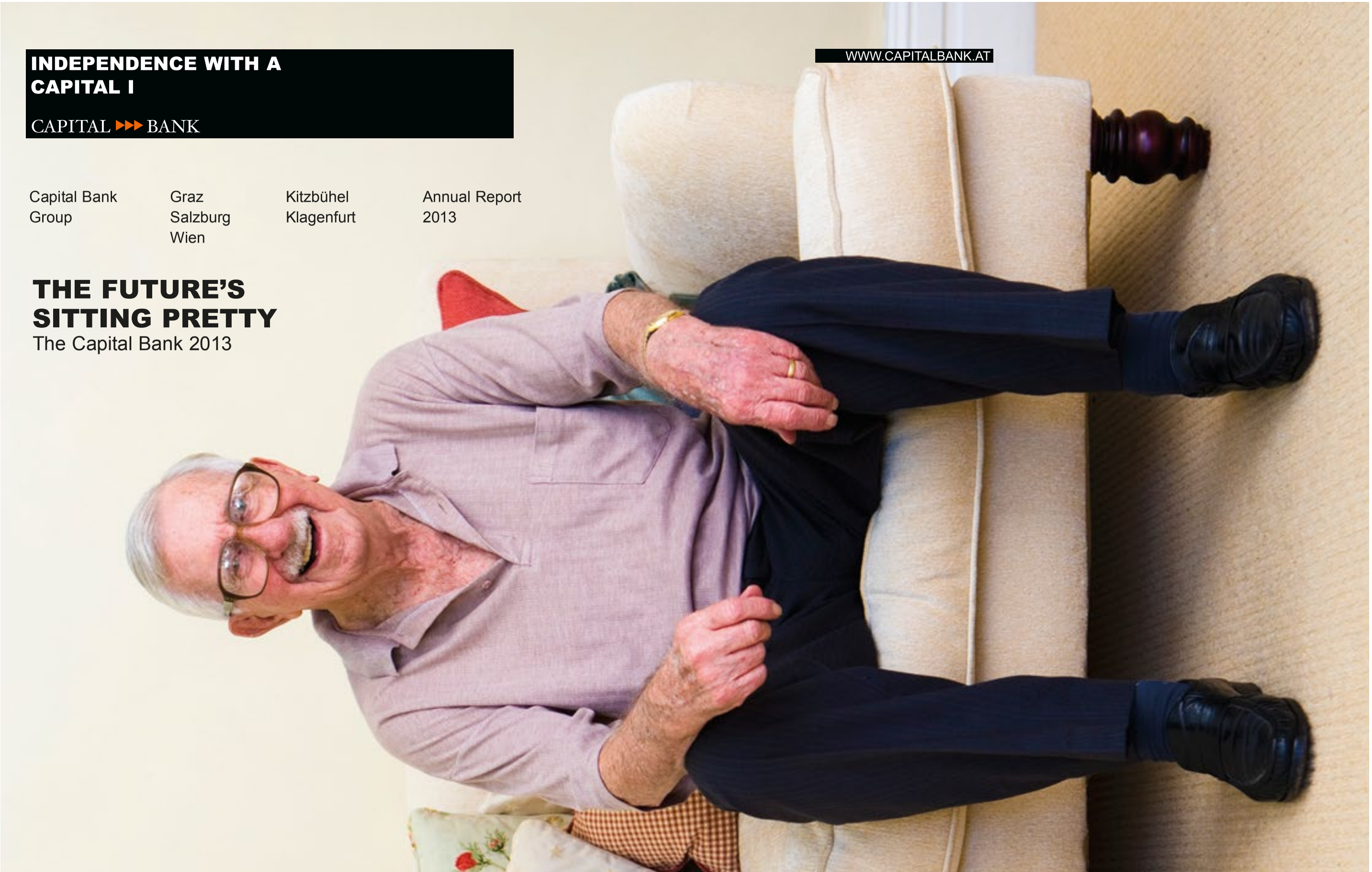


INDEPENDENCE WITH A CAPITAL I

CAPITAL ▶▶▶ BANK

Capital Bank Group

Graz
Salzburg
Wien

Kitzbühel
Klagenfurt

Annual Report
2013

THE FUTURE'S SITTING PRETTY

The Capital Bank 2013

WWW.CAPITALBANK.AT

CHRISTIAN JAUK

CHAIRMAN
OF THE BOARD

Capital Bank has its roots in 1828, when Archduke Johann of Austria founded Grazer Wechselseitige Versicherung, or ‘Graz Mutual Insurance Company’. With the idea of forming a single insurance company that with its collective strength would be able to safeguard the livelihood of farmers after a fire, his action was one of classic social entrepreneurship. Today the concept of bearing joint responsibility is more relevant than ever before. As an award-winning company we were Austria’s first private bank to establish a non-profit private foundation called Philanthropie Österreich, or ‘Philanthropy Austria’ with the aim of providing help when it is most needed, together with our customers.

CONSTANTIN VEYDER-MALBERG

MEMBER OF THE BOARD

Since 2009 we have carried on our business under the motto ‚fair and honest‘. Our motto heralds a return to the old values of banking. From this established foundation, we have now forged ahead and initiated a charity platform for ourselves and our customers. The goal is to create social engagement by providing help from the platform of a well-structured foundation; by doing this, we effectively create the room for manoeuvre, within which we can efficiently implement actions of intrinsic value and sustainably support non-profit organisations. By so doing, we jointly live out the principle of hope and together build a brighter future.

„Make a difference“ – easy to say, not always easy to put into action. The guest contribution in this annual report, written by Graz-based sociologist Manfred Prisching, deals with the topic of philanthropy in the Second Modern Age. Philanthropy, you ask? In the annual report of a private bank? Yes, exactly, because our bank is not just about monetary income, lucrative investments and the market forces. We also work on issues that affect social commitment, community engagement and the use of private resources for the general good of the public.

According to our guest author, the word philanthropy more often than not lurks on the periphery of normal European language usage. The meaning of the word has transformed from the general idea of ‘philanthropic attitude’ and gained a more specific meaning. Philanthropy is increasingly equated with private charity, whereby private resources are systematically and consciously allocated for the general good of the public. Philanthropy is not influenced by utility or power; the intention of philanthropy is to carry out an action of intrinsic value. Philanthropy ranges from personal altruism to the modern take on philanthropy found in philanthropic corporations; it also includes small donations of money as well as corporate volunteering. Although the term philanthropy encompasses so many facets, they all have one thing in common: A corresponding philanthropic action always requires an active decision on the part of the voluntary donor.

„We have the chance to improve peoples‘ lives. There is no better task than philanthropy,“ according to Bill and Melinda Gates, who together with Warren Buffet are the world‘s best-known philanthropists of the present time. To find out more about charitable engagement, emotional values, sustainability and the vision of a better world, as well as to learn about the roots of philanthropy, how modern philanthropic management is organised and what all of this has to do with Capital Bank, read this annual report.

Manfred Prisching, the author of our guest article is Professor at the Institute of Sociology at the Faculty of Business, Economics and Social Sciences of the University of Graz.

CONTENTS

Introduction *4*

Philanthropy in the Second Modern Age
by Manfred Prisching

By way of introduction: A potpourri of terms *6*
“Humanitarianism”: On nobles and barbarians *8*
“Opening oneself towards the other”
Philanthropic institutions: *28*
“Private virtues, public benefits”
Philanthropic role models: *40*
“The man who dies rich dies disgraced”
Philanthropy’s new logic *50*
Criticism of philanthrocapitalism *60*
Working on problem areas: *70*
effective altruism
The culture of giving: *78*
“In giving a gift, you give of yourself”
Endnotes *86*

CAPITAL BANK – GRAWE GRUPPE AG

Performance and key figures 94
Company boards 96
Management Report 98
Risk Report 118
Report of the Supervisory Board 156
Balance sheet 158
Income statement 160
Capital adequacy 162
Statement of changes in fixed assets 168
Excerpt from the notes to the annual
financial statements of Capital Bank 166
Auditor's Report 194
Consolidated balance sheet 200

Imprint *208*

CAPITAL BANK –
GRAWE GRUPPE AG

Performance and key figures

PERFORMANCE AND KEY FIGURES, CAPITAL BANK – GRAWE GRUPPE AG

	31.12.2013 EUR K	31.12.2012 EUR K	31.12.2011 EUR K
Total assets	920,513	833,990	704,449
Loans and advances to customers	170,454	140,726	133,796
Deposits from customers	362,075	325,265	270,925
Operating profit	14,101	13,222	12,879
Profit from ordinary activities	7,661	7,181	6,905
Capital as % of the measurement basis as specified in section 22 (1) of the Austrian Banking Act (BWG)	41.7%	39.5%	36.8%
Volume of client custody accounts	8,202,288	8,133,356	7,359,098
Employees (excluding subsidiaries)	167	160	162

Company boards of CAPITAL BANK – GRAWE GRUPPE AG in the 2013 financial year

Management Board

Christian Jauk, MBA MAS
Chief Executive Officer

Mag. Constantin Veyder-Malberg
Member of the Management Board

Supervisory Board

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

Dr. Siegfried Grigg (until 15 March 2013)
Deputy Chairman of the Supervisory Board

DDIng. Mag. Dr. Günther Puchtler
Member of the Management Board of Grazer Wechselseitige Versicherung AG
Deputy Chairman of the Supervisory Board

Dr. Franz Hörhager
Member of the Supervisory Board

Dipl. Techn. Erik Venningdorf (since 15 March 2013)
Member of the Management Board of Grazer Wechselseitige Versicherung AG
Member of the Supervisory Board

Members nominated by the Works Council

Rudolf Laudon

Harald Greimel

Business development

The last few years have been characterised by low interest rates, low economic growth in industrialised countries and a certain amount of uncertainty as to future market trends. These conditions still persisted in 2013.

Despite the economic environment, CAPITAL BANK – GRAWE GRUPPE AG (referred to below as Capital Bank) achieved the particular distinction of being selected as the best private bank in Austria by the Fuchsbriefe publishing house in its independent review of wealth managers in German-speaking Europe . Furthermore, this year's Fuchsbriefe rankings placed Capital Bank second in its "European league", the first time an Austrian bank has achieved such a high position.

This is a huge success for Capital Bank and confirms that the bank took the right path five years ago when it switched its strategy in favour of offering independent, fee-based advice only, where all hidden fees and commissions from product providers are disclosed and forwarded to the clients. Even beyond Austria's borders, Capital Bank is therefore perceived as a specialist in private and investment banking and is valued as a trustworthy, expert partner in all matters relating to wealth management.

Private banking is Capital Bank's core business. In 2013, assets under management rose by 8.1% as a consequence of attracting new customer money and also generating gains on the existing portfolios. The private banking business concentrated on a number of priorities in the year under review. The range of products was given a sharper focus and internal working processes were optimised. Advisory activities were increasingly centred on yields after tax taking into account the personal situation of each individual client. Capital Bank's asset management certificates have become well established in the market, proving themselves to be an outstanding investment vehicle in this context.

The initial interim findings from our client satisfaction survey present a positive picture overall. This survey has been running since 2012 and is carried out in cooperation with the University of Koblenz-Landau. According to the survey, Capital Bank's net promoter score (a metric that measures the likelihood a client will recommend the bank to others) is 62.9%, which is above average.
Since the second half of 2013, Capital Bank has been working in collaboration with the Austrian

Fundraising Association (Fundraising Verband Austria, FVA), focusing on the provision of philanthropy advisory services. These services offer interested clients exciting opportunities to combine investment with activities for the common good. In connection with these services, Capital Bank has already set up a private not-for-profit philanthropic foundation in Austria known as "Gemeinnützige Privatstiftung Philanthropie Österreich".

From an organisational perspective, the philanthropy services form part of the responsibilities of the Asset, Product & Quality Management division. This is also the division that makes a significant contribution to the successful performance of client portfolios and the banking business as a whole based on the professional investment carried out as part of central wealth management activities and on the processing of investment proposals. The excellence of the bank's activities has also been externally acknowledged, Capital Bank having been placed fourth for portfolio quality in the Fuchsbriefe rankings referred to above. Further action has been taken to strengthen the Asset, Product & Quality Management division as part of organisational adjustments.

The Family Office department, which specialises in services for high-net-worth individuals, private foundations and family businesses, delivered an impressive performance in 2013 by expanding its business volume by 12.2%. The core competency of the Family Office department lies not only in taking into account individual customer needs across the whole spectrum of financial concerns but also in implementing special transactions, such as providing support for the acquisition or sale of unlisted equity investments, special finance arrangements or management buyouts. These services were particularly in demand from private foundations in 2013.

“Die Plattform", the division of Capital Bank that fulfils the role of depositary for clients of investment firms, experienced a slight contraction in the number of custody accounts in 2013, although at the same time there was an increase in net inflows. The bank continued to step up its activities involving one-to-one contact and support for independent advisers. It also endeavoured to achieve an even better alignment between the range of services and client needs. The "Konto plus” online savings account that had been launched in 2012 had a very successful year in 2013, attracting client deposits of approximately €50 million over the year.

The investment banking business continued to focus on high-yield investments, particularly as part of the collaboration arrangement with the Cardinal Point Capital investment firm based in San Francisco. Capital Bank also supported a number of corporate finance projects, further broadening the range of services provided by the bank in terms of its holistic client relationship management offering.

Standardised central support functions and service units for the equity investments in banks held by Grazer Wechselseitige Versicherung Aktiengesellschaft (GRAWE) had already been set up in 2010. Since then, within the overall organisational structure of the group, these central support and service functions have been located in the parent of Capital Bank, HYPO-BANK BURGENLAND Aktiengesellschaft. These central units provide services both for

Capital Bank and also for the other banks in the banking group.

BK Immo Vorsorge GmbH (referred to below as BK Immo), which was established in 2009 as a wholly owned subsidiary of Brüll Kallmus Bank AG and then transferred to Capital Bank in 2013, specialises in the construction of residential property specifically aimed at buy-to-let investors, the purchase and renovation of older real estate and the design of "building contractor models" in which the investor is established as the principal construction or development contractor.

The excellent year-on-year performance was sustained in 2013 based on continuous project planning and a lean company structure. The primary focus in the company was on placing existing projects and on selecting and acquiring new properties.

Capital Bank constantly makes great efforts to ensure that the standard of training and professional development for its employees is at a very high level. The advanced professional skills and qualifications of our employees, together with their commitment and our regular investment in training and development, all mean that we can look forward to the performance of our bank with a great deal of confidence, both in the coming financial year and over the longer term. As at 31 December 2013, Capital Bank employed 167 people (136.0 full-time equivalents). The method used for determining full-time equivalents in 2013 was modified compared with the method used in 2012. Employees on parental or unpaid leave are now only included in the overall headcount, but not in the full-time equivalents, which is why there is a corresponding discrepancy compared with the figures for 2012.

Capital Bank is conscious of its social responsibility as a member of society. During the year under review, it offered a large number of presentations and lectures on economic issues free of charge. In the specialist lectures delivered at universities, the bank's primary aim in all cases was to provide students with expert knowledge and give them an insight into day-to-day business practice in the banking industry. Capital Bank also provides financial support for numerous social and higher education institutions.

General economic conditions

The factors underlying the economic conditions in 2013 were the same factors that had determined economic trends in previous years. The persistent sovereign debt crisis in Europe, disputes in the US about the debt ceiling, slowing growth in the Chinese economy and intervention by the leading central banks dominated the year's economic news.

The euro zone experienced its second year of recession in a row. High unemployment figures and the repayment of debt dampened down economic growth. There was no shortage of reforms, either in the peripheral countries of the euro zone or at EU level. Despite recession and the sustained high level of budget deficits, there was some easing in capital market pressure on the countries of the euro zone periphery. This not only reduced the risk premiums imposed on these countries, it also ultimately facilitated Ireland's return to the capital markets. At the midpoint in 2013, the euro zone returned to growth following six successive quarters in recession, posting quarter-on-quarter growth of 0.1%. However, taking the year as a whole, economic output is expected to have fallen by 0.4% overall, although this is still the aggregate from two different trends. There remains a significant divergence between the northern and southern countries of Europe. As a result of failures in the monetary policy mechanism, the expansionary monetary policy of the European Central Bank (ECB) is not reaching the countries that need it most urgently. In 2013, the ECB lowered its key interest rate in two stages from 0.75% to 0.25%. Nevertheless, inflation in the euro zone fell from 2.5% in 2012 to just 1.4% in 2013. Furthermore, a big area of concern for policymakers was also the rate of unemployment in Europe, the estimate for December 2013 being 12%.

In the second half of the year, the US economy recovered from the interim low at the start of 2013. The number of jobless fell from 7.5% at the beginning of the year to 6.7% in December 2013; the key real estate market also put in a strong performance over the second half of the year. At a macroeconomic level, this resulted in economic growth in the third quarter of 3.4% (annualised rate), although growth in 2014 is forecast at 1.7%. In view of the favourable economic trends, the Federal Reserve (Fed) felt the need in December 2013 to begin the tapering of its QE3 bond-buying programme. This was a signal from Fed chairman Ben Bernanke of the switch from an economic recovery led by monetary policy to one driven by demand. Back in June, Ben Bernanke's pronouncements about an imminent tapering of the bond-buying programme had caused widespread turmoil on global capital markets. However, by the time December came around, the markets were well prepared and the response was rather relaxed.

In Japan, the economy benefited in 2013 from the fiscal stimulus packages introduced by the government and the expansionary monetary policy pursued by the central bank. According to current estimates, the world's third-largest economy is thought to have grown by 1.7% in 2013. The country also appears to have broken out of its deflationary spiral. Even so, prices rose by just 0.3% in the year under review. Economists are predicting an inflation rate of 2.4% for 2014.

Following a poor start to 2013, economic activity in the EU member states of central, eastern and southern Europe slowly began to pick up again in the third quarter. Average quarterly growth in the region came to 0.6%.

In Austria, gross domestic product (GDP) grew by 0.3%, significantly below the rates achieved in prior years. If the economic forecasts published by WIFO and IHS prove to be accurate however, Austria has therefore already reached the low in the current economic cycle. Economic forecasters are predicting an inflation rate of 1.7% for 2014. There were already signs of positive trends in the export sector in the second half of 2013. On the other hand, consumer spending remains muted because of the stagnation in wages in real terms. Given the rise in the number of unemployed and people in training, there is unlikely to be a marked recovery in consumer spending in the short term. The unemployment rate determined by Eurostat was 4.9% in December. Austria therefore has the lowest jobless rate in the euro zone. In contrast, consumer price inflation in Austria measured using the harmonised index of consumer prices (HICP) was 2.0% in December, significantly higher than the rate for the euro zone as a whole (December 2012: 0.8%). In 2013 overall, the HICP inflation indicator fell to 2.1%.

Capital markets

Even though equity indices such as the German DAX or the US S&P 500 are currently at an all-time high, the trends have been neither inevitable nor evenly spread across all regions. In particular, the performance of the emerging economies was disappointing in 2013. They fell into the trap set by the looser monetary policy pursued by the Fed in the US. At the end of the year, the MSCI Emerging Markets Index, a barometer for trends in equities in the emerging markets, was down by 7%. The disappointment also extended to Austria's equities market, which was up by just 6%. On the other hand, Germany's blue-chip stock market index, the DAX, was up by 29%, as was the S&P 500 in the US. However, gold suffered the highest fall in price for more than three decades, dropping by more than 28%. Brent Crude at ended the year at US$ 108 per barrel, only slightly below the price at the beginning of the year.

Government bonds from the Republic of Austria fell by an average of 1% (including coupon). Investors in US government bonds lost an average of 3.4%. Debt instruments issued by the Federal Republic of Germany did not fare much better. Investors in emerging market bonds were hit by the greatest losses since the crisis in Asia in 1998. The only gains were on debt instruments issued by the peripheral countries of the euro zone. However, corporate and high-yield bonds also ended the year on a positive note.

BUSINESS PERFORMANCE

Balance sheet

The total assets/total equity and liabilities of Capital Bank rose over the year under review by approximately 10.4% from €834.0 million to €920.5 million. This was primarily attributable to the increase of 11.3% in deposits from customers from €325.3 million to €362.1 million and the rise in the volume of own issues from €335.4 million to €374.0 million (11.5%). On the assets side of the balance sheet, loans and advances to customers climbed significantly from €140.7 million to €170.5 million, an increase of 21.1%.

Eligible capital as defined by section 23 (14) of the Austrian Banking Act (BWG) rose over the year under review from €138.3 million to €147.8 million. The capital requirement went down by approximately 10.2% from €53.0 million as at 31 December 2012 to €47.6 million as at the reporting date. As a consequence, the capital surplus amounted to approximately €100.2 million, up by 17.5% year on year. Capital as a percentage of the measurement basis remained at an exceptionally high level compared with the industry as a whole. The figure of 41.7% was even 2.2 percentage points higher than it had been twelve months previously. Of the reported eligible capital of €147.8 million, 84.5% was accounted for by Tier 1 capital.

Return on equity (ROE) in in 2013 was 6.3% (2012: 5.9%), up by around 0.4 percentage points year on year. Return on assets remained roughly at the same level in the year under review at 0.9%. Given the slight increase in profit from ordinary activities and the lower capital requirement, return on capital employed improved by 1.6 percentage points from 13.6% to 15.2% for 2013.

As the focus at Capital Bank is on fee and commission business, the changes in total assets and the comparison with traditional retail banking are less important in an analysis of the bank's performance. The long-term objective of the bank is to generate returns commensurate with the risks involved in the interests of the owner and thereby to continue to increase the profitability of the business in the future.

Income statement

Despite the accumulating challenges presented by regulatory changes and increasingly fierce competition, Capital Bank once again succeeded in generating an encouraging level of earnings. In 2013, profit from ordinary activities amounted to €7.7 million, around 6.7% higher than the 2012 figure of €7.2 million. Net fee and commission income and net financial income together rose by €2.1 million to €21.3 million. Net interest income fell from €7.3 million to €7.0 million in the year under review, a year-on-year decrease of 4.1%.

Personnel expenses were up slightly by 2.2% to €13.6 million, whereas other administrative expenses were cut for the fourth year in succession. Other administrative expenses totalled €7.7 million for 2013, down by 1.5% compared with the equivalent figure for 2012.

Capital Bank generated an operating profit of €14.1 million for 2013. This equated to an increase of approximately 6.7% on the operating profit of €13.2 million generated in 2012. The cost-income ratio also saw a year-on-year improvement from 62.1% to 60.8%.

Volume of client custody accounts

In 2013, Capital Bank continue to focus on gaining market share and thus expanding its volume of client custody accounts. However, the growth of 0.9% in the volume of client custody accounts from €8.1 billion to €8.2 billion fell short of forecasts. Our subsidiary, Security Kapitalanlage Aktiengesellschaft, substantially increased its volume of custody accounts from €2.27 billion as at 31 December 2012 to €2.74 billion as at 31 December 2013. This equates to a year-on-year increase of 20.9%. In 2013, the CAPITAL BANK – GRAWE GRUPPE AG subgroup generated growth in assets under management (including own issues) of €617.4 million, achieving in total a new record figure of €11.68 billion (up by 5.6%).

Proposed dividend

The profit from ordinary activities generated in 2013 amounted to €7.7 million. After an appropriate resolution has been passed at the annual general meeting, Capital Bank will pay a dividend, which is expected to be in the amount of €5.0 million, to its owner HYPO-BANK BURGENLAND Aktiengesellschaft.

Outlook

The global economy was showing clear signs of improvement in the second half of 2013. According to current assessments, the global economic recovery will continue during 2014 and 2015. The International Monetary Fund (IMF) is predicting growth of 3.7% for 2014. The latest forecasts expect growth to rise to 3.9% in 2015.

The industrialised nations are likely to be the main drivers behind this economic upturn. Although the emerging economies will continue to make a significant contribution to this growth, the pace of growth in these markets will slacken. A typical example of this trend is China where economic output will only rise by 7.3% in 2015 compared with 7.7% in 2013. Economists expect to see economic growth in the US increase to 2.8%. Following the austerity over the last few years, the US consumer is likely to make a considerable contribution to the upturn.

In 2014, the euro zone should succeed in keeping to the path out of recession. However, the differential between the core countries and the GIIPS nations will still remain. High levels of private and public indebtedness in the southern European countries, together with the fragmentation of the financial market, mean that domestic consumer spending will remain muted. Currently growth of 1.0% is forecast for the euro zone. The main risk to this outlook within the euro zone is a lower than expected inflation rate.

Capital Bank enjoyed an economically successful year in 2013 and received international acknowledgement of the quality and excellence of its work in the form of Fuchsbriefe rankings. We aim to build on this solid starting position so that we can continue to seize market opportunities in the future and to develop and refine the existing business model.

We are assuming that the demand for high-quality investment advice will continue to rise in the coming year. Political decisions, national or international economic factors, or the monetary policies pursued by central banks may result in significant volatility on financial markets at any time. Comprehensive, high-quality asset management is one of our responses to these conditions.

By establishing the "Gemeinnützige Stiftung Philanthropie Österreich", we are broadening our range of services and offering the opportunity to combine personal economic success with contributions to the common good. We are putting our name to this project to ensure that its is professionally implemented and we firmly believe that the project can deliver benefits for all.

At Capital Bank, we are convinced that our innovative strength, our competitive edge in terms of expertise and our advanced model of fee-only advisory services provide us with an excellent foundation that will allow us to continue successfully on our existing path of growth.

Events after the balance sheet date

There have been no significant or consequently reportable transactions or events since the balance sheet date.

Introduction

At CAPITAL BANK – GRAWE GRUPPE AG, risk management is defined as a process (based on a division of labour) for identifying, measuring, monitoring and managing defined risks at banking group level. A risk management system with an appropriate level of quality is seen as a significant factor if the required growth of the business is to be successfully sustained over the long term.

In 2013, the principal risk management tasks were to continue the expansion of the banking group risk management system and the associated overall strategic bank management as well as to implement the latest regulatory requirements. Risk management activities in 2013 focused mainly on adapting the parameters for the credit risk calculation and on enhancing and refining the risk management activities in connection with capital guarantees and private banking at CAPITAL BANK – GRAWE GRUPPE AG. Other priorities in the year under review included implementing the latest regulatory requirements, extending the stress tests and continuing the development of the reporting methods in the HYPO-BANK BURGENLAND Aktiengesellschaft banking group.

The disclosures required by section 26 and section 26a of the BWG in conjunction with the Austrian Disclosure Regulation (OffV) are made on a consolidated basis for the banking group of HYPO-BANK BURGENLAND Aktiengesellschaft on the bank's website.

Risk management

The objectives in the risk management unit are to identify, quantify and actively manage all the risks arising in connection with banking operations (credit risk, market risk, interest-rate risk, liquidity risk and operational risk). Pursuant to the provisions set out in section 30 (7) of the BWG, HYPO-BANK BURGENLAND Aktiengesellschaft, as the parent bank, is responsible for satisfying the Internal Capital Adequacy Assessment Process (ICAAP) requirements at consolidated level. The entities included in the consolidation for HYPO-BANK BURGENLAND Aktiengesellschaft comprise CAPITAL BANK – GRAWE GRUPPE AG and its banking subsidiaries, together with Bank Burgenland Leasing and Sopron Bank, a banking subsidiary based in another EU country.

CAPITAL BANK – GRAWE GRUPPE AG is a bank that specialises in private and investment banking but that also offers other types of products and transactions associated with these areas of business. In addition, CAPITAL BANK – GRAWE GRUPPE AG provides a settlement platform for independent financial service providers. The objective is to maximise income for a given level of risk. This is underlined by the principle that for every banking transaction, the bank should generate a return commensurate with the risk involved. The achievement of an optimum balance between risk and returns is at the core of the activities undertaken by CAPITAL BANK – GRAWE GRUPPE AG. The bank pursues the aim of identifying the risks arising from banking operations at an early stage and actively managing and limiting these risks by means of an effective risk management system. These risk management activities focus on the most efficient possible use of the available capital, taking into account medium- and long-term strategic objectives and growth prospects. The refinement of the tools and processes for identifying, quantifying and managing risk (to guarantee an appropriate balance between risk and reward) is considered to be a long-term component of the bank's strategy. The assumption of risk in order to achieve returns is therefore one of the core functions of the business activities at CAPITAL BANK – GRAWE GRUPPE AG. The risk strategy in the HYPO-BANK BURGENLAND Aktiengesellschaft banking group is to take on standard banking risk within a defined framework and to exploit the resulting potential returns. To this end, a risk management system has been set up in the HYPO-BANK BURGENLAND Aktiengesellschaft banking group. This system forms the foundation for strategic bank management based on risk and returns and therefore promotes selective growth. At CAPITAL BANK – GRAWE GRUPPE AG, risk management is a central function that takes into account the regulatory framework based on the Austrian Banking Act (BWG), the various policies and guidelines, as well as the nature, scope and complexity of the transactions specific to the bank and the resulting risks to which the bank is exposed. The risk management system at CAPITAL BANK – GRAWE GRUPPE AG is integrated into the risk management cycle managed by HYPO-BANK BURGENLAND Aktiengesellschaft.

Risk management is defined as a process (based on a division of labour) for identifying, measuring, monitoring and managing various risks. The basis for risk management in the HYPO-BANK BURGENLAND Aktiengesellschaft banking group is a strict segregation between front office and back office functions. The various risk management functions are brought together under the member of the Management Board responsible for risk management.

The activities of the risk management units are conducted in accordance with the risk policy guidelines laid down by the Management Board. These guidelines specify how risks are to be managed and how they are to be monitored competently and in a timely manner in conjunction with the individual corporate units and the independent risk function. In application of the principle of proportionality, the organisation of risk management reflects – both qualitatively and quantitatively – internal requirements, the business activities involved, the bank's strategy and the risk situation. Organisationally, the risk management system is located at banking group level and is the responsibility of the parent company, HYPO-BANK BURGENLAND Aktiengesellschaft.

The requirements specified by banking group risk management are implemented by risk management operating units in the individual subsidiaries. The responsibilities of the risk management unit at CAPITAL BANK – GRAWE GRUPPE AG include the management of market risk and of strategic credit and operational risk, the monitoring of risk arising from private banking, the management of risk in the subsidiary banks of CAPITAL BANK – GRAWE GRUPPE AG and overall strategic bank management. The operational management of credit risk is carried out by the credit management department. The implementation of risk management for the banking group involves close cooperation between the risk management unit at HYPO-BANK BURGENLAND Aktiengesellschaft and the corresponding unit at CAPITAL BANK – GRAWE GRUPPE AG. A particular feature of the risk management system is the creation of special committees to aid the decision-making process for the Management Board.

Basic principles of risk management

Risks at CAPITAL BANK – GRAWE GRUPPE AG are controlled and managed through a system of risk principles, risk measurement procedures, limit structures and monitoring processes.

A key underlying component of the risk management process is the risk policy. The risk policy forms part of the corporate strategy, specifies the bank's risk appetite and risk focus, and sets out the framework within which the operational risk policy targets are to be pursued. At CAPITAL BANK – GRAWE GRUPPE AG, the risk policy is determined by the Management Board taking into account the policy and guidelines developed by the banking group and the bank's business strategy. It covers the planned development of the business as a whole from a number of different dimensions, specifies limits for relevant risks and restricts concentration risk by setting large-volume investment limits.

The risk policy principles represent a further component of the basic principles of risk management. The following risk policy principles have been specified as applicable throughout the banking group:

– The Management Board and all employees must act in accordance with the risk policy principles and must make decisions in compliance with these guidelines.

– In order to achieve the desired balance of risks and returns, the individual business divisions must be limited by means of risk and/or volume specifications taking into account the risk-bearing capacity of the bank.

– The methods used for assessing and measuring risk must be structured and applied according to the scope, complexity and risk content of the transactions involved in each case. The systems must cover not only the risk arising from trading business but also any risk arising from an analysis of the bank's activities as a whole. The selection of methods should be flexible to permit sensible further development in the future.

– To ensure a consistent and coherent risk management process, standardised methods must be used for assessing and limiting risk.

– As part of the risk management system, a suitable system of limits must be implemented and continuously monitored. The overall bank limits must be used to derive and specify limit systems both for the individual sub-risks and also for the individual subsidiaries. The specified risk limits must be based on the potential risk cover. However, the entire potential risk cover must not be used up in connection with the measured risks; a proportion must be held in reserve for exceptional circumstances and other risks that have not been measured.

– Risk management and control processes reflect the statutory requirements currently applicable and will be adjusted in line with changing conditions. The risk management performance indicators are also included in a system for strategic bank management.

– In the case of significant types of risk that may jeopardise the bank as a going concern, the bank will endeavour to put in place a risk management system that is at least similar to that in comparable banks in terms of structure and volumes (best practice principle).

– Responsibility for risk management lies at banking group level. In addition, every employee is encouraged to identify potential risk and initiate appropriate corrective action.

– The organisation of risk management is subject to the principle of segregation of functions between front office and back office and must ensure that conflicts of interest are prevented at all decision-making levels.

– For the purposes of ongoing risk management, regular reports on the risk situation must be submitted to the Management Board and to the decision-making committees at banking group and individual bank levels. The relevant organisational units are responsible for risk documentation and reporting.

Another key principle in the risk management system is use of the product approval process, which is applied when the bank launches new products or ventures into new markets. CAPITAL BANK – GRAWE GRUPPE AG generally only takes on exposures in those areas of business in which it has appropriate professional knowledge or relevant experts and in which it can assess the specific risks involved and carry out suitable monitoring. When the bank intends to move into new areas of business or new products, a key prerequisite is therefore a suitable analysis of the risks specific to the business concerned. To this end, CAPITAL BANK – GRAWE GRUPPE AG has set up a product approval process, which comprises defined rules and regulations for the organisation of the procedures involved. The process determines the procedures to be followed for issues, investments in new products and entry into new markets or areas of business. When the process is implemented it identifies the main opportunities and risks, which then serve as a basis for decision-making.

Risk control

In order to ensure there is a comprehensive, coordinated risk control system, the bank has drawn up an overall bank risk strategy and uses an overall bank risk manual together with work instructions as a documentation basis; it has also specified risk limits.

The overall bank risk strategy first defines general principles for risk management (basic principles, risk management process, organisation, etc.) and then set out risk strategies for each risk category. The objective of the risk manual is to meet the statutory and the business management requirements in respect of risk management. It provides support in the systematic handling of risk and enables employees and managers to systematically address the individual components of risk management. In the same way as the risk manual, work instructions aim to give employees an understanding of specific risk issues and the associated rules and regulations. In contrast to the risk manual, the work instructions are highly detailed and are usually restricted to specific individual issues. Risk limits are specified at least once a year based on the calculation of risk-bearing capacity. Compliance with risk limits is continuously monitored and regularly reported to senior managers. If the early warning threshold is reached or a limit is exceeded, action to limit the risk must be agreed in consultation with the Management Board and the relevant head of division, depending on the individual risk involved.

The main tool used for risk management at CAPITAL BANK – GRAWE GRUPPE AG is the calculation of risk-bearing capacity. In this calculation, the key risk figures from the individual types of risk are aggregated into an overall potential loss from the assumption of risk and in the same process compared against the cover assets (earnings, reserves and equity) available to be set against these potential losses. The purpose of this comparison is to establish the extent to which the bank is in a position to absorb potential unexpected losses (risk-bearing capacity calculation). Based on this risk-bearing capacity calculation, the objective is to protect the bank as a going concern. The Management Board decides on the overall risk strategy, which includes the allocation of the potential risk cover to the individual risk categories. At banking group level, the calculation of risk-bearing capacity serves as a limit for all risk activities. Risk-bearing capacity is calculated quarterly at banking group level and at individual bank level for HYPO-BANK BURGENLAND Aktiengesellschaft, Sopron Bank and CAPITAL BANK – GRAWE GRUPPE AG. In addition, risk exposures are continuously monitored so that ad hoc action can be taken to minimise risk in the event of any variances.

Risk-bearing capacity is calculated using two methods: the economic approach, which focuses on protection for creditors, and the going-concern approach, which takes as its basis the need to ensure the problem-free continuation of the bank as a going concern.

The capital available to the banking group to cover the risks it takes on in connection with its transactions is the amount of own funds that comprises Tier 1 and Tier 2 capital. To determine the aggregate risk cover, some of the hidden reserves and the forecast profits for the current year are also taken into account. The methodology used for calculating the risks varies depending on the risk category and the selected analysis method. Credit risk, market risk in the banking and trading books, operational risk, equity risk, other types of risk and risk arising from capital guarantees are all taken into account. To determine the overall risk, the individual types of risk are aggregated without factoring in any adjustment for the effects of correlation between the types of risk. During the year under review, the bank at all times took into account the mandatory reconciliation process between the quantified potential risk and the aggregate risk cover available to the bank. For certain categories of risk, stress scenarios are also applied in order to assess the risks that could arise from extreme market volatility.

Management of special types of risk

As part of the overall management of the risks faced by the bank, CAPITAL BANK – GRAWE GRUPPE AG makes a distinction between market risk, credit risk, liquidity risk, operational risk and a group of other risks. Given the bank's specialisation in the fields of private and investment banking, material risk arises primarily in the areas of operational risk (including legal risk) and market risk. Particular attention is given to these risks in the monitoring and management process.

Market risk

Market risk refers to potential losses that could arise from adverse changes in the market value of exposures as a result of changes in exchange rates (currency risk), share prices, indices and fund prices (equity risk), credit spreads (spread risk) and volatility (volatility risk). Risk exposures affected by market risk arise either in connection with client transactions or as a result of the conscious inclusion of such exposures in the bank's own portfolio. The main risk factors within the scope of market risk include interest-rate risk, currency risk, price risk related to variable-yield securities and price risk related to interest-bearing securities caused by credit spreads.

Market risk is managed by Group Treasury, the assets and liabilities committee, the capital markets committee and by the risk management unit, which is responsible for identifying, measuring, monitoring and managing market risk in the trading book and banking book. A key feature of the organisation of treasury activities is the segregation of front office and back office functions. The bank may only take on market risk within existing limits and only in respect of authorised products. These limits are specified annually by the Management Board and the Supervisory Board taking into account the risk-bearing capacity of the bank and the limits specified for the banking group. Key factors used in developing the limit structure are the desired degree of diversification in the portfolio and the trading strategy. The limits include country limits in addition to volume and exposure limits.

CAPITAL BANK – GRAWE GRUPPE AG maintains a "large-scale trading book" as defined by the BWG. To determine the capital requirement for the trading book, CAPITAL BANK – GRAWE GRUPPE AG uses the standardised approach in accordance with section 220 (2) of the BWG.

The bank may only conduct investments on its own account within defined limits. These limits are monitored continuously in accordance with the risk management guidelines for treasury investments. To all intents and purposes, currency risk is effectively eliminated at CAPITAL BANK – GRAWE GRUPPE AG by means of currency-matched funding and the use of foreign exchange derivatives. Tight limits are imposed if a small number of foreign exchange exposures are left open.

A particular aspect of market risk that affects CAPITAL BANK – GRAWE GRUPPE AG is the risk arising from guarantees given in connection with the securities business. CAPITAL BANK – GRAWE GRUPPE AG has given capital guarantees for certain products that it has designed and sold itself, and for products that are sold by insurance companies. The PZV (prämienbegünstigte Zukunftsvorsorge) product, a special pension plan product offered in Austria with a government subsidy, is especially important in this context because CAPITAL BANK – GRAWE GRUPPE AG assumes responsibility for the capital guarantee in connection with this investment product in accordance with statutory requirements (section 108 (1) no. 3 of the Austrian Income Tax Act (EStG)). Under this capital guarantee, the bank guarantees that the client will receive a payout that is at least equivalent to the amounts paid in plus the government subsidy. The risk in connection with the PZV product is subject to greater monitoring in the risk management system. Even before the bank took over responsibility for this guarantee, the product was subject to an authorisation process in which, both within the bank itself and also with third parties, the product process was discussed in detail, various problems were addressed and solutions drawn up. Within the capital guarantee management process at CAPITAL BANK – GRAWE GRUPPE AG, trends regarding the guarantees are monitored, as are the investment criteria and the performance of the underlying funds. Stress tests are also regularly carried out for the capital guarantees in order to highlight the impact of market trends on any payment that may have to be made under the guarantee. In addition, the bank holds regular guarantee meetings in which it discusses material changes concerning the capital guarantee portfolios and the underlying funds with Security Kapitalanlage Aktiengesellschaft and Grazer Wechselseitige Versicherung Aktiengesellschaft.

Guarantees with a total guaranteed sum of approximately €258 million were outstanding as at 31 December 2013. The guarantees are matched by corresponding recoverable investments.

At CAPITAL BANK – GRAWE GRUPPE AG, interest-rate risk is defined as the risk of fluctuations in the price of interest-bearing securities, arising in turn from changes in capital market interest rates. Interest-rate risk is managed for the whole of the banking group by Group Treasury and the assets and liabilities committee, which manage the interest-rate structure taking into account the risk involved. On the basis of interest-rate risk statistics from the Austrian National Bank (OeNB), it is possible to state that interest-rate risk at CAPITAL BANK – GRAWE GRUPPE AG is at a low level compared with the regulatory threshold of 20% of eligible capital. It is also clear that, as a result of the current business strategy, interest-rate risk at CAPITAL BANK – GRAWE GRUPPE AG represents a small proportion of the overall banking risk at the bank.

Operational risk

At CAPITAL BANK – GRAWE GRUPPE AG, operational risk is defined in the same way as in the statutory banking provisions as the risk of unexpected losses caused by the inadequacies or failure of internal procedures, people or systems, or by external events, and includes legal risk. A more detailed and then aggregated measurement and management of risk should therefore be applied, for example, to breakdowns in IT systems, damage to property, processing failures, fraud, natural or other disasters and changes in the external environment.

Such risks must be classified according to the cause of the risk so that operational risk can be identified and analysed with precision. The purpose of risk categories is to help the bank to analyse the size, cause and impact of operational events that occur. Self-assessments are also used to support the process of ascertaining the potential risk. Loss events are recorded in a separate database on an ongoing basis. Additional risk information can be obtained from various risk indicators, such as the number and duration of system breakdowns, findings from internal audits (process risks) and the frequency of complaints and claims against the bank. The principal concern of risk management is to find an answer to the question as to whether and how an existing risk can be mitigated. The task of risk management is therefore to search for solution options and possible corrective action. The task is carried out by the department responsible for the risk, generally in collaboration with the Internal Audit and Organisation units.

The management of operational risk at CAPITAL BANK – GRAWE GRUPPE AG is the responsibility of the risk management unit. The duties of the unit include classifying the risks, drawing up standard guidelines for use throughout the banking group, managing the content of the operational risk database, analysing loss events and preparing reports for the Management Board and various committees. Based on the standards applicable throughout the banking group, loss events related to operational risk are assembled in one database used by the whole of the banking group. This database can then be used as a basis for identifying weaknesses in systems and processes and then for initiating appropriate corrective action.

The systems and structures used by CAPITAL BANK – GRAWE GRUPPE AG to minimise operational risk also include internal control systems (including control systems managed by Internal Audit), clearly documented internal guidelines (work instructions), segregation of functions (principle of double-checking by a second person), allocation and limitation of decision-making authority, together with an ongoing process of training and professional development (personnel development) to ensure that employees have the requisite skills and qualifications, which they then continue to enhance. These internal management and control measures integrated into the business processes are intended to ensure that there is an appropriate, acceptable level of risk within the bank.

In the context of operational risk, CAPITAL BANK – GRAWE GRUPPE AG pays special attention to the risk associated with the provision of advice, a risk that arises particularly in the private banking business. To manage this risk, the bank has developed special risk management procedures that have now been used for a number of years in the private banking business and have been refined over the course of time. The main focus of the risk strategy in this case is to discover any possible errors in advice or undesirable developments at an early stage and identify associated advisory or reputational risks.

CAPITAL BANK – GRAWE GRUPPE AG uses the Basic Indicator Approach to determine its capital adequacy for operational risk in accordance with Basel II.

Credit risk

At CAPITAL BANK – GRAWE GRUPPE AG, credit risk is defined as the default risk that arises in connection with loans and advances not evidenced by certificates and loans and advances evidenced by certificates (securities) to third parties. The risk is that these loans and advances may not be repaid in full or on time to CAPITAL BANK – GRAWE GRUPPE AG. The situation may arise from develop-ments at individual counterparties or from general problems affecting a large number of counterparties. Credit risk may also arise from particular types of product design or types of business. Expert man-agement of all credit risks is the responsibility of the credit manage-ment unit. This unit carries out the banking operations on the assets side of the balance sheet at an operational level. The tasks include checking all finance applications from the perspectives of risk and credit quality in accordance with the relevant guidelines, reviewing compliance with measurement and assessment guidelines and identifying any early warning indicators. The risk management unit is responsible for identifying, measuring, assembling, planning, managing and monitoring the overall credit risk portfolio. The total lending exposure (loans and advances to clients including securities) and the breakdown of the risk volume by currency, risk category and country is regularly reported to the Management Board. Stress scenarios have also been drawn up for loans against marketable collateral (Lombard loans), the main type of lending at CAPITAL BANK – GRAWE GRUPPE AG. The purpose of these stress scenarios is to model the impact on collateral from changes in the market prices of securities pledged as collateral. In addition, concentrations in the securities furnished as collateral are continuously analysed in order to highlight any resulting cluster or concentration risk. Credit risk data from CAPITAL BANK – GRAWE GRUPPE AG is also fed into the analysis and assessment of the credit risk for the whole of the banking group.

In 2013, the lending volume (before allowances for losses on loans and advances and section 57 reserve) rose by approximately €33 million year on year to around €191 million.

At CAPITAL BANK – GRAWE GRUPPE AG, risk in the lending business is managed in accordance with the principles agreed by the Management Board and specified in the credit risk manual. These guidelines meet the minimum standards for lending business issued by the Austrian Financial Market

Authority (FMA) and are updated if there are any legal or other changes affecting this type of business. To manage country risk, country limits have been set both at banking group and individual bank levels. CAPITAL BANK – GRAWE GRUPPE AG has laid down guidelines for the approval of counterparties with the aim of minimising counterparty risk. The risk management unit is responsible for vetting new trading partners. The unit carries out checks on new partners and approves them using internal criteria.

The basic principles of lending business at CAPITAL BANK – GRAWE GRUPPE AG include a clear credit and associated risk policy. A core principle of this policy is that lending is granted first and foremost against the provision of collateral. The main types of acceptable collateral are appropriate securities, the rates for which are differentiated according to various criteria. The lending decision takes into account not only an analysis of the available collateral but also the financial circumstances of the borrower. CAPITAL BANK – GRAWE GRUPPE AG uses a system comprising ten levels to break down clients into different risk categories or classes.

Liquidity risk

Liquidity risk encompasses both insolvency risk and liquidity maturity transformation risk. The aim of managing liquidity risk is to ensure that the bank can meet its payment obligations by the due date at all times without having to incur unacceptably high costs.

The group treasury function together with cash pooling for the entire banking group is the responsibility of Group Treasury at HYPO-BANK BURGENLAND Aktiengesellschaft. Liquidity risk is managed centrally for the whole of the banking group under the auspices of the assets and liabilities committee, which meets regularly.

Under regulatory requirements, a bank is deemed to have sufficient liquidity if the weighted cash and cash equivalents for a period cover the weighted payment obligations potentially due for payment over the same period. The relevant liquidity ratio at CAPITAL BANK – GRAWE GRUPPE AG was higher than the regulatory ratio at all times during 2013. The following options ensure that the bank can obtain further liquidity to cover an unforeseen increased liquidity requirement or obtain liquidity at short notice: the bank can make use of available funding lines of credit at other banks or cover any additional liquidity requirement at (relatively) short notice by selling some of the securities held in its books that have not been pledged as collateral elsewhere. A report on the current liquidity situation and on the securities held by the bank that can be liquidated at any time is submitted regularly to the Management Board. The potential liquidation and duration of the liquidation of securities held by the bank is analysed for a normal operations scenario and for certain stress scenarios (by applying appropriate haircuts). Within the framework of the treasury limits, the bank holds a portfolio of available securities eligible as collateral at the ECB. This portfolio can be used to obtain liquidity at short notice and cover any unexpected liquidity outflows. In addition, standard liquidity simulations have been set up for the whole of the banking group covering the following scenarios: normal scenario, bank-specific crisis, market crisis and combined crisis. These simulations are run on a regular basis and the results reported to the Management Board. CAPITAL BANK – GRAWE GRUPPE AG had sufficient liquidity at its disposal at all times in 2013.

Macroeconomic risk

Macroeconomic risk arises from an economic deterioration as part of the traditional economic cycle and a potential increase in the accompanying risk parameters. Macroeconomic risk is factored into the bank's risk calculations so that it would have sufficient aggregate risk cover even after such a period of deterioration without the need for massive intervention and corrective measures. The quantification of the risk assumes a contraction in GDP which is then reflected in a deterioration in default rates. Sharp changes in prices also reduce the value of collateral. Credit risk is recalculated using these modified parameters and the difference compared with the original credit risk represents the macroeconomic risk.

Other risks

The main risks included within other risks are business risk, strategic risk and also reputational risk. These risks are factored into the calculation of risk-bearing capacity in the form of a capital buffer.

Business risk is defined as the risk of a loss from a negative trend in the economic environment and in the bank's business relationships. Business risk may arise primarily from a significant deterioration in market conditions, from changes in the competitive position or from changes in client behaviour. This can lead to a sustained fall in earnings and thus a decrease in enterprise value. The management of business risk is the responsibility of those business units that focus particularly on increasing the volume of assets under management and thus on enhancing earnings capacity.

Strategic risk refers to the risk of losses arising from decisions on the fundamental direction and development of the bank's business activities. In terms of attaining long-term corporate objectives, the consequences can be a range of problems from undesirable developments to a complete failure to achieve objectives. Responsibility for strategic corporate management lies with the Management Board of CAPITAL BANK – GRAWE

GRUPPE AG. The performance of the business in 2013 shows that the private banking business strategy developed over the last few years – based on the model summed up by the tagline "Transparent, honest and fair – this is how private banking should be" – has proved itself to be successful and will continue to drive the strategic direction of the bank over the long term.

Summary and outlook

At CAPITAL BANK – GRAWE GRUPPE AG, suitable action is taken to limit and minimise all material risks. An analysis of risk-bearing capacity is carried out in which all the measurable risks throughout the whole of the bank are aggregated. The measures to limit risk also include a suitable limit system and the calculation of different key risk indicators. The calculation of risk-bearing capacity shows that only part of the risk-bearing capacity at CAPITAL BANK – GRAWE GRUPPE AG is utilised by existing risk and a sufficient buffer is available in the present aggregate risk cover.

During 2014, CAPITAL BANK – GRAWE GRUPPE AG will continue its business activities in line with its chosen risk strategy. One of the key areas of focus in risk management activities will be the ongoing further development of risk methods, systems and management in the HYPO-BANK BURGENLAND Aktiengesellschaft banking group.

Given the special nature of the business model at CAPITAL BANK – GRAWE GRUPPE AG, risk monitoring in the private banking business will also continue to be a focus of risk management activities in 2014.

Other risk management priorities in the coming year will include ongoing compliance with the ICAAP requirements, capital guarantees, modification of the reporting system, further expansion of the group-wide data pool and the associated further standardisation of risk measurement methods, together with continuous improvement in existing risk management activities. Not least, risk management activities in 2014 will also have to include action to address the latest regulatory issues, develop management tools, support the professional development of employees and ensure continuous improvements in internal risk quantification methods.

Graz, 25 February 2014

The Management Board

Christian Jauk, MBA, m.p.	Mag. Constantin Veyder-Malberg m.p.
Chairman of the Management Board	Member of the Management Board

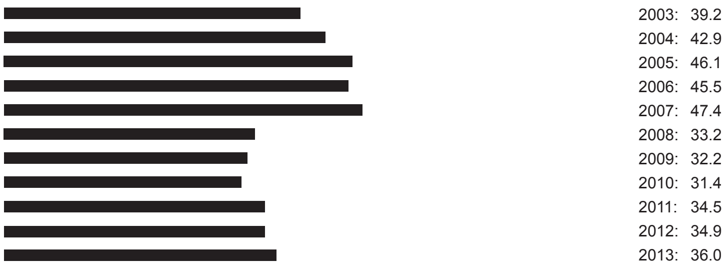
01. PROFIT FROM ORDINARY ACTIVITIES IN EUR K

02. TOTAL ASSETS IN EUR K

03. OPERATING PROFIT IN EUR K

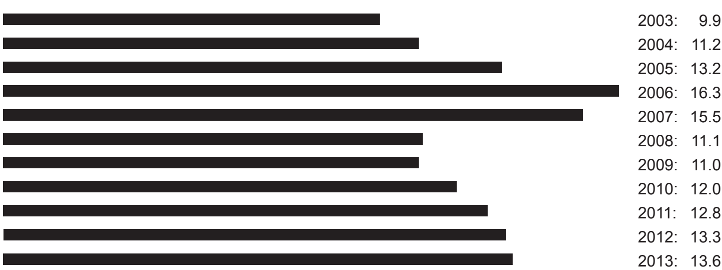
04. ASSETS UNDER MANAGEMENT (INCL. SECURITY KAG) IN EUR MILLION

05. OPERATING INCOME IN EUR MILLION



06. NET INTEREST INCOME IN EUR K

07. PERSONNEL EXPENSES IN EUR MILLION



Report of the Supervisory Board

In 2013, the Supervisory Board monitored the Management Board and endorsed its activities on the basis of four meetings of the Supervisory Board to which the Management Board submitted reports and documents as well as on the basis of repeated contact between the two boards.

The annual financial statements for the year ended 31 December 2013 and the annual report, to the extent that it provides explanations for the annual financial statements, were audited by KPMG Wirtschaftsprüfungs- und Steuerberatungs AG, 1090 Vienna. This audit did not give cause for any reservations and the auditors issued an unqualified audit opinion.

The Supervisory Board has acknowledged the report and proposal for the appropriation of profits submitted by the Management Board and has reviewed and approved the annual financial statements
for the year ended 31 December 2013. These annual financial statements have therefore been

formally adopted pursuant to section 96 (4) of the Austrian Stock Corporation Act (AktG).

The Supervisory Board would like to take this opportunity to thank all clients for their confidence in CAPITAL BANK – GRAWE GRUPPE AG and to express its gratitude to the Management Board and all employees for their contributions in 2013.

Graz, March 2014

Mag. Dr. Othmar Ederer
Chairman of the Supervisory Board

08. BALANCE SHEET OF CAPITAL BANK – GRAWE GRUPPE AG AS AT 31 DECEMBER 2013

ASSETS		31.12.2013 EUR	31.12.2012 EUR K
1. Cash in hand and balances with central banks		6,175,091.76	5,499
2. Public-sector debt instruments eligible as collateral for central bank funding			
Public-sector debt instruments and similar securities		20,876,677.79	19,038
3. Loans and advances to banks		338,439,325.97	274,889
a) Due daily	187,227,789.15		138,263
b) Other administrative	151,211,536.82		136,626
4. Loans and advances to customers		170,453,667.06	140,726
5. Bonds and other fixed-income securities		81,572,837.74	79,719
6. Shares and other variable-yield securities		116,446,474.78	118,950
7. Equity investments		9,318.42	9
of which: in banks	8,575.30		9
8. Shares in affiliated companies		23,704,105.30	23,672
of which: in banks	22,900,925.13		22,901
9. Intangible fixed assets		223,721.14	233
10. Property and equipment		1,863,379.95	1,905
11. Other assets		160,162,449.54	168,790
12. Deferred income		586,264.47	560
TOTAL ASSETS		920,513,313.92	833,990
Below-the-line items			
1. Foreign assets		368,787,994.15	373,769

EQUITY AND LIABILITIES		31.12.2013 EUR	31.12.2012 EUR K
1. Deposits from banks		24,648,208.69	16,130
a) Repayable on demand	19,276,482.97		15,377
b) With agreed maturity or notice period	5,371,725.72		753
2. Deposits from customers		362,075,111.25	325,265
a) Savings deposits	7,305,072.81		9,456
aa) Repayable on demand	1,518,663.91		4,734
ab) With agreed maturity or notice period	5,786,408.90		4,722
b) Other deposits	354,770,038.44		315,809
ba) Repayable on demand	302,399,610.62		254,681
bb) With agreed maturity or notice period	52,370,427.82		61,128
3. Liabilities evidenced by certificates		374,019,594.81	335,441
Other liabilities evidenced by certificates	374,019,594.81		335,441
4. Other liabilities		14,232,554.31	12,947
5. Provisions		15,188,430.78	14,925
a) Provisions for severance payments	3,472,761.02		3,349
b) Provisions for pensions	372,038.84		384
c) Tax provisions	43,277.20		43
d) Other	11,300,353.72		11,149
6. Subscribed capital		10,000,000.00	10,000
Nominal amount	10,000,000.00		10,000
7. Capital reserves		55,915,661.65	55,916
a) Non-distributable (share premium)	35,082,987.22		35,083
b) Distributable	20,832,674.43		20,833
8. Retained earnings		48,096,218.77	44,596
a) Legal reserve	1,504,504.45		1,505
b) Other reserves	46,591,714.32		43,092
9. Liability reserve pursuant to section 23 (6) BWG		11,127,000.00	11,127
10. Distributable profit		5,210,533.66	7,643
a) Profit brought forward	2,642,752.86		759
b) Net profit for the year	2,567,780.80		6,884
TOTAL EQUITY AND LIABILITIES		920,513,313.92	833,990

Below-the-line items			
1. Contingent liabilities			
Liabilities from guarantees and liabilities from the provision of collateral		260,629,263.76	298,059
2. Credit risks		34,565,488.76	27,685
3. Liabilities from trust transactions		15,288,444.85	17,499
4. Eligible capital pursuant to section 23 (14) BWG		147,845,159.28	138,336
5. Capital requirement pursuant to section 22 (1) BWG		47,603,342.78	52,997
of which: capital requirement pursuant to section 22 (1)	30,289,369.78		28,010
6. Foreign liabilities		66,066,112.07	62,980

09. INCOME STATEMENT OF CAPITAL BANK – GRAWE GRUPPE AG FOR THE YEAR ENDED 31 DECEMBER 2013

		31.12.2013 EUR	31.12.2012 EUR K
1. Interest and similar income		9,152,412.23	11,079
of which: from fixed-income securities	3,521,620.46		2,994
2. Interest and similar expenses		-2,161,611.48	-3,787
I. NET INTEREST INCOME		6,990,800.75	7,292
3. Income from securities and equity investments		5,655,254.30	6,689
a) Income from shares, other equity interests and variable-yield securities	1,618,946.19		3,809
b) Income from equity investments	616.13		0
c) Income from shares in affiliated companies	4,000,691.98		2,880
d) Increase in net assets from transfer of shares	35,000.00		0
4. Fee and commission income		43,601,688.61	38,233
5. Fee and commission expenses		-22,487,241.40	-19,394
6. Income/expenses from financial operations		146,585.00	356
7. Other operating income		2,064,941.89	1,682
II. OPERATING INCOME		35,972,029.15	34,858
8. General and administrative expenses		-21,263,083.89	-21,084
a) Personnel expenses	-13,588,643.46		-13,293
aa) Wages and salaries	-11,242,918.31		-10,328
bb) Social security costs, compulsory and other contributions linked to pay	-1,823,373.38		-1,854
cc) Other social security expenses	-127,920.48		-132
dd) Post-employment and other employee benefit costs	-202,606.71		-204
ee) Additions to pension provisions	12,167.04		11
ff) Expenses for severance payments and contributions to occupational pension funds for employees	-203,991.62		-786
b) Other administrative expenses	-7,674,440.43		-7,791
9. Write-downs of assets reported under asset items 9 and 10		-593,773.61	-537
10. Other operating expenses		-14,500.39	-15
III. OPERATING EXPENSES		-21,871,357.89	-21,636

	31.12.2013 EUR	31.12.2012 EUR K
IV. OPERATING PROFIT	14,100,671.26	13,222
11. Allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks	-22,617,413.02	-31,518
12. Income from the reversal of allowances for losses on loans and advances and of provisions for contingent liabilities and credit risks	16,113,672.65	25,475
13. Write-downs of securities recognised as financial assets and of shares in affiliated companies	-7,150.00	0
14. Income from the reversal of write-downs of securities recognised as financial assets, of equity investments and of shares in affiliated companies	71,070.00	2
V. PROFIT FROM ORDINARY ACTIVITIES	7,660,850.89	7,181
15. Income tax	-1,587,872.81	-290
16. Other taxes not reported under item 15	-5,197.28	-7
VI. PROFIT FOR THE YEAR	6,067,780.80	6,884
17. Changes in reserves	-3,500,000.00	0
VII. NET PROFIT FOR THE YEAR	2,567,780.80	6,884
18. Profit brought forward	2,642,752.86	759
VIII. DISTRIBUTABLE PROFIT	5,210,533.66	7,643

10. CAPITAL AND CAPITAL REQUIREMENT IN EUR K

	CAPITAL BANK – GRAWE GRUPPE AG		
	2013	**2012**	**2011**
Tier 1 capital	124,915	121,406	121,579
Subscribed capital	10,000	10,000	10,000
Capital reserves	55,916	55,916	55,916
Retained earnings	48,096	44,596	44,596
Liability reserve	11,127	11,127	11,127
Consolidation pursuant to section 24 (2) BWG	0	0	0
Intangible assets	-224	-233	-60
Tier 2 capital	22,930	16,930	15,142
Hidden reserves pursuant to section 57 (1) BWG	22,930	16,930	11,800
Revaluation reserve	0	0	3,342
Deductions	0	0	0
Eligible capital	147,845	138,336	136,721
Measurement basis (banking book)	312,788	286,745	296,438
Tier 1 capital ratio (banking book)	39.94%	42.34%	41.01%
Total capital ratio (banking book)	47.27%	48.24%	46.12%
Capital requirement (banking book)	25,023	22,940	23,716
Capital requirement (trading book)	14,388	25,018	27,528
Additional capital requirement pursuant to section 27 (16a) BWG	2,926	0	0
Capital requirement for operational risk	5,266	5,039	4,904
Capital surplus	100,242	85,340	80,573

11. STATEMENT OF CHANGES IN FIXED ASSETS AS AT 31.12.2013, CAPITAL BANK – GRAWE GRUPPE AG

in EUR				Cost
	As at 1.1.2013	Additions	Addition fr. trans.	Disposals
Public-sector debt instruments	14,830,047.50	3,548,070.00	0.00	497,500.00
Loans and advances to banks (securities)	0.00	0.00	0.00	0.00
Loans and advances to customers (securities)	0.00	518,305.56	0.00	518,305.56
Bonds and other fixed-income securities	25,416,741.47	5,597,485.00	0.00	3,320,190.56
Shares and other variable-yield securities	14,023,486.27	0.00	0.00	0.00
Equity investments	9,334.89	0.00	0.00	0.00
Shares in affiliated companies	23,972,255.30	0.00	35,000.00	3,150.00
Intangible assets	991,804.78	66,404.00	0.00	0.00
Property and equipment	7,001,545.32	466,914.16	0.00	226,516.95
Low-value assets	0.00	10,799.93	0.00	10,799.93
TOTAL FIXED ASSETS	86,245,215.53	10,207,978.65	35,000.00	4,576,463.00

	Depreciation, amortisation and write-downs	Carrying amount	Carrying amount	Depreciation, amortisation and write-downs
As at 31.12.2013	Cumulative	31.12.2013	31.12.2012	2013
17,880,617.50	51,730.89	17,828,886.61	14,798,451.16	20,134.55
0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00
27,694,035.91	602,015.31	27,092,020.60	24,768,272.28	92,801.68
14,023,486.27	602,851.92	13,420,634.35	13,579,550.84	158,916.49
9,334.89	16.47	9,318.42	9,318.42	0.00
24,004,105.30	300,000.00	23,704,105.30	23,672,255.30	0.00
1,058,208.78	834,487.64	223,721.14	232,703.86	75,386.72
7,241,942.53	5,378,562.58	1,863,379.95	1,904,749.15	507,586.96
0.00	0.00	0.00	0.00	10,799.93
91,911,731.18	7,769,664.81	84,142,066.37	78,965,301.01	865,626.33

Excerpt from the notes to the annual financial statements of CAPITAL BANK – GRAWE GRUPPE AG for the year ended 31 December 2013

A. GENERAL

CAPITAL BANK – GRAWE GRUPPE AG (referred to below as Capital Bank) operates as a partner for all capital market participants, including private monthly savers, small and medium-sized enterprises and institutional investors. The range of services include both investment and the procurement of capital.

Capital Bank is a subsidiary of HYPO-BANK BURGENLAND Aktiengesellschaft, which acts as the parent bank in the banking group. Key subsidiaries of Capital Bank include Brüll Kallmus Bank AG and Security Kapitalanlage Aktiengesellschaft.

The ultimate parent company that prepares the consolidated financial statements for the greatest number of entities is Grazer Wechselseitige Versicherung Aktiengesellschaft, Graz, Austria. The consolidated financial statements are published at the registered office of the ultimate parent company. The parent company that prepares the consolidated financial statements for the banking group of entities is HYPO-BANK BURGENLAND Aktiengesellschaft, Eisenstadt, Austria. The consolidated financial statements of HYPO-BANK BURGENLAND Aktiengesellschaft are submitted to the Eisenstadt regional court.

The comparative figures included in this report are taken from the 2012 annual financial statements and are shown in parentheses. The annual financial statements of Capital Bank have been prepared in accordance with the provisions of the Austrian Banking Act (BWG) as amended and also – where applicable – in accordance with the provisions of the Austrian Commercial Code (UGB). The balance sheet and the income statement have been broken down in accordance with the templates included in annex 2 to section 43 of the BWG.

Excerpt from the notes to the annual financial statements of CAPITAL BANK – GRAWE GRUPPE AG for the year ended 31 December 2013

B. ACCOUNTING POLICIES

The annual financial statements of Capital Bank and its subsidiaries have been prepared in accordance with generally accepted accounting principles and the standard requirement to provide a true and fair view of the financial position and financial performance of the company. The principle of complete disclosure of all assets, liabilities, income and expenses has been observed. Assets and liabilities have been measured individually. All identifiable risks and impending losses that arose in 2013 or in an earlier financial year have been recognised in the financial statements. The measurement methods used to date have been retained.

In accordance with the *principle of prudence*, only those gains realised as at the balance sheet date have been reported; all identifiable risks and imminent losses have been included.

The reference exchange rates published by the ECB on 31 December 2013 (middle rates) have been used for measuring *assets and liabilities denominated in foreign currency*.

Currency forward agreements have been measured using the forward rate as at the balance sheet date.

Securities are measured at the lower of cost or market (strict lower of cost or market principle) regardless of whether they are classified as fixed assets or current assets. Trading securities are measured at market value. The criteria for classifying securities as fixed assets are the use of the securities for generating returns over the long term and the existence of restrictions on the use or sale of the securities. Short positions (for settlement/technical reasons) of securities are reported under other liabilities. The bank has made use of the option to amortise negative differences between cost and settlement amounts on a pro rata basis as permitted by section 56 (2) of the BWG.

Loans and advances to banks and customers are generally carried at their principal amounts. Appropriate specific valuation allowances are recognised to take into account all risks identifiable in the lending business. Clients have also hedged risks by entering into derivatives with Capital Bank. For its part, the bank has entered into matching transactions with partner banks that are the opposite of these hedges. The transactions together form hedge accounting relationships.

Equity investments and *shares in affiliated companies* are recognised at the lower of cost and fair value, the latter in the event of any permanent impairment as at the reporting date.

Buildings and *office and operating equipment* are measured at cost and reduced by depreciation. Depreciation is recognised on a straight-line basis. Low-value assets are written off in full in the year of acquisition.

Depreciation rates of for immovable assets are in the range 6.66% to 10% per annum, and for movable assets 5% to 33.3% per annum.
A full year's depreciation is recognised for additions in the first half of the financial year, but only half of a year's depreciation for additions in the second half of the financial year.

Intangible fixed assets solely comprise purchased software. This software is amortised on a straight-line basis at rates of 20% to 33.3% per annum.

Liabilities evidenced by certificates include items for which the settlement amount depends on the price of the defined underlying instrument and are therefore measured at the current market value of the items concerned. Together with the assets and derivatives reported under various items, these liabilities evidenced by certificates form hedging relationships and are therefore recognised accordingly at fair value. Some of the liabilities evidenced by certificates have a capital guarantee.

The remaining *liabilities* are recognised at their settlement amount.

In accordance with statutory requirements, the measurement of *provisions* takes into account all identifiable risks and imminent losses as well as the amount of contingent liabilities.

The calculation of the *provision for severance obligations* is based on recognised actuarial principles using the AVÖ 2008 – P Pagler & Pagler tables for the calculation of pension insurance. The obligations are determined using the projected unit credit method. The calculations are also based on a pensionable age of 65 for men and 60 for women.
The obligations were discounted as at 31 December 2013 using a long-term market discount rate of 3.2% (31 December 2012: 3.2%). The salary increase trend used in the calculations was 3.0% (31 December 2012: 3.0%).

The calculation of the pension provision is also based on recognised actuarial principles using the AVÖ 2008 – P Pagler & Pagler tables for the calculation of pension insurance. The projected unit credit method is used to calculate the obligation. The group of beneficiaries consists solely of pension recipients. The calculation as at 31 December 2013 used a long-term market discount rate of 3.0% (31 December 2012: 3.0%).

Actuarial gains and losses on non-current personnel provisions are recognised in profit and loss in the period in which they arise.

In the 2013 annual financial statements, the bank made use of the election option available under section 57 (1) of the BWG, as it had also done in 2012.

C. BALANCE SHEET DISCLOSURES

Fixed assets

The breakdown of fixed assets and the changes in fixed assets over 2013 are reported in the statement of changes in fixed assets (see annex 1 to the notes). As at the reporting date, the bank held neither developed nor undeveloped land as part of its property and equipment, as had also been the case as at 31 December 2012.

Securities

The total value of the securities portfolio (including pro rata interest) as at 31 December 2013 amounted to €334.9 million (31 December 2012: €325.8 million). Of this total, an amount of €198.0 million (31 December 2012: €196.4 million) was accounted for by underlying instruments for liabilities evidenced by certificates and total return swaps with which hedging relationships were recognised. As at 31 December

2013, underlying instruments amounting to €98.5 million (31 December 2012: €95.8 million) had been pledged as collateral in favour of issue buyers and, of this amount, €1.9 million (31 December 2012: €1.6 million) had been assigned to one collateral trustee. Bonds and other fixed-income securities with a carrying amount of €13.3 million (31 December 2012: €17.4 million) were due within one year.

The difference between the cost and higher fair value as at the balance sheet date for the listed securities not classified as financial assets and recognised at cost was €0.8 million (31 December 2012: €1.5 million).

The bank's fixed assets as at 31 December 2013 included securities with a carrying amount of €58.3 million (31 December 2012: €53.1 million). The difference between the cost and higher fair value amounted to €6.8 million (31 December 2012: €7.8 million). The difference between the carrying amount and the lower settlement amount for fixed-income securities classified as fixed assets amounted to €431 thousand (31 December 2012: €289 thousand).

As at 31 December 2013, securities classified as fixed assets (including pro rata interest) were included in the following items:

– in A2, Public-sector debt instruments, in an amount of €18.3 million (31 December 2012: €15.2 million);

– in A5, Bonds and other fixed-income securities, in an amount of €27.6 million (31 December 2012: €25.2 million)

– in A6, Shares and other variable-yield securities, in an amount of €13.4 million (31 December 2012: €13.6 million).

For further information please refer to the attached statement of changes in fixed assets (annex 1).

The company maintains a trading book as defined by section 22n of the BWG. Items in the trading book are recognised at market value. As at 31 December 2013, the trading book did not include any securities (31 December 2012: €0.4 million).

As at the reporting date, CAPITAL BANK – GRAWE GRUPPE AG had provided capital guarantees in the trading book, specifically in connection with the PZV (prämienbegünstigte Zukunftsvorsorge) product, a special pension plan product offered in Austria with a government subsidy, in an amount of €149.3 million (31 December 2012: €194.2 million) and in connection with fund-linked life insurance in an amount of €95.7 million (31 December 2012: €80.8 million). Under the arrangements for capital guarantees in the PZV product and fund-linked life insurance, the associated market risk is transferred from the pension or insurance provider to CAPITAL BANK – GRAWE GRUPPE AG. Each of the assets behind the capital guarantees is considered separately (as a substitute for the guarantee) to assess whether there is any need for a provision for the guarantees.

The breakdown of the securities included in bonds and other fixed-income securities and in shares and other variable-yield securities was as follows:

in EUR K	Exchange-listed	Not exchange-listed	Of which in fixed assets	Of which in current assets
2012				
Bonds and other fixed-income securities	78,940	779	25,248	54,472
Shares and other variable-yield securities	23,414	97,463	13,580	107,298
2013				
Bonds and other fixed-income securities	80,563	1,525	27,596	54,493
Shares and other variable-yield securities	18,880	101,859	13,421	107,319

As in 2012, the bonds did not include any assets of a subordinated nature.

As a consequence of the crisis in Greece, the bank has closely monitored trends in the peripheral countries of the euro zone and has imposed strict risk requirements relating to exposures with and in these countries.

Equity investments

The reported equity investments and shares in affiliated companies are not admitted to trading on a stock exchange.

As at 31 December 2013, the bank held direct equity investments in the following entities with shareholdings of at least 20%[1]:

LIST OF EQUITY INVESTMENTS

Equity investment	Share capital in EUR K	Share-holding	C/N	Equity in EUR K[2]	Profit for year in EUR K[3]	Balance sheet
Brüll Kallmus Bank AG	6,000	100%	C	14,712	2,736	2013
Security Kapitalanlage Aktiengesellschaft	4,362	100%	C	26,398	4,225	2013
Corporate Finance – Grawe Gruppe GmbH	1,000	100%	N	1,179	252	2013
CENTEC.AT Softwareentwicklungs und Dienstleistungs GmbH	35	58%	N	58	0	2013
BK Immo Vorsorge GmbH	35	100%	N	1,100	373	2013
CB Family Office Service GmbH	35	100%	N	26	-2	2013

C = Consolidated in full
N = Not included in consolidation pursuant to section 249 (2) and section 263 UGB in conjunction with section 59 (6) BWG
[1] Elected to make use of section 241 (2) UGB.
[2] Equity calculated in accordance with section 229 UGB including reserves after tax; including distributable profit.
[3] Pursuant to section 231 (2) no. 22 UGB, profit/loss for the year is figure before adjustments to reserves.

Excerpt from the notes to the annual financial statements of CAPITAL BANK – GRAWE GRUPPE AG for the year ended 31 December 2013

Loans and advances to, and deposits from, banks and customers

The loans and advances to banks included €4.6 million (31 December 2012: €1.4 million) relating to loans and advances evidenced by certificates but not admitted to trading on an exchange. Loans and advances to banks amounting to €145.5 million (31 December 2012: €104.8 million) related to the assignment to a collateral trustee of underlying instruments for liabilities evidenced by certificates.

The loans and advances to customers included €1.3 million (31 December 2012: €1.3 million) relating to loans and advances evidenced by certificates but not admitted to trading on an exchange.

MATURITY STRUCTURE

Loans and advances/deposits not repayable on demand	Loans and advances		Deposits	
Total for banks and customers (EUR K)	31.12.2012	31.12.2013	31.12.2012	31.12.2013
Up to 3 months	174,785	98,686	50,711	14,165
More than 3 months to 1 year	28,688	46,075	14,781	41,427
More than 1 year to 5 years	44,295	56,365	2,346	2,002
More than 5 years	4,309	4,486	3,034	4,271
Total	252,078	205,613	70,872	61,864

CAPITAL BANK – GRAWE GRUPPE AG forms part of a tax group for value added tax purposes with Corporate Finance – Grawe Gruppe GmbH and CENTEC.AT Softwareentwicklungs und Dienstleistungs GmbH.

Capital Bank is part of a corporate group as defined by section 9 of the Austrian Corporation Tax Act (KStG), the parent company of the group being HYPO-BANK BURGENLAND Aktiengesellschaft.

The disclosures pursuant to section 26 of the BWG are the responsibility of the parent bank HYPO-BANK BURGENLAND Aktiengesellschaft.

LOANS AND ADVANCES TO, AND DEPOSITS FROM, AFFILIATED COMPANIES AND OTHER LONG-TERM INVESTEES AND INVESTORS

in EUR K	31.12.2013	31.12.2012
Loans and advances to banks		
of which to affiliated companies	197,999	177,350
of which to other long-term investees and investors	8	0
Loans and advances to customers		
of which to affiliated companies	786	782
Deposits from banks		
of which to affiliated companies	22,463	11,249
of which to other long-term investees and investors	32	32
Deposits from customers		
of which to affiliated companies	13,191	13,572

As at 31 December 2013, the bank held trust fund deposits, but these deposits were of minor significance.

Excerpt from the notes to the annual financial statements of CAPITAL BANK – GRAWE GRUPPE AG for the year ended 31 December 2013

Other assets

As at 31 December 2013, other assets included underlying instruments for liabilities evidenced by certificates amounting to €147.5 million (31 December 2012: €153.2 million).

ITEMS OF EUR 1 MILLION OR MORE (ALL VALUES IN EUR K)

in EUR K	Maturity	31.12.2013	31.12.2012
Other shares in companies	> 1 year	149,935	157,231
Valuation allowances pursuant to section 57 BWG	> 1 year	-4,213	-4,137
Carrying amount of other shares in companies	> 1 year	145,722	153,094
Tax clearing with group parent	< 1 year	1,377	1,404
Loans and advances to affiliated companies	< 1 year	4,136	3,534
Fair values of currency forward agreements	< 1 year	2,194	6,161
Various sales invoices	< 1 year	6,733	4,343

Other liabilities

Liabilities to tax authorities of €4,374 thousand (31 December 2012: €3,393 thousand) and securities clearing liabilities of €2,036 thousand (31 December 2012: €2,750 thousand) were reported under this item as at 31 December 2013. Expenses that were only payable after the reporting date largely consisted of personnel expenses of €1,243 thousand (31 December 2012: €617 thousand) and various other administrative expenses. Other liabilities amounting to €14,233 thousand (31 December 2012: €12,947 thousand) were due for payment within one year. The other liabilities included liabilities due to affiliated companies amounting to €1,888 thousand (31 December 2012: €150 thousand).

Liabilities evidenced by certificates

Liabilities evidenced by certificates amounting to €6.3 million (31 December 2012: €2.9 million) will be due for payment in the next financial year.

Other provisions

Other provisions as at 31 December 2013 primarily consisted of provisions for losses amounting to €2,417 thousand (31 December 2012: €2,540 thousand), provisions for unused leave amounting to €728 thousand (31 December 2012: €624 thousand), provisions for other personnel expenses of €4,664 thousand (31 December 2012: €4,086 thousand) and provisions for fee and commission payments of €1,441 thousand (31 December 2012: €516 thousand).

Share capital

The company's share capital remained unchanged at €10.0 million and was divided into 1,376,030 no-par-value shares. Of the total shares, 729,030 were bearer shares and 647,000 registered shares.

D. INCOME STATEMENT DISCLOSURES

A breakdown of income by geographical markets as required by section 64 (1) no. 9 of the BWG has not been included because the geographical markets do not differ materially from the location of the bank organisation.

Income from securities and equity investments included €4,001 thousand (2012: €2,880 thousand) relating to dividends from affiliated companies.

Income/expenses from financial operations consisted of currency valuation gains and gains on the disposal of securities together amounting to €6,330 thousand (2012: €7,981 thousand) as well as losses on similar transactions amounting to €6,183 thousand (2012: €7,625 thousand).

Other operating income largely comprised income from service level agreements amounting to €1,724 thousand (2012: €1,410 thousand) and income from the reversal of provisions amounting to €78 thousand (2012: €58 thousand).

Expenses for severance payments and contributions to occupational pension funds included occupational pension fund expenses of €80 thousand (2012: €75 thousand).

The recognition of an income tax prepayment permitted in accordance with section 198 (10) of the Austrian Commercial Code (UGB) amounted to €0.6 million as at the reporting date (31 December 2012: €0.5 million). The bank did not make any use of the capitalisation option.

OBLIGATIONS FROM THE USE OF PROPERTY AND EQUIPMENT NOT REPORTED IN THE BALANCE SHEET (EXCLUDING INDEXATION):

	EUR K	EUR K
Obligations 2014 (2013)	800.0	(1,040.0)
Obligations 2015-2018 (2013-2017)	4,410.0	(5,780.0)

The *allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks* were adjusted as permitted by section 57 (2) of the BWG.

Reversals of write-downs on securities not recognised for reasons in connection with tax law amounted to €1,601 thousand (2012: €1,691 thousand). This could lead to tax expenses in subsequent years of up to €400 thousand (2012: €423 thousand).

Net income tax pursuant to section 237 no. 6b of the UGB attributable to the year under review amounted to €1,655 thousand (2012: €300 thousand). A net tax income amount of -66 thousand (2012: tax income of €-9 thousand) are related to taxes from prior periods.

Disclosure of the expenses incurred in 2013 for auditor fees has not been included because these disclosures are published at banking group level by HYPO-BANK BURGENLAND Aktiengesellschaft.

E. ADDITIONAL DISCLOSURES

As at the reporting date, assets reported on the balance sheet denominated in foreign currency amounted to €144.0 million (31 December 2012: €141.2 million) and the liabilities on the balance sheet denominated in foreign currency were €23.0 million (31 December 2012: €26.5 million).

Currency forward agreements and swaps were measured using the rates published by the ECB for the reporting date taking into account the interest rates for the currencies involved and the residual maturities. Third-party measurements were used for other derivatives. Positive and negative fair values are recognised if derivatives are assigned to the trading portfolio or form part of a hedge accounting relationship with the bank's own issues or other underlying transactions.

Negative fair values that are not covered by an equivalent positive fair value from an underlying transaction in a hedging relationship are taken into account by recognising a provision for imminent losses from pending forward transactions. As at 31 December 2013, no such provision had been recognised, as had also been the case at the end of 2012.

The entire equity investment in BK Immo Vorsorge GmbH (commercial register number (FN) 331322 p) was transferred to CAPITAL BANK – GRAWE GRUPPE AG from Brüll Kallmus Bank AG under a demerger and takeover agreement with retroactive effect from 31 December 2012. The resulting gain on the transfer of shares (contribution gain) amounting to €35 thousand was reported in the income statement under income from securities and equity investments.

Excerpt from the notes to the annual financial statements of CAPITAL BANK – GRAWE GRUPPE AG for the year ended 31 December 2013

AS YET UNSETTLED FORWARD TRANSACTIONS AS AT THE BALANCE SHEET DATE

in EUR K	Notional amount		Positive fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
1. Interest-rate contracts				
OTC products:				
Interest-rate forward contracts	-	-	-	-
Interest-rate swaps	46,300	*(46,300)*	482	*(822)*
Interest-rate options	-	*(168,489)*	-	-
Other comparable contracts	-	-	-	-
Exchange-traded products	-	-	-	-
2. Foreign-exchange contracts				
OTC products:				
Currency forward agreements	133,234	*(129,287)*	1737	*(2,298)*
Currency options	-	-	-	-
Currency swaps	-	*(1,025)*	-	*(43)*
Other comparable contracts	-	-	-	-
Exchange-traded products	-	-	-	-
3. Securities-based contracts				
OTC products:				
Equity options, calls	-	-	-	-
Equity options, puts	100	*(104)*	-	-
Security-based swaps	25,484	*(35,220)*	-	-
Other comparable contracts	-	-	-	-
Exchange-traded products				
Equity options, calls	-	-	-	-
Equity options, puts	-	-	-	-
Total	**205,118**	***(380,426)***	**2,219**	***(3,162)***

Negative fair value		Carrying amount	
31.12.2013	31.12.2012	Asset	Liability
-	-	-	-
1,377	*(1,971)*	-	-
-	-	-	-
-	-		-
-	-	-	-
134	*(240)*	1,418	130
-	-	-	-
-	*(43)*	-	-
-	-	-	-
-	-	-	-
-	-	-	100
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
1,511	***(2,255)***	**1,418**	**230**

Contingent liabilities and other financial commitments

As at 31 December 2013, contingent liabilities included capital guarantees for PZV products amounting to €149.3 million (31 December 2012: €194.2 million) and other capital guarantees totalling €108.3 million (31 December 2012: €100.3 million).

The credit risks reported below the line on the balance sheet related to loans that had not yet been drawn as at 31 December 2013 amounting to €34.6 million (31 December 2012: €27.7 million).

The bank is also subject to an obligation arising from its membership of the deposit protection scheme Einlagensicherung der Banken & Bankiers Gesellschaft mbH, as prescribed under section 93 of the BWG. In the event of a call on funds under the deposit protection arrangements, section 93a (1) of the BWG specifies that the maximum obligation for an individual bank is 1.5% of the measurement basis plus 12.5 times the capital requirement for the exposures in the trading book as at the last balance sheet date. The upper limit for the bank as at 31 December 2013 was therefore calculated to be €7.3 million (31 December 2012: €9.0 million).

As at the reporting date, securities with a carrying amount of €16.2 million (31 December 2012: €15.7 million) had been lodged as an arrangement bond. A sum of €8.1 million (31 December 2012: €8.1 million) had also been deposited as a cash bond. In addition, the bank held cover assets for pension provisions in a volume of €269 thousand (31 December 2012: €269 thousand) and cover funds for trust money amounting to €320 thousand (31 December 2012: €322 thousand).

F. OTHER DISCLOSURES

During 2013, the bank had an average of 156 (2012: 160) salaried and 11 (2012: 11) non-salaried employees..

As had also been the case as at 31 December 2012, the loans and advances to customers as at 31 December 2013 did not include any loans to members of the Management Board or the Supervisory Board.

The expenses for severance and pensions, including additions to provisions, for active members of the Management Board and for other executives came to €152 thousand (2012: €219 thousand); the equivalent expenses for other employees were €183 thousand (2012: €182 thousand). Expenses for pensions paid to former members of the Management Board amounted to €27 thousand (2012: €36 thousand).

Regarding remuneration paid to the members of the Management Board, the details are not disclosed in application of the option available under section 241 (4) UGB. The members of the Supervisory Board during the year under review did not receive any remuneration.

Auditor's Report

The full annual financial statements of CAPITAL BANK – GRAWE GRUPPE AG for the year ended 31 December 2013 were given the following unqualified audit opinion by the appointed independent auditors:

We have audited the accompanying financial statements, including the accounting system, of CAPITAL BANK – GRAWE GRUPPE AG, Graz, for the financial year from 1 January 2013 to 31 December 2013. These financial statements comprise the balance sheet as at 31 December 2013, the income statement for the financial year ended 31 December 2013, and the notes.

Management's responsibility for the financial statements and for the accounting system

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Auditor's responsibility and description of type and scope of the statutory audit

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the findings of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the company as at 31 December 2013 and of its financial performance for the financial year from 1 January 2013 to 31 December 2013 in accordance with Austrian generally accepted accounting principles.

Comments on the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the financial statements and as to whether the other disclosures are not misleading with respect to the company's position. The auditor's report also has to contain a statement as to whether the management report is consistent with the financial statements.

In our opinion, the management report is consistent with the financial statements.

Vienna, 25 February 2014

KPMG
Wirtschaftsprüfungs- und Steuerberatungs AG

Mag. Michael Schlenk	ppa. Mag. Christian Grinschgl
Wirtschaftsprüfer	Wirtschaftsprüfer
(Austrian Public Auditor)	(Austrian Public Auditor)

The annual financial statements containing our auditor's report may only be published or forwarded in the version that we have endorsed. This auditor's report relates exclusively to the full German-language annual financial statements including management report. The provisions of section 281 (2) of the UGB must be observed with regard to any differing versions. The annual financial statements will be submitted to the commercial register of the Graz regional civil law court under reference number FN 112471z and published in the official journal of Wiener Zeitung.

The following consolidated financial statements in accordance with UGB/BWG for the subgroup of CAPITAL BANK – GRAWE GRUPPE AG are intended to provide the reader with information on the financial performance of Capital Bank and its subsidiaries. The consolidated financial statements for the subgroup in accordance with UGB/BWG were audited by the independent auditors as part of the audit of the consolidated financial statements of HYPO-BANK BURGENLAND Aktiengesellschaft.

SUB-GROUP OF CAPITAL BANK – GRAWE GRUPPE AG

12. CAPITAL BANK – GRAWE GRUPPE AG SUB-GROUP CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013

ASSETS		31.12.2013 EUR		31.12.2012 EUR K
1. Cash on hand and balances at with central banks		6,675,091.76		5,699
2. Public-sector debt instruments eligible as collateral for central bank funding				
Public-sector debt instruments and similar securities		23,191,105.93		20,832
3. Loans and advances to banks		342,560,320.77		295,439
4. Loans and advances to customers		170,779,848.75		140,762
5. Bonds and other fixed-income securities		92,684,935.52		90,154
6. Shares and other variable-yield securities		143,920,756.38		143,522
7. Equity investments		36,218.42		10
of which: in banks	8,575.00		9	
8. Shares in affiliated companies		888,180.17		891
9. Intangible fixed assets		685,562.81		426
10. Property and equipment		4,879,754.66		4,937
11. Other assets		159,994,519.69		168,540
12. Deferred income		748,425.91		709
TOTAL ASSETS		947,044,720.77		871,920
Below-the-line items				
1. Foreign assets		377,200,993.91		380,100
2. Fund assets of managed investment funds		2,740,554,821.00		2,267,644

EQUITY AND LIABILITIES		31.12.2013 EUR		31.12.2012 EUR K
1. Deposits from banks		20,974,279.34		14,245
2. Deposits from customers		362,673,381.36		341,570
a) Savings deposits	7,305,072.81		9,456	
b) Other deposits	355,368,308.55		332,114	
3. Liabilities evidenced by certificates		374,019,594.81		335,441
Other liabilities evidenced by certificates	374,019,594.81		335,441	
4. Other liabilities		21,005,418.89		18,782
5. Deferred income		0.00		0
6. Provisions		23,513,733.98		21,319
a) Provisions for severance payments	3,910,778.95		3,718	
b) Provisions for pensions	372,038.84		384	
c) Tax provisions	43,277.20		43	
d) Other	19,187,638.99		17,173	
7. Subscribed capital		65,915,661.65		65,916
8. Generated capital		78,942,650.74		74,648
9. Minority interests		0.00		0
TOTAL EQUITY AND LIABILITIES		947,044,720.77		871,920
Below-the-line items				
1. Contingent liabilities Liabilities from guarantees and liabilities from the pledging of collateral		260,629,263.76		298,059
2. Credit risks		34,758,331.53		27,853
of which: in connection with repos	0.00		0	
3. Liabilities from trust transactions		15,288,444.85		17,499
4. Eligible capital pursuant to section 23 (14) BWG		161,874,001.98		149,334
5. Capital requirement pursuant to section 22 (1) BWG		48,927,579.69		53,995
of which: capital requirement pursuant to section 22 (1) nos. 1 and 4 BWG	31,613,606.69		29,008	
6. Foreign liabilities		67,587,074.61		64,096

13. CAPITAL BANK – GRAWE GRUPPE AG SUB-GROUP
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

		31.12.2013 EUR		31.12.2012 EUR K
1. Interest and similar income		9,469,064.62		11,445
of which: from fixed-income securities	3,830,932.00		3,340	
2. Interest and similar expenses		-2,164,359.20		-3,795
I. NET INTEREST INCOME		7,304,705.42		7,650
3. Income from securities and equity investments		2,882,257.92		5,028
a) Income from shares, other equity interests and variable-yield securities	2,422,549.81		4,565	
b) Income from equity investments	616.13		25	
c) Income from shares in affiliated companies	459,091.98		438	
4. Fee and commission income		72,602,781.94		59,587
5. Fee and commission expenses		-35,660,690.18		-28,878
6. Income/expenses from financial operations		163,439.27		374
7. Other operating income		2,597,171.19		2,013
II. OPERATING INCOME		49,889,665.56		43,760
8. General and administrative expenses		-29,219,838.96		-28,187
a) Personnel expenses	-19,515,113.81		-18,527	
aa) Wages and salaries	-16,432,614.20		-14,836	
bb) Social security costs, compulsory and other contributions linked to pay	-2,425,057.66		-2,455	
cc) Other social security expenses	-164,426.61		-155	
dd) Post-employment and other employee benefit costs	-259,085.57		-239	
ee) Additions to pension provisions	12,167.04		11	
ff) Expenses for severance payments and contributions to occupational pension funds for employees	-246,096.81		-853	
b) Other administrative expenses	-9,704,725.15		-9,660	
9. Write-downs of assets reported under asset items 9 and 10		-837,258.31		-704
10. Other operating expenses		-14,500.39		-15
III. OPERATING EXPENSES		-30,071,597.66		-28,906

	31.12.2013 EUR	31.12.2012 EUR K
IV. OPERATING PROFIT	19,818,067.90	16,867
11. Allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks	-6,503,740.37	-6,042
12. Income from the reversal of allowances for losses on loans and advances and of provisions for contingent liabilities and credit risks	0.00	463
13. Write-downs of securities recognised as financial assets and of shares in affiliated companies	0.00	0
14. Income from the reversal of write-downs of securities recognised as financial assets, of equity investments and of shares in affiliated companies	26,758.29	0
V. PROFIT FROM ORDINARY ACTIVITIES	13,341,085.82	11,288
15. Extraordinary income	34,508.46	0
16. Net extraordinary income	34,508.46	0
17. Income tax	-4,063,560.30	-1,908
18. Other taxes not reported under item 15	-17,424.15	-18
VI. CONSOLIDATED PROFIT/LOSS FOR THE YEAR	9,294,609.83	9,363
19. Changes in reserves	-6,800,000.00	0
of which: appropriation to the liability reserve	0	0
VII. NET PROFIT FOR THE YEAR	2,494,609.83	9,363
20. Profit brought forward	2,734,137.77	1,205
VIII. DISTRIBUTABLE PROFIT (before minority interests)	5,228,747.60	10,568
21. Minority interests	0.00	0
IX. DISTRIBUTABLE PROFIT	5,228,747.60	10,568

Published by
CAPITAL BANK – GRAWE GRUPPE AG
Burgring 16
A-8010 Graz
Tel.: +43.316.8072.0
Fax: +43.316.8072.390
office@capitalbank.at
www.capitalbank.at

Salzburg Branch:
Linzergasse 4
A-5020 Salzburg
Tel.: +43.662.870810
Fax: +43.662.870810.2517
office.salzburg@capitalbank.at

Vienna Branch:
Palais Esterházy
Wallnerstraße 4
A-1010 Vienna
Tel.: +43.1.31614
Fax: +43.1.31614.11
office.wien@capitalbank.at

Kitzbühel Branch:
Kitzbühler Hof, Franz-Reisch-Str. 1
A-6370 Kitzbühel
Tel.: +43.5356.66309
office.kitzbuehel@capitalbank.at

Klagenfurt Branch:
Kardinalschütt 9
A-9020 Klagenfurt am Wörthersee
Tel.: +43.463.908118-0
office.klagenfurt@capitalbank.at

Responsible for the content
Mag. Constantin Veyder-Malberg,
Thomas Ortner, MSc, Mag. Gerd Stöcklmair

Concept, design and production
THE XACT BRAND DESIGN NETWORK
Concept: Ekkehard Schitter
Text: Manfred Prisching, Hannes Luxbacher, Constantin Veyder-Malberg
Translation: Interlingua Language Services
Cover image: © www.thinkstock.com