437

Asset restructuring in 2015 represents the bank's focus on reducing high capital consumption/low yield business. Nevertheless, EUR 163m of new business has been advanced to customers, as the bank maintains its strong commitment and support to those customers where both Anadi and the customer are able to share in a real value-adding relationship.

Total assets in EUR m

Loans and Advances to Customers have been reduced in 2015 to EUR 2,264m (2014: EUR 2,537m) linked to the customer loan optimisation. The combined assets invested in money markets as Debt Securities, Treasury Bills and other similar securities together with Loans and Advances to Credit Institutions, increased to EUR 723m (2014: EUR 604m), which together with the movement in Loans and Advances to Customers, broadly accounts for the overall change in the balance sheet. 2015 has been another year of strengthening and consolidation as the bank has emerged from its previous ownership structure, to its new independent status in the Austrian banking market.

The underlying asset quality in 2015 has slightly improved compared to the previous year, with total risk provisions of EUR 39.2m (2014: EUR 45.5m) representing 1.7% (2014: 1.8%) of total Loans and Advances to Customers. In addition, the bank holds risk provisions in relation to Heta Asset Resolution AG (Heta), which have not arisen from lending by the bank, but from the bank's exposure to the Heta moratorium, of EUR 37.5m (2014: EUR 15.7m). Non-performing loans represent around 2% of exposure, as in 2014, and is a measure of the credit quality of the bank's assets. Including Heta funding, non-performing loans represent 4% of exposure as at 31.12.2015 (2014: 2%).

On the liability side of the balance sheet, customer deposits have increased to EUR 1,230m (2014: EUR 1,159m), which demonstrates the bank's stable customer base.

Customer deposits, together with the bank's own issued Debt Securities, combine to a total of EUR 2,277m (2014: EUR 2,494m), and comprise the bank's Primary Funds. Whilst Debt Securities issued by the bank reduced by EUR 287m in 2015 as securities matured, Primary Funding as a ratio of customer lending has strengthened from 98% in 2014 to 101% in 2015. The bank's Leverage Ratio as at 31.12.2015 was 4.7% on a full Basel III basis against a minimum requirement of 3%.

3.2 Own capital funds

Total own capital funds (Common Equity Tier 1 Capital and Tier 2 Capital, less deductions), as defined by CRR, were EUR 157m as at 31 December 2015 (2014: EUR 160m). The reduction in total own funds is largely linked to the amortisation of Tier 2 capital. The legal minimum requirement stood at EUR 84m, and so indicates a surplus of EUR 73m (2014: EUR 56m) and an improving coverage of 187% (2014: 153%).

At 31 December 2015, the Common Equity Tier 1 ratio in accordance with CRR/CRD requirements was 14.4% (2014: 11.5%) and the Total Capital Ratio of the bank was 15.0% (2014: 12.3%). Both capital ratios have strengthened significantly in 2015, linked to the balance sheet (asset) optimisation work, and remain significantly in excess of the minimum legal requirement 4.5% and 8.0% respectively.

3.3 Profit and Loss 2015

During 2015, the bank has again delivered growing profitability despite the continuing external low interest rate environment and the significant impact in 2015 of the Heta moratorium, offset by the impact of certain non-recurring items which were outlined earlier, most notably the closure of a number of derivative contracts. Margins of 2.10% (being the ratio of Net Interest Income to total average balance sheet assets) compares to 1.28% in 2014, with Net Interest Income of EUR 65.7m (2014: 41.1m). When adjusted for swap close outs, long term investment revaluations in the Held to Maturity book during the year and the impact of market-wide negative interest rates, Net Interest Income was EUR 35.4m (2014: EUR 38.6m). The reduction in Net Interest Income is partly linked to the Balance Sheet (asset) optimisation work during 2015. Commission Income of EUR 14.2m compares to EUR 15.6m in 2014 and Other Income of EUR 4.1m compares to EUR 3.9m in 2014.

Operating Expenses remain stable in 2015 despite the underlying inflationary pressures at EUR 50.0m (2014: EUR 50.5m) before the one-off costs in 2015 for the restructuring of the bank as it begins to implement the revised strategy for the bank, together with the impact of the Swiss Franc dislocation in early 2015 and the new levies imposed in 2015 for the Deposit Guarantee scheme and the Bank Resolution Fund (BaSAG). Overall, including the one-off items noted above, Operating Expenses are EUR 60.6m (2014: EUR 50.5m). The underlying cost stability reflects the continuing tight control over costs within the bank, although more significant reductions in the cost base will result from the restructuring activity that has now commenced. Staffing levels have been tightened, and now stand at 397 fte (2014: 398 fte).

The Operating Result of the bank shows a result of EUR 23.5m (2014: EUR 10.2m).

Value Adjustments, re-adjustments and provisions in respect of loans and advances, contingent liabilities, commitments, transferrable securities (held as financial fixed assets) and participating interests and shares in affiliated undertakings, when taken together, represent a charge of EUR 20.7m (2014: EUR 7.9m), resulting in Profit on Ordinary Activities for 2015 of EUR 2.8m (2014: EUR 2.3m).

3.4 Key profit indicators

The cost / income ratio, which represents the ratio of Operating Expenses to Operating Income, was 72.1% (2014: 83.2%). This represents an improvement in operating efficiency (including the one off effects in 2015), but still reflects the impact of a reduced balance sheet size on the underlying infrastructure.

The Return on Equity after tax is 2.4% for 2015 (2014: 0.4%), and the Return on Assets is 0.12% (2014: 0.02%).

These indicators will improve with the development of the business strategy and the implementation of initiatives to optimise costs in the context of the restructuring program.

4. ANALYSIS OF NON-FINANCIAL KEY PERFORMANCE INDICATORS

4.1 Employees

As at 31 December 2015, Austrian Anadi Bank AG employed 438 staff at 15 locations throughout Austria, which represents stable staffing levels year on year (2014: 439 people). The bank offers its employees a wide variety of part-time working models and at 31 December 2015, 113 employees took advantage of this opportunity, resulting in a workforce of 397 fte (2014: 398 fte). More than half of employees are women (225 employees as at 31.12.2015).

For more than 25 years, Austrian Anadi Bank AG has successfully trained apprentices and the strategy in apprentice training was continued in 2015. As at 31 December 2015, Austrian Anadi Bank AG employed 13 apprentices in various teaching models including both high school day release as well as traditional banking training.

Austrian Anadi Bank AG acknowledges the ongoing training of employees and organisational development as an overarching priority, with a motivating work environment and health promotion. To promote the professional and personal development of employees, a number of technical and management training events, together with sales and product training and internal training events are offered. Through this diverse range of training opportunities the bank ensures that employees are appropriately trained and also that the attractiveness of Austrian Anadi Bank AG as an employer is enhanced.

As the bank begins to implement its vision, this training and organisational development activity is being further supported by initiatives which were launched in December 2015 to improve two way communication between the Management Board and employees throughout the organisation. This communication ensures a consistent understanding of the strategy for the bank and the progress in achieving it. At the same time objective setting and performance management is being enhanced to ensure the goal congruence for all members of staff towards the bank's vision.

The bank's repositioning and development towards a multi-channel provider of financial services will be accompanied by a more mobile and digital based service capability, as well as a leaner and more efficient overall structure. Where existing units may be reorganised or reduced as part of this reconfiguration, staff will be redeployed elsewhere in the bank wherever possible. This principle was employed for the first time at the end of December, when the bank decided to relocate two of its branches and merge their services with larger nearby branches.

To recognise the importance of the welfare of its staff, the bank has agreed a Social Plan with its Workers' Council, which was finalised in December 2015. This Social Plan will provide security for staff whilst the bank implements the changes necessary to reposition the bank for the benefit of its customers, and in the event that staff will leave the bank, the Social Plan will provide them with financial support, the cost of which is reflected in the 2015 Operating Expenses.

4.2 Customers

For its 50,000 customers Austrian Anadi Bank AG represents a strong and reliable partner in all financial matters with a needs-based advice and support approach over many years. As part of this approach the bank takes into account the wishes and needs of each individual customer and offers the appropriate solution from the standard product range for each customer. Customer account managers and service staff maintain a consistent and intensive customer focus, supported by various customer events, collaborations and charitable projects.

4.3 The environment and social responsibility

Founded in 2012, the in-house working group – Green Bank – works to manage resources sustainably and to preserve the environment. Examples of this are the use of eco-friendly E-bikes for city centre travel between offices, reduction of travel by using video conferencing for internal meetings and the avoidance of colour printing where possible.

Providing quick and efficient help, as well as demonstrating social responsibility, is a clear mandate for Austrian Anadi Bank AG. In this context, through an organised event, used-computers were sought for schools and the bank also worked with "Lebenshilfe Kärnten" („Values Day") and undertook joint activities with clients and customers. As part of „show responsibility" – an initiative between the business community, society and social organisations – eight employees of the bank committed their support for a day of dementia care at Klagenfurt Hospital before Christmas. The unique Lebenshilfe Ball was supported by the bank – an occasion to show commitment to physically and mentally impaired persons.

As part of the continuing sponsorship in the field of culture, in 2015 the cooperation with the Central Carinthian Music Festival „Trigonale" continued. In sports sponsorship the bank continues to support the multiple European and World Paratriathlon Champion, Christian Troger.

4.4 Research and development

In common with others within the banking sector, Austrian Anadi Bank AG does not conduct any research and development activities.

5. RISK MANAGEMENT

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

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 controlling and risk monitoring

The risk strategy of the bank defines the basic principles of its risk policies, whose aims are the creation of a consistent risk profile and the preservation of an adequate capital base. It has been created based on the business strategy adopted by the Management Board and Supervisory Board and provides all risk-related elements and statements concerning its operational implementation. All employees and the Management Board are committed to full compliance with the risk strategy in the exercise of their operational activities.

The risk management principles of the risk strategy form the basis for a common understanding of risk within the bank, which in turn is reflected in the highly developed risk awareness of all employees. These are supported by clearly defined risk management processes and the corresponding organisational structures.

The risk strategy also includes risk management objectives of all essential business activities, as well as the measures to achieve these objectives. It takes account of risk concentrations and makes general statements about the processes for identifying, assessing, limiting, controlling, monitoring and the communication of the major risks.

The following assumptions are established as part of the risk strategy:

- The Management Board is collectively responsible for defining and specifying the risk strategy.
- There is a strict separation of functions in accordance with regulatory requirements, as well as a risk-related organisational structure with clearly defined risk processes.
- Defined risk limits are closely linked to the economic capital allocation and are derived from the risk coverage potential. As part of the 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 Supervisory Board.
- The elements of risk management, its methods and assumptions are reviewed at least annually for appropriateness.

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. In Austrian Anadi Bank AG 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 material risks for the institution, which may jeopardise the solvency of the bank and arise mainly from the business strategy and the transactions associated with it. In addition, regulatory requirements can have a major influence on how risks are dealt with and managed.

The process of risk inventory is carried out at least annually or whenever significant ad hoc development occurs. The risk inventory process is the responsibility of the risk inventory manager (from Strategic Risk Management), who prepares the results together with the risk-type managers.

The bank controls and monitors its risks across all business segments, with the aim of optimising its risk/performance profile and of ensuring the ability to bear risks at any time, thus protecting the bank's depositors and investors.

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. Following 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

The Strategic Risk Management division is responsible for the structured recording of overall banking risks as a basis for 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 linked to the underlying 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 and is structured into two departments:

Credit and Operational Risk

Credit and Operational Risk perform the following tasks:

- Implementation and management of the Internal Capital Adequacy Assessment Process (ICAAP)
- Development of methods and models for credit risk (rating, scoring, credit risk models, validation and back-testing), country risks, participation risks, operational risks, other risks

- Credit risk parameters (EaD, PD, LGD, correlation, PRP)
- Delivery of the credit risk data for planning/budgeting
- Measurement of credit and country risk, macroeconomic risk, property risk and other risks
- Limit setting and monitoring for banks, other counterparties and issuers and country risks consistent with the risk strategy
- Development of stress scenarios including reverse stress testing and event-oriented stress scenarios
- External and internal risk reporting (Supervisory Board, Banking Association, OeNB, FMA)
- Core team member NPNM processes (New Products/New Markets Implementation Processes)

Market and Liquidity Risk

Market and Liquidity Risk perform the following tasks:

- Development of methods and models for market and liquidity risks (ICAAP, ILAAP)
- Regulatory risk reporting (OeNB, FMA)
- Measurement and analysis of market and liquidity risks
- Limit setting, monitoring and escalation of market and liquidity risks
- Regular/ad hoc reporting of market and liquidity risks
- Stress testing and back-testing for market and liquidity risks
- Control and assurance of data quality through to the level of individual positions, for the Treasury business (market conformity check, etc.) as well as at the portfolio level
- Middle-office service functions in connection with the Austrian Commercial Code accounting standards, hedge effectiveness measurement, 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 rate risk statistics (ALM)
- Controlling the liquidity reserve (definition of haircuts, derivation of liquidity buffer, diversification)
- Liquidity contingency planning
- Identification of new Basel III liquidity ratios – LCR and NSFR and asset encumbrance
- Development, implementation and reporting of Additional Liquidity Monitoring Metrics (ALMM)
- Core team member of NPNM processes for market and liquidity risks

Credit Risk Management

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 have 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. After a successful restructuring the clients should be transferred back to market units. If the customer goes into bankruptcy, the insolvency proceedings will be completed by the workout unit.
- Collateral Management
  Collateral must be evaluated annually by this department. This includes mortgages, liens on shares, movable objects, assignments, etc.
- Credit Risk Management support
  This area has responsibility for creating credit-relevant regulations together with annual review. Furthermore, inter alia, this area undertakes central NPL reporting and monitoring of risk budgets.

As part of the bank's strategic transformation a new CRO and a new Head of CRM joined the bank in October 2015 and in March 2016 a new Head of SRM completed the change in the risk management organisation. These changes have strengthened the risk management organisation with the required skills and experience to help the bank achieve its vision.

5.3 Risk Governance

The overall responsibility for risk governance rests with the CRO, and to support this responsibility, a number of decision-making and governance bodies exist within the bank:

Risk Committee

The Risk Committee meets the requirement in accordance with § 39d Austrian Banking Act (BWG). In 2015 the Risk Committee met twice with particular focus on:

- Advice on the current and future risk appetite and risk strategy of the bank
- Monitoring the implementation of the risk strategy in

connection with the management, monitoring and limitation of risks in accordance with the risk-bearing capacity concept of the bank as regards capital and liquidity

- Review of the pricing of products and services of the bank, taking into account the business model and risk strategy
- Assessment of the internal reimbursement system

The committee is composed 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 2015 as a decision-making body with respect to activities or measures of operational risk management. The committee is composed of the Management Board, and from the Risk area, the Head of Strategic Risk Management and the ORC (Operational Risk Controller).

The information received by the GRC includes loss data for the period between the GRC meetings, key performance indicators, current topics such as the implementation of risk management measures, or the results of scenario analyses. The GRC also assesses the risk outlook together with the current priorities/actions and reviews any cases of reported delays to addressing loss events in the Op Risk database.

Furthermore, Compliance, Money Laundering, Fraud and Information Security, together with Safety and Security, were key topics for the GRC.

Key committees or management meetings through which Strategic Risk Management exercises risk oversight comprise:

Asset Liability Committee (ALCO)

The purpose of ALCO is to exchange information and to take decisions on issues of overall bank ALM management and specifically those of Treasury, together with capital 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 to take decisions for the management of liquidity and the management of liquidity ratios, together with the liquidity gap balance and liquidity potential (counter-balancing 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 (issues).

Market and Liquidity Round (MLR)

The MLR was held monthly as an extended LR and in addition to the analysis of the current business situation (assets and liabilities), covers the variance analysis to plans, the analysis of competitors and serves as a decision-making body for the conditioning of products, product specifications, campaigns.

Risk Executive Committee (RECO)

The Risk Executive Committee will meet monthly from 2016, and will have responsibility for the following topics:

- Risk-bearing capacity
- Credit risk portfolio management
- Early warning events and recovery actions
- Risk budget & forecast (in particular Portfolio and Single Risk Provisions)
- Watch list reports
- Market risk in the trading book and the banking book
- Liquidity risk (including Liquidity Risk Strategy, liquidity stress test, liquidity contingency plans)
- Operational risk
- Total bank stress test
- Risk inventory results
- Risk strategy and the monitoring of exceptions to the risk strategy
- Decision/discussion of risk-relevant models and methods

The Risk Executive Committee will also take responsibility for the existing quarterly GRC agenda topics.

The permanent participants of the Risk Executive Committee, in addition to the Management Board members, will be the Head of SRM, the Head of CRM and a representative from Board Assistance. At the quarterly extended RECO, the Head of Compliance & Legal, Head of Operations and Head of Internal Audit will also attend, together with the respective Compliance/Information Security and Operational Risk Officers.

Within the framework of the monthly ALCO, in future the above mentioned MLR agenda will be considered on a quarterly basis.

Key committees through which Credit Risk Management exercises risk oversight comprise:

Credit Committee (CC)

The CC meets on a weekly basis. The CRO acts as the chairman of this committee and it is not possible to overrule his decision.

Watch Loan Committee (WLC)

The bank operates a Watch Loan Committee, and again the CRO acts as chairman. In this committee all loans worse than Rating 4A and all Corporate work-out cases with an exposure larger than EUR 250,000, are reported and reviewed once a quarter. In addition, all loans which are affected by unexpected or sudden market movements and developments, regardless of their rating, are part of the reporting and discussion process of the CC.

For the Retail business, the Watch Loan Committee operates on a monthly basis, with Corporate cases reviewed on a quarterly basis.

5.4 Measures to improve risk management

Basel III – liquidity risk and liquidity risk management

To ensure liquidity on an ongoing basis, Austrian Anadi Bank AG 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 related requirements contained in Basel III have been implemented and the figures for Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Asset Encumbrance are reported in accordance with regulatory requirements. Furthermore the calculation and reporting of the LCR has taken place since October 2015 in line with regulatory requirements. Additionally work has continued on the implementation of the already existing requirements for the Additional Liquidity Monitoring Metrics (ALMM).

European Market Infrastructure Regulation (EMIR)

In order to comply with the requirements of EMIR, the bank has set up 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 "Markit Wire" electronic trading platform (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. In 2015 it was ensured that the reporting was compliant with the Level II Validation rules. Work continues with ongoing changes in accordance with the requirements.

Project 'Anadi Rise'

In the second half of 2015, the project Anadi Rise was launched in the context of the further development of the ICAAP and ILAAP concepts of the bank.

ICAAP

The existing ICAAP of the bank has been revised or updated in respect of:

- Risk inventory
- ICAAP basic concept on a Gone and Going Concern level
- Risk-bearing Capacity (RBC) at the consolidated and bank stand-alone level
- Implementation of a new RBC Tool and RBC reporting
- ICAAP (overall bank) stress testing and reverse stress tests
- Revision of the bank's Risk Strategy
- Adjustment/additions/extensions of the ICAAP documentation
- Validating of rating systems
- Rating segmentation
- Further development of rating systems
- Revision of LGD parameters
- Further development of the concept of concentration risk and collateral concentration
- 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 of the bank has been revised or updated in respect of:

- Revision of liquidity buffer concepts
- Parameterisation of liquidity stress test
- Implementation in systems, processes and reporting
- Revision of liquidity contingency plans
- Revision of Liquidity Risk Strategy
- Adjustments/additions/extensions of ILAAP documentation

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

- Revision of processes for new products/new markets (NPNM)
- Revision of the Funds Transfer Pricing concept
- Revision of haircuts for foreign real estate
- Evaluation of capital and liquidity requirements (planning process)
- Enhancements in methods and processes within the pre-calculation of Treasury products.

5.5 Reporting

Risk-bearing Capacity (RBC) is assessed monthly by the Strategic Risk Management team and issued in the form of risk-bearing capacity report which is made available to the Management Board, the Risk Executive Committee and the relevant division heads. In addition to elements of the RBC, the market risk report, the overall credit risk portfolio report, liquidity reports and the Operational Risk report is also provided.

The RBC report is generated on both the gone concern as well as on a going concern basis, for both the stand-alone bank and at 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 available capital - Risk Coverage Potential (RCP)
- To quantify the economic risks, compared to the RCP
- Representation of the limit utilisation
- Results of ICAAP stress test
- Reverse stress test results

In all other views (Going Concern, consolidated basis), only the first three items are provided.

Risks are quantified from both Gone Concern and Going Concern perspectives as follows:

- Credit risk
  - Single name credit risk
  - Concentration risk
  - Country risk
  - Credit value adjustment (CVA) charge
  - FX-induced credit risk
  - Credit risk on other assets
- Market risk
  - Interest rate risk in the trading book
  - Credit spread risk in the trading book
  - FX risk in the trading book
  - Equity 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
  - Equity price risk in the banking book
  - Market price risk for alternative investments in the banking book
- Liquidity risk
- Operational Risk
- Other risks
  - Object risk
  - Macroeconomic risk
  - Model risk credit risk
  - Model risk market price risk measurement
  - Business, reputational and regulatory risk

Timely, independent and risk-adequate reporting for decision makers is ensured for all risk types – requests for ad hoc reports are honoured at all times.

Regular credit risk reporting is carried out on a monthly basis. There is standardised reporting of liquidity risk on a weekly and monthly basis.

In stress cases the reporting frequency can be increased if required. Market risk reports are compiled on a daily basis.

5.6 Capital management

As part of the overall management of risk, the 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 directing 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 resources are composed of the available capital, which is made up of Tier 1 and Tier 2 capital.

Capital resource planning is mainly based on an internal target for the Common Equity Tier 1 ratio (ratio of CET 1 capital to risk positions) and an internally set target ratio for the overall capital ratio (ratio of total capital resources to risk positions) for the bank.

Economic view (risk-bearing capacity)

In addition to ensuring regulatory capital requirements are met, securing the bank's ability to bear economic risks also forms a central part of controlling activities. To this end, the bank has institutionalised the Internal Capital Adequacy Assessment Process („ICAAP") as regards risk-bearing capacity. Economic capital represents an internal measure that limits the risk appetite of the bank in its internal management.

The calculation of the available capital for risk allocation is based on the annual capital planning process, where all major individual components are planned. In addition to compliance with minimum regulatory capital requirements (in accordance with Pillar I) the risk appetite of the bank is also reflected in the internal economic risk coverage potential. The „gone concern" and „Gone Concern" view is used in the calculation of risk coverage.

In the going concern view, the Risk Coverage Potential is derived from the available capital including hidden reserves and liabilities. The risk coverage potential in the gone-concern view includes subordinated capital which would be available to ensure the payout of the owner in a liquidation event. Therefore, the Gone Concern perspective is based on the intrinsic value of the bank. This is therefore a pure stock valuation, where compliance with regulatory capital requirements is not required. In Austrian Anadi Bank AG, the Gone Concern basis is the predominant risk view. This implies that the derivation of risk appetite, capital allocation, limitation and control of risks is carried out on a Gone Concern basis.

In the course of managing risks associated with economic capital, the risk profile of the bank is monitored by means of risk-bearing capacity reporting and any necessary control measures are implemented where required.

The types of risk relevant to determining the risk capital requirements include credit, market and other risks with all their sub-risk types, together with liquidity and operational risks. The primary method used to determine the amount of the risk capital required depending on the type of risk, is the Value at Risk methodology (VaR methodology).

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

5.7 Credit risk

In terms of scale, credit risks constitute the most significant risks for the bank. They mainly arise from the lending business. If lending counterparties do not meet their obligations, losses result from the amount of non-received benefits less utilised collateral.

Within the framework of the 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. In addition, credit risk is attributable to the country risk (country-specific default and transfer risk), counterparty risk from derivatives (CVA risk), the FX-induced credit risk, concentration risk, as well as credit risks for other assets reported.

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

Business segment specific risks are implicitly considered, with the distinction between asset classes with different risk correlation. However, the IRB model assumes a high degree of granularity in the portfolios and so does not consider the negative effects of concentration on the unexpected loss. Therefore, an additional risk premium is determined, using the Herfindahl-Hirschman Index, for the concentration risk.

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

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

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%. This approach corresponds to a flat-rate risk assessment.

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. The impact of past risk performance acts indirectly on the limit system, as these reduce the risk coverage potential, and if necessary a reallocation of the limits or a reduction in the Value at Risk limits may result.

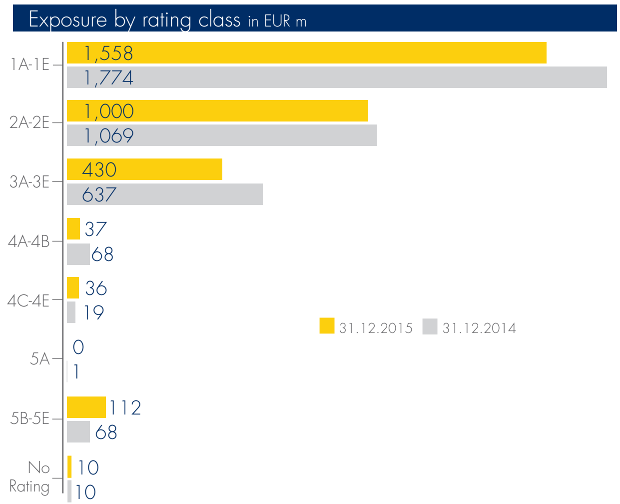
The limitation of credit risk via the CVaR with the following hierarchy:

1 Limit - credit risk total bank
  1.1 Limit - single name credit risk
  1.2 Limit - country-specific credit risk (risk surcharge)

Distribution of exposures

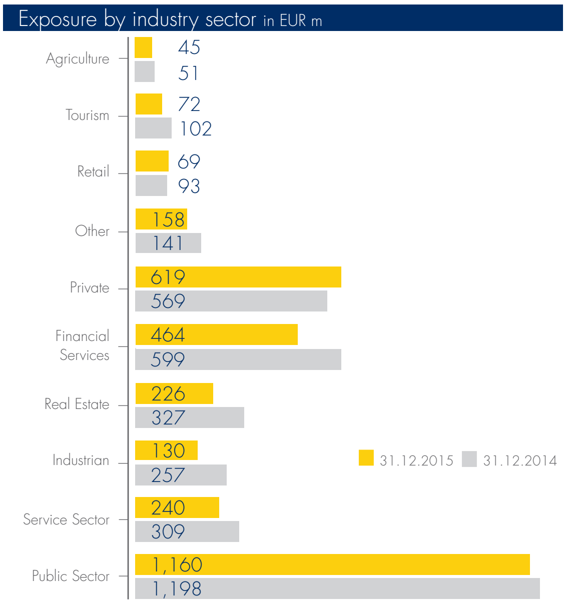
During the year, the bank's exposure has decreased by EUR 463m or 12.7%. Total unused lines in loan and credit activities of approximately EUR 150.8m are available.

Exposure by rating class



Around 80% of the exposure has a rating of 1A to 2E. This is predominantly due from banks and public institutions. The non-performing portfolio (rating classes 5A to 5E) is 3.5% based on the total EAD. After consideration of collateral of EUR 65m there remains a net exposure of EUR 48m, which is covered by a risk provision.

Exposure by industry sector



The management of economic capital and strategic direction setting is undertaken, inter alia, on the basis of industry exposure. The lower-risk industry groups, credit institutions and the public sector represent 51.0% of exposure. The well diversified private clients sector has a share of 19.5%.

Exposure by loan size

Around 56.8% of the exposure lies in the range where individual exposures are less than EUR 10m. The greater portion of the EUR 1.4bn in the range where individual exposures are greater than EUR 10m relates to banks and the public authorities/government.

Loan size in EUR m	31.12.2015	31.12.2014
< 10,000	24	29
10,000–20,000	16	19
20,000–50,000	37	42
50,000–100,000	75	74
100,000–250,000	343	328
250,000–500,000	231	208
500,000–1,000,000	145	146
1,000,000–3,500,000	388	397
3,500,000–10,000,000	547	626
10,000,000–50,000,000	709	703
50,000,000–100,000,000	231	210
>100,000,000	437	865
Total	3,183	3,646

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 Austrian Anadi Bank AG, 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 unconnected to trading functions. 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

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% and a holding period/risk horizon of one year (250 working 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 basis 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 on 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 of 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% confidence level. The risk value on this risk horizon is used to calculate the respective capital requirement for the Gone Concern risk-bearing capacity and using the 'square-root of t' rule and a normal distribution assumption for calculating the confidence level of 99.9%. Diversification effects between individual types of risk are not considered in the trading book. The risks of the individual types of risk are added to the risk-bearing capacity. The risk capital requirements for the trading book for the year as a whole are restricted using dynamic limitation and control processes. The Gone Concern risk capital requirements for market risk in the trading book arises firstly from the risk capital requirements for future unexpected losses (VaR limits) noted above, and secondly from the open loss limits for the trading book as at the date of the risk-bearing capacity assessment.

Overview – market risk

Interest rate risk

The interest rate risk (excluding non-interest bearing items; including interest rate risk in the trading book) of the bank stood at EUR 222,515 per day at year end 2015, at a confidence interval of 99%. It consists of the VaR for the banking book in the amount of EUR 222,245 and the VaR for the trading book in the amount of EUR 270.

The methodology of the interest risk calculation is oriented to the specifications of the Austrian National Bank (OeNB) regarding the calculation of interest risk statistics.

The regulatory limit of 20% was not even close to being reached or exceeded at any point in the year. Utilisation as at 31.12.2015 stood at only 2.64% (31.12.2014: 1.95%)

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 FX risk is the responsibility of the Treasury & Markets division. The foreign currency risk at Austrian Anadi Bank AG 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 risk was approximately EUR 9,180 per day as at 31.12.2015, at a confidence interval of 99%.

Credit spread risk

The credit spread risk within the bank stood at approx. EUR 53,870 at year end 2015 with a 1-day VaR and 99% confidence level. The key influencing factor in this regard 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 31.12.2015, no equity risk was held in Austrian Anadi Bank AG. The respective positions were closed in the 1st quarter of 2015.

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 out of liquidity risks on capital and profit have to be considered – this represents the Funding Spread Risk as one type of liquidity risk.

The liquidity risk is an inevitable 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 elaborated based on the business strategy that has been formulated and adopted by the Supervisory 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 for managing liquidity under various contingencies and includes preceding early warning levels. It defines procedures in terms of business, organisation and processes to ensure early 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 institutionalised management discipline. 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 are assessed.

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

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 levels. 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 Austrian Anadi Bank AG at 31.12.2015 in compliance with the minimum requirements was 170% (31.12.2014: 113%).

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 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 of the LCR, and the NSFR is currently monitored closely.

5.10 Operational risk

Operational risk is the risk of losses occurring as a result of inadequate or failed internal processes, systems and people or from external events. Legal risks are included in this definition, whilst strategic and reputational risks are not included.

The determination of operational risk is carried out within the Gone Concern risk-bearing capacity on the basic indicator approach, based on the Pillar I methodology for determining the regulatory capital requirements. The regulatory capital requirement is consistent with the determination of credit risk capital requirements on the IRB model, based on a confidence level of 99.9%. Back-testing for such a risk-based value of operational risk will be carried out in 2016 (project Anadi RISE).

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 materiality assessment of risks and risk concentrations, with respect to capital and earnings effects. Depending on the materiality and classification of the type of effect (effect on capital 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

From the 2015 risk inventory, the following categories of other risks are assessed:

- 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 property risk is quantified using the Pillar I regulatory capital requirements under the standardised approach.

Macroeconomic risk

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

Additional risk effects, which are identified in the risk inventory yet 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 uncertainties for default rates (PD) due to model and application weaknesses in the rating process. An indication of this would be the result of validation reports of the rating model and the 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 is carried out against all individual transactions of the underlying segment.

Starting in 2016, a similar procedure will be used to determine the model risk resulting from the use of internal estimates of LGD.

Model risk – Market price risk measurement

The model risk of market risk models, quantified via back-testing. Currently three market risk models are included in the model risk assessment:

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

Model weaknesses can be identified on the basis of the comparison between of the historic P & L results on a 1-day risk horizon and the historical VaR risk values, over a historical period of 250 days. It is important to meet the requirements and the procedure for the back-testing of market risk models under the „Basel traffic light approach".

6. CORPORATE GOVERNANCE

The Supervisory Board ("the Board") has four elected members, drawn from a range of backgrounds and areas of responsibility. The Board is led by the Chairman, Mr Srinivasan Sridhar, a banker of many years, international experience. The Workers' Council delegates two employees' representatives to the Board. The members of the Board are set out in more detail on Schedule 1, but comprise as at 31.12.2015:

Srinivasan Sridhar (Chairman)
Dr Sanjeev Kanoria (Deputy Chairman)
Hemant Kanoria
Werner Wutscher
Gabriele Oberlercher (Workers' Council)
Barbara Perchtold (Workers' Council)

The Board is responsible for the oversight of the bank's strategy, the course of business and the bank's risk management. The 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 their nature) are subject to its approval.

The Board meets at least once per quarter in accordance with Statutory Provisions although additional meetings are held as required. The Board met seven times during 2015.

The 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 on Schedule 1, but comprise

Christoph Raninger (Chairman, Chief Executive and Chief Financial Officer)
Gerhard Salzer (Deputy Chairman)
Franz Reif (Chief Risk Officer)

During the year, the Management Board was strengthened by the recruitment of Christoph Raninger, who joined the bank in July 2015 as Chairman of the Management Board, together with Franz Reif, who joined the Management Board in October as Chief Risk Officer, bringing substantial experience of risk management to the bank.

At Supervisory Board level, Mr Hiren Singharay resigned from the Board in May 2015 due to other work commitments, and was replaced by Werner Wutscher in June, who brings considerable experience of senior board roles across the Austrian economy and international commercial environment.

Due to work commitments, Annemarie Primik was replaced by Barbara Perchtold in June 2015 as Workers' Council delegated Board member.

7. INTERNAL CONTROL SYSTEM

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

The ICS of the bank is based on the COSO (Committee of Sponsoring Organisations of the Treadway Commission) framework, 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 and company policies
- Effective and efficient use of all company resources to achieve the targeted commercial success
- Ensuring the reliability of financial reporting
- Supporting adherence to all relevant laws, regulations and rules

The Management Board of Austrian Anadi Bank AG is responsible for the implementation and monitoring of the ICS 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 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 Internal ControlSystem and the reliability of the accounting system.

The effectiveness of the Internal Control System is monitored by the Audit Committee and the Supervisory Board, in accordance with the requirements of the Austrian Companies Act.

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

It is important to note, however, that an ICS provides no absolute assurance that material misstatements in financial reporting will be prevented or detected.

7.1 ICS-related activities in 2015

During 2015, the ICS project updated the process map for the Retail, Corporate and Treasury business areas and also new risk control matrices were established for customer data, against which in the future the ICS is to define new responsibilities.

At the same time it has been discussed that the bank would link the process data landscape to the risk control matrices, in connection with the topic of data governance, since this is currently performed manually with considerable effort. It is therefore planned to evaluate the deployment of scanning software solutions in 2016.

8. COMPLIANCE & LEGAL

The Legal department advises the departments throughout the bank, together with the Management Board, on 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 the employees are acting in accordance with legal requirements, working instructions and guidelines.

Key roles undertaken by Compliance & Legal include:

- Legal consultancy/advice for Management Board and employees
- Internal communication (reports to Management Board, Supervisory Board, etc.)
- Representation of the company in external committees in AML/CFT concerns, federation
- Anti-Money Laundering Officer
- Single point of contact for Austrian Financial Market Authority (FMA)
- 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 ensure capital market compliance, prevention of money laundering and terrorist financing, as well as Information Security and Safety & Security. The aim is to ensure high quality operations in these areas and the fulfilment of legal obligations and related regulations, to ensure a bond of fairness, solidarity and trust between the customer, the bank and its employees, together with compliance with applicable rules dealing with the inherent conflicts of interest.

9. INTERNAL AUDIT

Internal Audit operates as an important part of the bank's risk and control framework, and provides independent assurance to the Management Board, the Audit Committee and the Supervisory Board on the quality and effectiveness of governance, risk management and internal controls to monitor, manage and mitigate key risks to achieving the bank's objectives.

Internal Audit functions as 3rd line of defence in the total bank risk management model and provides assurance especially on:

- The design and operational effectiveness of 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
- The risk and control culture of the organisation
- The way of managing the essential risks, related to credit, capital and liquidity risks
- Significant business process changes or the introduction of new products, markets and services
- The appropriateness, effectiveness and sustainability of the implementation of action plans

The frequency and scope of audit coverage is determined from the on-going assessment of risks, and these plans are regularly approved by the Audit Committee. The approved plan for 2015 was fully executed.

The reporting lines of the Head of Internal Audit are to the bank's Management Board as well as to the Chairman of the Audit Committee together with other members of the Audit Committee.

10. EVENTS AFTER THE BALANCE SHEET DATE

On 21 January 2016, a Tender Offer Memorandum (the Offer) was issued by Kärntner Ausgleichszahlungs-Fonds (KA-F) to purchase a range of senior and subordinated instruments issued by Heta. The Offer was made pursuant to § 2a Financial Markets Stability Act (FinStaG) and applies to Austrian Anadi Bank AG in respect of certain debt securities issued through Pfandbriefbank by Heta.

On 14 March 2016, the announcement of the results of the Offer, pursuant to § 2a (4) FinStaG, confirmed that the required majority consent had not been received from instrument holders.

On 10 April 2016 the FMA, as resolution authority for Heta in accordance with BaSAG announced the reduction of the nominal value of the subordinated debt of Heta to zero and the nominal value of other liabilities to 46.02%. The FMA also announced that 2023 in accordance with § 84 (9) BaSAG, the maturities of debt securities issued by Heta and other qualifying liabilities be extended to no later than 31 December and that with effect from 1 March 2015 the interest rates are reduced to zero.

General implications

In the context of the announcement by the FMA on 10 April 2016, it is expected that creditors will take legal action against the Province of Carinthia in its function as guarantor of Heta. The expected recourse claims against Carinthia would be a financial threat, and could impact upon the province's credit worthiness. In the extreme situation, such threats could lead to a default of the province. In turn, any severe threat or even default of a federal state of the Republic, would also have an impact upon the financial standing of other provinces and the Republic in financial markets. However at present concrete broader impacts and ramifications stemming from the FMA announcements, are not assessable with any certainty.

Potential implications for Austrian Anadi Bank AG

Given the above, a range of potential implications for Austrian Anadi Bank AG might be conceivable: as a consequence of the announcement of haircuts by FMA on 10 April 2016 the bank's recovery expectations from Heta in relation to Pfandbriefbank funding, will change; the possibility that a deterioration in the credit worthiness of Carinthia, or in the worst case its default, could form a risk to the bank based on its exposure; and the possibility, in relation to the demerger liability, that creditors could potentially seek recourse from Anadi, in the event that they suffer a loss on debt obligations owed by Heta.

Assessment and mitigants

With regard to Pfandbriefstelle obligations, on the basis of the haircuts announced by the FMA on 10 April 2016 and the expected recovery from Heta as part of the wind-down, together with the support that is anticipated from Carinthia as guarantor, the current level of provision is adequate from today's point of view and is in line with the bank's internal assessment models.

With regard to the exposure to the Province of Carinthia, the client is a continuously performing counterpart and meets all its obligations on a timely basis. The bank has a well-established business relationship with the province over many years. With regards to the further development of the credit worthiness of Carinthia in the aftermath of the rejection of the Offer, there are a number of uncertainties. One prevailing question is if it is legally possible that a federal province can default under the constitutional law. In conjunction with that it needs to be legally clarified to what extent constitutional protection applies. From today's point of view it is assumed that the core functions of the province such as, inter alia, healthcare are subject to constitutional protection. It is expected that it will take a long period of time to gain legal clarity through the expected large number of lawsuits. Given the potentially adverse implications of the broader financial situation on the Republic of Austria, its provinces and several public announcements by relevant representatives, it can be assumed that all efforts will be taken to avoid a default by the province of Carinthia. Despite potential future risks which will be monitored closely, based on the information available, the bank believes that from today's point of view there is no prevailing probability for a default by the Province of Carinthia in the foreseeable future and hence Carinthia remains a performing counterparty towards the bank.

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) and their acquisition by Heta Asset Resolution AG (Heta - formerly Hypo Alpe-Adria-Bank International AG), pursuant to the provisions of the Austrian Demerger Act (SpaltG) utilising the exemptions from taxes and duties accorded under the Austrian Reorganisation Tax Act (UmgrStG), retroactively with effect from midnight on the reference date of 31.12.2011.

Heta bears the primary responsibility for the obligations assumed as part of the demerger, although Austrian Anadi Bank AG retains joint and several liability for all demerged liabilities incurred prior to the entry of the demerger in the Commercial Register on 5 September 2012, up to the amount of the net assets allocated to the bank within the context of the demerger. The demerger liability is limited to the market value of the net assets allocated to the bank as part of the demerger, on the day the demerger was placed on the Commercial Register. Since the net assets as of 5 September 2012 were not valued at that time, it is necessary to assess this. From the perspective of Austrian Anadi Bank AG the price at which the bank was acquired in December 2013 during a public offer process, is an important indicator of the value.

For any risks arising from the demerger, the bank has obtained relevant legal opinion from well known experts including the common law opinions in literature, on the basis of which the mitigation of any risk would be: the bank believes there are good arguments for the deduction from the liability, of payments made to Pfandbriefbank AG; in addition in the event of any demerger claim against Austrian Anadi Bank AG, the bank can seek partial recourse to the Province of Carinthia; to a limited extent the bank may also seek recourse from Heta; and there exist guarantees from the bank's parent company, Anadi Financial Holdings Pte. Ltd, in respect of demerger liabilities. In light of the risk mitigating arguments, the bank assumes that after considering the guarantees from the bank's parent company, there remains no requirement to make any provision for demerger liabilities.

The bank notes that there is no case law and only limited literature regarding the matter of demerger liabilities. Although the board has obtained relevant opinions by recognised specialists and formed a legal opinion on that basis, the risk remains that the courts may not ultimately follow the opinions of experts and come to a different conclusion.

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 2015.

11. OUTLOOK

2016 will see significant progress by the bank towards its vision to become a unique combination of a direct banking model featuring innovative, client friendly and easy to use digital channels and service units, complimented by a lean network of physical branches mainly in urban areas. The vision will feature mobility and flexibility as major USPs, with experienced banking staff operating on a mobile basis to bring state of the art banking services to the doorsteps of the bank's Retail and SME client base. The bank is also a specialised and preferred banking partner for cross-border business and investment opportunities in growth markets across Europe, India and Asia, offering its expertise to SME clients, focusing on trade or manufacturing in particular.

In achieving this vision, the bank will streamline back-office processes to ensure improved efficiency and effectiveness, and will refocus the branch network to ensure the bank is represented more broadly throughout Austria, for the benefit of our customers.

The Austrian, European and global economy continues to show signs of uncertainty, yet balanced with optimism in some sectors. In this environment, Austrian Anadi Bank AG will continue to embrace the changes necessary to build a successful future, whilst ensuring a prudent approach to risk management and business development.

Klagenfurt am Wörthersee, dated 27.04.2016

The Management Board
Austrian Anadi Bank AG

GD Mag. Christoph Raninger m.p.

VDir. Gerhard Salzer m.p.

VDir. Mag. Franz Reif m.p.

FINANCIAL STATEMENTS 2015

FINANCIAL STATEMENTS 2015
CONTENT

FINANCIAL STATEMENTS 2015

BALANCE SHEET

			31.12.2015 EUR	31.12.2014 TEUR
ASSETS				
1.	Cash in hand, balances with central banks and post office banks		27,431,782.71	26,800
2.	Treasury bills and other bills eligible for refinancing with central banks: a) treasury bills and similar securities		270,657,160.96	219,605
3.	Loans and advances to credit institutions:			
	a) repayable on demand	151,117,117.13		52,811
	b) other loans and advances	6,980,307.91		91,557
			158,097,425.04	144,368
4.	Loans and advances to customers		2,264,422,534.99	2,537,123
5.	Debt securities including fixed-income securities			
	issued by other borrowers	293,938,884.89		239,218
	showing separately:		293,938,884.89	239,218
	own debt securities EUR 95,657,291.27			
	(previous year: TEUR 92,426)			
6.	Shares and other variable-yield securities		24,120.26	1,040
7.	Participating interests		3,141,657.99	3,136
	showing separately:			
	participating interests in credit institutions EUR 635,887.30 (previous year: TEUR 636)			
8.	Intangible fixed assets		801,881.60	804
9.	Tangible assets		6,278,151.49	4,828
	showing separately:			
	land and buildings occupied by a credit institution for its own activities			
	EUR 3,912,890.09			
	(previous year: TEUR 2,288)			
10.	Other assets		33,320,409.67	30,060
11.	Prepayments and accrued income showing separately: deferred tax assets EUR 3,387,147.00 (previous year: TEUR 0,00)		3,767,385.70	455
Total assets			**3,061,881,395.30**	**3,207,437**
1.	Foreign assets		494,540,212.75	436,708

			31.12.2015 EUR	31.12.2014 TEUR
EQUITY AND LIABILITIES				
1.	Liabilities to credit institutions			
	a) repayable on demand	15,941,460.42		26,837
	b) with agreed maturity dates or period of notice	523,128,371.64		452,858
			539,069,832.06	479,695
2.	Liabilities to customers (non-banks)			
	a) saving deposits	500,968,861.44		515,145
	showing separately:			
	aa) repayable on demand EUR 63,445,210.08 (previous year: TEUR 38,843)			
	bb) with agreed maturity dates or period of notice EUR 437,523,651.36 (previous year: TEUR 476,301)			
	b) Other Liabilities	728,816,514.73		644,126
	showing separately:		1,229,785,376.17	1,159,271
	aa) repayable on demand EUR 545,858,043.57 (previous year: TEUR 543,412)			
	bb) with agreed maturity dates or periods of notice EUR 182,958,471.16 (previous year: TEUR 100,714)			
3.	Securitised liabilities			
	a) debt securities issued		1,047,054,640,58	1,334,245
4.	Other liabilities		22,373,744.57	20,002
5.	Accruals and deferred income		282,029.59	379
6.	Provisions			
	a) provision for severance payments	8,105,604.00		8,860
	b) provision for pensions	6,080,957.00		6,700
	c) provision for taxation	0.00		1,590
	d) other provisions	35,480,012.39		26,728
			49,666,573.39	43,878
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		
	b) uncommitted	323,552.95		
			82,332,115.37	82,332
10.	Retained earnings			
	other reserves	2,406,158.77		1,741
			2,406,158.77	1,741
11.	Liability reserve pursuant to Article 57 (5) BWG		36,995,640.00	36,996
12.	Net profit or loss for the year		3,722,717.80	666
13.	Untaxed reserves – valuation reserve due to special depreciation		70,967.00	111
Total liabilities			**3,061,881,395.30**	**3,207,437**

		31.12.2015 EUR	31.12.2014 TEUR
OFF-BALANCE SHEET ITEMS: EQUITY AND LIABILITIES			
1.	Contingent liabilities showing separately b) Guarantees and assets pledged as collateral security	79,400,058.42	125,680
2.	Commitments	171,490,000.00	225,940
3.	Commitments arising from agency services	23,461,686.94	52,279
4.	Eligible capital in accordance with Part Two of Regulation (EU) No 575/2013	156,989,181.57	160,007
	of which Tier 2 capital pursuant to Part Two, Title I, Chapter 4 of Regulation (EU) No. 575/2013	6,158,730.16	9,755
5.	Own Funds requirements as defined in Article 92 of Regulation (EU) No. 575/2013	1,047,653,618.35	1,304,942
	* of which own funds requirements pursuant to Article 92 (1) a to c of Regulation (EU) No. 575/2013		
	a) Common Equity Tier 1 Capital ratio	14.40%	11.51%
	b) Tier 1 capital ratio	14.40%	11.51%
	c) Total capital ratio	14.98%	12.26%
6.	Foreign liabilities	286,492,850.31	318,258

PROFIT AND LOSS ACCOUNT

			2015 EUR	2014 TEUR
1. Interest receivable and similar income showing separately: from fixed-income securities EUR 3,716,033.96 (previous year: TEUR 12,113)			152,591,510.03	152.259
2. Interest payable and similar expenses			(86,846,292.98)	(111.129)
I. Net interest income			**65,745,217.05**	**41.130**
3. Income from securities and participating interests				
a) income from shares and other variable-yield securities		38.12		4
b) income from participating interests		911,357.96		1,036
			911,396.08	1,040
4. Commissions receivable			17,017,356.45	18,040
5. Commissions payable			(2,818,421.59)	(2,462)
6. Net profit or net loss on financial operations			1,585,339.02	957
7. Other operating income			1,587,766.33	1,928
II. Operating income			**84,028,653.34**	**60,634**
8. General administrative expenses				
a) staff costs				
aa) wages and salaries	(30,834,185.16)			(24,631)
bb) expenses for statutory social contributions and compulsory contributions related to wages and salaries	(6,594,514.45)			(6,449)
cc) other social expenses	(413,839.74)			(398)
dd) expenses for pensions and assistance	(454,252.40)			(1,070)
ee) allocation to provision for pensions	0.00			(619)
ff) expenses for severance payments and contributions to severance and retirement funds	(168,309.83)			(1,441)
		(38,465,101.58)		(34,608)
b) Other administrative expenses		(17,350,827.77)		(14,202)
			(55,815,929.35)	(48,811)
9. Value adjustments in respect of asset items 9 and 10			(1,387,121.03)	(1,219)
10. Other operating expenses			(3,356,149.30)	(443)
III. Operating expenses			**(60,559,199.68)**	**(50,473)**
IV. Operating result			**23,469,453.66**	**10,161**
11./12. Value adjustments and re-adjustments in respect of loan and advances and provisions for contingent liabilities and for commitments			(20,689,172.95)	(7,909)
13./14. Value adjustments and re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings			33,608.90	51
V. PROFIT OR LOSS ON ORDINARY ACTIVITIES			**2,813,889.61**	**2,302**
15. Extraordinary expenses			0.00	0
16. Extraordinary result			0.00	0
17. Tax on profit or loss			2,754,441.43	262
18. Other taxes not reported under item 17			(1,886,165.24)	(1,941)
VI. Profit for the year after tax			**3,682,165.80**	**624**
19. Changes in reserves			40,552.00	(1,271)
VII. Net income for the year			**3,722,717.80**	**(647)**
20. Profit brought forward			0.00	1,312
VIII. Net profit for the year			**3,722,717.80**	**666**

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2015

BASIC ACCOUNTING PRINCIPLES

The separate financial statements of Austrian Anadi Bank AG 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 Business Enterprise 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 § 43 BWG. The option accorded under § 53 (3) and § 54 (2) of the BWG to combine certain items in the income statement has been exercised.

ACCOUNTING AND MEASUREMENT POLICIES

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

The principle of individual measurement was applied and a Going Concern assumption made for the measurement of assets and liabilities.

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

Assets and liabilities in foreign currencies are translated using mean 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. Credit risks have been accounted for by specific and portfolio-based risk provisions for loans and advances and for off-balance sheet commitments. Risk provisions for individual transactions are created where there is an objective indication of credit risk, taking into account the amount of the expected loss. The size of the specific risk provision is calculated on the basis of the difference between the carrying amount of the loan and the net present value of the estimated future cash flows, taking into account the collateral provided. The calculation of portfolio-based risk provisions is derived essentially from the Basel III model, although internal parameters are also applied. General risk provisions as defined in § 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 § 56 (1) BWG and valued according to the lower of cost or market value. The option accorded under § 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 § 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.

Provisions for pensions were calculated actuarially using the projected unit credit method in accordance with the provisions of IAS 19. The calculation used an interest rate of 2.06 per cent (31.12.2014: 1.60 per cent) and an annual pension increase of 2 per cent (31.12.2014: 1.70 per cent).

Provisions for severance payments and provisions for anniversary bonuses disclosed under other provisions were likewise calculated actuarially using the projected unit credit method in accordance with the provisions of IAS 19. The calculation used an interest rate of 2.06 per cent (31.12.2014: 1.60 per cent) and assumed salary increase rate of 1.75 per cent p.a. (31.12.2014: 1.70 per cent), taking into account a deduction of 0 per cent (31.12.2014: 0 per cent) for severance payment and for anniversary bonuses 6 per cent p.a. (31.12.2014: 0 per cent) to reflect employee turnover. The 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 31.12.2015.

Other provisions are based on the amounts expected to be required, taking into account all liabilities for which exact amounts have not yet been determined.

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 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 current year results, the bank has exercised the option to recognise deferred tax in the balance sheet, in accordance with section 198 (9) UGB. The option has been exercised since the change will in any case be mandatory for financial years after 31.12.2015 under the Accounting Change Act 2014 (RÄG 2014). Future years financial statements will be more comparable.

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 § 64 (1) (4) BWG were as follows:

	31.12.2015	31.12.2014
A3. Loans and advances to credit institutions	**158,097,425.04**	**144,368,186.41**
- payable on demand	151,117,117.13	52,810,666.44
- up to three months	2,375,989.05	81,557,519.97
- three months to one year	0.00	10,000,000.00
- one year to five years	0.00	0.00
- over five years	4,604,318.86	0.00
A4. Loans and advances to customers	**2,264,422,534.99**	**2,537,123,356.49**
- payable on demand	56,726,131.01	53,447,449.01
- up to three months	75,566,562.59	96,508,266.83
- three months to one year	218,931,506.22	235,149,714.67
- one year to five years	687,335,697.83	811,896,242.66
- over five years	1,225,862,637.34	1,340,121,683.32
P1. Liabilities to credit institutions	**539,069,832.06**	**479,695,343.09**
- payable on demand	15,941,460.42	26,836,755.09
- up to three months	165,000,000.00	176,500,000.00
- three months to one year	42,756,729.52	1,073,852.00
- one year to five years	315,371,642.12	275,284,736.00
- over five years	0.00	0.00
P2. Liabilities to customers	**1,229,785,376.17**	**1,159,270,738.08**
- payable on demand	609,303,253.65	582,255,586.24
- up to three months	157,173,031.89	101,123,818.38
- three months to one year	112,186,433.77	149,352,576.77
- one year to five years	252,485,312.95	209,109,863.07
- over five years	98,637,343.91	117,428,893.62

2. SECURITIES INCLUDING ACCRUED INTEREST

		31.12.2015	31.12.2014
A2.a.	Treasury bills and other bills eligible for refinancing with central banks	270,657,160.96	219,604,717.48
	of which listed	270,657,160.96	219,604,717.48
	of which fixed assets	229,892,287.30	165,756,512.10
	of which accrued interest in fixed assets	3,775,605.66	3,002,734.84
	of which current assets	36,317,800.00	49,728,450.00
	of which accrued interest in current assets	671,468.00	1,117,020.54
A4.	Loans and advances to customers	98,925,955.51	104,977,486.09
	of which not listed	98,925,955.51	104,977,486.09
	of which fixed assets	98,222,223.25	104,207,079.41
	of which accrued interest in fixed assets	703,732.26	770,406.68
A5.b.	Bonds and other fixed-income securities	293,938,884.89	239,217,732.74
	of which listed	198,184,053.47	146,685,635.85
	of which not listed	95,754,831.42	92,532,096.89
	of which fixed assets	172,746,780.00	130,704,680.00
	of which accrued interest in fixed assets	2,680,783.51	1,651,450.49
	of which current assets	118,209,791.28	106,507,602.46
	of which accrued interest in current assets	301,530.10	353,999.79
A6.	Shares and other variable-yield securities	24,120.26	1,040,106.74
	of which listed	0.00	175,518.13
	of which not listed	24,120.26	864,588.61
	of which current assets	24,120.26	1,040,106.74
A7.	Participating interests	3,141,657.99	3,135,961.57
	of which not listed	3,141,657.99	3,135,961.57

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 3112.2015	Write-downs until 31.12.2015	Write-ups until 31.12.2015
Germany	32,500,000	32,500,000.00	1,510,615.00	0.00
Belgium	21,000,000	21,000,000.00	1,846,050.00	0.00
Austria	105,000,000	109,244,237.30	1,540,150.00	4,377,075.20
France	29,600,000	29,600,000.00	1,482,060.00	0.00
European Union	74,000,000	73,865,850.00	184,020.00	64,000.00

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

	31.12.2015	31.12.2014
Issued by others (without public authorities)	**293,938,884.89**	**239,217,732.74**
of which:		
Own issues	95,811,649.24	92,597,783.12
Domestic bonds (credit institutions)	7,982,562.95	7,025,145.48
Foreign bonds (credit institutions)	97,224,573.43	75,706,514.83
Mortgage bonds and municipal bonds	92,920,099.27	63,888,289.31

2.3 Other disclosures relating to securities

The difference between the acquisition cost and the higher market value (§ 56 (4) BWG), for trading book securities not held as financial fixed assets which are recognised at their acquisition cost, is EUR 3,366.69 (31.12.2014: EUR 2,589.50).

The difference between the cost and the higher market value (§ 56 (5) BWG), for trading book securities not held as financial fixed assets which are stated at their higher market value, is EUR 4,949,596.30 (31.12.2014: EUR 7,867,716.23).

Fixed-income securities from the bank's own holdings, which will fall due in 2016, amount to EUR 90,888,687.28 (2015: EUR 40,888,115.27) from euro-denominated securities.

Fixed-income securities from private issuers, which were eligible for refinancing by the Austrian National Bank, amounted to EUR 200,920,985.54 (31.12.2014: EUR 150,940,282.30), of which EUR 199,425,373.10 (31.12.2014: EUR 150,940,282.30) were pledged as at the balance sheet date.

Subordinated securities within the meaning of § 45 (2) BWG with a value of EUR 0.00 (31.12.2014: EUR 0.00) were held as at 31.12.2015.

As at 31.12.2015, securities with a carrying amount of EUR 0.00 (31.12.2014: EUR 14,975,489.83) were committed as part of a securities repo contract.

In the current year listed securities with a nominal value of EUR 53,000,000.00, which were held as fixed assets, were reclassified as current assets, resulting in a positive effect of EUR 4,938,466.00.

The trading book comprised the following as at 31 December 2015:

	31.12.2015	31.12.2014
Securities (at the market values shown in the balance sheet)	0.00	1,017,924.74
Currency forward transactions (nominal value)	4,426,351.91	8,579,817.98
Interest swaps (nominal value) and interest rate contracts	153,775,461.70	195,950,805.54

Financial instruments held as fixed assets and recognised above at fair value (§ 237a (1) (2) UGB) are analysed as follows:

	Carrying amount 31.12.2015	Losses not yet recognised 31.12.2015	Carrying amount 31.12.2014	Losses not yet recognised 31.12.2014
Treasury bills	0.00	0.00	0.00	0.00
Loans and advances to customers (fixed-income securities)	0.00	0.00	0.00	0.00
Bonds and other fixed-income securities	0.00	0.00	2,000,000.00	–1,000.00
Investments in associated companies	0.00	0.00	0.00	0.00
Total	0.00	0.00	2,000,000.00	–1,000.00

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 2016, issued bonds as defined in § 64 (1) (7) BWG with a value of EUR 136,092,584.28 (2015: EUR 196,266,799.73) will become due in Austrian Anadi Bank AG.

3. TANGIBLE AND INTANGIBLE 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 31.12.2015 is EUR 974,283.71 (31.12.2014: EUR 706,094.21).

4. OTHER ASSETS

The breakdown of other assets is as follows:

	31.12.2015	31.12.2014
Other assets	33,320,409.67	30,060,000.09
Interest income	5,164,834.15	5,254,031.37
- of which payable after the balance sheet	5,164,834.15	5,254,031.37
Accrued income (upfront payment)	6,561,173.17	48,211.85
Offset claims	491,846.45	597,896.78
Receivables arising from the foreign exchange measurement of banking book derivatives	476,510.95	622,079.15
Receivables from trading book derivatives	3,526,516.51	5,827,523.51
Deposits	12,535,871.46	12,460,646.46
Other receivables	4,563,656.98	5,249,610.97

5. OTHER LIABILITIES

The breakdown of other liabilities is as follows:

	31.12.2015	31.12.2014
Other liabilities	**22,373,744.57**	**20,001,883.31**
Interest expenses	141,115.03	141,300.22
- of which payable after the balance sheet	141,115.03	141,300.22
Clearing account balances	8,635,024.90	5,304,613.22
Fees and levies	6,053,860.07	5,882,438.50
Liabilities arising from the foreign exchange measurement of banking book derivatives	214,605.32	267,370.31
Liabilities from trading book derivatives	3,302,553.51	5,405,032.51
Trade payables	1,329,547.39	623,551.60
Other liabilities	2,697,038.35	2,377,576.95

6. PROVISIONS

The main items included under other provisions are as follows:

	31.12.2015	31.12.2014
Guarantees	265,057.94	1,355,610.84
Holidays not taken	945,887.00	1,268,018.63
Long-service bonuses	1,143,202.00	1,212,198.00
Association of mortgage banks § 1406 ABGB	495,876.18	496,615.97
Legal and consultancy fees	171,600.00	175,000.00
Costs for legal risks	4,791,815.03	1,407,862.17
Restructuring provisions	8,061,847.47	355,952.78
Negative market values of derivatives in the banking book including trading book CVA	1,034,470.00	2,016,708.34
Provision against Pfandbriefstelle obligations	16,046,000.00	15,690,000.00
Miscellaneous provisions	2,524,256.77	2,750,146.32
Total	**35,480,012.39**	**26,728,113.05**

Guarantees

The provisions for risks arising from the lending business (guarantees) include provisions for specific cases amounting to EUR 29,803.94 (31.12.2014: EUR 762,493.84) as well as provisions at portfolio level amounting to EUR 235,254.00 (31.12.2014: EUR 593,117.00).

Restructuring provision

During 2015, the bank responded to external events (Heta moratorium) as well as to the difficult economic conditions and has defined a restructuring programme to ensure the competitiveness of the bank. The programme will reconfigure the branch network to create a wider coverage across the whole of Austria for the benefit of our customers, and this will be supported by a more mobile and digital based service capability. Where branches may be merged as part of this reconfiguration, staff will be redeployed elsewhere in the bank wherever possible. In addition, to strengthen the cost efficiency of the bank, process improvements continue to be implemented in back office support areas, and once again, where staffing reductions result from such efficiency gains, then staff will be redeployed wherever possible.

To recognise the importance of the welfare of its staff, the bank has agreed a Social Plan with the Workers' Council of the bank, which was finalised in December 2015. This Social Plan will provide security for staff whilst the bank implements the changes necessary to reposition the bank for the benefit of customers, and in the event that staff will leave the bank, the Social Plan will provide them with financial support. A provision has been made for the Social Plan to cover severance and termination payments, and the establishment of a Staff Foundation, in the amount of EUR 6,041,000.00 (31.12.2014: EUR 0.00). The Staff Foundation will provide staff with the opportunity to reorient themselves on the labour market. As at 31.12.2015, historic restructuring provisions of EUR 277,317.47 (31.12.2014: EUR 355,952.78) continue to be held.

In relation to the changes in the branch network outlined above, a restructuring provision of EUR 1,743,530.00 (31.12.2014: EUR 0.00) has been established.

Costs for legal risks

A provision in the amount of EUR 4,791,815.03 exists as at 31.12.2015 (31.12.2014: EUR 1,407,862.17) in respect of legal risks and may cover any possible customer compensation and legal costs. In the current financial year payments totalling EUR 127,459.00 (2014: EUR 83,063.00) 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 § 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 31.12.2015, a provision of EUR 607,390.00 (31.12.2014: EUR 1,729,294.00) was required.

For derivatives in the trading book, a provision for the Credit Valuation Adjustment (CVA) in the amount of EUR 427,080.00 (31.12.2014: EUR 287,414.00) was required.

Provision against Pfandbriefstelle obligations

Heta Asset Resolution AG (Heta) is subject to the moratorium which was announced by the Financial Markets Authority (FMA) in March 2015. Heta has a wide range of debt securities in issue, which were issued through Pfandbriefbank. As these fall due, the impact of the moratorium is that Heta may not honour these commitments. The member institutions of Pfandbriefstelle (including Austrian Anadi Bank AG), in conjunction with the relevant Austrian provinces, are jointly and severally liable for all obligations of Pfandbriefbank, and so in 2015, a commitment was made to step in to honour the Pfandbriefbank debt maturity obligations of Heta. Based on a 1/16th share of the joint and several liability, Austrian Anadi Bank AG made a commitment of EUR 77m. As at 31.12.2015, payments have been made to the Pfandbriefbank by Anadi totalling EUR 42m in respect of this commitment.

On 21 January 2016, a Tender Offer Memorandum (the Offer) was issued by Kärntner Ausgleichszahlungs-Fonds (KA-F) to purchase a range of senior and subordinated instruments issued by Heta. The Offer is made pursuant to § 2a FinStaG and applies to Austrian Anadi Bank AG in respect of certain debt securities issued through the Pfandbriefbank by Heta, to which Austrian Anadi Bank AG has legal title by having made payments, totalling EUR 42m to honour the Pfandbriefbank obligations upon the default by Heta. In addition, for the remainder of the EUR 77m commitment made by Austrian Anadi Bank AG, the Offer would purchase such obligations directly from Pfandbriefbank. On 14 March 2016, the announcement of the results of the Offer, pursuant to § 2a (4) FinStaG, confirmed that the required majority consent had not been received from instrument holders.

On 10 April 2016 the FMA, as resolution authority for Heta in accordance with BaSAG announced the reduction of the nominal value of the subordinated debt of Heta to zero and the nominal value of other liabilities to 46.02%. The FMA also announced that 2023 in accordance with § 84 (9) BaSAG, the maturities of debt securities issued by Heta and other qualifying liabilities be extended to no later than 31 December and that with effect from 1 March 2015 the interest rates are reduced to zero.

Based on the haircuts imposed by the FMA and the changes to maturities, the bank has increased the provisions held against Pfandbriefstelle obligations to EUR 37.5m as at 31.12.2015 (31.12.2014: EUR 15.7m). The measurement of the provision is based on estimates regarding the recoverability of claims against Heta and the Province of Carinthia and is therefore subject to uncertainty.

7. INFORMATION ON RISK PROVISIONS

The development of risk provisions was as follows (loans and advances to customers):

	31.12.2015	31.12.2014
Loans and advances to customers		
Balance at start of year	38,045,052.68	40,867,593.30
Additions	20,550,620.75	7,162,108.28
Releases	–1,709,832.03	–3,936,995.60
Utilised	–10,145,021.35	–6,063,867.30
Transfer	7,555,000.00	0.00
Foreign currency valuation	61,567.56	16,214.00
Balance at year-end	54,357,387.61	38,045,052.68

For credit default risks existing on the balance sheet date but not yet identified as such, the portfolio risk provisions were adjusted from the 2014 level (EUR 7,487,739.05) to EUR 6,249,380.05 as at 31.12.2015.

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 (31.12.2014: EUR 18,000,000.00). The Tier 2 capital has a maturity of approximately 2 years.

ISIN	Designation	Volume	Curr.	Interest rate 31.12.2015	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 agaist 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 Austrian Anadi Bank AG.

There were no new subordinated loans raised in 2015.

The interest expenses for the supplementary capital amount to EUR 822,300.00 (31.12.2014: EUR 823,553.44)

9. EQUITY

The issued share capital of Austrian Anadi Bank AG as at the balance sheet date amounts to EUR 30,000,000.00 (31.12.2014: EUR 30,000,000.00) and is divided into 30,000 (31.12.2014: 30,000) non-par value bearer shares.

The shares are held 100% by Anadi Financial Holdings Pte. Ltd, whose headquarters are in Singapore.

10. RESERVES

The changes in untaxed reserves were as follows:

Designation	Opening balance 01.01.2015	Disposals	Releases	Closing balance 31.12.2015
Valuation reserves resulting from special depreciation allowances				
Valuation reserves as def. in § 8 EStG				
Land and Buildings	111,519.00	0.00	40,552.00	70,967.00
Plant and Equipment	0.00	0.00	0.00	0.00
Valuation reserves as def. in § 12 EStG				
Land and Buildings	0.00	0.00	0.00	0.00
Total untaxed reserves	111,519.00	0.00	40,552.00	70,967.00

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

Designation	Opening balance 01.01.2015	Additions	Disposals	Utilised	Releases	Closing balance 31.12.2015
Capital reserves	82,332,115.37	0.00	0.00	0.00	0.00	82,332,115.37
Retained earnings	1,740,614.43	665,544.34	0.00	0.00	0.00	2,406,158.77
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 18 June 2015.

OFF-BALANCE SHEET ITEMS

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

		Nominal value Purchase contracts		Nominal value Sales contracts	
Futures transactions		31.12.2015	31.12.2014	31.12.2015	31.12.2014
a)	Interest rate-related business				
	OTC products				
	Interest swaps/Interest rate contracts	991,772,629.75	1,572,419,629.00	991,772,629.75	1,572,419,629.00
b)	Currency-related business				
	OTC products				
	Currency swaps (CCY swap)	7,629,510.95	6,885,629.69	7,153,000.00	7,153,000.00
	Cross-currency swaps	81,262,972.98	46,330,079.89	81,477,578.30	45,708,000.74
	Forward exchange contracts	4,426,351.91	8,579,817.98	4,424,464.04	8,551,913.32

		Fair value positive		Fair value negative	
Futures transactions		31.12.2015	31.12.2014	31.12.2015	31.12.2014
a)	Interest rate-related business				
	OTC products				
	Interest swaps/Interest rate contracts	83,679,702.00	158,061,220.00	59,209,018.00	98,967,152.00
b)	Currency-related business				
	OTC products				
	Currency swaps (CCY swap)	732,375.00	69,620.00	0.00	0.00
	Cross-currency swaps	269,615.00	699,502.00	529,371.00	98,609.00
	Forward exchange contracts	13,493.00	88,814.00	11,819.00	60,538.00

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 31.12.2015, the net fair value of derivatives designated as hedging instruments was EUR 24,888,413.26 (31.12.2014: EUR 58,705,073.42).

In the year under review, some hedging relationships were terminated early – the net positive result, including the underlying transactions, came to EUR 41,067,769.07 (31.12.2014: EUR 6,127,847.74). See notes 14 and 15.

On 09.09.2013, Austrian 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% 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

	31.12.2015	31.12.2014
Contingent liabilities	**79,400,058.42**	**125,679,697.74**
Guarantees and other collateral securities	79,224,980.02	125,679,697.74
Letters of credit	175,078.40	0.00

13. OTHER OFF-BALANCE SHEET INFORMATION

Loan exposures comprise unused credit lines totalling EUR 171,490,000.00 (31.12.2014: EUR 225,939,651.00).

Liabilities from fiduciary activities amounted to EUR 23,461,686.94 (31.12.2014: EUR 52,279,490.28) 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 § 93 BWG.

Obligations arising in connection with the use of fixed assets (leasing obligations) not included in the balance sheet of Austrian Anadi Bank AG amount to EUR 894,985.82 (31.12.2014: EUR 899,860.46) for the year under review, EUR 866,948.04 falling due in 2016 and EUR 4,334,740.20 in total for the years 2016 to 2020.

Demerger liabilities

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) and their acquisition by Heta Asset Resolution AG (Heta – formerly Hypo Alpe-Adria-Bank International AG), pursuant to the provisions of the Austrian Demerger Act (SpaltG) utilising the exemptions from taxes and duties accorded under the Austrian Reorganisation Tax Act (UmgrStG), retroactively with effect from midnight on the reference date of 31.12.2011.

Heta bears the primary responsibility for the obligations assumed as part of the demerger, although Austrian Anadi Bank AG retains joint and several liability for all demerged liabilities incurred prior to the entry of the demerger in the Commercial Register on 5 September 2012, up to the amount of the net assets allocated to the bank within the context of the demerger. The demerger liability is limited to the market value of the net assets allocated to the bank as part of the demerger, on the day the demerger was placed on the Commercial Register. Since the net assets as of 5 September 2012 were not valued at that time, it is necessary to assess this. From the perspective of Austrian Anadi Bank AG the price at which the bank was acquired in December 2013 during a public offer process, is an important indicator of the value.

For any risks arising from the demerger, the bank has obtained relevant legal opinion from well known experts including the common law opinions in literature, on the basis of which the mitigation of any risk would be: the bank believes there are good arguments for the deduction from the liability, of payments made to Pfandbriefbank AG; in addition in the event of any demerger claim against Austrian Anadi Bank AG, the bank can seek partial recourse to the Province of Carinthia; to a limited extent the bank may also seek recourse from Heta; and there exist guarantees from the bank's parent company, Anadi Financial Holdings Pte. Ltd, in respect of demerger liabilities. In light of the risk mitigating arguments, the bank assumes that after considering the guarantees from the bank's parent company, there remains no requirement to make any provision for demerger liabilities.

The bank notes that there is no case law and only limited literature regarding the matter of demerger liabilities. Although the board has obtained relevant opinions by recognised specialists and formed a legal opinion on that basis, the risk remains that the courts may not ultimately follow the opinions of experts and 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 § 2 (1) of the Austrian Pfandbriefstelle Act (PfBrStG), jointly liable with the other member institutions for all the Pfandbriefbank liabilities. This liability applies equally for all other member institutions and their legal successors as listed in § 1 (2) of the articles of association for Pfandbriefstelle. For liabilities of the Pfandbriefbank which arose before 2 April 2003 or after 2 April 2003 with a term not beyond 30 September 2017, the guarantors of the member institutions (in each case the province of the member in question) are, according to § 2 (2) of the PfBrStG, equally jointly liable. 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 put at around EUR 3.34bn (31.12.2014: EUR 5.5bn) as of the reporting date 31.12.2015. After taking account of the funds taken up by Pfandbriefbank and forwarded to Austrian Anadi Bank AG, in the amount of EUR 0.33bn (31.12.2014: EUR 0.47bn), the resulting amount which must be reported in accordance with § 237 (8a) UGB comes to EUR 3,01bn (31.12.2014: EUR 5.0bn). This joint and several liability, read with § 896 of the Austrian Civil Code, can potentially amount to 1/16th of EUR 3,01bn (EUR 0.19bn in 2015).

NOTES TO THE INCOME STATEMENT

14. INTEREST RECEIVABLE AND SIMILAR INCOME

	31.12.2015	31.12.2014
From loans and advances to credit institutions and customers	**59,343,763.59**	**64,687,069.85**
of which Austria	53,033,470.72	58,581,008.21
of which International	6,310,292.87	6,106,061.64
From fixed-income securities	**3,716,033.96**	**12,113,463.48**
of which Austria	7,501,673.14	8,386,551.68
of which write down to par of securities held as fixed assets	*–935,000.00*	*–1,614,500.00*
of which International	–3,785,639.18	3,726,911.80
of which write down to par of securities held as fixed assets	–8,942,415.00	–1,905,340.00
From other assets	**89,531,712.48**	**75,458,705.90**
of which Austria	89,531,712.48	75,458,705.90
of which close outs	*64,665,170.60*	*36,798,566.25*
of which International	0.00	0.00
Total	152,591,510.03	152,259,239.23

Interest and similar income from other assets includes EUR 64,665,170.60 (31.12.2014: EUR 36,798,566.25) from the premature termination of derivatives which were designated in hedging relationships.

15. INTEREST PAYABLE AND SIMILAR EXPENSES

	31.12.2015	31.12.2014
From liabilities to credit institutions and customers	**10,211,148.29**	**10,681,594.22**
of which Austria	6,362,843.20	6,902,477.01
of which International	3,848,305.09	3,779,117.21
From debt securities in issue	**32,979,308.94**	**36,059,193.38**
of which Austria	32,979,308.94	36,059,193.38
of which International	0.00	0.00
From other liabilities	**43,655,835.75**	**64,388,274.37**
of which Austria	43,655,835.75	64,388,274.37
of which close outs	23,597,401.53	30,670,718.51
of which International	0.00	0.00
Total	**86,846,292.98**	**111,129,061.97**

Interest and similar expenses from other liabilities includes EUR 23,597,401.53 (31.12.2014: EUR 30,670,718.51) on the early termination in 2015 of derivatives which were designated in hedging relationships.

16. COMMISSIONS RECEIVABLE AND PAYABLE

	31.12.2015	31.12.2014
From the lending business		
Fee and commission income	6,875,249.47	7,973,480.67
Fee and commission expenses	–1,426,926.52	–1,223,081.96
From the securities business		
Fee and commission income	2,543,309.52	2,244,586.61
Fee and commission expenses	–463,986.24	–368,626.92
From other transactions		
Fee and commission income	7,598,797.46	7,822,000.50
Fee and commission expenses	–927,508.83	–870,081.12
Total income	**17,017,356.45**	**18,040,067.78**
Total expenses	**–2,818,421.59**	**–2,461,790.00**

17. OTHER ADMINISTRATIVE EXPENSES (OPERATING EXPENDITURE)

	31.12.2015	31.12.2014
Legal and consultancy costs	3,705,059.19	2,144,209.09
Advertising and hospitality expenses	1,133,203.54	1,148,168.68
Rental, leasing and other building costs	3,583,818.14	3,371,415.15
IT costs	1,610,956.92	1,328,035.69
Data centre costs	2,911,519.40	2,725,456.21
Training expenses	307,094.39	342,707.98
Issue costs	227,589.87	127,445.00
Travel expenses	295,453.10	309,419.81
Fleet costs	216,164.70	227,490.65
Insurance	465,335.76	684,364.14
Telephone/postage costs	584,340.46	581,069.13
Costs in connection with company legal structure	155,400.00	166,200.00
Office/stationery costs	154,437.02	220,018.91
Single Resolution Fund (BaSAG)	1,158,592.66	0.00
Guarantee deposit (EiSi Hypo-Haftungs-GmbH)	211,665.00	0.00
Other operating expenditure	630,197.62	826,335.46
Total	**17,350,827.77**	**14,202,335.90**

18. OTHER OPERATING INCOME

	31.12.2015	31.12.2014
Rental and leasing agreements	248,701.06	276,171.07
Miscellaneous other operating income	1,339,065.27	1,652,025.94
Total	**1,587,766.33**	**1,928,197.01**

19. OTHER OPERATING EXPENSES

	31.12.2015	31.12.2014
Other operating expenses	3,356,149.30	443,196.32
Total	**3,356,149.30**	**443,196.32**

20. TAXES ON INCOME

Pursuant to § 237 (6) UGB, the taxes on income reduce the result from ordinary activities by EUR 703,472.40 (2014: EUR 575,546.91).

For the first time, in 2015 a deferred tax gain of EUR 3,387,147.00 is shown within taxes on income. The bank has exercised the option to recognise deferred tax in the balance sheet, in accordance with § 198 (9) UGB.

The balance of untaxed reserves (after movements) has had the effect of increasing profits for the purposes of tax assessment by EUR 40,552.00 (31.12.2014: EUR 41,526.00).

SUPPLEMENTARY INFORMATION

21. IMPORTANT LONG TERM AGREEMENTS

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 für 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	31.12.2015	31.12.2014
Common Equity Tier 1 Capital	**150,830,451.41**	**150,252,613.40**
Paid up capital instruments	30,000,000.00	30,000,000.00
Retained earnings	82,332,115.37	82,332,115.37
Other reserves	39,455,024.02	38,819,893.68
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	*154,806,376.47*	*94,916,245.64*
thereof 0.1% deduction	–154,806.38	–94,916.25
Other intangible assets	–801,881.60	–804,479.40
Deducting deferred Tax (currently under the exemption limit)	0.00	0.00
Deducting investments (currently under the exemption limit)	0.00	0.00
Additional Tier 1 Capital	**0.00**	**0.00**
Additional Tier 1 Capital	0.00	0.00
Tier 2 Capital	**6,158,730.16**	**9,754,789.27**
Supplementary Capital total	*18,000,000.00*	*18,000,000.00*
Supplementary Capital allowable	6,158,730.16	9,754,789.27
Deducting investments (currently under the exemption limit)	0.00	0.00
Own funds	**156,989,181.57**	**160,007,402.67**

Own funds requirement	**83,812,289.47**	**104,395,348.90**
Surplus of total capital	**73,176,892.11**	**55,612,053.77**
Coverage ratio	187.31%	153.27%

Own Funds Requirement Austrian Anadi Bank AG	31.12.2015	31.12.2014
Risk-Weighted Assets (banking book)	**905,096,676.85**	**1,148,037,405.26**
thereof 8% minimum capital requirement	72,407,734.15	91,842,992.42
Credit Value Adjustment	1,008,051.26	2,491,233.96
Own funds requirement for trading book	157,017.31	604,243.30
Own funds requirement for open currency position	34,743.66	65,577.82
Capital requirement for operational risk	10,204,743.09	9,391,301.40
Total own funds requirement	**83,812,289.47**	**104,395,348.90**
Total risk exposure amount	**1,047,653,618.35**	**1,304,941,861.26**

Common Equity Tier 1 Capital ratio	**14.40%**	**11.51%**
Additional Tier 1 Capital ratio	0.00%	0.00%
Tier 1 capital ratio	**14.40%**	**11.51%**
Supplementary Capital ratio	0.59%	0.75%
Total capital ratio	**14.98%**	**12.26%**

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..

	31.12.2015	31.12.2014
Financial collateral	**66,770,071.54**	**64,633,142.76**
Cash deposits	45,843,601.69	41,943,739.06
Securities	20,926,469.85	22,689,403.70
Real estate collateral	**839,686,893.95**	**900,974,921.16**
Guarantees	**459,392,933.94**	**470,769,544.91**
Other collateral	**90,295,273.97**	**99,075,006.35**
Insurance	56,194,480.38	59,073,293.97
Movable property	11,409,076.39	15,168,950.02
Others	22,691,717.20	24,832,762.36
Total	**1,456,145,173.40**	**1,535,452,615.18**

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

	31.12.2015	31.12.2014
Collateral received	13,720,000.00	39,460,000.00
Collateral	6,980,000.00	3,190,000.00

24. TRUSTEE SAVINGS ACCOUNTS

Liabilities to customers include trustee savings accounts with a value of EUR 2,686,684.03 (31.12.2014: EUR 1,756,497.32).

25. FOREIGN CURRENCY

The balance sheet contains the following foreign currency amounts:

	31.12.2015	31.12.2014
Assets	301,875,543.15	336,775,479.07
Liabilities	272,343,541.04	338,590,961.48

The greater part of the EUR 29,532,002.11 (31.12.2014: EUR 1,815,482.41) 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	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Mortgage bonds A	0.00	32,210,230.62	334,096,306.23	431,242,356.70	334,096,306.23	399,032,126.08
Mortgage bonds B	40,597,200.50	0.00	75,325,246.67	0.00	34,728,046.17	0.00
Public sector mortgage bonds	584,803,377.09	724,483,897.14	683,592,391.00	880,107,156.59	98,789,013.91	155,623,259.45

27. OTHER INFORMATION RELATED TO THE BALANCE SHEET

In accordance with § 64 (1) (8) BWG, securities with a value of EUR 468,163,350.00 (31.12.2014: EUR 380,749,507.00) and loans in the amount of EUR 339,834,564.14 (31.12.2014: EUR 322,393,734.97) were pledged as collateral for liabilities to credit institutions amounting to EUR 338,000,000.00 (31.12.2014: EUR 253,000,000.00) as well as for liabilities to customers of EUR 2,440,728.78 (31.12.2014: EUR 1,601,037.17).

The return on assets in accordance with § 64 (19) BWG is 0.12% (31.12.2014: 0.02%).

28. GUARANTEE OF THE PROVINCE OF CARINTHIA

The statutory guarantee of the Province of Carinthia for all commitments of Austrian Anadi Bank AG (and others) is a default guarantee pursuant to § 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 Province of Carinthia and Austrian Anadi Bank AG (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 § 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 Austrian Anadi Bank AG.

Austrian Anadi Bank AG 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 Province of Carinthia and Austrian Anadi Bank AG 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 Austrian Anadi Bank AG, no further guarantee commission has been paid by Austrian Anadi Bank AG to the Province of Carinthia for the period from 1 January 2012. The Province of Carinthia has not yet issued a legally relevant response to the termination of the liability commission agreement.

As at 31 December 2015, the Province of Carinthia must extend guarantees for fixed term and non-fixed term commitments from Austrian Anadi Bank AG with a total value of EUR 475.1m (31.12.2014: EUR 653.2m).

29. DEPOSIT GUARANTEE

In accordance with § 8 (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 § 1 (1) (1) ESAEG. Under the transitional provisions of § 59 Z 3 ESAEG the Hypo-Haftungs-GmbH, as part of the Association of Hypo Mortgage Banks, is to established 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% 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 2015, half of the annual contribution was payable as a result of the implementation of the ESAEG on 14.08.2015. For Austrian Anadi Bank AG the contribution is calculated as TEUR 212. 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 § 22 (1) ESAEG, may be an annual maximum contribution of 0.5% 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. CONSOLIDATION

As at the reporting date, Austrian Anadi Bank AG does not show any shares in affiliated companies in its balance sheet and therefore does not prepare consolidated financial statements. Pursuant to § 30 (9a) BWG, a regulatory consolidation takes place, comprising Austrian Anadi Bank AG and its Singapore based parent company, Anadi Financial Holdings Pte. Ltd.

31. 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.austrian-anadi-bank.com) in the section "Investors Annual Reports".

32. CASH FLOW STATEMENT

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

33. AUDITING EXPENSES

The expenses in respect of the company's auditor come to a total of EUR 345,211.79 (31.12.2014: EUR 258,629.36) as at the reporting date and comprise other auditing and consulting services in the amount of EUR 39,632.40 and the audit of the annual financial statements in the amount of EUR 305,579.39.

34. EMPLOYEES

The average number of employees for the purposes of § 239 UGB comprises:

	31.12.2015	31.12.2014
Salaried employees	381.07	379.08

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

As at 31.12.2015, the members of the Management Board had received advances, loans or guarantees totalling EUR 14,750.00 (31.12.2014: EUR 16,250.00) from Austrian Anadi Bank AG.

As at 31.12.2015, 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 147,842.55 (31.12.2014: EUR 177,441.49) from Austrian Anadi Bank AG.

Expenses for severance payments and pensions

The bank incurred the following amounts for payments and provisions for severance payments and pension payments in 2015:

	31.12.2015 Severance payments	31.12.2015 Pensions	31.12.2014 Severance payments	31.12.2014 Pensions
Management Board members	19,033.56	112,168.24	-12,523.02	86,489.19
Senior employees	69,948.06	37,892.10	151,296.49	47,439.18
Other employees	79,328.21	304,192.06	1,302,630.33	1,555,041.56
Total	**168,309.83**	**454,252.40**	**1,441,403.80**	**1,688,969.93**

The charge for severance payments of EUR 168,309.83 comprises additional provisions for severance payments during 2015 of EUR 187,562.88 less a release of provisions of EUR 19,253.05. Payments of EUR 734,483.95 were made against the balance sheet provision during the year.

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

	31.12.2015	31.12.2014
Management Board of which fixed	1,200,108.20	1,361,801.65
Supervisory Board	136,200.00	147,000.00
Remuneration of former members of the Management and Supervisory Boards and their surviving dependents	0.00	0.00
of which related to termination	0.00	0.00
Total	**1,336,308.20**	**1,508,801.65**

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

35. EVENTS AFTER THE BALANCE SHEET DATE

On 21 January 2016, a Tender Offer Memorandum (the Offer) was issued by Kärntner Ausgleichszahlungs-Fonds (KA-F) to purchase a range of senior and subordinated instruments issued by Heta. The Offer was made pursuant to § 2a Financial Markets Stability Act (FinStaG) and applies to Austrian Anadi Bank AG in respect of certain debt securities issued through the Pfandbriefbank by Heta.

On 14 March 2016, the announcement of the results of the Offer, pursuant to § 2a (4) FinStaG, confirmed that the required majority consent had not been received from instrument holders.

On 10 April 2016 the FMA, as resolution authority for Heta in accordance with BaSAG announced the reduction of the nominal value of the subordinated debt of Heta to zero and the nominal value of other liabilities to 46.02%. The FMA also announced that 2023 in accordance with § 84 (9) BaSAG, the maturities of debt securities issued by Heta and other qualifying liabilities be extended to no later than 31 December and that with effect from 1 March 2015, the interest rates are reduced to zero.

General implications

In the context of the announcement by the FMA on 10 April 2016, it is expected that creditors will take legal action against the Province of Carinthia in its function as guarantor of Heta. The expected recourse claims against Carinthia would be a financial threat, and could impact upon the province's credit worthiness. In the extreme situation, such threats could lead to a default of the province. In turn, any severe threat or even default of a federal province of the Republic, would also have an impact upon the financial standing of other provinces and the Republic in financial markets. However, at present concrete broader impacts and ramifications stemming from the FMA announcements, are not assessable with any certainty.

Potential implications for Austrian Anadi Bank AG

Given the above, a range of potential implications for Austrian Anadi Bank AG might be conceivable: as a consequence of the announcement of haircuts by FMA on 10 April 2016 the bank's recovery expectations from Heta in relation to Pfandbriefbank funding will change; the possibility that a deterioration in the credit worthiness of Carinthia, or in the worst case its default, could form a risk to the bank based on its exposure; and the possibility, in relation to the demerger liability, that creditors could potentially seek recourse from Anadi, in the event that they suffer a loss on debt obligations owed by Heta.

Assessment and mitigants

With regard to Pfandbriefstelle obligations, on the basis of the haircuts announced by the FMA on 10 April 2016 and the expected recovery from Heta as part of the wind-down, together with the support that is anticipated from Carinthia as guarantor, the current level of provision is adequate from today's point of view and is in line with the bank's internal assessment models.

With regard to the exposure to the Province of Carinthia, the client is a continuously performing counterpart and meets all its obligations on a timely basis. The bank has a well-established business relationship with the province over many years. With regards to the further development of the credit worthiness of Carinthia in the aftermath of the rejection of the Offer, there are a number of uncertainties. One prevailing question is if it is legally possible that a federal province can default under the constitutional law. In conjunction with that it needs to be legally clarified to what extent constitutional protection applies. From today's point of view it is assumed that the core functions of the province such as, inter alia, healthcare are subject to constitutional protection. It is expected that it will take a long period of time to gain legal clarity through the expected large number of lawsuits. Given the potentially adverse implications of the broader financial situation on the Republic of Austria, its provinces and several public announcements by relevant representatives, it can be assumed that all efforts will be taken to avoid a default by the province of Carinthia. Despite potential future risks which will be monitored closely, based on the information available, the bank believes that from today's point of view there is no prevailing probability for a default by the Province of Carinthia in the foreseeable future and hence Carinthia remains a performing counterparty towards the bank.

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) and their acquisition by Heta Asset Resolution AG (Heta - formerly Hypo Alpe-Adria-Bank International AG), pursuant to the provisions of the Austrian Demerger Act (SpaltG) utilising the exemptions from taxes and duties accorded under the Austrian Reorganisation Tax Act (UmgrStG), retroactively with effect from midnight on the reference date of 31.12.2011.

Heta bears the primary responsibility for the obligations assumed as part of the demerger, although Austrian Anadi Bank AG retains joint and several liability for all demerged liabilities incurred prior to the entry of the demerger in the Commercial Register on 5 September 2012, up to the amount of the net assets allocated to the bank within the context of the demerger. The demerger liability is limited to the market value of the net assets allocated to the bank as part of the demerger, on the day the demerger was placed on the Commercial Register. Since the net assets as of 5 September 2012 were not valued at that time, it is necessary to assess this. From the perspective of Austrian Anadi Bank AG the price at which the bank was acquired in December 2013 during a public offer process, is an important indicator of the value.

For any risks arising from the demerger, the bank has obtained relevant legal opinion from well known experts including the common law opinions in literature, on the basis of which the mitigation of any risk would be: the bank believes there are good arguments for the deduction from the liability, of payments made to Pfandbriefbank AG; in addition in the event of any demerger claim against Austrian Anadi Bank AG, the bank can seek partial recourse to the Province of Carinthia; to a limited extent the bank may also seek recourse from Heta; and there exist guarantees from the bank's parent company, Anadi Financial Holdings PTE Ltd, in respect of demerger liabilities. In light of the risk mitigating arguments, the bank assumes that after considering the guarantees from the bank's parent company, there remains no requirement to make any provision for demerger liabilities.

The bank notes that there is no case law and only limited literature regarding the matter of demerger liabilities. Although the board has obtained relevant opinions by recognised specialists and formed a legal opinion on that basis, the risk remains that the courts may not ultimately follow the opinions of experts and come to a different conclusion.

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 2015.

Klagenfurt am Wörthersee, dated 27.04.2016

The Management Board
Austrian Anadi Bank AG

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, Kolkata
Hiren Singharay, Woking, Surrey until 29.05.2015
Werner Wutscher, Vienna from 18.06.2015

Delegated to the Supervisory Board by the Workers' Council:
Gabriele Oberlercher, Krumpendorf
Annemarie Primik, Klagenfurt am Wörthersee until 29.03.2015
Barbara Perchtold, St. Paul from 24.06.2015

State Commissioner:
Angelika Schlögel, MBA, Vienna

Deputy State Commissioner:
Stefan Wieser, Vienna

Trustee:
Franz Krug, Feldkirch

Deputy Trustee:
Jakob Köhler, BMF Vienna

Management Board:
Christoph Raninger, Hagenbrunn from 01.07.2015
Gerhard Salzer, Maria Saal/Klagenfurt am Wörthersee
Franz Reif, Langenlebarn from 01.10.2015
Werner Grillitsch, Klagenfurt am Wörthersee until 30.09.2015
Martin Czurda, Haslau an der Donau until 30.06.2015
Peter Lazar, Klagenfurt am Wörthersee until 31.01.2015

SCHEDULE 2 TO THE NOTES – FIXED ASSETS MOVEMENT SCHEDULE

Assets	Acquisition costs 01.01.2015	Additions 2015	Disposals 2015
Pos. 2			
Treasury bills			
Fixed-interest securities in fixed assets	169,094,618.66	132,834,985.00	62,940,724.80
Pos. 4			
Loans and advances to customers			
Fixed-interest securities in fixed assets	104,207,079.41	0.00	5,984,856.16
Pos. 5			
Debt securities incl. fixed-income securities			
Fixed-interest securities in fixed assets	133,241,483.02	81,161,030.00	35,000,000.00
Pos. 7			
Participating interests	6,559,468.23	5,696.42	0.00
Pos. 8			
Intangible fixed assets	2,398,136.43	315,375.04	32,609.49
Pos. 9			
Tangible assets	18,451,855.18	2,585,094.52	1,398,782.89
Total	433,952,640.93	216,902,180.98	105,356,973.34

Transfers 2015	Acquisition costs 31.12.2015	Cumulative depreciation	Book value 31.12.2015	Book value 31.12.2014	Depreciation 2015
0.00	238,988,878.86	9,096,591.56	229,892,287.30	165,756,512.10	5,758,485.00
0.00	98,222,223.25	0.00	98,222,223.25	104,207,079.41	0.00
0.00	179,402,513.02	6,655,733.02	172,746,780.00	130,704,680.00	4,118,930.00
0.00	6,565,164.65	3,423,506.66	3,141,657.99	3,135,961.57	0.00
0.00	2,680,901.98	1,879,020.38	801,881.60	804,479.40	317,972.84
0.00	19,638,166.81	13,360,015.32	6,278,151.49	4,828,449.29	1,069,148.19
0.00	545,497,848.57	34,414,866.94	511,082,981.63	409,437,161.77	11,264,536.03

SCHEDULE 3 TO THE NOTES – CASH FLOW STATEMENT

	31.12.2015 (EUR)	31.12.2014 (EUR)
Pre-tax profit	**2,813,890**	**2,302,188**
Appreciation in value	**0**	**0**
Depreciation	**11,264,536**	**4,739,036**
of tangible fixed assets	1,069,148	964,310
of intangible fixed assets	317,973	254,886
of financial assets	9,877,415	3,519,840
Change in loans and advances and other assets	**246,413,844**	**23,031,755**
Loans and advances to credit institutions	–13,729,241	–53,594,406
Loans and advances to customers	266,715,965	76,429,560
Other assets	–3,260,410	91,962
Deferred assets	–3,312,471	104,639
Change in provisions	**7,378,825**	**14,009,609**
for severance payments	–753,737	420,520
for pensions	–619,338	619,032
Other provisions	8,751,900	12,970,057
Change in payables and other liabilities	**–155,027,054**	**–44,904,122**
Liabilities to credit institutions	59,374,489	52,950,085
Liabilities to customers	70,514,638	–28,635,051
Debt securities in issue	–287,190,470	–65,197,456
Other liabilities	2,371,861	–4,156,838
Deferred liabilities	–97,572	135,137
Change in securities classified as current assets	**–11,663,065**	**–2,575,143**
Bonds and other fixed-income securities	–12,679,052	–1,914,434
Shares and other variable-yield securities	1,015,987	–660,709
Taxes	**–721,724**	**–2,640,169**
Taxes on income	2,754,441	262,373
Other taxes	–1,886,165	–1,940,542
Tax provisions	–1,590,000	–962,000
Cash flow from operating activities	**100,459,252**	**–6,036,848**
Changes in tangible and intangible fixed assets	**–2,834,225**	**–1,274,565**
Investments	–2,900,470	–1,280,420
Proceeds from sales	66,244	5,855
Changes in financial assets	**–45,940,355**	**22,364,197**
Securities classified as fixed assets	–45,934,659	21,364,196
Associates and affiliated companies	–5,696	1,000,000
Cash flow from investments activities	**–48,774,580**	**21,089,632**
Dividends paid	**0**	**-3,500,100**
to shareholders of the parent company	0	-3,500,100
to non-controlling interests	0	0
Changes in subordinated and equity capital	**0**	**0**
Capital contributions	0	0
Subordinated liabilities	0	0

	31.12.2015 (EUR)	31.12.2014 (EUR)
Hybrid capital	0	0
Supplementary capital	0	0
Changes in minorities	0	0
Changes due to exchange rates, scope of consolidation	0	0
Cash flow from financing activities	0	–3,500,100
Cash flow	51,684,672	11,552,684

Cash and cash equivalents at the beginning of the period	246,404,272	234,851,588
Cash in hand, balances with central bank	26,799,555	27,697,342
Treasury bills and bills of exchange eligible for refinancing	219,604,717	207,154,246
Cash and cash equivalents at the end of the period	298,088,944	246,404,272
Cash in hand, balances with central bank	27,431,783	26,799,555
Treasury bills and bills of exchange eligible for refinancing	270,657,161	219,604,717
Effective change in cash and cash equivalents	51,684,672	11,552,684

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, dated 27.04.2016

The Management Board
Austrian Anadi Bank AG

GD Mag. Christoph Raninger m.p.

VDir. Gerhard Salzer m.p.

VDir. Mag. Franz Reif m.p.

AUDITORS' REPORT

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements, including the accounting system, of Austrian Anadi Bank AG, Klagenfurt, for the fiscal year from January 1, 2015 to December 31, 2015. These financial statements comprise the balance sheet as of December 31, 2015, the income statement for the fiscal year ended December 31, 2015, and the notes.

Management's Responsibility for the Financial Statements and for the Accounting Records

The Company's management is responsible for the accounting records and for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles and the regulations of the Austrian Banking Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria, Austrian Standards on Auditing and Austrian Standards on Auditing of Banks. Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of Austrian Anadi Bank AG as of December 31, 2015 and of its financial performance for the fiscal year from January 1, 2015 to December 31, 2015 in accordance with Austrian Generally Accepted Accounting Principles.

Without qualifying our opinion, we make reference to disclosure „6. Provisions" of the management board, regarding the uncertainties of the provision for the joint and several liability for the Pfandbriefstelle der österreichischen Landeshypothekenbanken/Pfandbriefbank AG.

In addition we make reference to the Notes item „13. Other off balance sheet information" and "35. Events after the balance sheet date" of the management board, which describes the potential risks associated with liabilities regarding demerger.

Comments on the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements and whether the disclosures pursuant to section 243a para 2 UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report is consistent with the financial statements. The disclosures pursuant to section 243a para 2 UGB (Austrian Commercial Code) are appropriate.

Vienna, April 28, 2016

Deloitte Audit Wirtschaftsprüfungs GmbH

Dr. Nikolaus Müller m.p.
Certified Public Accountant

Dr. Peter Bitzyk m.p.
Certified Public Accountant

PUBLISHING INFORMATION

Responsible for the content of this report

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Forward looking statements and forecasts are based on information and data available at the time of finalising the financial statements (27.04.2016). Changes after this date may influence the facts and forecasts given in the Annual Report. The information presented in this report and the data contained therein has been compiled and checked with the greatest possible degree of care and circumspection. However, errors arising from rounding, transmission, typesetting or printing cannot be ruled out.

Austrian Anadi Bank

...your bank since 1896

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