

# DIGITUS

# *INDEX*

# EST

ANNUAL  
REPORT  
2018

EURAM BANK  
CREATIVE FINANCIAL SOLUTIONS

**SI**  
**GNIFI**

**CANCE**





**Digitus index est. The origin of the word “digital” can be found in the Latin word “digitus”, meaning “finger”. This became “digit” in English. Digit is a word used for both fingers and numbers. If you picture a child learning to count with its fingers, the analogy is not that surprising.**



# **EX** **PLORA** **TION**

The term “digital” is just one example of how our mind works and our thinking develops, of the interaction between concept and matter. Our body is much more than just the container for our thoughts, and intelligence means much more than just thinking. We are able to think and feel because we physically experience our environment. We evolve and we take shape as we explore the world.





# RE COGNITION

**Artificial intelligence has become crucial for the banking industry and many other applications. This should be understood as an invitation to not just re-invent the world but rather recognize ourselves as being part of this world and find our way around in this world. Even more so and all the more urgently, if we delegate the “thinking” to machines.**






# PEER *CEP* --- TION



**Some walk through the forest and  
all they see is firewood. The  
questions are: What will artificial  
intelligence see when it roams the  
digital, virtual forest? How will it  
interpret what it perceives, what  
will its judgement be on human  
beings? Like you, like us?**



# COM MIT MENT

A woman's profile is shown in a three-quarter view, looking towards the left. Her hand, with blue-painted fingers, is placed on her forehead. The background is a vibrant pink with a pattern of white dots of varying sizes, creating a textured, almost vibrating effect. The lighting is soft, highlighting the contours of her face and the texture of her skin.

**We must not take the easy way out in our digital world – and certainly not when using any form of artificial intelligence and considering its impacts on the banking industry. However, maybe the simple things bring us valuable ideas to cope with the complexity of our future: We will no longer use our fingers to count. But we will use them very well to shake our customers' hands – as a sign of our personal relationship and to honour true values.**



**A N N U A L  
R E P O R T  
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EURAM BANK

CREATIVE FINANCIAL SOLUTIONS



**ANNUAL  
REPORT  
2018**

## **FOREWORD**

### **BY THE CHIEF EXECUTIVE OFFICER**

The present report refers to the year 2018. However, these days, our thoughts go back further in the past – to the year 1999, when our bank was established twenty years ago. The résumé of the past business year is very positive, as is the bottom line of two decades – in spite of eventful times including big, global and vital challenges.

Instead of indulging in anniversary euphoria, we keep asking ourselves how we can build on our accumulated experience for the benefit of our present and future. What has made us better, what are the lessons we have learnt, in what way and by which means have we been able to develop? What helps us create a positive future, under the influence of accelerated digitization and unforeseeable political and social developments?

We believe it is the way we interact and work with each other and with our customers. Most of our employees have been with us right from the beginning or at least for a very long time. We are, and always have been, able to readily enthuse new employees with what we do and the way we are doing it. It is not only that we share a large part of our lives with each other, we also share our different skills and cultures, our personal attitudes and our values – and together, we are creating something new. All these are things that artificial intelligences have not been able to learn or bring about so far – and it is doubtful if they ever will.

For it takes more than a common language to communicate well, with foresight, empathy and respect – even without words.

Manfred Huber  
Chief Executive Officer  
May 2019

## **SUPERVISORY BOARD**

Adolf Walter Höllmer  
Chairman

Dr. Peter Maser  
Vice Chairman

Dkfm. Senta Penner

## **MANAGING BOARD**

Manfred Huber  
Chairman

Johannes Langer

Josef Leckel



Manfred Huber



Johannes Langer



Josef Leckel

**M A N A G E -  
M E N T  
R E P O R T**

**ANNUAL  
REPORT  
2018**

## MANAGEMENT REPORT

### 1. Business development and economic environment

#### **Business model**

As a small private bank, European American Investment Bank Aktiengesellschaft (Euram Bank) provides banking and other financial services in Austria, Germany, Central and Eastern Europe, in the Middle East and Central Asia, and in Russia. The focus is on business with private and corporate clients. Our highly qualified staff are drawn from various nations, reflecting the cosmopolitan corporate culture of Euram Bank.

Euram Bank is mainly specializing in the business areas of Private Banking / Real Estate Financing and Asset Management; the Card Payment Services division is operated on an opportunistic basis.

Euram Bank is 100% privately owned. Senior management and financial investors hold a majority stake in the bank through Euram Holding AG.

#### **Business development**

In 2018, the global economy passed the zenith of the current economic cycle. While in the USA, due to strong fiscal impulses, the economy was working out nicely and recovery was continuing in Europe as well, if at noticeably reduced speed, the momentum was lost in many emerging markets following the beginning of the year, and some were facing massive setbacks in economic activity (Argentina, Turkey). Additionally, due to increasing political uncertainties, to a tightening of the monetary policy in the USA, and to growing economic protectionism, the challenges facing the world economy were growing. In Europe, it was primarily Great Britain's imminent exit from the European Union that caused political tensions. The European Central Bank (ECB) pursued its zero-interest strategy, leaving the prime rate unchanged at a record low of 0% (since March 2016), while discontinuing the government bond purchase program at the end of 2018. As already in 2017, the US Federal Reserve Bank (Fed) raised the prime rate to the range of 2.25% to 2.50% in 2018, in a total of four interest rate hikes of 25 basis points each.

The business development in the two divisions of Private Banking / Real Estate Financing and Asset Management was highly satisfying in the past fiscal year. In the Private Banking / Real Estate Financing division, lombard and real estate financing transactions were still in demand in the 2018 fiscal year, apart from checking accounts, investments in mutual funds, stocks and bonds as well as payment transactions. Hence, the budget targets for the 2018 fiscal year were clearly exceeded in this division. Based on the conservative investment approach that has been pursued for years now, the Asset Management division managed again to achieve a positive performance of Euram Bank's in-house funds.

As at 31 December 2018, the total assets of Euram Bank amounted to EUR 324.4 million, thus exceeding the previous year's figure (EUR 319 million as at 31/12/2017) by EUR 5.4 million or 1.7%. The individual items have developed as follows:

Cash reserves increased by EUR 41.9 million to EUR 90.4 million (EUR 48.5 million as at 31/12/2017), debt instruments issued by public authorities decreased by EUR 1.9 million to EUR 34.8 million (EUR 36.7 million as at 31/12/2017). As in the previous year, the increase in cash reserves is due to the buildup of unencumbered high-quality liquid assets (HQLA). Loans and advances to credit institutions decreased by EUR 8.8 million to EUR 22.2 million (EUR 31 million as at 31/12/2017). Loans and advances to customers decreased by 24.5% or EUR 40.2 million to a total of EUR 124.2 million (EUR 164.4 million as at 31/12/2017). The major part of the decrease is due to the repayment of secured lombard loans. Bonds and other fixed-interest securities increased by EUR 13.7 million to EUR 47.4 million (EUR 33.7 million as at 31/12/2017). Again, the increase is due to the buildup of unencumbered high-quality liquid assets (HQLA). Shares and other non-fixed interest securities changed only slightly by 0.5 million to EUR 3 million (EUR 2.5 million as at 31/12/2017). The item "shares in affiliated companies" remained unchanged at EUR 159 thousand (EUR 159 thousand as at 31/12/2017). Other assets remained unchanged as well, amounting to EUR 1.2 million (EUR 1.2 million as at 31/12/2017). Deferred taxes amount to EUR 0.2 million (none as at 31/12/2017).

On the liabilities side, liabilities to credit institutions remained unchanged at EUR 5.7 thousand (EUR 6.7 thousand as at 31/12/2017). At the balance sheet date, the liabilities to customers amounted to EUR 294.7 million (EUR 293.2 million as at 31/12/2017), representing 90.8% of total assets and accordingly still the largest portion of the refinancing basis of Euram Bank. Since July 2016, Euram Bank is represented on the "Weltsparen" interest rate platform; as at 31/12/2018, the volume of deposits received through that platform amounted to EUR 59.6 million (EUR 80.3 million as at

31/12/2017). Other liabilities decreased by EUR 0.1 million to EUR 0.9 million (EUR 1 million as at 31/12/2017), the provisions increased by EUR 1.6 million to EUR 2.5 million (EUR 0.9 million as at 31/12/2017). The main reason for the increase was a provision for the potential imposition of absorption interest due to the limit for large exposures of Euram Bank's loans and advances to customers being exceeded, in the amount of EUR 1.3 million. Due to the allocations effected by Euram Holding AG, the capital reserve was increased by EUR 0.2 million to EUR 4.4 million (EUR 4.2 million as at 31/12/2017) in the 2018 fiscal year.

Net interest income amounted to EUR 7.1 million (EUR 5.5 million as at 31/12/2017), with the increase largely resulting from the contribution to operating income by real estate loans. The balance of fee and commission income and expenses amounted to EUR 8.2 million (EUR 6.1 million as at 31/12/2017). In the fiscal year 2018, due to an increase in securities activities, the major part of the net fee and commission income resulted from securities business (EUR 5.7 million), followed by credit business (EUR 1.8 million). Payment transactions business amounted to EUR 0.7 million, the card business showed a slightly negative development due to changed general conditions (EUR -20.3 thousand). The balance of income/expenses from financial transactions amounted to EUR -0.6 million (EUR 0.7 million as at 31/12/2017). The negative result was mainly due to the valuation of GBP HQLA securities. Other operating income amounted to EUR 0.1 million (EUR 0.1 million as at 31/12/2017). Hence, operating income amounted to EUR 14.9 million (EUR 12.5 million as at 31/12/2017).

Total operating expenses amounted to EUR 10.6 million (EUR 8.5 million as at 31/12/2017). Staff expenses amounted to EUR 5.1 million (EUR 4.5 million as at 31/12/2017), operating expenditure amounted to EUR 3.9 million (EUR 3.6 million as at 31/12/2017). This item essentially included the expenditure on IT, rent, advertising as well as consultancy and audit fees. Depreciation/amortization of fixed assets and intangible assets amounted to EUR 178.7 thousand (EUR 159.3 thousand as at 31/12/2017), other operating expenses amounted to EUR 1.5 million (EUR 165 thousand as at 31/12/2017). The main reason for the increase was that a provision for the potential imposition of absorption interest due to exceeding the limit for large exposures of Euram Bank's loans and advances to customers was taken into account (EUR 1.3 million).

After deduction of operating expenses from operating income, therefore, the operating result for the 2018 fiscal year amounts to EUR 4.2 million (EUR 4 million as at 31/12/2017).

The income/expenditure balance from the sale and valuation of receivables and certain securities was minus EUR 998.3 thousand (minus EUR 581.2 thousand as at 31/12/2017). The negative result of the 2018 fiscal year mainly results from an impairment of one receivable in the amount of EUR 68 thousand, as well as from a general impairment provision of various receivables in the amount of EUR 930 thousand. The income/expenditure balance from the sale and valuation of financial assets amounted to minus EUR 50.2 thousand (minus EUR 53 thousand as at 31/12/2017).

Hence, the result of ordinary operations for the fiscal year 2018 amounted to EUR 3.2 million (EUR 3.4 million as at 31/12/2017).

The taxes on income and earnings amounted to EUR 867.3 thousand (EUR 900.6 thousand as at 31/12/2017). The result shows income from deferred taxes in the amount of EUR 242.2 thousand (expenditure of EUR 47.5 thousand as at 31/12/2017) and expenditure from distribution of the tax burden in the amount of EUR 1.1 million (EUR 853 thousand as at 31/12/2017).

Thus, the annual surplus of fiscal year 2018 amounted to EUR 2.3 million (EUR 2.5 million as at 31/12/2017). Movements of reserves in the amount of EUR 2.3 million were effected in the 2018 fiscal year (EUR 2.5 million as at 31/12/2017) – the resulting profit for the year amounted to EUR 5 thousand (EUR 1 thousand as at 31/12/2017).

Taking account of the profit carried forward (EUR 0.3 million), the net profit of fiscal year 2018 amounts to EUR 0.3 million (EUR 0.3 million as at 31/12/2017).

#### **Financial and non-financial performance indicators**

The equity capitalization of Euram Bank continues to be excellent. Eligible own funds according to Part 2 of Regulation (EU) no. 575/2013 amounted to EUR 25.7 million (EUR 23.5 million as at 31/12/2017) and by far exceeded the own funds required according to Article 92 of Regulation (EU) 575/2013 of EUR 10.4 million (EUR 11.7 million as at 31/12/2017). In the fiscal year 2018, the (CET1) core capital quota ((eligible core capital (CET1) / (required own funds \* 12.5)) amounted to 17.7% (14.0% as at 31/12/2017); in fiscal year 2018, the total capital ratio ((eligible own funds / (required own funds \* 12.5)) amounted to 19.8% (16.0% as at 31/12/2017) – hence, both ratios were clearly above the statutory minimum level. The cost/income ratio (operating expenditures / operating income) amounted to 71.5% (67.9% as at 31/12/2017). In the 2018 fiscal year, the return on equity (annual surplus / equity capital) amounted to 11.4% (10.3% as at 31/12/2017).

Retaining experienced, committed staff is a fundamental precondition for any enterprise's long-term success. A central concern of Euram Bank is therefore the qualification of its staff. Euram Bank offers its employees the opportunity of ongoing training and development, and to achieve their personal and career goals by systematically developing their competencies.

#### **Events of particular importance after the balance sheet date of 31 December 2018**

None

#### 2. Anticipated trends and risks

##### **Outlook for 2019**

We are past the zenith of the economic cycle, a phase of moderate growth is awaiting the world economy in 2019. More stringent terms of financing, an increasingly protectionist trade policy, growing macroeconomic uncertainties, the phasing out of fiscal impulses in the USA and a slow-down of the economy in China are going to reduce the speed of growth both in industrial countries and emerging markets. Apart from the trade conflicts triggered by the USA, other political factors contribute to an increasingly uncertain macroeconomic environment. Regional conflicts and growing geopolitical tensions, as well as the political uncertainties in Europe, due, among others, to the imminent Brexit and the elections for the European Parliament in May 2019, may potentially have a disruptive effect on the economy. In the USA, due to the economic situation in 2019, only one further hike of the prime rate by 25 basis points is to be expected; in Europe, the ECB is still not going to raise the prime rate in 2019 either.

In the 2019 fiscal year, the Private Banking / Real Estate Financing division is going to continue to follow the successful course taken in fiscal year 2017, namely the development of holistic strategies to maintain capital and assets, based on individual planning, combined with first-class customer service. Also, the financing of real estate projects in Austria and Germany is meant to be maintained on the current high level, no expansion is planned. In cooperation with the Asset Management division, the focus is on the acquisition of additional customer security holdings. In the Card Payment Services division, a cooperation is planned, in the medium term, with companies that develop IT-based financial innovations ("FinTech").

### **Significant risks and uncertainties**

Euram Bank has received third-party notice from an Austrian bank, requiring the former to join, as intervener, several proceedings pending against said bank as the defendant. The plaintiffs of the Austrian bank essentially base their claims on a certain investment product's alleged ex ante unsuitability for achieving any positive return, as well as on the omission of risk warnings. Euram Bank and the defendant have concluded a consultancy agreement with respect to said investment product. In the event of the defendant losing the pending lawsuits, it would basically be possible for Euram Bank to become liable to recourse towards the defendant (whether this is actually the case, would have to be determined in another court procedure).

### 3. Research and development

Euram Bank undertakes no research and development activities. Euram Bank does not operate any branch establishments.

### 4. Risk reporting

Euram Bank continuously develops its risk management in order to effectively identify, assess and control risks. Risk management is a component of overall bank management, and takes into account the nature, extent and complexity of transactions, and the resultant risks, in addition to the legal and regulatory framework. The Managing Board has defined a risk strategy that is consistent with the business strategy and the risks resulting therefrom. The risk strategy comprises the aims of diversification of risk from essential business activities as well as the measures to accomplish those aims. In particular, risk tolerances have been determined for all essential risks, taking account of risk concentrations. In this context, risk concentrations have also been accounted for with a view to the earnings situation of the bank.

### **Risk-bearing capacity**

On the basis of the overall risk profile, care is being taken that the essential risks are covered by the risk covering potential on a current basis, taking into account risk concentrations, thus ensuring the risk-bearing capacity of the bank. Euram Bank has established an internal process to ensure its risk-bearing capacity. The risk-bearing capacity is considered during determination of the strategies as well as their modification. Adequate risk management and risk controlling processes have been established to implement the strategies and/or to ensure the organization's risk-bearing capacity. For risks that are incorporated in the concept of risk-bearing capacity but for which no suitable quantification procedure is available, a risk amount (risk buffer) is determined on the basis of a plausibility check. The plausibility check is carried out on the basis of a qualified expert estimate. The choice of the methods and procedures for assessing risk-bearing capacity is the responsibility of the Managing Board. The determination of essential elements of risk-bearing capacity control as well as of essential underlying assumptions is approved by the Managing Board. The adequacy of the methods and procedures is checked by the respective competent employees each year. The procedures used to control risk-bearing capacity take account of the aim to manage the bank on a going-concern basis, but also the protection of creditors against economic loss. Euram Bank disposes of a process for the planning of future capital requirements. The planning horizon comprises an adequately long period of several years (3 years). In this context, account is taken of the effects that changes of the bank's own business activity or of the strategic targets as well as changes to the economic environment will have on the capital requirement – beyond the risk assessment horizon of the risk-bearing capacity concept.

### **Internal control system**

In line with the type, scope, complexity and degree of risk of the bank's business activities,

- arrangements were made with respect to the organizational structure and process organization,
- risk management and risk controlling processes were put in place, and
- a risk management function was implemented.

### **Organizational structure and process organization**

The characteristics of the organizational structure and process organization ensure that incompatible activities are carried out by different employees and that conflicts of interest are avoided. Processes and the associated tasks, competencies, responsibilities, controls and communication channels are clearly defined and geared to each other. This includes the regular and ad-hoc review of IT authorizations, signatory powers and other authorities granted. The same applies with respect to interfaces with key outsourcing partners.

### **Risk management and risk controlling process**

Euram Bank has put in place adequate risk management and risk controlling processes that ensure the identification, assessment, control as well as monitoring and communication of essential risks and of the associated risk concentrations. These processes are integrated in a joint yield management and risk control system (internal capital adequacy assessment process, ICAAP). Suitable measures ensure that the risks and associated risk concentrations are effectively limited and monitored taking account of the risk-bearing capacity and of the risk tolerances. The risk management and risk controlling processes make sure that essential risks – even from outsourced activities and processes – can be identified early on, measured in full and presented adequately. Reports on the risk situation are presented to the Managing Board at suitable intervals. Risk reporting must be effected in a comprehensible, meaningful way. Apart from the relevant presentation, it will also include an assessment of the risk situation. If necessary, risk reporting will also include proposed action, e.g. with a view to reducing risk. Moreover, risk concentrations and their potential consequences are dealt with separately. As a complement to regular reporting, annual stress tests are carried out. The results of the stress tests and the potential effects on the risk situation and the risk covering potential, as well as the essential assumptions underlying the stress tests are presented in a separate report. Information that is essential with a view to risk will be passed on to the Managing Board, the respective officers and the Internal Audit function without delay, for suitable measures or audits to be initiated at an early stage. The Managing Board will inform the Supervisory Board in writing about the risk situation at quarterly intervals. Information that is essential for the Supervisory Board under a risk aspect will be passed on by the Managing Board without delay. The risk management and risk controlling processes are promptly adjusted to changing conditions.

## **Risk Management**

Euram Bank disposes of a Risk Management function responsible for the independent monitoring and communication of risks.

Risk Management has the following tasks in particular:

- Assistance of the Managing Board in all risk policy matters, in particular with a view to developing and implementing the risk strategy, as well as in devising a system for the limitation of risks
- Assistance of the Managing Board in establishing and developing the risk management and risk controlling processes
- Putting in place and developing a system of risk ratios and of an early warning mechanism for risks
- Ongoing monitoring of the bank's risk situation and risk-bearing capacity as well as of compliance with the risk limits established
- Regular preparation of the risk reports for the Managing Board
- Responsibility for the processes put in place to immediately pass on to the Managing Board, to the respective officers and to Internal Audit, if applicable, any information that is essential under a risk aspect

The staff of the Risk Management function have been granted all the requisite powers and unlimited access to all information that is required for the performance of their tasks.

## **Management of special types of risk**

Euram Bank's scope of business results in essential risks, especially in the sphere of credit and counterparty risk, liquidity risk, operational risk as well as other risks.

### **Credit and counterparty risk**

Euram Bank limits the credit and counterparty risk by primarily granting collateralized loans (with only few exceptions). For the calculation of the credit and counterparty risk, Euram Bank applies the standard approach pursuant to Art. 111-141 CRR.

Euram Bank measures and controls the credit risk in line with the following principles:

- In all divisions, uniform standards are applied to the respective credit decisions.
- The approval of credit limits for business partners and the control of the individual credit exposures must take place within the scope of the credit strategy. Moreover, each decision includes a risk-return analysis.
- Each loan granted to a business partner and any material change of a credit component (such as term, collateral structure or important contractual provisions) is subject to renewal of the credit approval.
- Credit exposures to a certain group of borrowers are consolidated by Euram Bank. Euram Bank considers borrowers that are associated with each other by the same beneficial owners beyond legal requirements or that are jointly and severally liable for all or essential parts of the loans granted as a “group of borrowers”.

An important element of the credit approval process is a detailed risk assessment of each credit exposure of a borrower or group of borrowers. In assessing the risk, Euram Bank will consider both the creditworthiness of the business partner and the risks relevant to credit exposure. The resulting risk classification will not only influence the structure of the transaction and the credit decision, but will also determine the degree of monitoring for the respective exposure.

### **Operational risk**

Risk Management has adopted guidelines for the identification, assessment, reporting and monitoring of operational risks. It is responsible for the definition of the operational risk framework and of the pertinent guidelines, while the responsibility for implementation of the framework and day-to-day operational risk management lies with the divisions and the administrative function. This business partnership model results in strict control and an increased awareness of operational risks. For the calculation of operational risk, Euram Bank applies the basic indicator approach acc. to Art. 315-316 CRR. The aim is to proactively control operational risks. For this reason, the Risk Management function carries out a risk inventory process in the form of a self-assessment with the individual corporate and administrative divisions each year. The loss scenarios developed in the course of this process are summarized in the operational risk profile of Euram Bank, based on which measures and priorities are defined to reduce risk. Euram Bank has implemented a loss database, which is kept by Risk Management. All business and organizational divisions are instructed to report any mistakes that have occurred (regardless of the amount of money involved) to the Risk Management function, thus enabling their analysis in a first step and to derive arrangements to prevent new mistakes from occurring in the next step.

### **Liquidity risk**

Liquidity management ensures that Euram Bank will always be in a position to settle its payment obligations on time and that asset positions can be liquidated at any time without having to accept significant discounts on the market. The Asset Liability Committee (ALCO) is responsible for liquidity management. It is the task of liquidity management to identify, measure and control liquidity risk positions. The ALCO consists of employees from the Asset Management, Accounting and Reporting, Back Office and Risk Management divisions.

### **Other risks**

#### General business risk:

Basically, Euram Bank is in a position to achieve a positive result on the basis of the existing business model. In the course of the annual accounts, a risk strategy is defined for the new fiscal year which also serves as a basis for the allocation of economic capital. Based on the preliminary balance sheet figures of the annual accounts and on the risk strategy adopted by the joint Managing Board, a financial forecast will be prepared for the new fiscal year. A Profit Center account is prepared monthly. The result is compared with the target values, which were calculated according to the same criteria, on a monthly basis. Strategic risks, business and yield risks are consolidated with the credit, market and interest rate risks and supplemented by operational risks. The result will be discussed and analyzed promptly by the joint Managing Board. This process ensures that general business risks are identified immediately.

#### Reputational risk:

Risk management is effected through a comprehensive due diligence process within the scope of account opening as well as through permanent monitoring of all customer activities using an analytical software ("kdprevent"). kdprevent, an analytical software solution for the prevention of money laundering, white-collar crime and the financing of terrorism allows for the recognition of unusual, unexpected and suspicious transactions on the part of customers. Significant suspicious facts (based on the risk analysis effected by Euram Bank) will automatically trigger an alert at previously defined contact points.

Vienna, 06 May 2019

The Managing Board

Manfred Huber

Johannes Langer

Josef Leckel

**B A L A N C E  
S H E E T**

## BALANCE SHEET AS OF DECEMBER 31, 2018

Assets	31.12.2018		31.12.2017	
	EUR	EUR	TSD EUR	TSD EUR
1. Cash in hand, balances with central banks and post office banks		90,410,388.36		48,487
2. Debt instruments of public authorities which are eligible for refinancing at central banks		34,765,487.10		36,718
a) Debt instruments of public authorities and similar securities	34,765,487.10		36,718	
3. Claims against credit institutions				
a) payable on demand	7,462,409.88		16,056	
b) other receivables	14,769,180.24	22,231,590.12	14,927	30,983
4. Loans and advances to customers		124,179,824.17		164,434
5. Debentures and other fixed-income securities				
a) of public issuers		47,369,143.75		33,752
6. Stocks and other non fixed-income securities		3,052,170.19		2,516
7. Participations		1,070.00		1
8. Shares in affiliated companies		159,000.00		159
9. Intangible fixed assets		297,569.18		290
10. Tangible assets		133,343.41		148
11. Other assets		1,261,271.31		1,243
12. Accruals and deferred income		323,855.87		288
13. Deferred tax assets		220,929.72		0
		<b>324,405,643.18</b>		<b>319,019</b>
1. Foreign assets		166,233,395.04		195,221

Liabilities		31.12.2018		31.12.2017	
	EUR	EUR	TSD EUR	TSD EUR	
1. Liabilities to credit institutions					
a) repayable on demand	5,670.60		7		
b) with agreed maturity date or period of notice	0.00	5,670.60	0	7	
2. Liabilities to customers					
a) other liabilities					
aa) repayable on demand	173,446,804.01		150,890		
bb) with agreed maturity date or period of notice	121,228,568.58	294,675,372.59	142,323	293,213	
3. Securitized liabilities					
a) self-issued bonds	0.00		16		
b) other securitized liabilities	0.00	0.00	8	24	
4. Other liabilities		927,608.38		1,045	
5. Provisions					
a) Provision for severance payments	365,950.00		303		
b) Other provisions	2,103,145.98	2,469,095.98	626	928	
6. Supplementary capital pursuant to part 2 title 1 chapter 4 of regulation (EU) no. 575/2013		3,000,000.00		3,000	
7. Subscribed capital		10,045,712.61		10,046	
8. Capital reserves					
a) tied-up	1,886,813.16		1,887		
b) free	2,478,537.61	4,365,350.77	2,284	4,170	
9. Profit reserves					
a) other reserves		7,313,904.17		4,989	
10. Liability reserve pursuant to §57 para 5 Banking Act		1,308,000.00		1,308	
11. Net profit		294,928.08		290	
		<b>324,405,643.18</b>		<b>319,019</b>	
1. Contingent liabilities					
a) Contingent liabilities of sureties and assets pledged as collateral security		83,080.00		1,390	
2. Credit risks		3,687,649.36		6,650	
3. Eligible own funds pursuant to regulation (EU) no. 575/2013 hereof supplementary capital pursuant to part 2 title 1 chapter 4 of regulation (EU) no. 575/2013 EUR 2.648.604,27 (31/12/2017: TSD EUR 3.000)		25,673,830.21		23,512	
4. Required own funds pursuant to art 92 of regulation (EU) no. 575/2013 (overall risk value)					
herof required own funds pursuant to art 92 para 1		129,919,013.69		146,832	
lit a of regulation (EU) no. 575/2013		17.7%		14.0%	
lit b of regulation (EU) no. 575/2013		17.7%		14.0%	
lit c of regulation (EU) no. 575/2013		19.8%		16.0%	
5. Foreign liabilities		266,455,876.69		271,589	

## PROFIT & LOSS ACCOUNT AS OF DECEMBER 31, 2018

Profit & Loss Account	1.1.2018–31.12.2018		1.1.2017–31.12.2017	
	EUR	EUR	TSD EUR	TSD EUR
1. Interest and similar earnings hereof: from fixed-income securities	1,889,664.43	8,973,926.66	636	7,377
2. Interest and similar expenses		-1,861,647.00		-1,882
<b>I. NET INTEREST EARNINGS</b>		<b>7,112,279.66</b>		<b>5,495</b>
3. Earnings from securities and participations		41,781.73		54
a) Earnings from shares, other share rights, and non fixed-income securities	41,781.73		54	
4. Earnings from commissions		9,866,135.73		8,070
5. Commission expenses		-1,701,478.14		-1,925
6. Earnings/expenses from financial transactions		-558,795.37		665
7. Other operating earnings		129,375.32		94
<b>II. OPERATING EARNINGS</b>		<b>14,889,298.93</b>		<b>12,453</b>
8. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	-4,074,067.18		-3,557	
bb) Expenses for statutory social security contributions and compulsory contributions associated with remuneration	-722,034.41		-654	
cc) Other social security expenses	-66,242.83		-59	
dd) Expenses for retirement provisions and support	-161,259.17		-149	
ee) Expenses for severance payments and contributions to company retirement schemes	-115,125.93		-93	
	-5,138,729.52		-4,512	
b) Other administrative expenses (Overhead)	-3,869,828.47	-9,008,557.99	-3,624	-8,136

Profit & Loss Account	1.1.2018–31.12.2018		1.1.2017–31.12.2017	
	EUR	EUR	TSD EUR	TSD EUR
9. Value adjustments of the assets listed in assets items 9 and 10		-178,710.11		-159
10. Other operating expenses		-1,456,084.75		-165
<b>III. OPERATING EXPENSES</b>		<b>-10,643,352.85</b>		<b>-8,460</b>
<b>IV. OPERATING RESULTS</b>		<b>4,245,946.08</b>		<b>3,993</b>
11. Value adjustments on claims and allocations to provisions for contingent liabilities and credit risk		-998,315.39		-581
12. Value adjustments on securities, valued like financial assets		-50,200.00		-53
<b>V. RESULT OF ORDINARY BUSINESS OPERATION</b>		<b>3,197,430.69</b>		<b>3,359</b>
13. Income and earnings tax		-867,330.18		-901
<b>VI. ANNUAL SURPLUS</b>		<b>2,330,100.51</b>		<b>2,459</b>
14. Changes in reserves hereof: allocation to the liability reserve	0.00	-2,325,000.00	-329	-2,458
<b>VII. ANNUAL PROFIT</b>		<b>5,100.51</b>		<b>1</b>
15. Profit carryforward		289,827.57		439
16. Profit transfer		0.00		-150
<b>VIII. NET PROFIT</b>		<b>294,928.08</b>		<b>290</b>

## **NOTES**

to the annual accounts of European American Investment Bank Aktiengesellschaft (“Euram Bank”) for the year ending 31 December 2018.

The annual accounts for the year ending 31 December 2018 were prepared in accordance with the regulations of the Accounting Act (Rechnungslegungsgesetz), taking account of the special requirements of the Banking Act (BWG, Bankwesengesetz).

It was resolved, in the ordinary general meeting on 30 November 2016, to shift the balance sheet date from 30 June to 31 December. There is comparability with the 2017 fiscal year (12 months).

### 1. General principles and information on accounting and valuation

#### **General principles**

The annual accounts for the year ending 31 December 2018 are prepared in compliance with generally accepted accounting principles, and with the general standard of conveying a true and fair view of the net worth, financial position and results of the company.

The principle of completeness and accounting continuity was observed in preparing the annual accounts.

The principle of itemised valuation is applied in valuing the individual assets and debts, on a going-concern basis.

The principle of prudence was taken into account considering the particular characteristics of banking business.

Under the provisions of section 9 of the Corporate Income Tax Act (KStG) relating to group taxation, a corporate group exists as at 31/12/2018 comprising Euram Holding AG as group parent and Euram Bank as group member. The tax sharing agreements stipulate the stand-alone method.

Euram Bank belongs to the joint stock bank sector.

Euram Bank is wholly owned by Euram Holding AG.

### **Foreign currency amounts**

Foreign currency amounts are translated at the middle rates set on the reporting date, in accordance with section 58 (1) BWG.

### **Financial assets**

Investments are valued at cost of acquisition. Lower values are recognized in the case of material, sustained impairments.

Securities held as fixed assets are measured at the lower of fair value and cost of acquisition on the balance sheet date. Unscheduled write-downs to a fair value that is lower on the reporting date are performed where the impairments are likely to be permanent. Write-ups on fixed assets are performed if the reasons for the unscheduled write-down have lapsed.

### **Current assets**

Securities held as current assets were reported at cost of acquisition less value adjustments for discernible individual risks or any lower share price, market value, or market value derived from a similar financial instrument, on the reporting date.

The company does not keep a trading book.

Receivables and other assets are reported at their nominal value less value adjustments for identifiable individual risks. Moreover, to take account of credit risks within loans and advances to customers, a general impairment provision was made for performing portfolios.

The recoverability of loans and advances to customers is estimated based on impairment indicators and the collateral provided. In doing so, the fair values less haircuts are used. Estimates are based on prudent assessments. The calculation of the general impairment provision for non-defaulted customers is based on a valuation model also taking account of the probabilities of default provided by external rating agencies, apart from customer exposure and collateral values, in the course of internal credit rating. To the extent that statistically identifiable data from similar situations are available, the company has taken them into account when preparing the estimates; for instance, collateral haircuts and historical default rates published by creditreform (Verband der Vereine Creditreform e.V.).

### Shares in affiliated companies

Euram Bank has a 100% holding in Euram Invest Holdings 3 GmbH headquartered in Munich, Germany (line of business of the GmbH: management of participations).

In the 2018 fiscal year, as already in fiscal year 2017, no dividends were distributed to Euram Bank.

According to section 238 (2) of the UGB (Austrian Business Code), the equity and results of the last fiscal year of the affiliated undertaking are as follows:

Euram Invest Holdings 3 GmbH	in EUR thousand
Capital	594.3
Capital share	100%
Result last FY	235.3

### Participations

This item includes the share in the deposit guarantee fund of Banken und Bankiers GmbH, Vienna, in the amount of EUR 70.0 (EUR 70.0 as at 31/12/2017) as well as the share in Einlagensicherung AUSTRIA Ges.m.b.H., Vienna, in the amount of EUR 1.0 thousand (EUR 1.0 thousand as at 31/12/2017).

### Intangible and tangible assets

Fixed intangible and tangible assets are measured at cost of acquisition or production, less scheduled depreciation. Low-value assets are capitalized and written off in full in the year of acquisition. Scheduled depreciation is effected on a straight-line basis.

The following useful life is assumed for the purposes of scheduled depreciation:

Company cars	8 years
Office equipment	5 years
Fixture	5 years
Office machines	5 years
Software	5 years
Hardware	5 years

In accordance with applicable tax regulations, a full year's depreciation for acquisitions in the first half of the year, and half a year's depreciation for acquisitions in the second half of the year are effected.

### **Severance pay obligations**

The provision for severance payments is determined according to actuarial principles using an interest rate of 3.21% (previous year: 3.68%) and on the basis of a calculatory retirement age of 60 years for women and 65 years for men. No staff turnover deduction is determined. For fiscal year 2018, Euram Bank AG used the discount rate announced by Deutsche Bundesbank (10-year average), with a residual term of 15 years (3.21%). The interest rate selected and its calculation shall continuously be applied from now on.

### **Other provisions**

In the other provisions, in accordance with the principle of prudence, all risks discernible as well as liabilities uncertain in terms of amount and on the merits at the time of preparation of the balance sheet are accounted for in amounts that will be required according to reasonable commercial judgement.

### **Liabilities**

Liabilities are recognized at the repayment amount including deferred interest.

### **Contingent liabilities**

Contingent liabilities include financing guarantees granted and secured by credit institutions, securities, mortgages, or in cash, in the amount of EUR 0.1 million (EUR 1.4 million as at 31/12/2017). In fiscal year 2018, no unsecured financing guarantee was granted (31/12/2017: none).

### **Credit risks**

This position includes the amount of unused credit facilities in the amount of EUR 2.1 million (EUR 5.4 million as at 31/12/2017), as well as guarantees towards credit card companies for credit lines granted to Euram Bank customers in the amount of EUR 1.5 million (EUR 1.2 million as at 31/12/2017).

### **Fiduciary Receivables**

Fiduciary receivables are contained in the following items:

- Shares and other non-fixed interest securities: EUR 0.0 thousand (EUR 23.6 thousand as at 31/12/2017)

## **Fiduciary Liabilities**

Fiduciary liabilities are contained in the following items:

- Securitised liabilities: EUR 0.0 thousand (EUR 23.6 thousand as at 31/12/2017)

## 2. Notes concerning the balance sheet

### **A. Maturities analysis**

Amounts due to and from banks and customers other than at call are structured according to residual maturities as follows:

Loans and advances to credit institutions: thousand

up to 3 months	EUR	9,607
more than 3 months up to 1 year	EUR	0
more than 1 year up to 5 years	EUR	5,162
over 5 years	EUR	0

Loans and advances to customers: thousand

up to 3 months	EUR	19,135
more than 3 months up to 1 year	EUR	41,472
more than 1 year up to 5 years	EUR	61,769
over 5 years	EUR	1,900

Liabilities to credit institutions: thousand

up to 3 months	EUR	0
more than 3 months up to 1 year	EUR	0
more than 1 year up to 5 years	EUR	0
over 5 years	EUR	0

Liabilities to customers: thousand

up to 3 months	EUR	36,847
more than 3 months up to 1 year	EUR	61,088
more than 1 year up to 5 years	EUR	23,294
over 5 years	EUR	0

## B. Risks in the sphere of loans and advances to customers

Loans and advances to customers amount to EUR 124.2 million (EUR 164.4 million as at 31/12/2017). This amount includes specific provisions amounting to EUR 194 thousand (EUR 128 thousand as at 31/12/2017), as well as a general impairment provision in the amount of EUR 950 thousand (EUR 20 thousand as at 31/12/2017). Loans and advances to customers amounting to EUR 2.6 million (EUR 2.0 million as at 31/12/2017) are secured through deposits, loans and advances to customers amounting to EUR 96.0 million (EUR 157.3 million as at 31/12/2017) are mainly secured through mortgages, deposits and/or securities, unsecured loans amount to EUR 25.6 million (EUR 5.1 million as at 31/12/2017). Loans and advances to customers include amounts due from issuers at a volume of EUR 3.7 million (EUR 5.2 million as at 31/12/2017).

Loans and advances to customers:		million
secured by deposits	EUR	2.6
secured by mortgages, deposits and securities	EUR	96,0
unsecured	EUR	25.6

## C. Securities

In fiscal year 2018, securities were held in the following asset items:

- Debt instruments issued by public authorities: EUR 34.8 million (EUR 36.7 million as at 31/12/2017)
- Loans and advances to credit institutions: EUR 5.1 million (EUR 4.9 million as at 31/12/2017)
- Loans and advances to customers: EUR 3.7 million (EUR 5.2 million as at 31/12/2017)
- Bonds and other fixed-interest securities: EUR 47.4 million (EUR 33.8 million as at 31/12/2017)
- Shares and other non-fixed interest securities: EUR 3.1 million (EUR 2.5 million as at 31/12/2017)

#### C.1. Debt instruments issued by public authorities that are admitted for refinancing with the Central Bank

In fiscal year 2018, three (previous year: four) non-fixed interest listed securities (regulated market) and five (previous year: five) fixed-interest listed securities (regulated market) were held in current assets.

		thousand
Land of Lower Austria		
FRN 01.10.2014-01.10.2019	EUR	9,012
0 Berlin, Land		
FRN 08.10.2015-28.07.2025	EUR	4,080
0 Berlin, Land		
05.10.2015-16.01.2023	EUR	4,060
0 Hessen, Land		
FRN 05.08.2013-11.06.2018	EUR	0
1.625 Finland, Republic of 01.10.13-01.10.18/RegS	EUR	0
1 Finland, Republic of 21.05.2015-2018/Reg.S	EUR	0
1 Kingdom of Sweden 27.02.2013-27.02.2018/Reg.S	EUR	0
1.125 Sweden, Kingdom of 13.05.15-15.05.18	EUR	0
1.125 Kingdom of Belgium 03.08.2016-2019	EUR	825
1.625 Belgium 05.10.17-15.01.20/RegS	EUR	7,484
1.5 Finland, Republic of 21.09.17-21.09.20/RegS	EUR	3,264
1.125 Sweden, Kingdom of 21.10.2016-2019/Reg.S	EUR	5,195
1.25 Sweden, Kingdom of 08.09.2016-2021/Reg.S	EUR	844

## C.2. Loans and advances to credit institutions – of which other issuers

In fiscal year 2018, two (previous year: two) non-fixed interest unlisted securities were held in current assets.

thousand

1.72152% Inter-Amer.Dev.Bank FRN 26.01.15-17.01.22	EUR	789
1.60042% Intl.Bank Rec. Dev. FRN 17.12.2014-2021	EUR	4,373

## C.3. Loans and advances to customers – of which other issuers

In fiscal year 2018, one (previous year: one) fixed-interest unlisted security was held in fixed assets, and one (previous year: one) fixed-interest listed security (open market) and no (previous year: none) fixed-interest unlisted security was held in current assets.

Fixed assets: thousand

CPI Immobilien AG 30.11.2013-30.11.2033	EUR	1,900
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Current assets: thousand

5 Aggregate Holdings S.A. 10.08.2016-2021	EUR	1,808
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## C.4. Bonds and other fixed-interest securities

In fiscal year 2018, six (previous year: three) fixed-interest listed securities (regulated market) and seven (previous year: seven) non-fixed interest listed securities (regulated market) were held in current assets.

Current assets:		thousand
1 European Investment Bank 16.04.2013-15.06.2018	EUR	0
1 European Investment Bank 15.01.2013-15.03.2018	EUR	0
1.32639 European Bk Rec.Dev. FRN 19.07.17-19.11.20	EUR	2,010
1.375 Intl Bank Rec. Dev. 10.04.2014-2018	EUR	0
0.514 Austria, Republic FRN 04.08.05-04.08.2025	EUR	285
2.7925% Asian Development Bk. FRN 10.07.2015-2019	EUR	653
1.875 Asian Development Bank 29.01.2014-12.04.2019	EUR	3,129
3.00925 Asian Dev.Bank FRN 26.02.16-26.02.20	EUR	3,873
2.78731 Inter-American D.Bk. FRN 17.07.15-15.10.19	EUR	2,353
2.79731 Inter-Amer.Dev.Bank FRN 07.08.15-15.07.20	EUR	1,965
3.10731 Inter-Amer.Dev.Bank FRN 02.03.16-15.04.20	EUR	3,157
1.875 North Rhine-Westphalia, Land 17.06.2014-2019	EUR	7,833
2.5 European Investment Bank 19.03.14-15.04.21	EUR	2,608
1.375 European Investment Bank 22.04.15-15.06.20	EUR	4,285
1.875 EIB 14.01.2014 - 15.03.2019	EUR	8,719
4.5 UK-Treasury 26.09.2008-07.03.2019	EUR	6,192

## C.5. Shares and other non-fixed interest securities

This item contains investment fund units allocated to fixed assets in the amount of EUR 1,551 thousand (EUR 1,601 thousand as at 31/12/2017).

Hedge fund units in the amount of EUR 466 thousand (EUR 482 thousand as at 31/12/2017) are reported in current assets. Current assets also include investment fund units of Euram Bank's in-house funds in the amount of EUR 1.0 million (EUR 0.4 million as at 31/12/2017). Furthermore, shares in "Petrocapital Resources PLC" in the amount of EUR 10.0 (EUR 10.0 as at 31/12/2017) are held. All securities shown in the asset item "Shares and other non-fixed interest securities" are unlisted.

Fixed assets: thousand

Europortunity Bond	EUR	1,551
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Current assets: thousand

CFS I	EUR	0
Sharpe Special Situations Fund	EUR	466
Europortunity Bond	EUR	347
USD Convergence Bond	EUR	577
Advantage Stock	EUR	110
Petrocapital Resources PLC	EUR	0.01

One share ("Petrocapital Resources PLC") was held in the 2018 fiscal year. "Petrocapital Resources PLC" was delisted in 2010.

In fiscal year 2018, the company managed customer securities to a value of EUR 1,004.1 million (EUR 1,003.1 million as at 31/12/2017).

As at 31 December 2018, the fixed assets of the bank include securities with a book value of EUR 3.5 million (EUR 3.5 million as at 31/12/2017). The difference between acquisition costs and the higher market value amounted to EUR 100.0 thousand (EUR 100.0 thousand as at 31/12/2017).

For the securities held as current assets that are admitted for stock exchange trading, the positive difference between acquisition costs and the higher market value amounted to EUR 1,569.7 thousand at the balance sheet date (negative EUR 2,411.5 thousand as at 31/12/2017).

#### **D. Fixed assets**

The movement of the individual fixed asset items and the breakdown of annual depreciation by individual items are shown in the fixed asset movement schedule.

#### **E. Other assets**

Other assets essentially include

- a repayment pending: EUR 0.4 million (EUR 0.2 million as at 31/12/2017)
- invoiced fees from fund management: EUR 0.3 million (EUR 0.3 million as at 31/12/2017)
- outstanding receivables: EUR 0.3 million (EUR 0.5 million as at 31/12/2017)
- a real estate property that is not intended to be held in the long term: EUR 240 thousand (EUR 240 thousand as at 31/12/2017).

In fiscal year 2018, no other receivables with a residual term of more than one year (none as at 31/12/2017) were reported.

The material income included in the item “other assets” in the 2018 fiscal year that becomes payable only after the reporting date amounts to EUR 0.4 million (EUR 0.4 million as at 31/12/2017).

#### **F. Accruals**

Apart from current salary payments in the amount of EUR 149.7 thousand (EUR 135.9 thousand as at 31/12/2017), this position includes prepaid insurance premiums as well as information and maintenance costs in the amount of EUR 166.5 thousand (EUR 131.3 thousand as at 31/12/2017) and other advance payments in the amount of EUR 7.6 thousand (EUR 21.0 thousand as at 31/12/2017).

#### **G. Deferred tax assets**

At the balance sheet date, deferred tax assets acc. to section 198 (10) UGB amount to EUR 220.9 thousand (previous year: EUR 0.0 thousand).

#### **H. Securitized liabilities**

This item includes a certificate issued by the bank itself, CFS I. The amount of securitized liabilities becoming due in the year following the balance sheet date is EUR 0 thousand (EUR 24 thousand as at 31/12/2017).

#### **I. Other liabilities**

Other liabilities include invoices already received, but not yet paid, regarding the 2018 fiscal year, in the amount of EUR 0.3 million (EUR 0.3 million as at 31/12/2017), liabilities from distribution of the tax burden towards one affiliated company in the amount of EUR 85.9 thousand (EUR 170.6 thousand as at 31/12/2017), liabilities towards the tax office in the amount of EUR 417.1 thousand (EUR 504.2 thousand as at 31/12/2017), as well as liabilities towards the investors of the tier 2 capital bond for interest expenses in the amount of EUR 120.0 thousand (EUR 120.0 thousand as at 31/12/2017).

The material expenses included in the item “other liabilities” in the 2018 fiscal year that become payable only after the reporting date amount to EUR 0.2 million (EUR 0.2 million as at 31/12/2017).

#### **J. Accruals**

This position does not include any commissions already earned, but attributable to the 2018 fiscal year (EUR none as at 31/12/2017).

#### **K. Supplementary capital**

On 1 June 2016, Euram Bank AG issued a fixed-interest unlisted subordinate bond for EUR 3 million with a term of 7 years, of which EUR 3 million were subscribed at the balance sheet date (31/12/2018). The conditions of the bond are in line with the CRR – EU Regulation no. 575/2013 Part 2 Chapter 4 (Articles 62-71) on tier 2 capital. Expenses in the amount of EUR 120.0 thousand were recognized for interest in fiscal year 2018.

## **L. Equity capital**

1.) The share capital amounting to EUR 10,045.7 thousand is divided into 270,000 no-par shares, each with an equal portion of the share capital.

2.) Eligible own funds pursuant to Part 2 CRR: thousand

Subscribed capital	EUR	10,045.7
(Appropriated) capital reserve	EUR	1,886.8
(Free) capital reserve	EUR	2,478.5
Revenue reserve	EUR	7,313.9
Liability reserve as per section 57 (5) BWG	EUR	1,308.0
Retained earnings	EUR	289.8
Adjustments to be made to CET 1 due to deduction and offsetting	EUR	-297.5
<i>Common equity tier 1 (CET 1)</i>	<i>EUR</i>	<i>23,025.2</i>
Tier 2 capital	EUR	3,000.0
Other components or deductions with respect to Tier 2 capital	EUR	-351.4
<i>Tier 2 capital (T2)</i>	<i>EUR</i>	<i>2,648.6</i>
<b>Own funds</b>	<b>EUR</b>	<b>25,673.8</b>

3.) In fiscal year 2018, Euram Holding AG effected an allocation in the amount of EUR 195.0 thousand (EUR 650.0 thousand as at 31/12/2017) and this allocation was included in the (free) capital reserve.

4.) In fiscal year 2018, Euram Bank allocated an amount of EUR 2,325.0 thousand to the revenue reserve (EUR 2,129.0 thousand as at 31/12/2017).

5.) Euram Bank did not effect allocations to the liability reserve in fiscal year 2018 (EUR 328.9 thousand as at 31/12/2017).

6.) The net profit for fiscal year 2018 amounts to EUR 294.9 thousand (EUR 289.8 thousand as at 31/12/2017).

### M. Capital adequacy requirements

Euram Bank uses the following methods to calculate its capital adequacy requirements:

- Credit risk: Standard approach
- Operational risk: Basic indicator approach
- Risk of adjustment to credit valuation (CVA risk): Standard method

In fiscal year 2018, the total amount of risk under Article 92 of CRR – EU Regulation no. 575/2013 amounts to EUR 129,919 thousand (EUR 146,832 thousand as at 31/12/2017).

The risk-weighted item amounts for credit risk are EUR 108,765 thousand (EUR 130,798 thousand as at 31/12/2017) and consist of the following:

thousand

Exposures to central governments or central banks	EUR	0
Exposures to regional or local administrative bodies	EUR	0
Exposures to multilateral development banks	EUR	0
Exposures to institutes	EUR	3,255
Exposures to corporates	EUR	22,373
Exposures from retail business	EUR	822
Defaulted exposures	EUR	3,649
Exposures secured by real property	EUR	2,310
Exposures involving particularly high risks	EUR	70,408
Exposures to institutes and corporates with short-term credit ratings	EUR	1,875
Exposures in the form of investment fund units (UCI)	EUR	1,938
Investment exposures	EUR	160
Other positions	EUR	1,975

The total exposure of the risk items for operational risks is EUR 21,154 thousand (EUR 16,034 thousand as at 31/12/2017).

#### **N. Supplementary information**

- 1.) Total amount of assets and liabilities in foreign currency:

		million
Assets in foreign currency	EUR	89.0
Liabilities in foreign currency	EUR	89.1

The foreign currency assets and liabilities essentially concern USD.

- 2.) In fiscal year 2018, Euram Bank had a restraint on disposal for an asset amounting to EUR 0.1 million (EUR 1.0 million as at 31/12/2017).
- 3.) Amounts due from affiliated companies amount to EUR 0.0 million (EUR 0.0 million as at 31/12/2017).
- 4.) Amounts payable to affiliated companies amount to EUR 0.8 million (EUR 0.8 million as at 31/12/2017).
- 5.) In fiscal year 2018, Euram Bank had material transactions with other “related parties” in the amount of EUR 8.1 million (EUR 19.7 million as at 31/12/2017).
- 6.) Other provisions in the amount of EUR 2.1 million (EUR 0.6 million as at 31/12/2017) include:

		thousand
Legal, auditing and consultancy costs	EUR	1,439.8
Vacation entitlements not consumed yet	EUR	201.3
Bonuses	EUR	461.9

The other provisions for “legal, auditing and consultancy costs” essentially concern expenses for absorption interest in the amount of EUR 1,325.0 thousand (EUR 65.0 thousand as at 31/12/2017).

- 7.) From a present-day perspective, obligations arising from the use of fixed assets not reported in the balance sheet amount to EUR 430.9 thousand for the next year (EUR 427.6 thousand as at 31/12/2017), to EUR 2 million for the following five years, and exclusively relate to rent for the use of the office premises.

- 8.) In fiscal year 2018, the company did not conclude any currency futures (none as at 31/12/2017). These are basically used to hedge foreign currency positions. The lives of the foreign exchange futures are basically less than one year.
- 9.) In fiscal year 2018, Euram Bank had not issued any loans to officers and related persons (one such loan as at 31/12/2017) amounting to EUR 0.0 thousand (EUR 665.0 thousand as at 31/12/2017).
- 10.) In fiscal year 2018, Euram Bank reports a return on assets (annual result after taxes / total assets) in the amount of 0.72%.

### 3.Explanatory note on the profit and loss account

In fiscal year 2018, the breakdown of income by geographical markets as per section 64 (1) (9) BWG is essentially the following:

Interest income: thousand

The Caribbean	EUR	807.5
Asia	EUR	88.4
Europe – EU	EUR	7,967.4
CEE	EUR	89.4
America	EUR	8.5
Africa	EUR	11.6
Australia	EUR	1.1

Income from securities and investments: thousand

Europe – EU	EUR	41.8
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Commission earned: thousand

The Caribbean	EUR	1,349.5
Asia	EUR	349.1
Europe – EU	EUR	7,886.6
CEE	EUR	201.9
America	EUR	36.5
Africa	EUR	27.9
Australia	EUR	14.5

Income/expenses from financial transactions: thousand

The Caribbean	EUR	24.7
Asia	EUR	14.3
Europe – EU	EUR	-603.8
CEE	EUR	5.3
America	EUR	0.2
Africa	EUR	0.3
Australia	EUR	0.1

Other operating income: thousand

America	EUR	0.7
Europe – EU	EUR	128.2
Asia	EUR	0.4

The operating expenditure reported in the 2018 fiscal year in the amount of EUR 3.9 million (EUR 3.6 million as at 31/12/2017) essentially consists of the following:

thousand

IT and information expense	EUR	1,555
Office and operating expense	EUR	109
Rental expense	EUR	431
Advertising expense	EUR	481
Insurance	EUR	284
Legal and consultancy expenses	EUR	393
Supervisory Board	EUR	170
Recruitment and training	EUR	67
Travel expenses and motor vehicle operating costs	EUR	94
Other costs	EUR	286

With reference to section 237 of the Business Code (UGB), the breakdown of other operating income and other operating expenses in accordance with section 64 (1) (12) of the Banking Act (BWG) is as follows:

- Apart from costs charged on in the amount of EUR 16 thousand (EUR 46 thousand as at 31/12/2017), other operating income essentially includes a VAT credit of EUR 109 thousand (EUR 39 thousand as at 31/12/2017) and income from the release of provisions in the amount of EUR 4 thousand (EUR 1 thousand as at 31/12/2017).
- The other operating expenses reported in fiscal year 2018, in the amount of EUR 1,456.1 thousand (EUR 164.9 thousand as at 31/12/2017) essentially relate to expenses for external consultants, as well as expenses for absorption interest in the amount of EUR 1,325.0 thousand (EUR 65.0 thousand as at 31/12/2017).

In fiscal year 2018, value adjustments of receivables were effected in the amount of EUR 998.3 thousand (EUR 581.2 thousand as at 31/12/2017). Specific provisions were effected in the amount of EUR 68.3 thousand (previous year: EUR 0.0 thousand). Moreover, a general impairment provision in the amount of EUR 930.0 thousand was formed (EUR 0.0 thousand as at 31/12/2017).

Value adjustments of securities as well as of participating interests and shares in affiliated companies amount to EUR 50.2 thousand (EUR 53.0 thousand as at 31/12/2017), relating to the value adjustment of the Euroopportunity Bond fund held in fixed assets, in the amount of EUR 50.2 thousand (EUR 53.0 thousand as at 31/12/2017).

The expenditure for auditors attributable to the fiscal year is disclosed in the group accounts of Euram Holding AG.

The taxes on income and earnings reported in the income statement, taking account of tax sharing and deferred taxes, in the amount of EUR -867.3 thousand (EUR -900.6 thousand as at 31/12/2017) are made up of the income from deferred taxes in the amount of EUR 242.2 thousand (expenditure of EUR 47.5 thousand as at 31/12/2017) and the expenditure from tax allocations (tax sharing) in the amount of EUR 1,109.5 thousand (EUR 853.1 thousand as at 31/12/2017) and influence the result of ordinary activities at a rate of -27.1% (-26.8% as at 31/12/2017).

An amount of EUR 2,325.0 thousand was allocated to the revenue reserve in the 2018 fiscal year (EUR 2,129.0 thousand as at 31/12/2017).

No allocations to the liability reserve were effected in fiscal year 2018 (EUR 328.9 thousand as at 31/12/2017).

#### 4. Other notes

- 1.) In fiscal year 2018, an average of 37 employees (36 as at 31/12/2017) were employed with the company.
- 2.) For senior executives, the severance pay provision in fiscal year 2018 amounts to EUR 199.1 thousand (EUR 170.4 thousand as at 31/12/2017) and for other employees EUR 166.2 thousand (EUR 132.2 thousand as at 31/12/2017). Moreover, contributions in the amount of EUR 161.3 thousand (EUR 148.9 thousand as at 31/12/2017) were paid to the employee pension fund. The changes to the staff cost provisions were included in personnel costs.
- 3.) The total remuneration of 3 (3 as at 31/12/2017) Managing Board members that was granted for their work in fiscal year 2018 amounts to EUR 1.3 million (EUR 1 million as at 31/12/2017); the remuneration granted to members of the Supervisory Board in fiscal year 2018 amounts to EUR 170.3 thousand (EUR 210.3 thousand as at 31/12/2017).

4.) No loans were granted to senior executives in the 2018 fiscal year (none as at 31/12/2017).

5.) The following persons were members of the company's Managing Board during fiscal year 2018:

Manfred Huber (Chairman)

Johannes Langer

Josef Leckel

6.) The members of the elected Supervisory Board during the 2018 fiscal year were:

Adolf Walter Höllmer (Chairman)

Dr. Peter Maser (Vice Chairman)

Dkfm. Senta Penner

7.) Euraam Bank is included in group accounts. The entity that prepares the group accounts is the following:

Euraam Holding AG

Wallnerstraße 4

1010 Vienna

#### 5. Significant events after the reporting date

In fiscal year 2018, no significant events occurred after the reporting date.

#### 6. Additional disclosures

In order to comply with the company's disclosure obligations under Articles 431 to 435 of CRR – EU Regulation no. 575/2013, it is pointed out that the publication can be viewed on the website of Euram Bank AG ([www.eurambank.com](http://www.eurambank.com)) under “Euram Bank / publications and disclosures”.

Vienna, 06 May 2019

The Managing Board

Manfred Huber

Johannes Langer

Josef Leckel

**A U D I T  
O P I N I O N**



## **AUDIT OPINION**

### **Report on the annual accounts**

#### **Audit opinion**

We have audited the annual accounts of European American Investment Bank Aktiengesellschaft, Vienna, consisting of the balance sheet as at 31 December 2018, the profit and loss statement for the fiscal year ending at 31 December 2018, and the Notes.

Based on our assessment, we consider that the annual accounts comply with the statutory rules and convey a true and fair view of the net worth and financial position as at 31 December 2018 and of the earnings situation of the company for the fiscal year ending on that reporting date, in accordance with the provisions of Austrian business and banking law.

#### **Basis of the audit opinion**

We have carried out our audit in accordance with EU Regulation no. 537/2014 (hereinafter AP-VO) and with the Austrian principles of proper year-end audits. Said principles require the application of the International Standards on Auditing (ISA). Our responsibilities under said provisions and standards are described in greater detail in the “Responsibilities of the auditor with a view to auditing the annual accounts” section of our audit certificate. Under Austrian business and banking law provisions and professional regulations, we are independent from the company, and we have met our other professional duties in accordance with said requirements. We believe that we have obtained sufficient and suitable audit evidence to base our audit opinion upon.

### **Particularly important audit facts**

Particularly important audit facts include any facts that, according to our dutiful discretion, were most critical for our audit of the annual accounts of the fiscal year. Said facts were considered here in connection with our audit of the entire annual accounts and in forming our audit opinion, and we shall not provide any separate audit opinion on said facts.

### **Recoverability of loans and advances to customers**

The risk with respect to the annual accounts:

Loans and advances to customers are reported in the balance sheet at an amount of EUR 124.2 million. This amount includes value adjustments (impairments) in the amount of EUR 1.1 million. In terms of amount (almost 38.3 % of total assets), loans and advances to customers constitute a significant balance sheet item. With only few exceptions, primarily loans secured by mortgages, deposits and securities are granted. The Managing Board of the bank describes the procedure to determine impairments on loans and advances to customers in the Notes to the annual accounts in the chapter “General principles and information on accounting and valuation”, as well as in item 2B “Risks in the sphere of loans and advances to customers”.

Within the scope of credit monitoring, the bank assesses whether impairment indicators exist and whether, therefore, specific provisions must be formed. Identifying impairment indicators includes an assessment as to whether any events exist that result in an impairment of contractually agreed payments being made in full and without realizing any collateral. Specific provisions are determined taking account of the collateral available. In doing so, the collateral is recognized in the amount of its respective lending value, i.e. fair values less haircuts. Accordingly, the recognized collateral values are estimates.

Apart from determination of the specific provisions, the portfolio value adjustment for non-defaulted customers is calculated on the basis of a valuation model. Apart from customer exposure and collateral values, it is primarily the probability of default (PD) based on the customer rating that is relevant. Based on the existing internal customer rating, probabilities of default – obtained externally – are allocated to the blank volumes.

The risk for the annual accounts is in the essential uncertainty of discretionary assessments and estimates associated with the determination of impairment indicators and the calculation of impairments.

### **Our way of procedure during the audit**

We have audited the process of granting and monitoring customer loans as well as the relevant determination of impairments by evaluating the internal policies and interviewing staff members in the competent departments to find out whether this process is suitable to adequately depict the recoverability of these loans. We have also tested the key controls in this sphere with a view to their design, implementation and – on a random sample basis – their effectiveness.

Based on a random sample of loans, we have examined whether there is a risk of default and whether appropriate amounts of credit risk provisions were provided for. In case of specific provisions, we have tried to understand the specific provision in each case. For the purpose of assessing the amount and time of return flows assumed from the realization of real estate collateral, we have additionally called in our real estate valuation experts in order to verify the return flows derived from the appraisal reports submitted or from the bank's internal calculations, based on market comparisons and external sources of information.

During examination of the general impairment provision, we have tried to understand the method applied and the parameters used therein. Moreover, we have reconstructed the amount of the general impairment provision determined, recalculating the same.

Finally, an assessment was made as to whether the information contained in the Notes to the annual accounts is appropriate to determine impairments for loans and advances to customers.

### **Responsibilities of the legal representatives and of the Supervisory Board for the annual accounts**

The legal representatives are responsible for preparing the annual accounts and must ensure that the latter convey a true and fair view of the assets, financial and earnings position of the company, in line with Austrian business and banking law provisions. Moreover, the legal representatives are responsible for the internal controls they deem necessary in order to allow for the preparation of annual accounts that are free from significant – intentional or unintentional – false representations.

During preparation of the annual accounts, the legal representatives are responsible for assessing the company's ability to continue its business activities, for indicating circumstances associated with continuation of the business activities – if relevant –, as well as for applying the going-concern accounting principle, unless the legal representatives intend to either liquidate the company or to discontinue its business activities, or if they do not have any realistic alternative to any such way of procedure.

The Supervisory Board is responsible for monitoring the accounting process of the company.

**Responsibilities of the auditor with a view to auditing the annual accounts**

Our objectives are to obtain sufficient certainty as to whether the annual accounts as a whole are free from significant – intentional or unintentional – false representations and to issue an audit certificate that contains our audit opinion. Sufficient certainty is a high degree of certainty, but no guarantee that an audit conducted pursuant to the AP-VO and to the Austrian principles of proper year-end audits that require application of the ISA will always reveal material false representations, if such exist. False representations may result from fraudulent acts or errors and are deemed significant if some or all of them may reasonably be expected to impact on the economic decisions made by users on the basis of these annual accounts.

In the course of a year-end audit in accordance with the AP-VO and the Austrian principles of proper year-end audits, requiring application of the ISA, we exercise our dutiful discretion throughout the entire audit, maintaining a critical basic attitude.

Moreover, the following applies:

- We identify and analyse the risks of significant – intentional or unintentional – false representations in the annual accounts, we plan audit procedures in response to said risks, we implement them and obtain audit evidence that is sufficient and suitable to serve as a basis for our audit opinion. The risk that material false representations resulting from fraudulent acts are not revealed is higher than the one resulting from errors, as fraudulent acts may involve deceitful interactions, falsifications, intentional omissions, misleading representations or the bypassing of internal controls.
- We obtain insights into the internal control system, inasmuch as it is important for the audit, in order to determine audit procedures appropriate in the circumstances, not however to provide an audit opinion in relation to the effectiveness of the company's internal control system.

- We assess the adequacy of the accounting methods applied by the legal representatives, as well as the tenability of the estimated values presented by the legal representatives in the accounting and the associated information.
- We draw conclusions regarding the appropriateness of the going-concern accounting principle being applied by the legal representatives as well as, based on the audit evidence obtained, whether any significant uncertainty exists in connection with events or circumstances that may raise strong doubts regarding the company's ability to continue its business activities. If we conclude that any such significant uncertainty exists, we are obliged to point out the relevant information in the annual accounts in our audit certificate, or if such information is inappropriate, to modify our audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit certificate. Future events or circumstances may, however, cause the company to discontinue its business activities.
- We assess the overall presentation, the structure and content of the annual accounts including the information provided, as well as whether the annual accounts reflect the underlying transactions and events in such a way that a true and fair view of the company's situation is achieved.
- We consult with the Supervisory Board among others about the planned scope and timing of the year-end audit, as well as about meaningful audit findings, including any significant deficiencies within the internal control system that we find during our audit.
- We shall also submit a statement to the Supervisory Board indicating that we have complied with the relevant professional conduct requirements in respect of autonomy and communicate with them about all relationships and other facts on the basis of which it may be reasonably assumed that they have an impact on our autonomy and – to the extent relevant – associated protective measures.

- From among the facts about which we have communicated with the Supervisory Board, we shall determine those facts which were most important for the audit of the annual accounts of the fiscal year, and thus which are particularly important audit facts. We describe said facts in our audit certificate unless legislation or other legal regulations preclude public disclosure of said facts, or we determine, in extremely rare cases, that a fact should not be reported in our audit certificate because it may reasonably be expected that the negative consequences of such a disclosure would exceed the benefits to public interest.

#### **Other statutory and legal requirements**

##### **Report on the management report**

Under Austrian business law provisions, the management report must be audited as to whether it is consistent with the annual accounts and whether it was prepared in accordance with applicable legal requirements.

The legal representatives are responsible for preparing the management report in accordance with Austrian business law provisions.

We have carried out our audit in accordance with the professional principles regarding the audit of the management report.

##### **Opinion**

According to our opinion, the management report has been prepared according to applicable legal requirements and is consistent with the annual accounts.

##### **Explanation**

Considering the findings and insights obtained during the audit of the annual accounts with respect to the company and its environment, no significant inaccurate information was found in the management report.

**Additional information under Article 10 AP-VO**

We were elected as auditors in the general meeting on 30 November 2016 and charged with the year-end audit of European American Investment Bank Aktiengesellschaft, Vienna, by the Supervisory Board on 1 December 2016. We have acted as auditors of the company without interruption ever since the 2014/2015 annual accounts.

We declare that the audit opinion contained in the section “Report on the annual accounts” corresponds with the additional report to the Supervisory Board under Article 11 of AP-VO.

We declare that we have not provided any illicit non-audit services (Article 5 (1) of the AP-VO) and that in carrying out the audit, we have maintained our independence from the audited company.

We have provided the following services not indicated in the annual accounts or in the management report in addition to the year-end audit for the audited company and for the companies controlled by the same:

Audit of the separate annual accounts and of the consolidated annual accounts of Euram Holding AG, Vienna.

**Auditor responsible for the assignment**

The auditor responsible for the audit assignment is Mag. Bernhard Gruber.

Vienna, 06 May 2019

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Bernhard Gruber  
Certified Public Accountant



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