## PERFORMANCE WITH A CAPITAL P

CAPITAL BANK

Capital Bank Group | Graz, Salzburg, Vienna | Kitzbühel, Prague | Annual Report 2006

# HISTORY GOES ON
Capital Bank 2006

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FIRST THE BAD NEWS: FOLLOWING LEVI STRAUSS' LEGENDARY INVENTION, BUILDING YOUR BRAND ON THE USE OF RIVETS IS NO LONGER AN OPTION.

No, you're right after all: this really is an annual report. Read it anyway. It's well worth it.



There's something which has been a boon to plastic surgeons and Ferrari in equal measure: body parts that are too small in the minds of their owners.

Deep down, the way people feel about themselves has more to do with collective crises of identity rather than conceptions of ideal beauty. And increasingly, it's not just individuals who are affected, but brands too.

What a golden age it was when our parents were always right and personal values still counted for something.

When a man was a man, a woman a woman and the economy ran according to the iron laws of the commodity markets.

The commodity markets may be tough but at least they're honest: suppliers with the lowest production costs make the most profit. After all, you can't tell simply by looking at a piece of copper wire whether it was produced cheaply or expensively at source – it's still the same copper, isn't it?

The product no longer counts. The brand is everything. Or is it?

Now if the markets for manufactured goods were to work in the same way they, too, would certainly be tough – but then they would be dishonest.

Unlike commodities, two completely identical products can still be worlds apart. It all depends on whether the company in question was the first to develop and market the idea for a new product or whether it merely found a way to place an already successful product a second time over.

For once an idea or product is out on the market it's also pretty much at the mercy of the competition. Anyone out there can buy it, analyse it, take it apart, reassemble it – and then try to sell it by themselves.



Experienced copyists can unravel the secrets of a packet of soup with the same ease as they can unlock the recipe for Coca-Cola. Within just one season, a successful innovation such as the board game: 'The Settlers of Catan' managed to spawn a dozen or so products based on more or less the same idea.

Such cases, you would think, should really be covered by patents and copyright legislation. But the fact is that there are simply too many gaps in the various systems of statutory protection.

Thomas Alva Edison is a good example of how the protection supposedly afforded by a patent crumbled through an amendment to the latter – and how he remained largely unable to reap the benefits of this epoch-making invention because his 'electric lamp' patent was simply disregarded.

Pharmaceutical corporations employ entire battalions of patent attorneys to write out in water-tight terms that the medicines they produce do exactly what they're supposed to do on the label – and to scrutinise the patents of the competition for any weak spots they might have.

We learn more every day by standing on the shoulders of giants. Well, that's what they say, at least.



DIDN'T WE MENTION LEVI STRAUSS AT THE START OF ALL THIS?

An entrepreneur still has a long time to worry about things even if his patent protection is in place. Actually, that's not quite true because no patent lasts for ever.

Only a few are fated to make their money with mere rivets. Which is fine by us. Everyone else needs good partners.

Take US patent no. 139,121, for example, which expired in 1891. Registered by tailors Jabob Davis and Levi Strauss on May 20, 1873, the patent was taken out for the use of copper rivets to reinforce the points of strain on trouser pockets, thereby preventing tearing.

After 1891 anyone could now produce exactly the same trousers as Levi Strauss (1829-1902).



Born as the son of a peddler in Buttenheim in Franconia, Bavaria, Strauss emigrated to the USA in 1847 as an 18-year-old to join his brothers and learn about their dry goods business in Manhattan. In 1853 he had the idea of making his fortune by taking this knowledge to the gold mining regions of California, where the California Gold Rush was still in full swing.

And he succeeded, oddly enough with a material that had long ceased to excite the folks back on the East Coast and which only cluttered up his brothers' warehouse: undyed canvas. The same fabric was useless for tents or covered wagons because it leaked water. But Strauss had already found out that the trousers worn by the gold-diggers would rapidly tear.

So he had Jacob Davis make pairs of trousers from a particularly tough kind of canvas, lots of which he already had in stock – to the immense delight of the gold-diggers.

Strauss faced challenges from imitators in the very first years following his breakthrough. After all what were you supposed to patent if your idea was 'merely' to make trousers out of canvas? Or subsequently to use denim instead of canvas, or indigo as a dye?

But the idea of using rivets, which only came 20 years later, was indeed patentable and from around 1880 it was in this version that blue jeans began to emerge as the archetypal apparel of farmers and factory workers. So it was predictable that the swarm of copyists would be far larger when the patent expired in 1891 than in the start-up years. Yet the fact that no other company than Levi's has earned more money up to the present day from selling jeans is all down to that magic word: marketing.

To make a fortune out of nothing is a fantastic dream. We, on the other hand, try to make the best out of what there already is.



The establishment of a proprietorial brand offered the company the chance to have a permanent USP. Anyone can make jeans – but only one company can make Levi's. What's more, brand protection does not have the same fixed expiry constraints as in the case of patents: theoretically, a brand can remain forever young.

And while the price consumers pay for patented products always has the hint that someone is being more than highly paid to exercise his or her monopoly position, in the case of brand products this is quite different. Customers have the choice of opting to pay that bit more for the brand name.

In fact for customers the development of branding solved what is – well, let's be honest – a problem of luxury.

There's been a lot of speculation about what a so-called 'good brand' actually means. But it's hardly rocket science: the magic word here is trust.

Anyone forced to think twice about every penny they spend so as not to starve doesn't really have a choice. The problem actually starts with the first penny of freely disposable income.

So how do you spend ready cash, wisely?

Brand products and services emerged as omniscient, helpful shopping advisers extolling the benefits of the merchandise in question. By doing so, they made it easier for customers to choose.

‘HENKEL’S BLEACHING SODA’ MARKS THE START OF WASHING DETERGENT ADVERTISING.

Seen this way, even a bank can eventually become a brand.



The age of brands began in the 1870s – in a sector of industry that is still synonymous today with the wonderful, colourful world of marketing. Yes, that’s right: washing detergents.

As it happens, the son of a village school teacher became a pioneer in this field. Back in 1876 Fritz Henkel (1848-1930) set up a factory in Aachen to produce what he described as a ‘universal washing aid’. From the first moment his detergent came off the production line he began to advertise his product in newspapers and magazines. Shortly after, he gave his blend of pulverised sodium silicate and soda the brand name of ‘Henkel’s bleaching soda’.

After moving to Düsseldorf, the company finally broke the one-million barrier for unit sales in 1899. This was followed by the all-encompassing breakthrough in 1907.

And we're getting there without a doubt.

Quite simply, the world's first automatic washing powder was invented in the Henkel laboratories. According to the advertising slogan at the time, laundry simply had to be boiled once to achieve 'whiter-than-white' results without the need for scrubbing. The little marvel was christened with the initial syllables of perborate and silicate. Thanks to what was then an unheard-of advertising budget of one million German Marks, Persil began to circulate through every washhouse of the age – firstly in Germany and then in the whole of Europe. Within six years, Henkel saw its turnover grow fifty times over.



The same metier was to attract William Hesketh Lever in 1879. Lever was a young grocer who hailed from Lancashire, between Liverpool and Manchester. He'd just arranged what was up to then the best deal of his life by cutting out the middleman and sourcing his butter and eggs straight from the farm.

He was now looking for a similarly inspiring idea for another product in his assortment, 'Lever's Pure Honey Soap'. While sounding like honey, in reality this was a completely normal curd soap that Lever had merely cut and packed.

# LEVER'S BRINGS SUNLIGHT TO THE WASHHOUSE.

Does that mean we are being self-confident? It certainly does. But does it also mean we are being presumptuous? It definitely doesn't. For where there's any risk, our actions are backed by figures.



Enlightenment came to him in Liverpool. Stopping off there on his return from a holiday, he went shopping – for a brand name. Lever found an agent offering trademark rights for product names and seized the opportunity. He considered what kind of name a soap needed to have to be successful in the drab greyness of day-to-day life in England. A sensible name, perhaps, would be something containing the words 'white' or 'pure'. After all, they encapsulated the effect his product was supposed to have. But who wants to be sensible the whole time?

A nice dream brightens up dull routine and soap might just help people have better dreams, Lever thought to himself. So he reserved the rights to the 'Sunlight' trademark.

The impact of such business innovations can easily be compared to the effect a mutation has in the natural world. In most cases, it has no effect at all: unable to survive, it swiftly exits the stage never to reappear. In some cases, the effect is slight: because the new development has no selective advantage over others it remains more or less on an equal footing – and consequently unnoticed – alongside traditional forms of life.

But when a mutation displays a selective advantage it immediately occupies a new ecological niche, repels long-established species and transforms the environment – in its own image.

Now in principle it doesn't really matter whether we're talking here about a finch with a particularly hard beak or an anthropoid with an unusually large cerebrum – except with regard to their respective environmental impact.

And as far as recent years are concerned, the figures have been in our favour.



HAVING A GOOD NAME IS ONE THING. DISPENSING WITH ANIMAL TALLOW ANOTHER.

For long periods in its history, the brand behaved like a biological variant that existed (how otherwise could there have been that agent flogging trade names in Liverpool?) but was for the most part ignored. Like a newborn child, each new town or city needs to have a name, and products, too, are no exception to this general rule. But it was only when the overwhelming majority of people had to buy goods to cover almost all of their basic requirements and when they had little time because of the need to earn a living almost right round the clock (which gave them, however, a little more income than was needed for mere survival) that the environmental conditions were created which enabled trademarks and brands to begin their triumphant advance.

So once again this year we can afford the pleasure of looking back on the history of wealth with you...

Now of course the triumphant advance of Lever's business venture cannot be attributed solely to his clever brand name. Equally important at least was Lever's idea to manufacture his detergents on the basis of vegetable oils rather than the animal tallow which had been used until then. He had two reasons for doing so: first, vegetable oils produced a better lather and second, vegetable fats were cheaper than tallow.

His brand product, which brought greater benefits and was cheaper to produce than those of the competition, set the stage for an unbeatable triple-whammy. In 1885 Lever bought a small soap factory in Warrington for 4,000 pounds. By 1890 his company was already generating a profit of 50,000 pounds. In 1894 he turned his business into a public limited company. He and his brother purchased the ordinary shares for 750,000 pounds while the public scrambled to have the pleasure of paying two million pounds for the non-voting preferential stock.

A DRUGS SCANDAL!
AND ALL BECAUSE OF A FIZZY DRINK FROM ATLANTA.

...and be astonished and amazed at how past generations made their fortunes.



At the time, the Lever shares were no short-term objects of speculation, but a long-term, profitable and solid financial investment in the rather giddy-minded world of the stock exchange. Furthermore, the triumphant advance of the brand entrepreneurs also had a benign impact on business culture above and beyond the bourse.

For the new mega-rich were on the whole a far more likable bunch than the ill-bred robber barons such as the likes of a Vanderbilt or Gould, who had led the wealth rankings in the previous decades. Any blemish on the record of the owner, the company or the product was now able to blow up into a scandal, possibly resulting in immense damage to the business.

Not necessarily to copy their methods, but to remind ourselves that we are following on in a tradition.

In 1901 Asa Candler (1851-1917) from Atlanta, Georgia, was struggling with a scandal that threatened to ruin his successful product. Allegedly, it was turning America's youth into drug addicts. The accusation could not be dismissed so easily: after all, an important ingredient of this refreshing drink consisted of coca leaves – why else had chemist Doc Pemberton christened his invention Coca-Cola in 1886?

Everything was at stake for Candler: he had acquired all the trademark rights together with the formula for 2,300 dollars in 1891 and within a few years had marketed the drink, which until then had only been available in Atlanta, across the whole of the United States.



Opting for a pre-emptive defence, he had a brochure printed in which he admitted that while Coca-Cola contained traces of cocaine, it was in such negligible amounts that in no way could it be deemed addictive. And he offered to withdraw the product immediately from the market if, in his words, 'there is a single case of cocaine dependency that can be traced back to drinking our Coca-Cola'.

Yet even though such a case never came to light the fizzy drink still caused tongues to wag. Finally, in 1905, Candler capitulated and changed the formula. Since that time cocaine has remained only in the name and not in the product itself.

# FROM ANTI-WART TINCTURE TO CAKE. ON A CIRCUITOUS ROUTE THAT LIFE OFTEN TAKES.

The tradition we have consistently pursued since 1922 is to always be open to innovations.



At the very same time that Coca-Cola was setting off on its triumphant advance through the USA, the foundation for one of the greatest fortunes in Germany was being laid at a pharmacy on the Niedernstraße in Bielefeld.

Yet no-one in their right mind would ever have guessed that this product could make someone a millionaire. It consisted of sachets with a mixture containing 38.3% flour, 32.2% sodium bicarbonate and 29.5% tartaric acid.

The pharmacist August Oetker (1862-1918) was awarded a doctor's degree in botany in 1888. The dissertation he submitted to gain the title of a 'Dr. phil.' was entitled 'Does pollen display characteristic differences in the subdivisions of the plant families?'

With the financial support of his mother-in-law Oetker acquired the pharmacy in the centre of Bielefeld in 1891 and immediately set about developing and selling his own products. By the end of the first year he was already offering his customers six innovations: medicinal wines, medical cocoa, foot cream, anti-wart tincture, a cosmetic and baking powder.

Baking agents had already been around for a long time. Simple baking soda and cream of tartar were used in the bakeries, and an agent that had been invented 30 years earlier by Justus Liebig was also sold to housewives as 'Liebig's self-raising baking flour'. Yet all these agents had their drawbacks.

This opens up an enormous range of possibilities – as the examples show.

They left behind an unpleasant aftertaste in the baked goods, could not be stored for any length of time or were simply too expensive.

Oetker wanted to change this.

Over the next two years he continued to develop the recipe until in 1893 he had a powder mixture that worked 'without backfiring'. Then he calculated how much powder was required for a pound of flour and filled sachets with precisely this amount, selling them under the name: 'Dr. Oetkers Backin' for ten pfennigs a bag.

That was a lot of money in those days, and the price also contained a margin of a couple of hundred percent. Even so, the product sold like hot cakes.

For Dr. Oetker was not mere selling a few grams of baking powder but the guarantee of baking a wonderful cake on special occasions (for which he had a recipe specially printed on the back of each sachet).



## 'I COMPLETELY GUARANTEE ABSOLUTE QUALITY...'

...wrote Oetker in his first advertising brochure – and for his female customers it was definitely worth paying ten pfennigs for this guarantee of success.

Over the course of the 20th century the brand proved to be a most stable asset, second only to gold. Most brands accompanying our lives today have already been around for a century.

Coca-Cola, Aspirin, Dr. Oetker, Odol, Persil, Mercedes, Levi's, Tempo – it's virtually impossible to keep a good brand down.

During their initial advancement they are imbued with the personality of their creators – and quite capable of helping the latter achieve eternal life, as it were, long after their actual physical demise.

In August Oetker's case it was the uncompromising commitment to quality and service; in the case of Adidas founder Adolf Dassler the development of ever better footwear for the world's top athletes; and in the case of Coco Chanel it was his unmistakable style: simple, comfortable and always elegant. In a word, classic fashion.

## “HEINZELMANN” OUTSMARTS THE ALLIES.

Just how difficult it is and the time it takes to destroy a brand becomes evident by looking back to a development that lasted almost 30 years and which started in the Franconian city of Fürth.

It was here that qualified fitter and talented hobby builder Max Grundig turned his passion into his profession at the age of 22.

We see things differently, judge things differently and find new solutions.



‘I didn’t come into the world to become the greatest. As a young man I wanted to listen to the radio’, he said in an interview shortly before his death.

‘The word “radio” probably exerted the same fascination on me back then just as the words “video” or “computer” do today for millions of young people. And when I finally got the chance to make radios, good Lord, I immediately grasped the opportunity.’

In this context the phrase 'small but nice' assumes a plausible significance.

In 1946 he started out his post-war career with a lacing of chutzpah. At the time the allied occupiers were still prohibiting the sale of radios – but not the sale of kits with which a radio could be built.

Grundig soon became known throughout the country when he began to sell these under the good old German name of 'Heinzelmann'.

With radios (from 1948), tape recorders (from 1951) and above all television sets (from 1952) he made Grundig the leading manufacturer of the industry in Europe.

At the end of the 1970s, however, the company came under pressure with the growing competition offered by manufacturers in the Far East and eventually went into the red, where it remained.



Turnover and the number of employees dwindled from year to year and the company stood at the edge of bankruptcy or was actually insolvent a number of times – but if there's one asset which Grundig has, it's the brand.

And it has it still.

# A FEW BRAND CORPORATIONS DOMINATE THE GLOBAL MARKET.

So, we're more flexible and respond faster to changing requirements.



While the great global brands radiate their own distinctive personality, the corporations responsible for maintaining them nowadays do so only rarely.

At Nestlé, Procter & Gamble, Unilever, LVMH, Disney and L'Oreal – to mention just a few of the most important corporations – managers tend to work in the background against which the brands can develop in the limelight.

They can wait quietly in the wings until the brand companies that still remain in family ownership such as Oetker and Henkel in Germany, Ferrero in Italy or Mars in the US fall into their hands.

At some stage or other interest wanes among those inheriting a business. At some stage managerial mistakes or a recession suddenly strike.

We exploit opportunities better.

The same of course is also true of the Procters and Nestlés of this world, but in such cases such calamities threaten a brand, not the livelihood of the organisation as a whole. If, on the other hand, a company is dependent on a single brand it becomes ripe for attack as soon as the brand gets into difficulties.

Nowadays, the challenges that have to be resolved simultaneously in order to launch a product are of such complexity that it would appear to be practically impossible for a one-man company to establish a brand out of nothing.



You have to get the product right and its positioning, too; the advertising campaign must enhance the project and, what's more, appear in the right media; the product has to be placed in retail outlets so that the customer can find it; and in order to achieve repeat sales, value for money must be complemented by just the right levels of customer service and image. All of this has to happen nationwide, or even better, worldwide, for if someone manages to score a success in Austria, say, you can be sure that one of the major brand corporations will come along and launch its own copycat product on the market.

And so, last but not least, we do what our customers rightly expect from us: safeguard and increase their assets with the right ideas.

# RIDING ON THE BACK OF THE BULL.



Seen this way, Dietrich Mateschitz should never have been able to get started in the first place. He was destined to fail.

And yet he did get started. And didn't fail.

Instead, in just under two decades he managed to record a success story just as incredible as the one about the sachets of baking powder.

To fill cans with a lemonade that tasted of wine gums, advertise it with a few sketchy cartoons and sell it at a price for which customers could get the same amount of Coca-Cola fifteen times over was audacious indeed.

But Mateschitz, who'd learnt his tools of the marketing trade over at Procter & Gamble, firmly believed in the effect of energy drinks pepped up with the stimulant taurine, which he had first come to know as a Blendax manager on a business trip to China.

‘AFTER ANALYSING THE MARKET I WAS SURPRISED TO DISCOVER THESE PRODUCTS DID NOT AS YET EXIST OUTSIDE ASIA.’

And even though this annual report takes us back to the past…



Mateschitz decided to jack in his career as a manager and get down to work. He mixed taurine with coffeine, glucoronolacton and lots of sugar to make a fizzy drink he christened ‘Red Bull’ and launched it with the catchy slogan: ‘Red Bull gives you wings.’

The fact he did this right in front of the noses of Coca-Cola and Pepsi – who were also able to launch a similar drink at a third of the price within a matter of weeks – drastically increased his entrepreneurial risk. For not only did the product have to score a success with customers: it also had to keep quiet the major corporations with their dominant market share.

And the fact that he waited seven years after first launching Red Bull in Austria in 1987 before setting off to conquer the German market ramped up the level of risk still further.

Nothing much has changed since then, even though there was a period when someone or other would attempt to market an energy drink along the same lines as Red Bull practically on a weekly basis.

‘THIS IS NOT FOR THE WEAK TO GET STRONG, IT’S FOR THE STRONG TO GET STRONGER.’

As a result, what Red Bull founder Dietrich Mateschitz says about his brand applies equally to the notion of marketing.

...the same perspective will not stop us in future from looking into the future...

...into whatever the coming decades will bring.

# CHURNING'EM OUT: THE TRIUMPH OF FORDISM.



The great success of the first purveyors of brand products at the end of the 19th century is a clear indication that the industrial revolution had gradually stopped eating its children.

Evidently the purchasing power among broad swathes of the population had now exceeded the absolute minimum required to secure people's livelihood – if it hadn't, August Oetker would hardly have been successful with his sachets of baking powder for those special Sunday afternoon cakes.

Your opportunities are our opportunities.

'YOU WILL BE DRIVING YOUR OWN CARS AND CRUISING THE SEVEN SEAS AS TOURISTS ON YOUR OWN SHIPS.

OR YOU WILL BE SOARING ABOVE THE GROUND IN YOUR AIR MACHINES AND COMPETING WITH CLOUDS, WINDS AND STORMS.'



These wonderfully optimistic futurist statements are taken from a declaration issued by the Social Democratic Party of Germany on May 1, 1904. As it turned out, this boundlessly optimistic prophecy was to prove far more realistic than many other forecasts expounded by other experts of the times.

It was only slightly off-target when it came to the question of responsibility. Alongside the 'social democratic state of the future' there were also a few other figures who helped transform the poverty of the masses into the prosperity of the many.

Two people in particular stand out among them: Frederic Winslow Taylor and Henry Ford.

A COUNTRY HICK AND ANTI-SEMITE REVOLUTIONISES CAPITALISM. WELL, WHO'D HAVE THOUGHT IT.



When it comes down to it, Henry Ford could hardly take offence at being described as a country hick. To call Dearborn, his place of birth, a village would actually have been generous in the extreme – back in those days at least.

Ford's parents were farmers, but his father soon gave up on the idea that Henry, the oldest of six children, would take over the farmstead: Henry's somewhat frail physique ruled this out. Instead, he appeared predestined to take up a craftsman's trade owing to his early but nonetheless evident passion for making things, for mechanics and for engineering.

Throughout his lifetime, the world of Ford's thoughts remained stuck in the narrow-minded mentality of his village. Ford hated complexity, he hated political parties, trade unions, immorality, banks and he hated the Jews. Even the greatest admirers of his company fell silent with embarrassment when he interfered in politics with his naïve panaceas.

Which is what happened in 1915: Ford chartered a transatlantic cruise ship, filled it with pacifists and journalists, and set off to Europe to convince the countries that the war over there was absolutely futile.

But because no head of state wished to receive the famous Henry Ford, his Peace Ship was forced to set a course back home without having achieved anything.



Far more alarming were the anti-Semitic tirades Ford held and disseminated at the start of the 1920s. In 1920 he gave an interview in which he squarely placed guilt for all the wars in the world on 'international Jewry'. Between 1920 and 1927 Ford's own newspaper, the 'Dearborn Independent', published an 81-part series about the Jews – 'the world's foremost problem'. According to an unconfirmed newspaper report, Ford apparently donated a considerable amount of money in 1922 to a German, anti-semitic splinter party known as the NSDAP – the National Socialist German Workers' Party.

And it is an undeniable fact that Ford received the Grand Cross of the Order of the German Eagle together with a personal greeting from Adolf Hitler on the occasion of his 75th birthday on July 30, 1938. This, the highest distinction Nazi Germany could award a foreigner, was only ever bestowed twice – the other recipient, incidentally, being Benito Mussolini.

Because what our bank does and the successes it scores are inseparably linked to your success.

Though such lapses considerably diminish the historical greatness of Henry Ford as a person, his work remains intact. For between 1908 and 1914 he engendered an entire array of global innovations which were to have a lasting, positive effect on the development of capitalism: mass production, the production line, mass purchasing power and the participation of the workers in the advances in productivity displayed by the company.



In fact a chain of events spread over decades was required for Ford to get as far as he did. At the start, he experienced a kind of epiphany: in July 1876 he first saw a vehicle moving forwards under its own power on the road to Detroit.

'From the moment I first saw a locomobile at the age of 12 I felt engrossed by the problem of making a self-propelling machine', he wrote later.

The second event occurred with a construction manual: in January 1896 the 'American Machinist' magazine published a description of how to build a simple petrol engine. Henry, who was working as the senior engineer of the Detroit Electricity Company at the time, grasped the point immediately: 'a lot of money can be made out of this.' Three years later he had become so involved in making cars that his employer offered him a choice – either cars or his career at the company.

Ford opted for making cars and submitted his resignation.

‘...OFFER THE AUTOMOBILE TO EVERYONE.’



The third ingredient in Ford’s recipe for success was a fixed idea. For at the start of the 20th century all of the nascent automobile industry was convinced that profits could only be made by building expensive cars for the upper class – only Ford believed precisely the opposite.

‘The right method is to offer the automobile to everyone.’ This brought him in direct conflict with Alex Malcolmson, his partner in newly founded Ford Motor Company: how was one supposed to sell a luxury item like a car to people who had practically no cash to spare? In May 1906, after a power struggle lasting one year, Malcolmson decided he would rather sell his shares than continue to sell Ford automobiles. Henry Ford was now completely in charge.

It was a logical step for Ford to proceed from becoming the majority shareholder to producing the legendary Ford Model T, which began to roll off the production line in October 1908 after a development time of two years.

'Its success was simply inevitable. It had to be, for the car had everything I was capable of putting into an automobile in terms of ideas, skills and experience.'

It's a partnership for our mutual benefit. Now that reminds us of our parent company.

And indeed, the car was a resounding success right from the word go. Ford removed every possible obstacle from the path of his alter ego, the Model T – after just one year he halted production of all his other cars. From now on he would concentrate on building one car in one colour, but so cheaply that the dream of owning one's own car increasingly became a distinct possibility for more and more people. In 1909 Ford was the first car manufacturer in the world to sell over 10,000 units; two years later that number had gone up to 34,528 and he went on to break the 100,000 barrier just a year later in 1912.



This was a tremendous accomplishment. The man who wanted to build cars for everyone with all the fibres of his being was on the verge of realising his ambition.

He had already overcome so much resistance that he could not afford to have technical problems on the shop floor obstruct his progress. But this was precisely the situation in which Ford found himself in 1911. To produce his cars in the kind of volumes he had now reached he required virtually endless quantities of raw materials, preliminary products, individual parts, people and space – and this was simply no longer possible with the traditional methods of organising factory work.

There had to be a way of solving the problem. Now that he, Henry Ford, had catapulted the car industry into a new dimension, could he still work with turn-of-the-century production methods?

Mutuality's
a nice word,
isn't it?

# A STEELWORKER REVOLUTIONISES ERGONOMICS.



It was precisely around this time when another, also somewhat eccentric American published a book with which he claimed to have arrived at a very simple idea that no-one else had come up with in the 5,000-year history of gainful employment or in the 200-year history of capitalism.

Just a perusal of his curriculum vitae reveals that Frederick Winslow Taylor radiated a kind of egregious uniqueness: he is probably the only person in the history of Harvard University to have passed the entrance examination but not to enrol. Instead, he served an apprenticeship at a steel mill.

And he was probably the only foreman of a steel mill to win the US Lawn Tennis Association doubles championship (in 1881).

Taylor subsequently climbed the career ladder to become an engineer and senior employee – before getting off it again in 1901 when he was 45 years old. He thought he no longer needed to pursue a steady job and over the next ten years devoted himself to the principles of 'scientific management'.

Taylor's central thought can be phrased along the lines of a statement made by another great person to change the world, Karl Marx:
the entrepreneurs have only interpreted work in various ways; the point, however, is to change it.
By precisely observing each production step the entire work process can be improved such that the same or even a superior result can be achieved in less time with less effort.

And, amazing as it sounds, it's quite true that no-one before Taylor had had the idea of observing work processes to improve productivity.

To be sure, new technologies had repeatedly been introduced to replace human work – but not to make human work more efficient.



Mechanisation, however, reached its limits in the manufacture of complex products. It still does so today. They contain too many production steps for one machine to manage the entire task. There are no, and never have been any, shirt manufacturing machines: instead, there have 'only' been sewing machines.

Not one of the economic theoreticians was ever interested in the best ways of organising the work that consequently remained. Evidently, it took someone who had already worked in a steel mill to come up with the idea that turnover and yields could be increased by watching the workers doing their work.

The timing was perfect. Taylor's book: 'Principles of Scientific Management' was acclaimed by capitalists and communists in equal measure.

Taylor rapidly evolved into a well paid, travelling speaker – and probably into the first full-time management consultant. 'Consultant to Management' was the way he described himself on his business card at a time when the word 'management' had only just been coined.



Within a year of publishing his book Taylor was invited to expound his principles before a committee of the US House of Representatives.

He did so with such conviction that the politicians began to entertain hopes that the implementation of Taylor's rules might give American industry a competitive edge on the world market. Businesses, too, were more than eager to make his proposals their own.

THE CONVEYOR BELT ENABLES FORD TO BEGIN MASS PRODUCTION.

It’s a win-win-situation.



Although Henry Ford didn’t have a high opinion of politicians, in this point he thought they were completely right. Taylor’s ideas were precisely what he needed to solve his problem.

By dividing work into its smallest components and eliminating any superfluous movements and thought processes, production would be rationalised so that it could be raised to any level required. The introduction of the production line in the spring of 1913 was the next logical step and marked the actual beginnings of mass production.

The production line was not a new invention per se – it had already been used 50 years earlier in the Chicago slaughterhouse to move slaughtered animals to the various stages of further processing.

But when combined with Taylor's findings, it completely revolutionised the way work was organised at the Ford factory.

In his autobiographical work: 'My Life and Work' Ford devotes page upon page to writing about the savings achieved after the new technique was introduced.

To give just one example: in 1912, prior to the introduction of the conveyor belt, it took a worker about 20 minutes to make a flywheel magnet.

And that's fine by us.

With the conveyor belt in 1913 production was broken down into 29 steps, and manufacturing time fell to 13 minutes and 10 seconds per magnet. In 1914 the conveyor belt was set 20 centimetres higher, which reduced working time to 7 minutes per magnet.



Hence within just two years work productivity in the manufacture of flywheel magnets had tripled – and this is not even a particularly outstanding example.

In 1922 Ford described how the most recent inquiry had revealed there were 7,882 different jobs in his factory. He was particularly proud of the fact that his methods enabled disabled people to earn a living in a factory: '3,595 jobs require no physical exertion at all. Most of these light jobs could also have been done by the seriously incapacitated. If work is sufficiently subdivided - subdivided to the point of highest economy - there will be no dearth of places in which the physically incapacitated can do a man's job and get a man's wage.'

So what if new opportunities emerge one day?

WITH FORD'S WAGES PEOPLE COULD AFFORD TO BUY FORD'S CARS.



But to achieve his goal, however, Ford first had to deal with a serious problem: he had to convince his workers to stay on the production line. In this sense the year 1913 turned out to be an unmitigated disaster.

Staff turnover grew to over 300 percent – on average, a worker was throwing in the towel less than four months after being taken by Ford. Although work on the production line was physically less strenuous than previous jobs, the monotony of the work and the social isolation weighed far heavier on the workers. People left the company whenever they could.

And even though it took relatively little time to train new replacements to perform their required tasks on the production line, the rate of staff turnover was obviously cancelling out most of the benefits to be gained from increased productivity before they could even be created.

The solution which Ford came up with and constantly defended as 'my brightest idea for lowering costs' was announced on January 5, 1914:

Ford doubled his wages to five dollars a day and reduced the working day from nine to eight hours.

The job-seeking population of Detroit practically stampeded his factory gates, staff turnover returned dramatically to its former levels, productivity continued to climb and the space requirements of the company car park rose even faster: with Ford's wages people could afford to buy Ford's cars.



The message was so simple that it could not escape any of Ford's competitors. Initially, they strongly resisted his wage model but the latter proved so attractive among the workforce that the rest of industry was obliged to respond. And since they couldn't simply just get rid of Ford, they gradually adopted his remuneration scheme.

The arrival of the production line not only increased work productivity many times over. Businesses were also forced to pass on a large part of the productivity gains to their employees. And to ensure that they did not forget the point at a later stage, there were the trade unions.

# TAYLORISM + TRADE UNIONS = THE CONSUMER AGE.

Then we'll seize them, regardless of whether they're financial or technological opportunities.



The American invention of Taylorism gave employers the instrument they were looking for to bolster productivity in the industrial manufacturing sector. And the European invention of trade unions was the instrument which enabled employees to participate in the fruits of their labour.

Neither instrument can be successfully played without the other. On the one hand, each gain in productivity is missing the point if no one can afford to buy the extra products that are manufactured – and conversely, exaggerated wage hikes merely lead to a rise in inflation rather than a rise in purchasing power.

The 'fifty-fold increase in the productivity of industrial work during the 20th century' (Peter F. Drucker) can in large part be explained by the 'Taylorisation' of the entire range of production process.

Fordism, or the mass production of standardised goods based on the division of labour, merely formed an initial stage in this context. It was suitable for all kinds of complex goods manufactured in large amounts – i.e. for consumer goods.

And these were precisely the products which henceforth came to be in increasing demand.

The first major corporations emerged for convenience goods – for foods (Knorr, Nestlé, Leibniz), for cleaning agents (Henkel, Lever, Procter & Gamble) and for money.

Credit unions, cooperative banks, savings banks, building societies and loan associations grew up as self-help organisations of industrial workers, farmers and craftsmen who believed their interests would not be served by the private banks yet wanted to gain access to the monetised economy.

It runs in the blood of our company, so to speak.

# FINALLY: A LOOK INTO THE CRYSTAL BALL.

That's why we're also proud to say that when our specialists read the newspapers, they're doing it for you.



There will always be sectors of industry that enable individuals to become fabulously wealthy – or new technologies, or perhaps merely new rules which turn traditional sectors of industry upside down so that an underdog has the chance of advancing to become a top dog.

So we don't have to worry about running out of the materials from which great innovations are made.

On the contrary.

'The difference between our civilisation, which is relatively primitive, and the highly complex society of the future is like the one between a machine in the classical sense of the word and a machine in the sense of a living organism', stated Stanislaw Lem, the brilliant futurologist of the 20th century, in his major work 'Summa technologicae' in 1964.

Lem doesn't speculate what might be the next thing to happen but asks the question: What's possible in the first place? In this respect we still have an enormous number of opportunities waiting for us in the future.



'If we regard ourselves as being at a very early stage within a process of development that began half a million years for the species and merely a few millennia ago for civilisation, and if we assume that this development can still last for millions of years (can – not must!), then there is no reason at all to presume that our current ignorance will persist in the distant future.'

EVERYTHING IS JUST A QUESTION OF TIME.

For the next investment opportunity is waiting somewhere out there. The next invention, the next trend.



Such enormous time horizons, of course, offer little consolation with regard to the short term practicability that is absolutely required for the purposes of creating wealth.

This applies, for example, to Lem's intelligence amplifier, a machine with an IQ of around 10,000. 'The possibility of building such an amplifier is no less real than that of building a machine which is a hundred times stronger than man', maintained Lem, though he himself added:

'At the present time the chances of course that it will be built are not that great.'

So other things are being considered and constructed instead. For example, we've only just begun to develop a sector of industry that offers plenty of scope for innovations over the coming decades, if not centuries… and hence the opportunity to create wealth measured in the billions: gene technology.

We don't know what gene technology has in store for us. Genes that allow apples to grow without having to go the long way round an apple tree; vaccinations against cancer; bacteria which filter gold out of seawater; computer processors made of nucleic acids.

And we're here to exploit it to the fullest.



Lem prophesised that we would enjoy a 'kingdom of freedom… once we as creators are capable of competing with nature'.

But at the moment we're still only sorcerer's apprentices at best.

# A RUPERT MURDOCH FOR GENE TECHNOLOGY?



Thus the exorbitant share values of what are, in the main, tiny biotech companies are based far less on their realistic business prospects and far more on investors hoping to have a stake in a Microsoft of the amino age.

Yet perhaps it would be more promising to look for a Rupert Murdoch here rather than a Bill Gates.

No employer had dared to enter into an open conflict with the embargo policies of the trade unions for decades – until 1986, when Murdoch shifted his entire newspaper print shop from Fleet Street to Wapping and continued operating without the trade unions.

By doing so he not only boosted his profits far beyond the returns of his competitors but was also instrumental in kick-starting the modern British economy.

The biotech sector would also seem ripe for a similar, brutal approach, yet it doesn't appear to have produced an employer with Murdoch's iron determination to prevail.

Naturally, there are also gentler ways to become mega-rich.

The crystal ball flashes to reveal a mega-trend offering a wide array of development opportunities for the billionaires of tomorrow: individualisation.



One hundred years ago the people to accumulate the most wealth were like Ford or Henkel, who were selling an identical product to as many customers as possible. Since then businesses have more chances if they are able to sell a uniquely individual product to as many customers as possible.

One example of this could be the coaching industry, even though it is still very much at the artisinal stage.

# A HENRY FORD FOR THE COACHING INDUSTRY?



Most of the – predominantly – lone wolves working in this sector today believe that the secret of success behind their individual services lies in building up and maintaining a personal relationship with their customers over many years. Consequently, they concentrate on a small target group of top earners in the management field.

But the big questions senior managers ask themselves are also shared by most of the other employees: What do I want to do? What am I capable of doing? Where am I now? Where do I want to get to? And how do I get there?

None of today's coaching providers are making a serious effort to open up this market. Just like the car manufacturers of a hundred years ago, today's coaches are falling over themselves to cater to a handful of rich customers.

So this, then, is a sector more in need of a Henry Ford than a Rupert Murdoch, with the one difference that in this case we are not dealing with the cost-efficient mass production of completely standardised products, but with the ability to offer individual products based on a standardised method. In the world of corporate consulting such methods are called overhead-value analysis or portfolio matrix, for example. Wherever such standards are established, they almost inevitably lead to the emergence of corporations such as McKinsey or the Boston Consulting Group.

# SO THE MORAL OF THIS STORY IS WHAT?



Let’s cover up the crystal ball again. It has cast light on a few of the fields which the billionaires of tomorrow might choose to plough through.

If you, dear reader, now wish to pursue the one or the other path so that one day you can count yourself among the richest people in the world, brace yourself: the likelihood is that your venture will result in quite a different outcome.

Yet there is every chance that you will feel happier with virtually any other outcome than if you actually achieve the goal you set yourself.

We don't always find ourselves, to put it carefully, in complete agreement with the methods which the business tycoons of world history have sometimes used to acquire their wealth. Even so, we have refrained as much as possible from expressing a moral judgement about them in the preceding pages.



It's certainly not because we are completely indifferent to all the blood, sweat and tears which were expended on building up these fortunes, but because what's done is done, and cannot be changed.

The history of the world might have taken a different course if Columbus' ships had capsized before Barbados, or if IBM had developed a proprietorial operating system for its personal computers.

But it simply didn't happen.

Those who made it to the top as the richest men of their times were obliged to work using methods that perhaps were frowned upon even in those days, but which were possible.

THE STORY OF ECONOMIC AND SOCIAL PROGRESS AS TOLD THROUGH THE HISTORIES OF THE RICHEST MEN OF ALL TIMES.



And yet we probably have to admit that the sum of all these histories is far from telling the whole story – even if all the conditions necessary for producing one of the richest men in the world are in place, it can still happen that such a person fails to emerge. This is particularly noticeable in the England of the Industrial Revolution: the world's most powerful empire had the world's most advanced technology and an extremely dynamic entrepreneurial class.

But there was no single industrial revolutionary who spearheaded events in the same way as Rockefeller did, for example, with oil.

If there are no great men or women wishing to make history, then history itself finds a way of getting round this gap.

ANYONE MANAGING
TO BECOME THE RICHEST
PEOPLE IN THEIR TIME
BY VIRTUE OF THEIR
OWN ACCOMPLISHMENTS
COULDN'T HELP BUT
CHANGE THE WORLD.



The mega-rich of all times have made history. They have influenced the course of political and economic events more powerfully than most of the revolutionaries who are usually given the credit for this achievement.

The outrage surrounding the sale of indulgences by the Fugger's in the 16th century paved the way for the resounding success of Martin Luther.

The European financial architecture of the Rothschild's helped the national states in Germany to become politically consolidated and economically to develop into a world power.

And without the participation of industrial workers in the productivity gains introduced by Ford in 1914, capitalism would have been hard pushed to defeat the ideological challenge of communism.

WHETHER THE CONSE-
QUENCES WERE INTENDED OR (AS IS MORE LIKELY) UNINTENDED, A CONSISTENT PATTERN BEGINS TO EMERGE.



Both in the short and long term, a development triggered by the short term search for a pecuniary reward profit generates massive economic, political and social side effects that extend far beyond the region or sector of industry where they originated.

Consequently, the mega-rich act as a highly visible hand of social progress – but their gaze, as if blinkered, is restricted to the part of the road that lies immediately ahead of them.

And it is precisely at this point that morality once again comes into play.

IT’S STILL OUR BUSINESS
TO DEFINE WHAT OUR GAZE
IS DIRECTED TOWARDS.



Society can – and will – steer economic initiative along a desirable course through a combination of tangible and intangible incentives and obstacles.

But what counts as being desirable is something we decide on through our daily actions and deeds. And, not least, by participating in elections.

Nobody is forcing us a priori to meet actual or presumed economic interests. Here, moral arguments have just as much right to exist as economic ones.

So it’s your decision. Enjoy taking it!

‘... AND NOW FOR SOMETHING COMPLETELY DIFFERENT.’



**Dear business partners and friends of the Capital Bank Group!**

TWO THOUSAND AND SIX – A year to look back on with pride – not just because of the figures, remarkable as they are, but above all because of the foundations on which these figures were based and the way in which they were achieved. They bear out the determined, successful implementation of the strategy adopted in recent years: thanks to the steady, broad earnings base offered by Private Banking, backed up by a successful Investment Banking, we have become one of Austria’s leading and most successful private banks.

We achieved a great deal over the past year, putting much into practice and devising new ideas to ensure that the years to come are equally successful and exciting.

We can be particularly proud of the market position achieved by Capital Bank in the equity sector. We have boosted our equity team in terms of both numbers and quality and as a result we have become one of the main trading partners on the Vienna Stock Exchange. We cover the entire range for our customers: research, sales, trading and capital market transactions. Working with our employees from the countries of Eastern Europe, we also aim to become a prominent and respected heavyweight in our focus markets outside Austria.

The ongoing development of Austria as a capital market is a matter of particular concern for us. One of the foundations for achieving this is efficient and goal-directed communication between investors and companies. This was the reason behind the first Capital Bank Investors' Conference in Bad Aussee in Austria, where investors from Germany and Austria were given the opportunity of discussing investments with representatives of well-respected, blue-chip companies in a relaxed, informal atmosphere. Thanks to the extremely positive feedback we received from all those who attended, we have decided to make this a regularly scheduled event in the future.

Our 'Forum Capital', a discussion and lobbying platform for investors and companies, was held for the second time in autumn 2006, at the same time as the 2006 elections for the Nationalrat, the Austrian lower house, with all their potential impact on the future development of Austria as a capital market.



Our branch in Kitzbühel in Austria opened at the start of 2006. This now means that Capital Bank has branches in 4 different locations in Austria.
Looking back, the newly opened branch was the right approach to keeping close with the very demanding Kitzbühlers (and just as demanding adoptive Kitzbühlers), who are demonstrating great interest in our private banking services. And we are keeping close to our customers.

The opening of our Prague office in the Czech Republic in autumn was just another step towards this aim.

The Capital Bank Group currently holds assets under management in excess of €6 billion. We would like to take this opportunity to thank our customers for having this faith in us.

In addition to Private Banking, Capital Bank also plays a major role in transactions with licensed financial service providers through the fund platform. As a settlement platform, we offer solutions for over 60,000 customers of independent financial service providers.

Corporate Design is another aspect in which Capital Bank stands out from the pack. The feedback has been overwhelming and our annual reports have received international recognition in previous years.

We also received an international award this past year for our client newsletter. The Capital Bank client newsletter was selected from amongst 20,000 others by the British Design and Art Directors Association (D&AD) in London to receive a 'D&AD In_Book Selection' award. The D&AD Awards are amongst the top international advertising and design competitions.

It is our task, as the Board of Directors, to manage the bank as best as we possibly can and to generate profits in accordance with the wishes of our share-holders. As a company, though, we also have a role to play in society as a whole in terms of social welfare and every year we try to perform this role to the best of our ability via a wide range of projects. In 2006, we brought the old and the young together within a creative, artistic framework, to take part in our project entitled 'GENERATIONEN MALEN' or 'Generations Painting', so that they could share their mutual interests, hopes, joys and misunderstandings and sometimes also disappointments and fears.



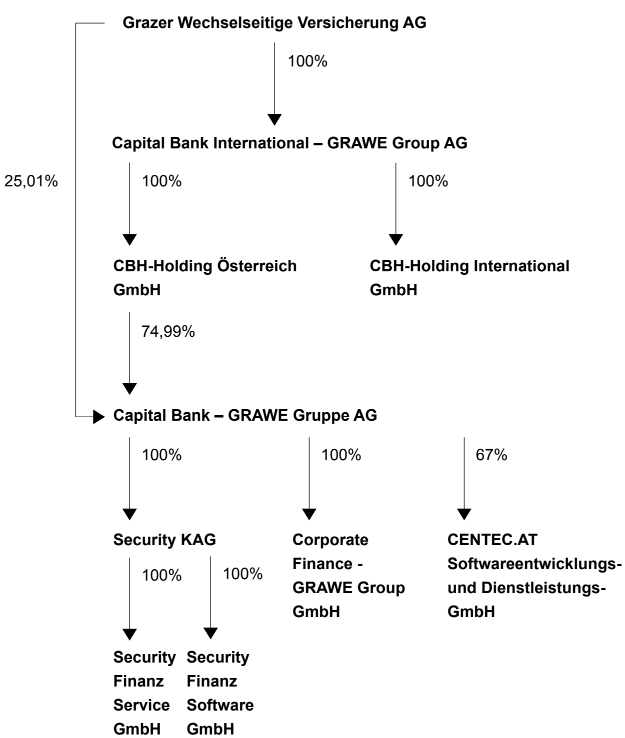
We are also particularly pleased that Grazer Wechselseitige's acquisition of Bank Burgenland in 2006 allows us to welcome this new member in the GRAWE group of financial companies. Capital Bank acted as an advisor to GRAWE during this process and thereby contributed a great deal to the success of the deal. We would like to take this opportunity to once again welcome Bank Burgenland to the GRAWE Group.

We are convinced that we will once again be able to work successfully with and on behalf of our customers in 2007. After all we never lose sight of the fact that the satisfaction of our customers forms the basis for the long-term success of the Capital Bank Group.

Christian Jauk, MBA
Chief Executive Officer

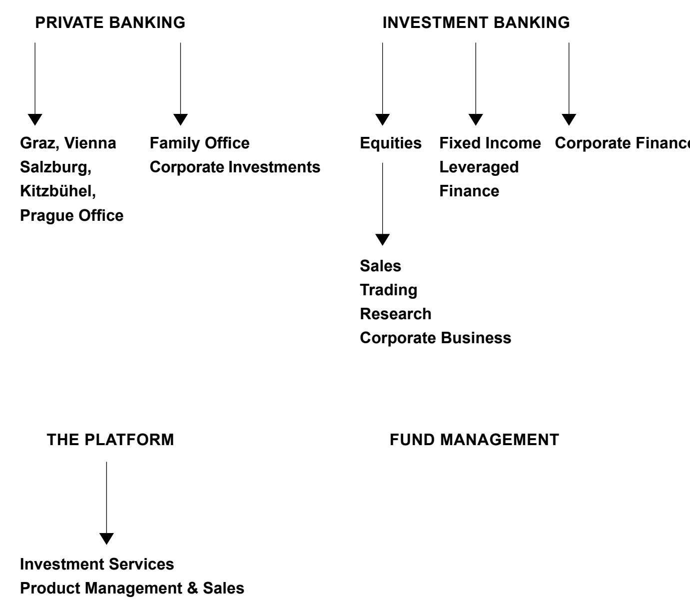
Mag. Constantin Veyder-Malberg
Member of the Board of Directors

# Ownership Structure of the Capital Bank Group






# Areas of business of the Capital Bank Group



# Consolidated Figures: Capital Bank International - GRAWE Group AG



# Performance and Figures

| Consolidated performance and figures for Capital Bank International – GRAWE Group AG | 31/12/2006 in EUR thousands | 31/12/2005 in EUR thousands |
|---|---|---|
| Total assets | 573,614 | 411,338 |
| Receivables from non-bank customers | 131,300 | 73,839 |
| Liabilities to non-bank customers | 249,366 | 119,122 |
| Operating profit | 24,671 | 29,767 |
| Profit from ordinary activities | 20,768 | 19,520 |
| Securities portfolio account volume | 5,746,960 | 4,480,103 |
| Assets under management | 6,246,313 | 4,676,223 |
| Total employees (not including those on maternity/paternity leave) | 163 | 134 |

### 01. TOTAL ASSETS IN EUR THOUSANDS


### 02. ASSETS UNDER MANAGEMENT IN EUR MILLIONS


### 03. OWN FUNDS TO BE TAKEN INTO ACCOUNT IN EUR THOUSANDS




### 04. NET INTEREST REVENUE IN EUR THOUSANDS


### 05. PROFIT FROM ORDINARY ACTIVITIES IN EUR THOUSANDS


### 06. TOTAL EMPLOYEES
### (NOT INCLUDING THOSE ON MATERNITY/PATERNITY LEAVE)

## 07. CAPITAL BANK INTERNATIONAL - GRAWE GROUP AG CONSOLIDATED BALANCE SHEET AS AT 31/12/2006

| ASSETS | | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|---|
| **01. Cash and balances at central banks** | | 8,212,967.33 | 5,082 |
| **02. Public authority debt instruments, authorised for refinancing at the central bank** | | | |
| Public authority debt instruments and similar securities | | 9,757,046.01 | 7,666 |
| **03. Receivables from banks** | | 163,665,459.99 | 107,819 |
| **04. Receivables from non-bank customers** | | 131,300,046.22 | 73,839 |
| **05. Loan stock and other fixed interest securities** | | 23,098,138.17 | 25,716 |
| **06. Shares and other non-fixed interest securities** | | 197,340,244.95 | 165,172 |
| **07. Investments** | | 9,318.42 | 9 |
| of which: in banks | 8,575.38 | | 9 |
| **08. Shareholdings in affiliated companies** | | 1,191,890.17 | 1,133 |
| **09. Intangible fixed assets** | | 184,717.44 | 95 |
| **10. Tangible assets** | | 4,890,397.40 | 4,914 |
| **11. Other assets** | | 33,468,725.82 | 18,955 |
| **12. Accruals** | | 495,093.98 | 938 |
| **TOTAL ASSETS** | | 573,614,045.90 | 411,338 |
| **01. External assets** | | 187,531,221.90 | 129,753 |
| **02. Separate trust assets of capital investment funds under management** | | 1,600,743,900.00 | 1,309,559 |

| LIABILITIES | | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|---|
| **01. Liabilities to banks** | | 18,009,190.57 | 45,445 |
| **02. Liabilities to non-bank customers** | | 249,366,020.25 | 119,122 |
| a) savings deposits | 2,286,027.03 | | 3,804 |
| b) other liabilities | 247,079,993.22 | | 115,318 |
| **03. Securitised liabilities** | | 121,963,170.26 | 76,963 |
| Other securitised liabilities | 121,963,170.26 | | 76,963 |
| **04. Other liabilities** | | 28,014,609.71 | 30,129 |
| **05. Deferrals** | | 159,621.70 | 12 |
| **06. Provisions** | | 37,763,744.96 | 35,102 |
| a) Provisions for severance payments | 1,281,108.19 | | 1,083 |
| b) Provisions for pensions | 690,324.00 | | 760 |
| c) Tax provisions | 2,812,751.56 | | 2,013 |
| d) Other | 32,979,561.21 | | 31,246 |
| **07. Subscribed capital** | | 12,337,528.54 | 12,338 |
| **08. Earned capital** | | 14,128,082.83 | 8,236 |
| **09. Minority interests** | | 91,872,077.08 | 83,991 |
| **TOTAL LIABILITIES** | | 573,614,045.90 | 411,338 |
| **01. Contingent liabilities** | | 225,451,389.70 | 3,127 |
| Liabilities from guarantees furnished and liability from the provision of collateral | | | |
| **02. Credit risks** | | 19,264,657.07 | 6,156 |
| **03. Own funds to be taken into account in accordance with Art. 23 Para. 14 of the Austrian Banking Act** | | 125,012,481.44 | 101,112 |
| **04. Own funds required in accordance with Art. 22 Para. 1 of the Austrian Banking Act** | | 34,701,725.10 | 21,434 |
| of which: own funds required in accordance with Art. 22 Para. 1 (1) and (4) of the Austrian Banking Act | 33,232,725.10 | | |
| **06. External liabilities** | | 43,677,997.27 | 35,444 |

## 08. CAPITAL BANK INTERNATIONAL - GRAWE GROUP AG CONSOLIDATED PROFIT AND LOSS STATEMENT FOR THE 2006 FINANCIAL YEAR

| | | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|---|
| **01. Interest and similar earnings** | | 12,564,814.42 | 7,491 |
| of which: from fixed interest securities | 2,105,932.36 | | 2,295 |
| **02. Interest and similar expenses** | | -4,418,842.84 | -1,769 |
| **I. NET INTEREST REVENUE** | | 8,145,971.58 | 5,722 |
| **03. Revenue from securities and investments** | | 2,830,444.26 | 1,626 |
| a) Income from shares, other equity interests and non-fixed interest securities | 2,528,578.67 | | 1,292 |
| b) Income from investments | 1,865.59 | | 1 |
| c) Income from shareholdings in affiliated companies | 300,000.00 | | 333 |
| **04. Commission earnings** | | 71,465,854.07 | 76,513 |
| **05. Commission expenses** | | -35,623,001.14 | -36,328 |
| **06. Revenue/expenses from financial transactions** | | 3,892,434.20 | 4,602 |
| **07. Other operating revenue** | | 1,000,594,00 | 890 |
| **II. OPERATING INCOME** | | 51,712,296.97 | 53,025 |
| **08. General administrative expenses** | | -25,777,930.60 | -21,399 |
| a) Payroll costs | -18,767,013.40 | | -15,204 |
| aa) Wages and salaries | -13,095,776.86 | | -13,189 |
| ab) Expenses for statutory social charges and for income-based charges and compulsory contributions | -1,699,128.70 | | -1,478 |
| ac) Other social security expenses | -194,407.66 | | -166 |
| ad) Expenses for retirement benefits and support | -226,490.63 | | -200 |
| ae) Allocation to the pensions reserve | 0.00 | | 0 |
| af) Expenses for severance payments and payments to operational company pension funds | -3,551,209.55 | | -171 |
| b) Other administrative expenses (operating expenses) | -7,010,917.20 | | -6,195 |
| **09. Value adjustments on the assets listed under asset items 9 and 10** | | 698,274.73 | -1,669 |
| **10. Other operating expenses** | | -564,770.76 | -190 |
| **III. OPERATING COSTS** | | -27,040,976.09 | -23,258 |
| **IV. OPERATING PROFIT: balance carried forward** | | 24,671,320.88 | 29,767 |



| | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|
| **IV. OPERATING PROFIT balance brought forward** | 24,671,320.88 | 29,767 |
| **11. Value adjustments on receivables and allocation to reserves for contingent liabilities and credit risks** | -12,608,440.15 | -13,289 |
| **12. Revenue from the release of value adjustments on receivables and from reserves for contingent liabilities and credit risks** | 8,116,294.21 | 2,726 |
| **13. Value adjustments on securities evaluated as financial assets and on shareholdings in affiliated companies** | -93,978.39 | -130 |
| **14. Revenue from the sale of securities evaluated as financial assets and on shareholdings in affiliated companies** | 683,266.01 | 446 |
| **V. PROFIT FROM ORDINARY ACTIVITIES** | 20,768,462.56 | 19,520 |
| **15. Tax on income** | -1,934,669.05 | -2,049 |
| **16. Other tax, if not to be entered under item 15** | -64,071.81 | -46 |
| **VI. ANNUAL NET PROFIT / LOSS (before minority interests)** | 18,769,721.70 | 17,425 |
| **17. Minority interests' share of the annual profit** | -12,877,500.47 | -12,202 |
| **VII. CONSOLIDATED ANNUAL PROFIT** | 5,892,221.23 | 5,223 |

## 09. OWN CONSOLIDATED FUNDS AND OWN CONSOLIDATED FUNDS REQUIREMENTS FOR CAPITAL BANK INTERNATIONAL - GRAWE GROUP AG

| | 31/12/2006 in EUR thousands | 31/12/2005 in EUR thousands |
|---|---|---|
| **Core capital (Tier 1)** | 105,530 | 92,719 |
| Paid-up capital | 6,000 | 6,000 |
| Capital reserve | 6,335 | 6,335 |
| Retained income | 9,990 | 5,346 |
| Liability reserve | 1,456 | 1,366 |
| Consolidation in accordance with Art. 24 Para. 2 of the Austrian Banking Act | 81,934 | 73,767 |
| Intangible fixed assets | -185 | -95 |
| **Non-core elements (Tier 2)** | | |
| (Reserve as specified in Art. 57 Para. 1 of the Austrian Banking Act and revaluation reserve) | 21,948 | 12,837 |
| **Deductions** | -2,465 | -4,444 |
| **Own funds to be taken into account** | | |
| (Tier 1 plus Tier 2 minus deductions) | 125,012 | 101,112 |
| **Assessment basis (non-trading portfolio)** | 415,409 | 263,058 |
| Core capital ratio (non-trading portfolio) | 25.40% | 35.25% |
| Aggregated capital ratio (non-trading portfolio) | 30.09% | 38.44% |
| **Own funds requirements (non-trading portfolio)** | 33,233 | 21,045 |
| **Own funds requirements (trading portfolio)** | 1,469 | 389 |
| **Equity surplus** | 90,310 | 79,678 |

| **Fully consolidated companies in the Capital Bank International - GRAWE Group AG Consolidated Financial Statements** | **Stake** |
|---|---|
| Capital Bank International - GRAWE Group AG | Parent company |
| CBH-Holding International GmbH | 100% |
| CBH-Holding Österreich GmbH | 100% |
| Capital Bank - GRAWE Gruppe AG | 74.99% |
| Security KAG | 74.99% |



## Audit Report

The unabridged financial statements of Capital Bank International – GRAWE Group AG as at 31/12/2006 were issued with an unqualified audit certificate on 28th February 2007 by the chosen auditor, KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH, in accordance with Article 274 Paragraph 2 of the Austrian Commercial Code (Handelsgesetzbuch).

The consolidated financial statements are incorporated in the commercial register of the Graz Regional Civil Court under company no. 76198g and published in the Wiener Zeitung Amtsblatt (the official gazette attached to the Wiener Zeitung newspaper).

# Unconsolidated Figures: Capital Bank International – GRAWE Group AG



# Performance and Figures

| Performance and figures of Capital Bank International – GRAWE Group AG | 31/12/2006 in EUR thousands | 31/12/2005 in EUR thousands |
|---|---|---|
| Total assets | 54,569 | 31,011 |
| Receivables from non-bank customers | 7,489 | 7,188 |
| Liabilities to non-bank customers | 8,954 | 8,127 |
| Operating profit | 1,014 | 749 |
| Profit from ordinary activities | 591 | 305 |
| Own funds to be taken into account in accordance with Art. 23 Para. 14 of the Austrian Banking Act | 25,303 | 19,914 |
| Own funds required in accordance with Art. 22 Para. 1 of the Austrian Banking Act | 1,697 | 986 |
| Equity surplus | 23,606 | 18,928 |
| Own funds as % of the evaluation basis, in accordance with Art. 22 Para. 2 of the Austrian Banking Act | 119.30% | 161.55% |
| Securities portfolio account volume | 104,030 | 95,788 |
| Assets under management | 112,984 | 103,915 |

## 01. CAPITAL BANK INTERNATIONAL - GRAWE GROUP AG BALANCE SHEET AS AT 31/12/2006

| ASSETS | | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|---|
| **01. Cash and balances at central banks** | | 438,050.35 | 516 |
| **02. Public authority debt instruments, authorised for refinancing at the central bank** | | | |
| Public authority debt instruments and similar securities | | 1,100,072.86 | 1,030 |
| **03. Receivables from banks** | | 28,491,996.56 | 8,927 |
| a) immediately realisable | 14,091,392.91 | | 8,927 |
| b) other receivables | 14,400,603.65 | | 0 |
| **04. Receivables from non-bank customers** | | 7,489,197.17 | 7,188 |
| **05. Loan stock and other fixed interest securities** | | 1,849,465.17 | 2,967 |
| **06. Shares and other non-fixed interest securities** | | 7,132,820.40 | 3,308 |
| **07. Investments** | | 0.00 | 0 |
| of which: in banks | 0.00 | | 0 |
| **08. Shareholdings in affiliated companies** | | 70,000.00 | 70 |
| of which: in banks | 0.00 | | 0 |
| **09. Intangible fixed assets** | | 7,586.00 | 9 |
| **10. Tangible assets** | | 11,788.16 | 22 |
| **11. Other assets** | | 7,976,728.85 | 6,976 |
| **12. Accruals** | | 1,451.01 | 0 |
| **TOTAL ASSETS** | | 54,569,156.53 | 31,011 |
| **01. External assets** | | 9,837,363.33 | 11,487 |

| LIABILITIES | | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|---|
| **01. Liabilities to banks** | | 16,138,952.16 | 0 |
| a) immediately realisable | 0.00 | | 0 |
| b) with agreed term or period of notice | 16,138,952.16 | | 0 |
| **02. Liabilities to non-bank customers** | | 8,954,173.09 | 8,127 |
| a) savings deposits | 521,027.76 | | 521 |
| aa) immediately realisable | 521,027.76 | | 521 |
| ab) deposits with agreed term or period of notice | 0.00 | | 0 |
| b) other liabilities | 8,433,145.33 | | 7,606 |
| ba) immediately realisable | 8,433,145.33 | | 7,606 |
| bb) deposits with agreed term or period of notice | 0.00 | | 0 |
| **03. Securitised liabilities** | | 0.00 | 0 |
| Other securitised liabilities | 0.00 | | 0 |
| **04. Other liabilities** | | 429,959.78 | 286 |
| **05. Deferrals** | | 0.00 | 0 |
| **06. Provisions** | | 3,751,313.24 | 2,037 |
| a) Provisions for severance payments | 124,205.04 | | 107 |
| b) Provisions for pensions | 0.00 | | 0 |
| c) Tax provisions | 2,600,000.00 | | 1,800 |
| d) Other | 1,027,108.20 | | 130 |
| **07. Subscribed capital** | | 6,000,000.00 | 6,000 |
| Nominal amount | 6,000,000.00 | | 6,000 |
| **08. Capital reserves** | | 6,335,268.14 | 6,335 |
| a) tied up | 1,335,268.14 | | 1,335 |
| b) not tied up | 5,000,000.00 | | 5,000 |
| **09. Retained income** | | 9,990,005.34 | 5,346 |
| a) statutory reserves | 14,534.57 | | 15 |
| b) other reserves | 9,975,470.77 | | 5,332 |
| **10. Liability reserve in accordance with Art. 23 Para. 6 of the Austrian Banking Act** | | 1,455,522.55 | 1,366 |
| **11. Balance sheet profit** | | 1,513,962.23 | 1,514 |
| a) Profit brought forward | 1,513,908.75 | | 1,143 |
| b) Annual profits | 53.48 | | 371 |
| **TOTAL LIABILITIES** | | 54,569,156.53 | 31,011 |
| **01. Contingent liabilities** | | 2,387,353.30 | 471 |
| Liabilities from guarantees & liability from the provision of collateral | | | |
| **02. Credit risks** | | | |
| **03. Own funds to be taken into account in accordance with** | | 4,821,629.25 | 565 |
| **Art. 23 Para. 14 of the Austrian Banking Act** | | 25,303,210.03 | 19,914 |
| **04. Own funds required in accordance with Art. 22 Para.1** | | 1,696,714.82 | 986 |
| of which: own funds required in accordance with Art. 22 Para. 1 (1) and (4) of the Austrian Banking Act | 1,696,714.82 | | 986 |
| **06. External liabilities** | | 4,760,316.98 | 7,046 |

## 02. CAPITAL BANK INTERNATIONAL - GRAWE GROUP AG PROFIT AND LOSS STATEMENT FOR THE 2006 FINANCIAL YEAR

| | | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|---|
| **01. Interest and similar earnings** | | 738,029.79 | 935 |
| of which: from fixed interest securities | 146,771.07 | | 515 |
| **02. Interest and similar expenses** | | -152,627.54 | -180 |
| **I. NET INTEREST REVENUE** | | 585,402.25 | 755 |
| **03. Revenue from securities and investments** | | 27,743.14 | 0 |
| a) Income from shares, other equity interests and non-fixed interest securities | 26,244.00 | | 0 |
| b) Income from investments | 0.00 | | 0 |
| c) Income from shareholdings in affiliated companies | 1,499.14 | | 0 |
| **04. Commission earnings** | | 1,627,412.45 | 1,101 |
| **05. Commission expenses** | | -104,161.57 | -91 |
| **06. Revenue/expenses from financial transactions** | | -4,952.18 | 27 |
| **07. Other operating revenue** | | 14,176.99 | 67 |
| **II. OPERATING INCOME** | | 2,145,621.08 | 1,859 |
| **08. General administrative expenses** | | -1,113,773.37 | -1,008 |
| a) Payroll costs | -748,032.29 | | -577 |
| aa) Wages and salaries | -615,587.29 | | -457 |
| ab) Expenses for statutory social charges and for income-based charges and compulsory contributions | -106,377.95 | | -101 |
| ac) Other social security expenses | -379.04 | | -1 |
| ad) Expenses for retirement benefits and support | -8,586.72 | | -8 |
| ae) Allocation to the pensions reserve | 0.00 | | 0 |
| af) Expenses for severance payments and payments to operational company pension funds | -17,101.29 | | -10 |
| b) Other administrative expenses (operating expenses) | -365,741.08 | | -430 |
| **09. Value adjustments on the assets listed under asset items 9 and 10** | | -17,486.39 | -42 |
| **10. Other operating expenses** | | 0.00 | -60 |
| **III. OPERATING COSTS** | | -1,131,259.76 | -1,110 |
| **IV. OPERATING PROFIT (balance carried forward)** | | 1,014,361.32 | 749 |



| | | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|---|
| **IV. OPERATING PROFIT (balance brought forward)** | | 1,014,361.32 | 749 |
| **11. Value adjustments on receivables and allocation to reserves for contingent liabilities and credit risks** | | -688,490.37 | -887 |
| **12. Revenue from the release of value adjustments on receivables and from reserves for contingent liabilities and credit risks** | | 282,593.89 | 619 |
| **13. Value adjustments on securities evaluated as financial assets and on shareholdings in affiliated companies** | | -17,787.12 | -177 |
| **14. Revenue from the sale of securities evaluated as financial assets and on shareholdings in affiliated companies** | | 0.00 | 0 |
| **V. PROFIT FROM ORDINARY ACTIVITIES** | | 590,677.72 | 305 |
| **15. Tax on income** | | 4,143,881.87 | 4,915 |
| **16. Other tax, if not to be entered under item 15** | | -706.11 | -1 |
| **VI. ANNUAL NET PROFIT** | | 4,733,853.48 | 5,219 |
| **17. Allocation to or liquidation of reserves** | | -4,733,800.00 | -4,848 |
| of which: allocation to the liability reserve | -90,000.00 | | -849 |
| **VII. ANNUAL PROFIT** | | 53.48 | 371 |
| **18. Profit brought forward** | | 1,513,908.75 | 1,143 |
| **VIII. BALANCE SHEET PROFIT** | | 1,513,962.23 | 1,514 |

**Capital Bank International – GRAWE Group AG corporate integrations**

As at 31st December 2006, Grazer Wechselseitige Versicherung Aktiengesellschaft held a 100% shareholding in the equity capital of Capital Bank International – GRAWE Group AG.

As the parent bank since September 2005 under the terms of Article 30 of the Austrian Banking Act (Bankwesengesetz), the bank issues separate Consolidated Financial Statements. These can be obtained from the company's registered business headquarters at Burgring 16, 8010 Graz.

The company is integrated with Grazer Wechselseitige Versicherung Aktiengesellschaft, Graz, and its affiliated companies and incorporated in the Consolidated Financial Statements of GRAWE Vermögensverwaltung, Graz. These can be obtained from the company's registered business headquarters at Herrengasse 18-20, A-8010 Graz.



**Audit Report**

The unabridged financial statements of Capital Bank International – GRAWE Group AG as at 31/12/2006 were issued with an unqualified audit certificate on 27th February 2007 by the chosen auditor, KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH, in accordance with Article 274 Paragraph 2 of the Austrian Commercial Code (Handelsgesetzbuch).

The financial statements are incorporated in the commercial register of the Graz Regional Civil Court under company no. 76198g and published in the Wiener Zeitung Amtsblatt (the official gazette attached to the Wiener Zeitung newspaper).

# Capital Bank – GRAWE Gruppe AG



# Performance and Figures

| Performance and figures for Capital Bank – GRAWE Gruppe AG | 31/12/2006 in EUR thousands | 31/12/2005 in EUR thousands |
|---|---|---|
| Total assets | 563,684 | 389,054 |
| Receivables from non-bank customers | 133,356 | 66,778 |
| Liabilities to non-bank customers | 240,445 | 111,029 |
| Operating profit | 21,901 | 25,858 |
| Profit from ordinary activities | 16,840 | 15,961 |
| Own funds as % of the evaluation basis, in accordance with Art. 22 Para. 2 of the Austrian Banking Act | 22.1% | 30.9% |
| Securities portfolio account volume (not including own investment funds) | 4,170,209 | 3,074,756 |
| Employees (not including subsidiaries) | 141 | 110 |

## Statutory Bodies of Capital Bank – GRAWE Gruppe AG

**Board of Directors**

Christian Jauk, MBA
Chief Executive Officer

Mag. Constantin Veyder-Malberg
Member of the Board of Directors

**Supervisory Board**

Mag. Dr. Othmar Ederer
Chief Executive Officer of Grazer Wechselseitige Versicherung
Chairman of the Supervisory Board

Dr. Siegfried Grigg
Deputy Chief Executive Officer of Grazer Wechselseitige Versicherung
Deputy Chairman of the Supervisory Board

DDIng. Mag. Dr. Günther Puchtler
Member of the Board of Directors of Grazer Wechselseitige Versicherung
Member of the Supervisory Board

Dr. Dolf Stockhausen
Industrialist
Member of the Supervisory Board



**Members Nominated by the Workers' Council**

Rudolf Laudon
Christina Wolf

**Regulative Oversight**

Oberrätin Mag. Andrea Mörtl
State Commissioner

Mag. Peter Maerschalk
Deputy State Commissioner

With profit from ordinary activities of €16.8 million, Capital Bank – GRAWE Gruppe AG has once again achieved record profits so far, continuing the successful trend of recent years. The opening of the Kitzbühel branch and the Prague office have established a basis for continued expansion in Private Banking. In Investment Banking the focus in 2006 was on building up and extending equity operations.

## The General Economic Environment

The international economic environment continued to improve in 2006. Apart from a short breather in the spring of 2006, the international stock markets headed ever upward. The Austrian benchmark index (the ATX) continued to rise as in previous years, with the Austrian market once again benefiting from the excellent standing of Austrian companies in the Eastern European markets. The bond markets have fallen off sharply since their highs in 2005 and it is noticeable that for a matter of months the interest curve has been one of the



flattest ever recorded. The commodity markets, driven by the high price of crude oil in the first half of the year, have risen steeply, with the oil prices reaching nearly € 80 a barrel. Because other price rises have been kept in check, however, inflation did not pose a major problem in 2006 either. A few hikes in interest rates, both in Europe and the US, should therefore be seen more as preventative measures, which have not yet put the brakes on economic development.

## Balance Sheet

Total assets increased significantly by 44.9% to €563.7 million, partly as a result of the boom in own issues, continuing from the previous year, but also because of a clear rise in receivables from and liabilities due to non-bank customers. Because Capital Bank – GRAWE Gruppe AG focuses on commission-related operations, the performance of the total assets and comparison with conventional retail banks matters less to us. On the assets side, receivables from banks rose 60.1% to €167.7 million and receivables from non-bank customers also rose 99.7% to €133.4 million over the reference period. On the liabilities side, liabilities to non-bank customers went up (+116.6% to €240.4 million) whilst liabilities to banks fell 7.6% to €48.9 million. The securitised liabilities reached a new high as they amounted to almost €122.0 million.

The bank's total figure for own funds to be taken into account (as defined by Article 23 of the Austrian Banking Act) reached approximately €94.6 million at the end of the year, a further 18.3% increase. The own funds declared do not contain any supplementary capital participation certificate capital or other subordinated capital components. The consolidated equity ratio in accordance with the Austrian Banking Act sank to 22.1% by the end of the year as a result of the increased evaluation basis and despite the clear rise in own funds to be taken into account. This equity ratio ranks very favourably against other banks, though. The equity surplus rose to approximately €59.5 million.

## Volume of Securities Accounts

As at 31/12/2006, the figure for volume of securities accounts was €4.2 billion, corresponding to a rise of 35.6%. This rise was the result of successful acquisition of new business in private banking, improving global securities markets and above all the volume increases brought about by the fund platform, used as a settlement platform for independent financial service providers. In conjunction with our 100% subsidiary, Security KAG, the overall volume of securities accounts rose by over 31.6%, from €4.4 billion to €5.8 billion.



## Profit & Loss Statement

The extremely successful results in Private Banking and the customary strengths of Investment Banking allowed us to record further growth, with a figure of €16.8 million for profit from ordinary activities. The operating profit fell slightly, by 1.4%, to €45.5 million. The net commission earnings reached €29.2 million – a fall of €6.2 million or 17.5%. This was caused by structural alterations in branches of business and the associated downturn in earnings, only partially compensated by the restart in the equity sector in the 4th quarter. The net interest revenue rose by over 50% to €7.4 million and therefore played a major hand in the outstanding operating result. The Profit & Loss Statement continues to demonstrate the dominance of commission earnings, however, reflecting the corporate policy and strategy of Capital Bank – GRAWE Gruppe AG.

The operating expenses rose by 16.5% to €23.6 million. The rise in payroll costs reflects the performance-related incentive scheme on the one hand and the considerable increase in the workforce on the other. Thanks to the outstanding operating result and the resulting bonuses for employees, payroll costs rose from €13.2 million in 2005 to €16.3 million in the year under review. Operating expenditure reached €6.1 million in 2006, a rise of 12%. This was down to increased IT expenses in particular, which were required to keep pace properly with regulatory changes, and increased outlay to ensure smooth performance of transactions on the fund platform.

As in recent years, the very good operating results were used once again in 2006 to ensure sufficient provisions against contingencies. In summary, P&L entries 11-14 totalled €5.1 million, marked to a significant extent, however, by application of the option provided for under Article 57 Paragraph 1 of the Austrian Banking Act with respect to the creation of undisclosed reserves. The selected approach reflects the prudent accounting policy at Capital Bank – GRAWE Gruppe AG.

The profit on ordinary activities rose from €16.0 million to €16.8 million, an increase of 3.3%.

The return on equity, excluding profit, was 23.23%, significantly higher than the market average despite the high balance sheet overcapitalisation.



## Proposed Dividend

A net income of €11.6 million was achieved in the 2006 financial year. Following allocation to the reserves, the annual profit was €6.5 million and the balance sheet profit was €9.4 million. In accordance with the decision reached at the Annual General Meeting, Capital Bank is to pay out a total dividend of €4.9 million to CBH-Holding Österreich GmbH and €1.6 million to Grazer Wechselseitige Versicherung. The remainder, €2.9 million, will be carried forward.

## Outlook

In investment banking, the target is to further consolidate the position in Austria with the newly formed equity team. We aim too to become one of the leading suppliers in the equity sector in other focus countries, above all in the countries of Eastern Europe. We also plan to increase our efforts in trading in interest rate instruments to re-establish Capital Bank – GRAWE Gruppe AG in the leading role it has held for many years.

In Private Banking, the plan is to push briskly ahead with expansion. The newly opened Prague office and the Kitzbühel branch have so far lived up to every expectation. We are counting on a successful expansion policy and therefore anticipate further volume increases.

All the major Austrian financial service providers are now served via the fund platform. The aim for the years to come will be to successfully continue the expansion outside Austria which is already underway and to increase the number of customers' security deposits held to more than 100,000. This requires flawless technical performance and adequate personnel levels – in terms of both quantity and quality.

Centec.at Softwareentwicklungs und Dienstleistungs GmbH, a company which specialises in the development of tailor-made IT solutions for the platform transactions and in which Capital Bank – GRAWE Gruppe AG holds a majority interest, was founded in the first half of 2006.

The GRAWE Group is also set to be admitted to the Chinese stock market as a Qualified Foreign Institutional Investor (QFII) in 2007. This should offer our customers access to the A-shares on the Shanghai Stock Exchange via products on the CNX Index.

The implementation of a whole range of new regulations, such as Basel II, MiFiD and the 3rd EU Money Laundering Directive must



soon be completed. Because of this, Capital Bank – GRAWE Gruppe AG is faced with the same major challenge as all European banks over the year under review: to provide the additional resources required for implementation.

Results over recent years and the positive feedback from our customers both give us cause for substantial optimism for the future. Together with our shareholders and our customers, we are convinced that we are about to witness yet another successful year.

## Risk Report

The increasingly extensive legal framework, Basel II and the instructions for the 'Internal Capacity Adequacy Assessment Process – ICAAP' constitute a major challenge for all banks. Thanks to appropriate investments in infrastructure and information technology in particular, the right measures will be taken to comply with all the standards demanded here.

Capital Bank – GRAWE Gruppe AG specialises in Investment Banking and Private Banking but also offers other related transactions. The aim is to maximise the revenue at a set level of risk. This aim is underlined by the principle that every banking transaction should generate income appropriate to the level of risk. Measurements of the actual risk are set against the actual revenue in a risk profile. Limits are set for the individual areas of business, taking into account the risk capacity of the company in question.

The Risk Management Department and Risk Control Department have been set up at Capital Bank – GRAWE Gruppe AG to limit, control and monitor the risks associated with transactions. Furthermore, every employee is encouraged to recognise risk and revenue potential and take appropriate measures.

The methods of risk evaluation and assessment are devised and applied in accordance with the principle of adequacy. In principle, this includes not only the risks of commercial transactions, but also risks ensuing from general banking analysis. The flexibility in the selection of methods is intended to allow useful innovations.

## Risk Management Department

A central Risk Management Department has been set up at Capital Bank – GRAWE Gruppe AG, which is responsible for identification, evaluation and monitoring of risks. In accordance with the risk policy guidelines laid down by the Board of Directors, both risk control and regular risk monitoring by qualified personnel are performed in concert with the individual company sectors and the independent risk function.

The Risk Management Committee (RIMCO) and the Investment Committee (IC) were both set up for supervision and control of risks. Each committee is made up of the Directors, a Risk Management Department representative, a Credit Risk Management Department representative, an Internal Audit Department representative and other decision-makers. When sitting on the RIMCO, committee members are considered as being of equal rank to the Directors and are therefore not under instruction. The Head of the Internal Audit Department has no voting rights but attends in a consulting capacity. The RIMCO is therefore an extra body to consider reports on banking risks and for decision-making on risk exposure. It should be noted that the RIMCO is responsible for the banking group comprising Capital Bank International – GRAWE Group AG, Security KAG and Capital Bank - GRAWE Gruppe AG. RIMCO's aim is to perform Capital Bank's risk limitation through risk classification, quantification and control.

The individuals involved have to provide presentations or reports on risk-relevant topics during the meetings. Following the presentations, the RIMCO has to evaluate the current risk situation and come to the relevant decisions regarding the measures to be taken.

The regulations regarding the RIMCO and the IC are laid down in separate official instructions.

The comprehensive regulations regarding risk at Capital Bank – GRAWE Gruppe AG are laid down in multi-level documentation. The first level, in accordance with the ICAAP, comprises the bank's strategic risk-management approach. The main components of this are the risk-policy principles, statements on the bank's readiness to accept risk, a presentation of the basic alignment of the individual types of risk and comments regarding the planned development of the areas of business. The second level comprises the Risk Manual and the Lending Manual, describing the bank's risk-management procedure and providing detailed discussion of the methods and tools used in the Risk Control Department and Risk Management Department. The third level is formed of highly detailed official instructions and procedures which are subject to frequent modification. In accordance with the ICAAP requirements, the ICAAP framework is being implemented and the Risk



Manual is being revised during the first quarter of 2007 at Capital Bank – GRAWE Gruppe AG. Over the course of ICAAP implementation, an external consultant will assist the Risk Management Department at Capital Bank – GRAWE Gruppe AG. Ongoing revisions and adaptations are also being made to the Official Instructions, so as to comply with statutory requirements and the ICAAP requirements. For instance the Official Instruction on Money Laundering and Compliance has been revised to comply with the new regulations. The Limit Database and the Product Approval Procedure have assumed particular importance at Capital Bank – GRAWE Gruppe AG at this third level. The Board of Directors sets the limits for the various sectors and the various types of risk in the Limit Database. The Product Approval Procedure is equally as important as the limit system. Before transactions can be performed in new products or markets, the products or markets in question have to undergo a Product Approval Procedure. This Product Approval Procedure therefore constitutes the regulatory procedural framework which establishes how to proceed when issuing or investing in new products or starting up or entering into new markets. Under the terms of the Product Approval Procedure, the applicant submitting the new product must produce all the relevant information, which is then inspected by the Risk Management Department, the Internal Audit Department and the Legal Department. The Accounting Department evaluates compliance with the regulations on capital disclosure, major investments, etc.

Further bank departments can be called in where required in individual cases. Only once all the parties involved have made a statement is a report issued to the Board of Directors which then decides on the acceptance of the product.

**Risk Management Department Outlook**

The current development in Investment Banking is set to be a significant feature of 2007. The Risk Management Department anticipates sustained, progressive growth in Investment Banking. To cope with this, risk management software is to be introduced and changes will be implemented to the existing structure as soon as they are required.

The restructuring tasks are mainly envisaged for a risk management program, which is to aggregate the overall bank risk in such a way as to ensure that the management has access to reliable and up-to-date risk ratio figures at all times.
In most of the latest publications on risk management, the great challenge posed by derivative and



structured financial instruments is discussed already in the introduction.

We pride ourselves on being an innovative specialist bank and the Risk Management Department is therefore committed to helping implement this development. Derivatives or a combination of several derivatives with more or less non-linear risk characteristics are generally the central element of all innovative financial instruments. The interpretation of the risk or of the non-linearity can only be performed with the help of evaluation models. The appropriate aggregation of all the risks mathematically attributable can be understood as a qualitative feature of the risk management.

The Capital Bank – GRAWE Gruppe AG Risk Management Department is not only focused on the Basel II requirements, but will also apply the procedures rarely dealt with in specialist literature, to determine the objective risk as well as possible. Risk management should not be an aim in itself, but should also offer the bank the support intended.

Under the monitoring and control procedures, distinctions are drawn between the following types of risk in risk management:

- market risk
- risk of counterparty default
- liquidity risk
- operational risk
- other risks.

**Market Risk, Risk of Counterparty Default (for Securities) and Liquidity Risk.**

For market risk, risk of counterparty default and liquidity risk, corresponding individual limits are set by the Board of Directors within a comprehensive limit-system. These limits are adjusted on a regular basis.

As specified in the Austrian Banking Act, Capital Bank – GRAWE Gruppe AG keeps a 'large trading portfolio' and calculates own funds requirements in accordance with the principles of Article 22b Paragraph 1.

This involves application of the standard approach (duration method). A major risk for Capital Bank – GRAWE Gruppe AG is posed by the set guarantees connected with the securities transactions.

Capital Bank – GRAWE Gruppe AG has issued capital guarantees for a large number of products designed and marketed by Capital Bank itself and for products marketed by insurance companies. Under the terms of these guarantees, where the product loses value, the bank stands liable for the difference between the current market value and the amount invested by the customer. This amount therefore represents exposure for the bank. The Risk Management Department therefore monitors the management and performance of the capital guarantees and implements any risk-limiting steps necessary. One of the measures required under the risk management system involves monthly inspection of the sum guaranteed against the market value, to safeguard the honouring of the capital guarantees under all circumstances. The validity of the data is also monitored and the markets are kept under constant observation (through setting internal limits) to be able to put measures in place at any time in the event of danger.

With reference to the capital guarantees, particular importance is attached to the ‚Prämienbegünstigte Zukunftsvorsorge' or PZV, a new tax-exempt and state-supported pension product offered by financial institutions in Austria, because Capital Bank – GRAWE Gruppe AG furnished the capital guarantee in accordance with the statutory regulations (Article 108 Paragraph 1 (3) of the Austrian Income Tax Act). Under the terms of this capital guarantee, the bank guarantees that the amounts paid-up plus the State subsidy will be paid out to the customer as a minimum. The bank therefore guarantees the remaining difference if the total of the amounts paid-up plus the State subsidy is less than the amount paid out by the PZV. The PZV risk is therefore closely monitored at the Risk Management Department. Before furnishing the capital guarantee, therefore, an approval process was held, where the product operation was explained in more detail and problems arising were discussed and resolved both in-house (Risk Management Department, Accounting Department, Legal Department) and with third parties (KPMG, the Austrian Financial Market Authority). Every month, under constant monitoring by the Risk Management Department, the current guarantee sum is compared against the market values of the underlying fund and a review of the investment strategy in the underlying fund is performed by Security KAG or the underlying assumptions are evaluated. The performance of the underlying fund is also constantly reviewed and its quality analysed. Regular reports on the PZV are also provided at the RIMCO meetings.

As at the balance sheet date, the outstanding guarantees totalled approximately €216 million. These guarantees are matched with corresponding balance sheet items with intrinsic value.



A special point of focus for the Risk Management Department in 2006 was the introduction of the new 'equity' sector. A range of organisational groundwork had to be performed in this sector. For instance an appropriate Commitment Management System had to be introduced so that constant risk monitoring could be performed and guaranteed. With the help of a Commitment Management System, the Risk Management System can evaluate the exposure and risk for the individual dealers at any time.

The system generates risk reports which can be consulted by the Board of Directors whenever required. A daily report is also sent to the Board of Directors, providing a daily synopsis of the profit/loss figures and the capacity utilisation.

A Limit Manual has been devised, which is both transparent and easy to understand yet satisfies all the requirements. This Limit Manual covers all the professional requirements of non-linear risks. In addition to the ongoing review of the risk situation and limit monitoring, the Risk Management Department also lists the price gains/losses from accounting sources. This list is issued and presented to the Board of Directors on a regular basis.

The results obtained twice a month from the Accountancy Department are compared against the Commitment Management System.

## Off-Exchange Derivatives (generally OTCs)

Depending on the underlying financial instrument, OTC derivatives are allocated to the following categories: interest rate agreements, exchange rate agreements and securities-related agreements. Most of the derivative volume is transacted in interbank dealings, but the customer trading component is assuming increased importance.

For risk management purposes, the derivative agreements are evaluated by means of recognised models at daily revised prices or at the latest market prices.

A breakdown of Capital Bank – GRAWE Gruppe AG's derivative financial instruments can be found in the appendix to the balance sheet.

## Operational Risk

Groundwork was performed for operational risk in 2006, with regard to Basel II in particular, so as to pinpoint and quantify possible risks more exactly. As with Basel,



operational risk is to be taken to include the risk of unexpected losses caused by human failure, defective management procedures, natural disasters and other catastrophes, technological failure and changes in the external situation.
As a result IT system outages, material damage, defective processing or cases of fraud should be subject to more precise and above all consolidated risk evaluation and control in the future.

At present the basis indicator approach is used at Capital Bank – GRAWE Gruppe AG, which involves determining the equity requirement for operational risks with reference to the gross yield, weighted by 15%. Work is underway in-house to enable application of an advanced approach for operational risks in the future.

For the same purpose, databases were set up at Capital Bank – GRAWE Gruppe AG at the start of 2006 to record the profits or losses from operational risks. These databases not only enable recording of the sources of errors and the profit or loss amounts, but they are also used to perform various evaluations so as to identify possible sources of errors and determine measures to be taken. These evaluations are presented to the Board of Directors and to the relevant Head of Department and discussed in RIMCO meetings on a regular basis. The databases used for this cover all the areas of business. This implementation procedure is considered complete.

## Risk Management Department Control Function

The Risk Management Department analyses risk profiles and puts measures forward to the Board of Directors. In the case of operational risk, these are generally organisational measures, which have to be adapted to the constantly changing requirements of the market. This often far exceeds the Basel II requirements, because such generally formulated regulations cannot keep pace with developments on the market. With the market price risk, the analysis of the risk/return profile assumes the same importance as the operational components. With performance-related bonus schemes in particular the Risk Management Department puts forward 'stick and carrot' proposals to steer the brokers responsible towards the risk wanted.



## Credit Risk

Risk management with regard to lending at Capital Bank - GRAWE Gruppe AG is performed according to the principles laid down in the 'Lending Guidelines' and the principles approved by the Board of Directors. These guidelines comply with the minimum lending requirements and guidelines issued by the Austrian Financial Market Authority.

One of the lending principles at Capital Bank - GRAWE Gruppe AG is a clear credit policy. The keystone of this policy is that loans should be granted first and foremost in exchange for sufficient collateral. Corresponding securities are the main form of collateral used. The loan-to-value-ratios for securities are differentiated according to various criteria. The evaluation of the economic standing of the borrower is only of importance if sufficient collateral is not available. Capital Bank - GRAWE Gruppe AG applies a 10-grade system for this purpose.

The collateral is also inspected regularly by the Credit Management Department, which is separate from the Sales Department. When structuring the lending process, emphasis was placed on splitting the front office departments and the Credit Risk Management Department.

## Internal Audit Department

The Internal Audit Department, an independent, in-house division, monitors the operating and business procedures, the risk management system and the internal monitoring system. The Internal Audit Department is not bound by any directives when issuing reports and performs objective evaluation of the audit findings. The Internal Audit Department reported back to the Chairman of the Supervisory Board each quarter in 2006.

Christian Jauk, MBA
Chief Executive Officer

Mag. Constantin Veyder-Malberg
Member of the Board of Directors

### 01. PROFIT FROM ORDINARY ACTIVITIES IN EUR THOUSANDS


### 02. TOTAL ASSETS IN EUR MILLIONS

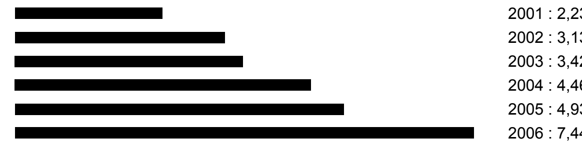

### 03. OPERATING PROFIT IN EUR THOUSANDS

## 04. ASSETS UNDER MANAGEMENT (INCL. SECURITY KAG) IN EUR MILLIONS

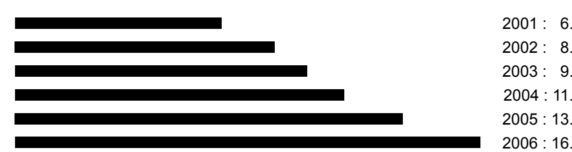

## 05. OPERATING INCOME IN EUR MILLIONS




## 06. NET INTEREST REVENUE IN EUR THOUSANDS




## 07. PAYROLL COSTS IN EUR MILLIONS



## Report by the Supervisory Board

The Supervisory Board carefully monitored the developments over the course of the 2006 financial year and constantly supervised the Board of Directors, in accordance with applicable laws and the Articles of Association. The Supervisory Board also assisted the management in an advisory capacity. We were kept informed by the Board of Directors with regard to the course of business, the situation of the company and any important issues arising, not only at Supervisory Board meetings, but also in the form of written and oral reports.
In 2006, four Supervisory Board meetings and one Annual General Meeting were held.

**2006 Financial Statements**

The 2006 Financial Statements and Management Report were audited by KPMG Wirtschaftsprüfungs- u. Steuerberatungs GmbH, chartered accountants and tax consultants.
This audit did not give rise to any objections, and consequently an unqualified audit certificate was issued.
Following the conclusive findings of our own audit, we agree with the



findings of the external audit, and see no grounds for objection. We approve the Financial Statements issued by the Board of Directors, which have been adopted in accordance with Article 125, Paragraph 2 of the Austrian Stock Corporation Act.

**Appropriation of Profit**

The 2006 financial year turned in a total annual profit of €6,500,000.00 and a balance sheet profit of €9,373,623.01. The appropriation of the profit was decided as follows:
Dividend payout €6,500,000.00
Profit carried forward €2,873,623.01

**Thank You**

On behalf of all the members of the Supervisory Board, I would like to thank the Board of Directors, the managerial staff and employee representatives, as well as all the employees for their achievements over the 2006 financial year.

Graz, February 2007

Mag. Dr. Othmar Ederer

Chairman of the Supervisory Board

## 08. CAPITAL BANK - GRAWE GRUPPE AG BALANCE SHEET AS AT 31/12/2006

| ASSETS | | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|---|
| **01. Cash and balances at central banks** | | 7,774,916.98 | 4,566 |
| **02. Public authority debt instruments, authorised for refinancing at central bank** | | | |
| Public authority debt instruments and similar receivables | | 7,632,329.31 | 6,636 |
| **03. Receivables from banks** | | 167,684,540.39 | 104,723 |
| a) immediately realisable | 148,771,981.95 | | 81,258 |
| b) other | 18,912,558.44 | | 23,465 |
| **04. Receivables from non-bank customers** | | 133,355,878.90 | 66,778 |
| **05. Loan stock and other fixed interest securities** | | 21,248,673.00 | 22,749 |
| **06. Shares and other non-fixed interest securities** | | 180,143,831.69 | 152,568 |
| **07. Investments** | | 9,318.42 | 9 |
| of which: in banks | 8,575.38 | | 9 |
| **08. Shareholdings in affiliated companies** | | 12,007,815.30 | 11,984 |
| of which: in banks | 10,900,925.13 | | 10,901 |
| **09. Intangible fixed assets** | | 155,077.83 | 53 |
| **10. Tangible assets** | | 1,315,757.74 | 1,285 |
| **11. Other assets** | | 31,921,306.93 | 16,849 |
| **12. Accruals** | | 434,886.35 | 852 |
| **TOTAL ASSETS** | | 563,684,332.84 | 389,054 |
| **01. External assets** | | 166,723,526.48 | 117,577 |



| LIABILITIES | | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|---|
| **01. Liabilities to banks** | | 48,883,965.63 | 52,874 |
| a) immediately realisable | 23,895,405.90 | | 51,833 |
| b) with an agreed term or period of notice | 24,988,559.73 | | 1,042 |
| **02. Liabilities to non-bank customers** | | 240,445,457.84 | 111,029 |
| a) savings deposits | 1,764,999.27 | | 3,283 |
| aa) immediately realisable | 1,125,008.43 | | 2,181 |
| ab) deposits with agreed term or period of notice | 639,990.84 | | 1,102 |
| b) other liabilities | 238,680,458.57 | | 107,746 |
| ba) immediately realisable | 236,287,057.27 | | 100,175 |
| bb) with agreed term or period of notice | 2,393,401.30 | | 7,571 |
| **03. Securitised liabilities** | | 121,963,170.26 | 76,963 |
| Other securitised liabilities | 121,963,170.26 | | 76,963 |
| **04. Other liabilities** | | 31,393,600.13 | 35,065 |
| **05. Deferrals** | | 159,621.70 | 12 |
| **06. Provisions** | | 32,630,429.83 | 31,474 |
| a) Provisions for severance payments | 1,062,295.19 | | 890 |
| b) Provisions for pensions | 690,324.00 | | 760 |
| c) Tax provisions | 212,751.56 | | 213 |
| d) Other | 30,665,059.08 | | 29,611 |
| **07. Subscribed capital** | | 10,000,000.00 | 10,000 |
| Nominal amount | 10,000,000.00 | | 10,000 |
| **08. Capital reserves** | | 39,915,661.65 | 39,916 |
| a) tied up | 35,082,987.22 | | 35,083 |
| b) not tied up | 4,832,674.43 | | 4,833 |
| **09. Retained income** | | 20,960,422.74 | 17,539 |
| a) statutory reserves | 1,504,504.45 | | 1,505 |
| b) other reserves | 19,455,918.29 | | 16,034 |
| **10. Liability reserve in accordance with Art. 23 Para. 6 of the Austrian Banking Act** | | 7,958,380.05 | 6,308 |
| **11. Balance sheet profit** | | 9,373,623.01 | 7,874 |
| a) Profit brought forward | 2,873,623.01 | | 2,872 |
| b) Annual profits | 6,500,000.00 | | 5,001 |
| **TOTAL LIABILITIES** | | 563,684,332.84 | 389,054 |
| **01. Contingent liabilities** | | 223,064,036.40 | 2,656 |
| Liabilities from guarantees & liability from the provision of collateral | | | |
| **02. Credit risks** | | 14,443,027.82 | 5,590 |
| **03. Own funds to be taken into account in accordance with Art. 23 Para. 14 of the Austrian Banking Act** | | 94,641,977.80 | 79,974 |
| **04. Own funds required in accordance with Art. 22 Para. 1** | | 35,183,644.98 | 20,977 |
| of which: own funds required in accordance with Art. 22 Para. 1 (1) and (4) of the Austrian Banking Act | 33,714,644.98 | | 20,588 |
| **05. External liabilities** | | 38,526,353.66 | 28,240 |

## 09. CAPITAL BANK - GRAWE GRUPPE AG PROFIT AND LOSS STATEMENT FOR THE 2006 FINANCIAL YEAR

| | | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|---|
| **01. Interest and similar earnings** | | 11,957,243.43 | 6,724 |
| of which: from fixed interest securities | 1,835,848.40 | | 1,781 |
| **02. Interest and similar expenses** | | -4,517,033.55 | -1,792 |
| **I. NET INTEREST REVENUE** | | 7,440,209.88 | 4,931 |
| **03. Revenue from securities and investments** | | 4,253,372.25 | 951 |
| a) Income from shares, other equity interests and non-fixed interest securities | 2,151,506.66 | | 938 |
| b) Income from investments | 1,865.59 | | 1 |
| c) Income from shareholdings in affiliated companies | 2,100,000.00 | | 13 |
| **04. Commission earnings** | | 59,117,498.92 | 67,320 |
| **05. Commission expenses** | | -29,948,868.47 | -31,956 |
| **06. Revenue/expenses from financial transactions** | | 3,897,386.38 | 4,575 |
| **07. Other operating revenue** | | 702,680.55 | 265 |
| **II. OPERATING INCOME** | | 45,462,279.51 | 46,086 |
| **08. General administrative expenses** | | -22,462,518.45 | -18,707 |
| a) Payroll costs | -16,313,063.67 | | -13,222 |
| aa) Wages and salaries | -11,053,963.75 | | -11,560 |
| ab) Expenses for statutory social charges and for payment-related charges and compulsory contributions | -1,358,280.07 | | -1,172 |
| ac) Other social security expenses | -166,066.38 | | -149 |
| ad) Expenses for retirement benefits and support | -209,649.14 | | -184 |
| ae) Funding/dissolution of the pensions reserve | 0.00 | | 0 |
| af) Expenses for severance payments and payments to operational company pension funds | -3,525,104.33 | | -157 |
| b) Other administrative expenses (operating expenses) | -6,149,454.78 | | -5,484 |
| **09. Value adjustments on the assets listed under asset items 9 and 10** | | -534,047.81 | -1,492 |
| **10. Other operating expenses** | | -564,493.76 | -29 |
| **III. OPERATING COSTS** | | -23,561,060.02 | -20,228 |
| **IV. OPERATING PROFIT (balance carried forward)** | | 21,901,219.49 | 25,858 |



| | | 31/12/2006 EUR | 31/12/2005 in EUR thousands |
|---|---|---|---|
| **IV. OPERATING PROFIT (balance brought forward)** | | 21,901,219.49 | 25,858 |
| **11. Value adjustments on receivables and allocation to reserves for contingent liabilities and credit risks** | | -12,802,922.38 | -12,403 |
| **12. Revenue from the release of value adjustments on receivables and from reserves for contingent liabilities and credit risks** | | 7,058,934.08 | 2,107 |
| **13. Value adjustments on securities evaluated as financial assets and on shareholdings in affiliated companies** | | 0.00 | -44 |
| **14. Revenue from the sale of securities evaluated as financial assets and on investments and shareholdings in affiliated companies** | | 683,266.01 | 442 |
| **V. PROFIT FROM ORDINARY ACTIVITIES** | | 16,840,497.20 | 15,961 |
| **15. Tax on income** | | -5,212,294.59 | -5,870 |
| **16. Other tax, if not to be entered under item 15** | | -56,481.55 | -40 |
| **VI. ANNUAL NET PROFIT** | | 11,571,721.06 | 10,051 |
| **17. Allocation to or liquidation of reserves** | | -5,071,721.06 | -5,050 |
| of which: allocation to the liability reserve | -1,650,000.00 | | -1,200 |
| **VII. ANNUAL PROFIT** | | 6,500,000.00 | 5,001 |
| **18. Profit brought forward** | | 2,873,623.01 | 2,872 |
| **VIII. BALANCE SHEET PROFIT** | | 9,373,623.01 | 7,874 |

## 10. CAPITAL ADEQUACY

| | 31/12/2006 EUR | 31/12/2005 EUR |
|---|---|---|
| **Own funds required in accordance with Art. 22 Para. 1 of the Austrian Banking Act** | 35,183,645 | 20,976,794 |
| **Evaluation basis in accordance with Art. 22 of the Austrian Banking Act** | 421,433,062 | 257,347,422 |
| **Own funds to be taken into account in accordance with Art. 22 Para. 14 of the Austrian Banking Act** | 94,641,978 | 79,974,052 |
| **Equity surplus** | 59,458,333 | 58,997,258 |
| **Own funds as % of the evaluation basis in accordance with Art. 22 Para. 2 of the Austrian Banking Act** | 22.1% | 30.9% |

## 11. CAPITAL BANK - GRAWE GRUPPE AG MOVEMENTS IN FIXED ASSETS AS AT 31/12/2006

| in EUR | Initial costs and economic costs | | | | Depreciation | Book value | Book value | Depreciation |
|---|---|---|---|---|---|---|---|---|
| | Position as at 01/01/2006 | Receipts | Deductions | Position as at 31/12/2006 | cumulative | 31/12/2006 | 01/01/2006 | 2006 |
| **Public authority debt instruments** | 1,341,825.00 | 1,463,868.00 | | 2,805,693.00 | 41,825.00 | 2,763,868.00 | 1,300,000.00 | 0.00 |
| **Receivables from banks (securities)** | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Receivables from non-bank customers (securities)** | 0.00 | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Loan stock and other fixed interest securities** | 14,482,582.49 | | | 14,482,582.49 | 482,582.49 | 14,000,000.00 | 14,000,000.00 | 0.00 |
| **Shares and other non-fixed interest securities** | 22,014,702.78 | 918,092.79 | 2,195,892.73 | 20,736,902.84 | 1,172,015.38 | 19,564,887.46 | 21,260,725.75 | 0.00 |
| **Investments** | 9,334.89 | | | 9,334.89 | 16.47 | 9,318.42 | 9,318.42 | 0.00 |
| **Shareholdings in affiliated companies** | 11,984,365.30 | 23,450.00 | | 12,007,815.30 | 0.00 | 12,007,815.30 | 11,984,365.30 | 0.00 |
| **Intangible assets** | 135,881.83 | 155,709.48 | 1,050.37 | 290,540.94 | 135,463.11 | 155,077.83 | 52,952.22 | 53,583.87 |
| **Tangible fixed assets** | 5,344,461.06 | 602,032.39 | 824,478.45 | 5,122,015.00 | 3,806,257.26 | 1,315,757.74 | 1,285,448.03 | 480,463.94 |
| **TOTAL FIXED ASSETS** | 55,313,153.35 | 3,163,152.66 | 3,021,421.55 | 55,454,884.46 | 5,638,159.71 | 49,816,724.75 | 49,892,809.72 | 534,047.81 |

**Extract from the Capital Bank – GRAWE Gruppe AG Appendix to the Financial Statements**

**A. Financial Reporting Techniques and Valuation Methods**

The 2006 Financial Statements have been issued in compliance with standard accounting principles and in compliance with the general standard to provide the truest possible reflection of the assets, finances and income of the company, in accordance with the provisions of the Austrian Commercial Code and taking into account the bank-specific provisions of the Austrian Banking Act.

The principle of caution has been duly observed through displaying only the profits realised on the balance sheet date and taking into account all recognisable risks and imminent losses.

Amounts in foreign currency in the balance sheet were evaluated at the middle rates (foreign exchange at the foreign exchange middle rate) on the balance sheet date. Forward transactions were estimated at the respective forward rate.



The securities are evaluated at initial cost or lower market costs or with fixed interest securities, at the lower redemption sum (strict lower-of-cost-or-market principle), irrespective of whether they are classified as fixed assets or current assets. The difference between the initial cost and the increased market value on the balance sheet date for securities authorised for stock exchange trading, which do not qualify as financial assets, was €200,800 (previous year €1,052,500).

The bank has to calculate the own funds requirement for a large securities trading portfolio as laid down in Article 22b Paragraph 1 of the Austrian Banking Act. The volume of the securities contained therein and other financial instruments was €14.3 million (previous year €22.8 million).

All recognisable risks in credit transactions were taken into account through appropriate individual value adjustments.

Use was made of the option stipulated under Article 57 Paragraph 1 of the Austrian Banking Act, virtually to the maximum extent permitted, in the 2006 Financial Statements, as was the case the previous year.

The investments and shareholdings in affiliated companies were evaluated at initial cost or, where there was sustained value reduction, at the reduced value as at the balance sheet date.

Buildings and equipment were evaluated at cost of purchase, less the scheduled depreciation. The scheduled depreciation was applied on a straight-line basis. Low-value items were fully written off in the year of purchase.

The depreciation rates were 2.5 % to 10 % p. a. for immovables and 10 % to 33.3 % p.a. for movables. The full annual depreciation was offset against the receipts in the first half of the financial year, whilst half the annual depreciation was offset against the receipts in the second half of the financial year.

The intangible fixed assets consist exclusively of acquired software, which is written off using straight-line depreciation at 25 % or 33.3% p. a.

The securitised liabilities contain items for which the redemption sum is dependent on the market value of set basic investments and which are consequently evaluated at the current market value of these items.



These securitised liabilities constitute a valuation unit with the assets entered under various items. The securitised liabilities are furnished in part with a capital guarantee.

The pensions reserve only applies to those who have reached retirement and is calculated according to recognised actuarial principles on the basis of a 4 % interest rate, subject to the Pagler-Pagler standard scales (1999).

The severance pay reserve is determined on the basis of investment mathematics, using a rate of interest of 4 % for a retirement age of 65 for men and 60 for women and taking into account the transitional regulations as stipulated under the 2003 Pension Reform Mechanism.

The other provisions were set up in line with the total of the utilisation forecast. They take into account all the recognisable risks and liabilities for which the total as yet is not fixed.

Liabilities are estimated at the redemption sum.

## B. Explanatory Notes on Balance Sheet Items

### B1. Receivables from banks and non-bank customers

Layout for the non-immediately realisable receivables from banks and non-bank customers according to residual term:

| Receivables from banks | 31/12/2006 in EUR thousands | 31/12/2005 in EUR thousands |
|---|---|---|
| up to 3 months | 17,586 | 17,167 |
| over 3 months to 1 year | 1,302 | 5,787 |
| over 1 year to 5 years | 1 | 0 |
| over 5 years | 24 | 511 |
| TOTAL | 18,913 | 23,465 |

| Receivables from non-bank customers | 31/12/2006 in EUR thousands | 31/12/2005 in EUR thousands |
|---|---|---|
| up to 3 months | 25,365 | 2,411 |
| over 3 months to 1 year | 32,581 | 21,217 |
| over 1 year to 5 years | 43,963 | 11,035 |
| over 5 years | 25,221 | 17,852 |
| TOTAL | 127,130 | 52,515 |



### B2. Public authority debt instruments

The securities listed under this item are made up of €2.76 million (previous year: €1.3 million) in fixed assets and €4.87 million (previous year: €5.34 million) in other current assets. Securities are classified as fixed assets where they bring in sustained revenue or where there are restrictions on disposal.

### B3. Loan stock and other fixed interest securities

All the securities entered under this item are publicly quoted, as was the case the previous year.

| Loan stock and other fixed interest securities | 31/12/2006 in EUR thousands | 31/12/2005 in EUR thousands |
|---|---|---|
| Fixed assets | 14,000 | 14,000 |
| Current assets | 5,475 | 3,416 |
| Commercial stock | 1,774 | 5,333 |
| TOTAL | 21,249 | 22,749 |

Of the securities listed under this balance sheet item, face values of €49,400 (previous year: €32,000) are due for redemption in 2007. As at the balance sheet date no securities had been sold under actual agreements to repurchase, as was the case the previous year. Securities are classified as fixed assets where they bring in sustained revenue or where there are restrictions on disposal.

## B4. Shares and Other Non-fixed Interest Securities

| Shares and other non-fixed interest securities 31/12/2006 | authorised and quoted in EUR thousands | not authorised in EUR thousands | grand total in EUR thousands |
|---|---|---|---|
| Shares | 19,806 | 294 | 20,100 |
| Other non-fixed interest securities | 1,187 | 158,858 | 160,044 |
| TOTAL | 20,992 | 159,152 | 180,144 |

| Previous year | authorised and quoted in EUR thousands | not authorised in EUR thousands | grand total in EUR thousands |
|---|---|---|---|
| Shares | 24,233 | 1,898 | 26,121 |
| Other non-fixed interest securities | 220 | 126,227 | 126,447 |
| TOTAL | 24,443 | 128,125 | 152,568 |

Of the shares and other non-fixed interest securities, fixed assets account for €19.56 million (previous year: €21.26 million), commercial stock account for €9.88 million (previous year: €0.99 million) and other current assets account for €150.7 million (previous year: €130.31 million). Securities are classified as fixed assets where they bring in sustained revenue or where there are restrictions on disposal.



As at the balance sheet date this item contained trust assets with a book value of €9.27 million (previous year: €8.29 million).

Please refer to the attached assets ledger.

## B5. Investments

The investments shown are not authorised for stock market trading.

## B6. Shareholdings in Affiliated Companies

Turnover tax affiliation applies with CORPORATE FINANCE – GRAWE Group GmbH and with CENTEC.AT Softwareentwicklungs und Dienstleistungs GmbH. CENTEC.AT Softwareentwicklungs und Dienstleistungs GmbH was founded in 2006. Our company holds 67% of the shares.
The shareholdings in affiliated companies listed are not authorised for stock market trading.

## B7. Tangible Assets

As at the balance sheet date 31/12/2006, the bank held neither developed nor undeveloped real estate under tangible assets.

## B8. Other Assets

These include in particular:

| Other assets | 31/12/2006 in EUR thousands | 31/12/2005 in EUR thousands |
|---|---|---|
| Tax authority clearing account | 282 | 336 |
| Securities interest deferrals | 370 | 148 |
| Receivables from affiliated companies | 2,312 | 1 |
| Underwritten life insurance policies | 4,962 | 4,412 |
| Clearing balances on settlement accounts | 2,477 | 3,655 |
| Receivables in the event of a claim | 1,040 | 1,040 |
| Various outgoing invoices | 1,997 | 288 |

## B9. Collateral Assets

Securities and cash bonds are provided at the following values as collateral for securities transactions:

| Securities transactions guarantee | 31/12/2006 in EUR thousands | 31/12/2005 in EUR thousands |
|---|---|---|
| Fixed-income securities and investment fund units | 5,222 | 7,708 |
| Cash bonds | 50 | 50 |
| TOTAL | 5,272 | 7,758 |

## B10. Liabilities to Banks and Customers

Breakdown of non-immediately realisable liabilities to banks and non-bank customers according to residual term:

| Liabilities to banks | 31/12/2006 in EUR thousands | 31/12/2005 in EUR thousands |
|---|---|---|
| up to 3 months | 19,270 | 1,042 |
| over 3 months to 1 year | 5,719 | 0 |
| over 1 year to 5 years | 0 | 0 |
| over 5 years | 0 | 0 |
| TOTAL | 24,989 | 1,042 |

| Liabilities to non-bank customers | 31/12/2006 in EUR thousands | 31/12/2005 in EUR thousands |
|---|---|---|
| up to 3 months | 516 | 5,178 |
| over 3 months to 1 year | 552 | 928 |
| over 1 year to 5 years | 519 | 1,285 |
| over 5 years | 847 | 1,385 |
| TOTAL | 2,434 | 8,776 |
| GRAND TOTAL | 27,423 | 9,818 |

The remainder of the liabilities to banks and non-bank customers are immediately realisable. The calculation of the residual terms of the savings deposits was performed on the basis of the average waiting time. As at the balance sheet date, the item 'Liabilities to non-bank customers' included fiduciary bank deposits worth €9.72 million (previous year: €8.29 million).
As at 31st December 2006 minor trustee savings deposits were held at the bank.

## B11. Other Liabilities

Listed under this item are tax authority liabilities totalling €1,131,000 (previous year €1,223,000), liabilities from securities clearing worth €16,155,000 (previous year €7,738,000) and liabilities against the tax group totalling €5,786,000 (previous year €6,132,000). Expenses which only become payable after the balance sheet date relate in particular to payroll costs totalling €912,000 (previous year €3,205,000) and various operating expenses.

## B12. Shareholders' Equity

The company's equity capital remains €10,000,000.00 and is formed of 1,376,030 individual share certificates.

## B13. Additional Details

The balance sheet assets in foreign currency on the balance sheet date totalled €66.7 million (previous year: €48.9 million) and the balance sheet liabilities in foreign currency totalled €20.2 million (previous year: €14.9 million).



As at the balance sheet date, forward currency purchases totalling €4.6 million (previous year €6.8 million) were offset by forward currency sales for the same sum. Furthermore as at 31st December 2006, there were sales agreements from foreign exchange swaps and forward exchange agreements worth €54.1 million (previous year €32.7 million) for hedging against currency risks and hedging operations worth €38.4 million (previous year: €29.7 million) for credit derivatives.

Capital Bank - GRAWE Gruppe AG's derivative volume of business using fair values was made up, as at 31/12/2006, of the following:

| in EUR thousands | Nominal value | Market value positive | Market value negative |
|---|---|---|---|
| **01. Interest rate agreements** | | | |
| **OTC products** | - | - | - |
| Forward rate agreements | - | - | - |
| Interest options | - | - | - |
| Interest swaps | - | - | - |
| Other similar agreements | - | - | - |
| **Traded products** | | | |
| **02. Exchange rate agreements** | | | |
| **OTC products** | 69,109 | 587 | 3 |
| Forward exchange agreements | - | - | - |
| Currency options | 32,744 | 184 | 5 |
| Currency swaps | - | - | - |
| Other similar agreements | - | - | - |
| **Traded products** | | | |
| **03. Securities-related agreements** | | | |
| **OTC products** | 8,081 | 180 | - |
| Share options bought | - | - | - |
| Share options sold | 44,000 | - | - |
| Security swaps | - | - | 5,506 |
| Other similar agreements | - | - | - |
| **Traded products** | | | |
| **GRAND TOTAL** | 153,934 | 951 | 5,514 |

## C. Explanatory Notes on the Profit and Loss Statement

The item ‘Revenue from securities and investments’ includes €2,100,000 (previous year: €13,000) in payout from affiliated companies.

In the item ‘Revenue/expenses from financial transactions’, capital gains from securities transactions worth €4,884,000 (previous year €5,720,000) are offset by capital losses in this area of €1,659,000 (previous year €1,590,000).

The value adjustments on receivables and allocations to reserves for contingent liabilities and credit risks comprise €3.8 million for the settlement of claims (previous year €5.1 million for claims predominantly from previous years) and the exercising of the option specified under Article 57 of the Austrian Banking Act.



## D. Other Information

| Number of employees | 2006 | 2005 |
|---|---|---|
| **As at the year end (individuals)** | | |
| Blue-collar workers | 9 | 7 |
| White-collar workers (not including Board of Directors) | 132 | 103 |
| **TOTAL** | 141 | 110 |
| **Of which on maternity/paternity leave** | 3 | 2 |
| **As an annual average (not including those on maternity/paternity leave, weighted)** | | |
| Blue-collar workers | 4.71 | 4.12 |
| White-collar workers (not including Board of Directors) | 103.69 | 93.57 |
| **TOTAL** | 108.40 | 97.69 |

Extract from the Capital Bank – GRAWE Gruppe AG Appendix to the Financial Statements as at 31/12/2006

The receivables from non-bank customers as at 31/12/2006 included loans to Members of the Board of Directors worth €12,400 (previous year €12,000) and to Members of the Supervisory Board worth €607,700 (previous year €620,000). Interest and other terms and conditions (maturity and collateral) are in line with normal banking practice.

Expenses for severance payments and pensions:

| **Expenses for severance payments and pensions** | **31/12/2006 in EUR thousands** | **31/12/2005 in EUR thousands** |
|---|---|---|
| Members of the Board of Directors | 102 | 24 |
| Managerial staff | 123 | 73 |
| Others | 3,486 | 236 |
| **TOTAL** | 3,711 | 333 |



Directors' emoluments:
The provisions laid down under Article 241 (4) of the Austrian Commercial Code were applied. The Members of the Supervisory Board were not remunerated for their work over the course of the financial year.

The company is a member of the Capital Bank International – GRAWE Group AG banking group, which issues Group Financial Statements for the banking group as the parent bank. This report can be obtained from the company's headquarters at Burgring 16, A-8010 Graz.

Group Financial Statements for the parent corporation are issued by GRAWE Vermögensverwaltung. The Group Financial Statements can be obtained from the company's registered business headquarters at Herrengasse 18-20, A-8010 Graz.

## Audit Report

We have performed an audit, incorporating the company accounts, for the Financial Statements for Capital Bank - GRAWE Gruppe AG, Graz, for the financial year from 1st January to 31st December 2006. The accounts, the preparation and the contents of these Financial Statements and the Management Report, issued in accordance with the commercial regulations applicable in Austria, come under the responsibility of the company's statutory representatives. It is our responsibility to issue an audit finding for these Financial Statements on the basis of our audit and a statement as to whether the Management Report complies with the Financial Statements.

We have performed our audit taking into account the statutory regulations and standard commercial principles applicable in Austria. These principles require the audit to be planned and performed in such a way that a sufficiently secure finding can be drawn from the audit, declaring whether the Financial Statements are free of major inconsistencies, and a statement can be made as to whether the Management Report complies with the Financial Statements.



When laying down the audit procedures, knowledge of the business operations and the commercial and legal environment of the company and the expectations with regard to possible inconsistencies are taken into account. The audit includes a random inspection of the documentary records for figures and other information in the Financial Statements. It also includes evaluation of the accounting principles and of significant estimates performed by the statutory representatives and an appraisal of the Financial Statements as a whole. We are of the view that our audit constitutes a sufficiently secure basis for our audit finding. Our audit has not led to any objections. On the basis of the findings drawn from the audit we have performed, we feel that the Financial Statements comply with the statutory regulations and provide the truest possible reflection of the assets, finances and earnings of the company in compliance with the Austrian principles of sound accounting practice. The Management Report complies with the Financial Statements.

Vienna, 26th February 2007

Mag. Wilhelm Kovsca    ppa Mag. Klaus-Peter Schmidt

Chartered accountants and tax consultants

Publication or circulation of the Financial Statements bearing our audit certificate may only be performed using the version we have audited. Compliance with the regulations of Article 281 Paragraph 2 of the Austrian Commercial Code is required for any alternative versions (e.g. abbreviated versions or translated versions).

The financial statements have been filed in the Commercial Register of the Graz Regional Civil Court under company no. 112471 z and published in the Wiener Zeitung Amtsblatt (the official gazette attached to the Wiener Zeitung newspaper).

# Imprint

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**Concept, design and production:**
XACT Werbeagentur GmbH, www.xact.at
Design: Ekkehard Schitter
Title photo: Albert Handler, Graphic design: Julia Klinger, Text: Christian Halmdienst
Text (p. 4 - 105): Detlef Gürtler, Berlin
(Author of the book ‘Die Dagoberts’, Eichborn-Verlag, Frankfurt 2004)
**Printing:**
Laber Druck Buch+Offsetgesellschaft m.b.H.,Oberndorf bei Salzburg