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Capital Bank Group

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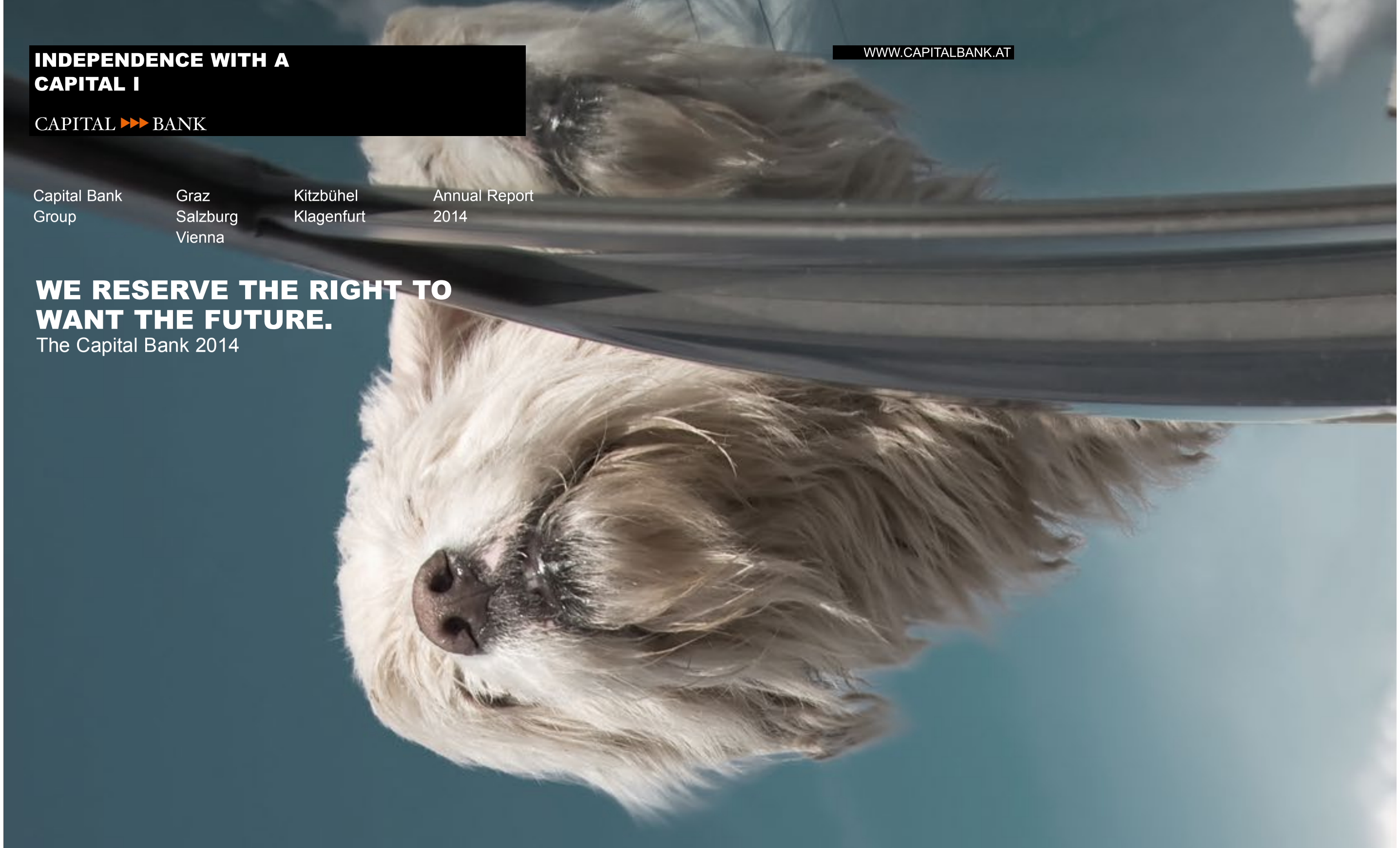
Annual Report 2014

WE RESERVE THE RIGHT TO WANT THE FUTURE.

The Capital Bank 2014



CHRISTIAN JAUK
CHAIRMAN OF THE BOARD

Are you familiar with the endowment effect, also known as the ownership effect?
It means that we consider things, goods, etc., that we own to be more valuable than those we do not own. That also explains why we find it harder to let them go than to accumulate new goods or valuables. The effect therefore also explains why collectors have such difficulty separating themselves from individual items, and instead are constantly on the lookout for new exhibits for their collection. Of course, there is nothing wrong with possession and ownership. For example, businesses can use them to fulfil their corporate social responsibility.

CONSTANTIN VEYDER-MALBERG
MEMBER OF THE BOARD

Social responsibility has become an ever-present catchword in recent years. Our non-profit private foundation "Philanthropie Österreich" (Philanthropy Austria) is a living example of how personal property can be put to powerful use in society.
The possibility of doing good through the private foundation has expanded our scope for action and that of our customers. Property can do good if we allow it to work. To work for us, but also for others. However, sometimes ownership is only there to satisfy a very simple need: to enjoy it. We hope you enjoy reading our annual report, particularly the guest contribution by Klaus Woltron.

"That's mine!" - is a cry that you hear in the sandpit, when children are clearing up after the enthusiasm of playing, and it's not entirely clear what belongs to whom. What use is ownership, why is it the aim of almost all trade to increase property? And why do we defend access to our property so doggedly? These are questions that give us reason to ponder again and again, questions which have not always been answered in the same way throughout the course of history. Before industrialisation, ownership tended to be a family collective. Sometimes ownership even concerned the entire community in which people lived. Nowadays, personal property means many things, for example status symbol, reason for joy or reinforcement of a personal feeling of security. At the same time, authors like Jeremy Riffkin emphasize that with the changing concept of capitalism, the concept of property is also changing. Increasingly, rapid access to and sharing of ideas, goods and services is becoming more important and in the emerging access society they will matter more than ownership, according to Riffkin. Ownership and property, a topic with discussion potential. Our guest contribution in this annual report therefore deals with ownership, with how it is endangered by access by the State; it touches on the historical background and provides food for thought.

Perhaps it is as simple as this: property serves to fulfil wishes. It helps us to achieve what we want, provided that we are willing to give up what we have.

Klaus Woltron, the author of our guest contribution, is an entrepreneur, author and columnist. He is a founder member of the Club of Vienna, in which he was active until 2008.

Performance and Key Figures

PERFORMANCE AND KEY FIGURES OF CAPITAL BANK - GRAWE GRUPPE AG

	31.12.2014 € '000	31.12.2013 € '000	31.12.2012 € '000
Total assets	933,233	920,513	833,990
Loans and advances to customers	219,473	170,454	140,726
Deposits from customers	382,011	362,075	325,265
Operating profit	20,429	14,101	13,222
Profit from ordinary activities	29,551	7,661	7,181
Capital as % of the measurement basis as specified in section 22 (1) BWG	16,9%	24,8%	39,5%
Volume of client custody accounts	8,818,643	8,202,288	8,133,356
Employees (excluding subsidiaries)	157	167	160

Company boards of Capital Bank – GRAWE Gruppe AG in the 2014 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
General Manager of
Grazer Wechselseitige Versicherung
Aktiengesellschaft
Chairman of the Supervisory Board

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

Dipl. Techn. Erik Venningdorf
Member of the Board of Directors of
Grazer Wechselseitige Versicherung
Aktiengesellschaft
Member of the Supervisory Board

Dr. Franz Hörhager
Chairman of Mezzanine Management GmbH
Member of the Supervisory Board

Members delegated by the Works Council

Rudolf Laudon

Harald Greimel

Business performance

The financial industry was faced with numerous challenges in the financial year 2014. Cheap money from the European Central Bank has so far failed to deliver the anticipated economic stimulus while causing bond yields to dissipate. The inflationary impact of this measure has failed to materialise as yet and the topic of deflation continues to make headlines.

These framework conditions are now being characterised as the new normal by banks and asset managers. Capital Bank – GRAWE Gruppe AG (hereafter referred to as Capital Bank) has always managed to adapt well to the dynamic environment in the past and to bring innovation to the Austrian private banking market. It was the first Austrian bank to venture into the introduction of independent fee-based advice, where all hidden fees and commissions from product providers are disclosed and forwarded to the clients. The bank also led the way with its strategy known as the “clean money strategy” which provides support to customers in repatriating foreign assets.

The focus was placed on philanthropic advice in 2014 with the founding of the non-profit foundation “Philanthropy Austria”. This makes Capital Bank the first Austrian bank to offer the framework conditions for optimum implementation of societal commitments. The quality of the bank was highlighted in 2014 by a mystery shopping exercise carried out by daily newspaper “Die Presse”. The customer survey carried out in cooperation with the University of Koblenz and Landau also reveals a positive picture. According to this, Capital Bank has an outstanding net promoter score of 60%.

Private banking is Capital Bank’s core business. Assets under management rose by 13.5% as a consequence of attracting new customer money and also generating gains on the existing portfolios. The international trend for greater demand for advice mandates in asset management was also noticeable at Capital Bank.

The bank’s loans business also saw very positive development with a 15.2% increase in total outstanding exposure to €256.4 million. The focus for this financing area has traditionally been on securities Lombard loans.

The private banking business concentrated on a number of priorities in the 2014 financial year. A comprehensive IT project aimed at improving customer support was completed at the end of the year. Customers should be able to benefit from this principally through improved deposit and performance evaluations. The bank's internal loans process was also optimised. The customer adviser role was also beefed up in addition to providing greater automation and the ability to leverage synergies with HYPO-Bank Burgenland AG.

The Family Office department, which specialises in services for high-net-worth individuals, private foundations and family businesses, delivered an impressive performance by expanding its business volume again by 18.5%. 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.

The core responsibilities of the Asset, Product and Quality Management (APQM) division is the professional management of customer funds in central asset management. Central asset management achieved net returns of between 4.8% and 5.1% in the past financial year depending on the risk category, with a particular focus on a good risk-return ratio. In addition to investments, APQM also contributes its knowledge and skills to the private banking area, e.g. by assisting in efforts to compile investment proposals. APQM also assumes a quality assurance role in the bank and oversees the bank's own issues of securities. Support for third-party banks and for insurance companies was also integrated into the division in the past financial year.

"Die Plattform", the division of Capital Bank that fulfils the role of a depositary for clients of investment firms, experienced a slight contraction in the number of custody accounts in 2014, 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 savings account "Konto plus", launched in 2012, recorded deposits of €30 million and now has total volumes of approx. €88.8 million.

The investment banking business continued to focus on high-yield investments in the last financial year, particularly as part of the collaboration arrangement with the Cardinal Point Capital investment firm based in San Francisco. The particular task in 2014 involved adapting the Cardinal Point funds structure to the new statutory framework conditions of the Alternative Investment Fund Manager Act (AIFMG).

Standardised central support functions and service units for the equity investments in banks held by Grazer Wechselseitige Versicherung AG had already been set up back 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 AG. These central units provide services both for Capital Bank and for the other banks in the GRAWE banking group.

BK Immo Vorsorge GmbH (referred to below as BK Immo) was established in 2009 and 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 2014 financial year closed above forecast despite increased difficulties in the real estate environment. 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 2014, Capital Bank employed 168 people.

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

Following the two years of recession in 2012 and 2013, a small amount of growth was evident again for the first time in 2014. However, this was smaller than previously expected, not least because of the conflict in Ukraine. Consequently, in its latest forecast, the IMF reduced the outlook for the Eurozone in 2014 from 1.1% to 0.8%. Nevertheless, a few things have got off the ground in the Eurozone. Following the implementation of the "comprehensive assessment" by the ECB, it took on responsibility for supervising the 130 biggest European banks on 4 November. This was another step towards stabilising the European banking system. At the same time, the ECB pursued a monetary policy which was considerably more expansive than its policy in the previous year. It recently reacted decisively to the ongoing decline in expectations regarding inflation. Most notable amongst many other measures is the negative deposit rate of -0.1%, which the central bank adopted at its June session and lowered again to -0.2% in September. The purchase of Pfandbriefe and Asset Backed Securities, which commenced in the autumn of 2014, ultimately peaked in full-scale quantitative easing on 22 January 2015. The European Central Bank is taking a path, therefore, already embarked upon by the USA, Japan and the UK several years earlier. Politically, the situation in Europe remains difficult. The conflict with Russia over the territorial integrity of Ukraine is not the only factor weighing on economic activity. The lack of appetite for reform, especially in France and Italy, is hobbling Europe's economic development. This is especially evident in the growth rates of countries that use the euro. While the differences in recent years concerned the growth rates between the core euro countries and the PIIGS states, these differences are now defined in terms of countries that are either strong or weak on reform.

The USA had a weak start to the past year due to the weather. Economic output fell by 2.1% in the first quarter due to the severe winter. Thereafter, however, the United States posted a strong recovery. The growth figures rose by 4.6% and 5.0% in the second and third quarters respectively. Taking the year as a whole, the International Monetary Fund expects economic output to have risen by 2.4%. The strong growth in US economic activity was also evident on the labour market. The unemployment rate was

5.8% in November, well below the level of 6.7% at the start of the year. However, due to the collapse in the oil price and the strong US dollar, inflation exhibited a falling trend. On average, the inflation rate fell in November from 1.7% previously to just 1.3%. The inflation rate in the USA is therefore also well below the Fed's target of 2.0%. The Federal Reserve Bank's new chairman Janet Yellen took up her post in February, in a period of calmer waters. In the new year, however, the US central bank is faced with the first increase in US interest rates since 2006. One of the main tasks of the Fed's president will be to prepare the capital markets for this step early enough to avoid sudden movements of capital.

Japan started 2014 on a highly promising note. Shinzo Abe, who was elected as Japan's new prime minister in December 2012, quickly delivered considerable success in 2013 with the introduction of the first two pillars of his economics programme known as "Abenomics". The assistance provided by a massive expansion in the money supply by the central bank (1st pillar) and credit-financed economic programmes (2nd pillar) made it possible to give the economy a boost and propel inflation in a country that is plagued by deflation. However, the government failed to implement the third pillar of economic reforms intended to act as a lasting support to economic activity. And that became noticeable in 2014. With growth of just 0.1%, Japan lay far behind the average for industrialised countries of 1.8% in 2014, according to calculations performed by the International Monetary Fund.

The Austrian economy grew by 0.4% in 2014 according to the latest estimates of the Oesterreichischen Nationalbank (OeNB). Contrary to the expectations that prevailed at the start of the year, it was not possible to achieve any notable economic recovery compared to 2013. And expectations have already been wound back to 0.7% for 2015. Growth should rise to 1.6% only in 2016, but that is also a significant revision over earlier estimates. Despite the sluggish economic performance, the unemployment rate fell from 5.0% to 4.9% in 2014, according to Eurostat calculations. For 2015, however, the OeNB expects the rate to climb again to 5.3%. The inflation rate (HVPI) was 1.5% in 2014, well above the Eurozone average of 0.6%. Despite an expansive central bank policy, the OeNB expects inflation will fall again in 2015 to 1.4%.

2014 showed once again how important diversification is for investment success. In the year under review, some "shares" were by no means the same as other "shares". Anyone who focused on Austrian titles had to accept sharp price losses of -15.2% on the ATX. In emerging markets (MSCI Emerging Markets), losses were -4.6%. European shares, measured by Eurostoxx, grew by at least 1.2%. Germany's DAX index rose by 2.6%. By contrast, the S&P 500 in the US finished year 11.4% higher. Overall, global shares (measured against MSCI World) added 2.9% in value over the year.

Despite the record-low interest rates at the start of the year, Austrian government bonds (Effas Austria > 1 year) delivered an income of 12.4%. However, achievable yields will shrink significantly in the coming years. At the end of the year, Austrian government bonds with remaining terms of up to 4 years were being traded with negative yields. Ultimately, European corporate bonds are also profiting from the decline in capital market returns, producing average yields of 8.4% including coupons. By contrast, the year was in no way good for high-yield bonds, which suffered from the falling price of oil. With a yield of 2.6%, however, at least they ended the year higher.

Due to global deflationary trends, 2014 was a very difficult year for commodity investors. The price of a barrel of Brent Crude Oil fell in the second half of the year from USD 112 to just USD 57. Despite this development, the gold price ended the year just 1.4% lower. Investors with USD positions, however, could take cheer. The greenback rose by almost 12.0% against the euro over the year.

BUSINESS DEVELOPMENT

Balance sheet

Capital Bank's total assets rose slightly to €933.2 million in 2014 compared with €920.5 million in the previous year. Loans and advances to customers rose over the course of the year by 23.6% to €219.5. On the liabilities side, deposits from customer grew by 5.5% from €362.1 million to €382.0 million. At the same time, the bank's own issues fell by 11.8% from €374.0 million to €330.0 million.

Equity in accordance with Part 2 CRR fell by approx. 9.0% in the 2014 financial year from €147.8 million to €134.5 million. The capital requirement rose considerably by around 33.7% from €47.6 million as at 31 December 2013 to €63.6 million in 2014. As a consequence, the capital surplus amounted to approximately €70.9 million, down by 29.3% year on year. The equity ratio, i.e. the allowable equity in relation to the basis of assessment in accordance with the CRR, fell considerably from 24.8% to 16.9%. Of the reported eligible capital of €134.5 million, 92.8% was accounted for by Tier 1 capital.

The return on equity, which is calculated from the ratio of the annual profit before taxes to the equity excluding distributable profit before changes in reserves, (ROE: 2014: 23.6%; 2013: 6.3%) rose considerably by around 17.3 percentage points compared to the previous year's level. The significant increase in annual profit before taxes in 2014 was the reason for this. The return on assets, the ratio of the profit from ordinary activities to the average total assets, rose considerably in the reporting period from 0.9% to 3.2%. The return on capital employed also grew by 30.4 percentage points from 16.1% to 46.5% for 2014. The return on capital employed is calculated from the ratio of profit from ordinary activities to the capital requirement.

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

Profit from ordinary activities increased considerably from €7.7 million to €29.6 million in the 2014 financial year. In addition to positive developments in operations, changes in assumptions for assessments also contributed to the rise in profit on ordinary activities. Net fee and commission income and net financial income together rose by €0.9 million to €22.2 million. Net interest income rose a positive 13.7% from €7.0 million to €7.9 million in the year under review.

Personnel expenses increased by 9.1% to €14.8 million and other administrative expenses also saw a moderate increase of 3.2% from €7.7 million to €7.9 million.

Capital Bank generated an operating profit of €20.4 million for 2014. This equated to an increase of approximately 44.9% on the operating profit of €14.1 million generated in 2013. The cost-income ratio also saw a year-on-year improvement from 60.8% to 53.5%.

Volume of client custody accounts

In 2014, Capital Bank continued to focus on gaining market share and thus expanding its volume of client custody accounts. However, the growth of 7.5% in the volume of client custody accounts from €8.2 billion to €8.8 billion fell short of forecasts. Our subsidiary, Security Kapitalanlage Aktiengesellschaft, substantially increased its volume of custody accounts once again from €2.7 billion as at 31 December 2013 to €3.4 billion as at 31 December 2014. This equates to a year-on-year increase of 24.1%. In 2014, the Capital Bank subgroup achieved a new high of €12.9 billion with a growth in assets under management (including own issues) of €1.2 billion (+10.7%).

Proposed dividend

The profit from ordinary activities generated in 2014 amounted to €29.6 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 €25.0 million, to its owner HYPO-Bank Burgenland AG.

Outlook

Even if Eurozone growth increases again in 2015 and 2016, the region will remain behind its growth potential. Despite the policy of cheap money, demand for credit in the Eurozone has so far shown hardly any response. Given the geopolitical risks and weak growth figures, consumers and entrepreneurs continue to adopt a wait-and-see position. However, supporting developments are also in evidence. The rigid austerity in some countries can be relaxed again. The low euro and lower oil price are also having a positive effect on the European economy. The International Monetary Fund currently expects, therefore, a slight increase in growth to 1.2% in 2015 and 1.5% in 2016.

From today's perspective, the US should also continue to grow robustly and will also benefit from the low price of oil, which acts like a tax reduction for the ever so important US consumers. Following growth of 2.4% in 2014, the latest IMF forecasts expect growth to rise to 3.6% in 2015 and to 3.4% in 2016. Despite this strong performance, the figures have so far remained muted given the lower energy prices and the strong US dollar. The majority of voting members of the Federal Reserve nevertheless expect the US federal funds rate to rise to over 1.0% by the end of 2015.

Following a successful financial year in 2014, Capital Bank now needs to expand on the quality of its service in the private banking sector and to continue on its growth path in a consistent manner.

The market situation described at the start highlights the need for professional and responsible asset management. Real estate only represents a viable alternative to investment on the capital markets in a few exceptional cases. Capital Bank is conscious of this responsibility and is working consistently, therefore, on improving the quality of the services it offers.

Improving online functionality should in particular provide significant improvements to customers in relation to manageability and user-friendliness.

It is not just Capital Bank but also the entire corporate group that is faced with change, with the acquisition of a majority stake in the bank Schelhammer & Schattera AG by HYPO-Bank Burgenland AG. The deal is expected to be completed for the 2nd quarter of 2015. The main focus is on maintaining Schelhammer & Schattera as an equal bank within the GRAWE banking group with a boost in the earning power in the bank's core business, with integration at the same time into the entire GRAWE banking group's staff and service divisions.

New subject areas open up for Capital Bank's investment customers through the incorporation of Schelhammer & Schattera into the corporate group. The bank is the leading establishment for ethical and sustainable investment and has many years of experience in gold and currency trading.

The banking market in Austria is in a state of upheaval. Capital Bank is a stable and reliable partner for its customers and business partners in this period. The focus here is on long-term business relationships based on fairness and trust, smooth and efficient processing of the business process behind these and a responsible risk policy. From this position of strength, there is nothing to stand in the way of a successful financial year in 2015.

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, 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 2014, 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 2014 focused mainly on enhancing and refining the risk management activities in connection with capital guarantees and private banking at Capital Bank. 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 and documentation requirements in the HYPO-Bank Burgenland Aktiengesellschaft banking group.

Publication in accordance with article 431 ff CRR takes place on the internet at www.bank-bgld.at.

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 statutory provisions set out in section 30 (7) of the Austrian Banking Act (BWG), HYPO-Bank Burgenland AG, as the parent bank, is therefore 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 and banking subsidiaries, together with Bank Burgenland Leasing and Sopron Bank, a banking subsidiary based in another EU country.

Capital Bank 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 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. 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. 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, 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 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 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 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. It has its own system of conducting risk management through specially created committees to aid the decision-making process for the Management Board.

Basic principles of risk management

Risks at Capital Bank 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, 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 risks 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 component of the risk management system is the product approval process, which is applied when the bank launches new products or ventures into new markets. Capital Bank 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 moving into new business areas or products, a key prerequisite is therefore a suitable analysis of the risks specific to the business concerned. To this end, Capital Bank 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 management

In order to ensure there is a comprehensive, coordinated risk management system, the bank has drawn up an overall bank risk strategy and uses an overall bank risk manual together with service and 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 address systematically the individual components of risk management. The service and work instructions, like the risk manual, have the goal of informing employees about special risk topics and their management in greater detail. In contrast to the risk manual, they are extremely detailed and are mostly restricted to specific individual topics. 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 stage is reached or a limit is exceeded, limitation measures are to be decided upon in cooperation with the management board and the respective area head in accordance with the respective risk.

The main tool used for risk management at Capital Bank 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 aim of this comparison is to determine the extent to which the bank is able to sustain any unexpected losses (risk-bearing capacity). According to the risk-bearing capacity calculation, the goal is to ensure the certainty of the bank's continued existence. The Management Board decides on the overall risk strategy, which includes the allocation of the potential risk cover to the individual risk categories. The calculation of the risk-bearing capacity acts as a brake on all risky activities within the banking group. Risk-bearing capacity is calculated quarterly at banking group level and at individual bank level for HYPO-Bank Burgenland Aktiengesellschaft, Sopron Bank Capital Bank Group as well as for Capital Bank and Brüll Kallmus Bank AG. Risk positions are also constantly monitored in order to be able to take ad-hoc risk-minimising steps when discrepancies arise.

The risk-bearing capacity is calculated using two methods: the gone-concern 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 for dealing with risks is the equity composed of the core and additional capital. The determination of the risk-covering potential in the going-concern perspective also takes the expected profit for the current year into consideration. The method used for calculating the risks differs by risk category and the chosen perspective, whereby in addition to the credit risk (incl. consideration of risks from foreign currency loans and country risks), the market risks of the banking and trade book (incl. credit spread risks), the operational risk, the liquidity risk, the participation and other risks are also considered, along with the risks from the capital guarantees and the macroeconomic risk. 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, the Capital Bank Group 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 maintains a "large-scale trading book" as defined by the BWG. To determine the capital requirement for the trading book, Capital Bank 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 Group 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 is the risk arising from guarantees given in connection with the securities business. Capital Bank 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 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, 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 AG.

Guarantees with a total guaranteed sum of approximately €291.7 million were outstanding as at 31 December 2014. The guarantees are matched by corresponding recoverable investments.

At Capital Bank, 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 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 represents a small proportion of the overall banking risk at the bank.

Operational risk

At Capital Bank, 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 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 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 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. Regular meetings also take place with the market divisions and the Management Board as part of these risk management activities.

Capital Bank uses the Basic Indicator Approach to determine its capital adequacy for operational risk in accordance with Basel III.

Credit risk

At Capital Bank, 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. The situation may arise from developments 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 management of all credit risks is the responsibility of the credit management 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. 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 the Capital Bank Group is also fed into the analysis and assessment of the credit risk for the whole of the banking group.

In 2014, the lending volume (before allowances for losses on loans and advances and section 57 reserve) rose by approximately €44 million to around €235 million.

At the Capital Bank Group, 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 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 the Capital Bank Group include a clear credit and associated risk policy. The Capital Bank essentially uses securities as collateral, the rates for which are differentiated according to various criteria, and which are included in the lending decision in addition to consideration of the borrower's financial situation. The Capital Bank Group 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 AG. 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 was higher than the regulatory ratio at all times during 2014. 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 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. The performance of the business in 2014 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 the Capital Bank Group, 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 is utilised by existing risk and a sufficient buffer is available in the present aggregate risk cover.

During 2015, the Capital Bank Group 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, risk monitoring in the private banking business will also continue to be a focus of risk management activities in 2015. In addition to this focus, other risk management responsibilities over the coming year will include the ongoing ICAAP, the capital guarantees, expansion of the documentation requirements, the internal control system and the continuous improvement of existing risk management activities. Risk management activities in 2015 will also certainly 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.

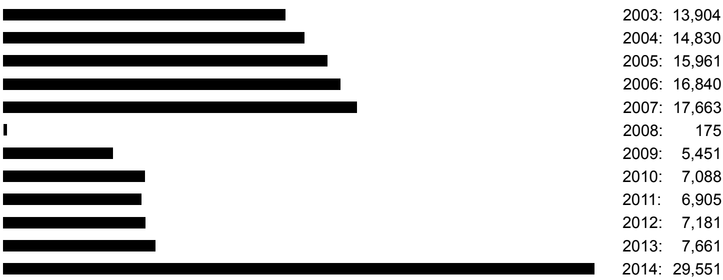
Graz, 11 March 2015

The Management Board

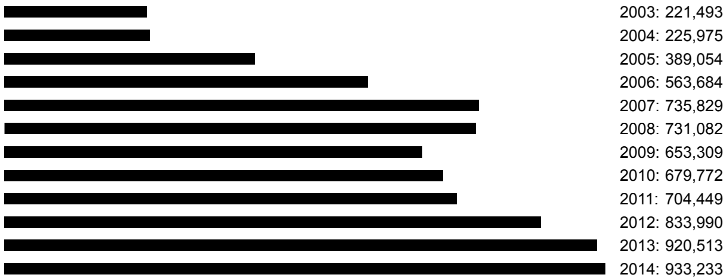
Christian Jauk, MBA m.p.
Chairman of the
Management Board

Mag. Constantin Veyer-Malber m.p.
Member of the
Management Board

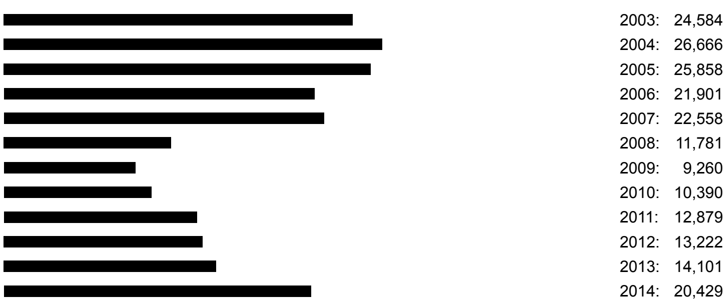
01. PROFIT FROM ORDINARY ACTIVITIES IN EUR THOUSANDS



02. TOTAL ASSETS IN EUR THOUSANDS



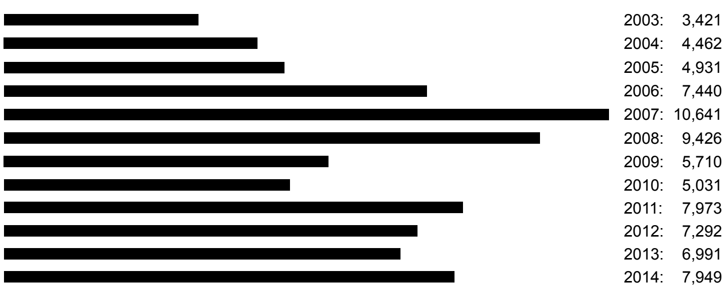
03. OPERATING PROFIT IN EUR THOUSANDS



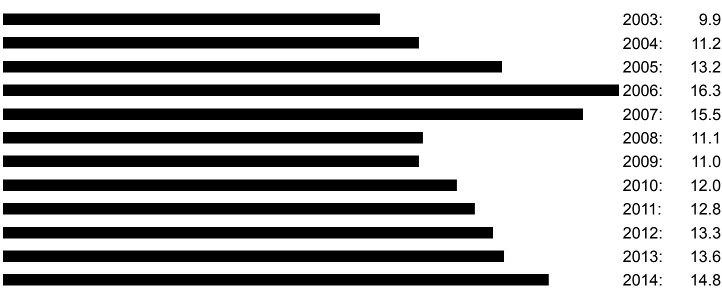
04. ASSETS UNDER MANAGEMENT (INCL. SECURITY KAG) IN EUR MILLIONS

05. OPERATING INCOME IN EUR MILLIONS

06. NET INTEREST INCOME IN EUR THOUSANDS



07. PERSONNEL EXPENSES IN EUR MILLIONS



Report by the Supervisory Board

In 2014, 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 2014 and the annual report, to the extent that it provides explanations for the annual financial statements, were audited by KPMG Wirtschaftsprüfungs- und Steuerberatungs GmbH, 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 2014. 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 2014.

Graz, March 2015

Mag. Dr. Othmar Ederer
Chairman of the Supervisory Board

08. BALANCE SHEET OF CAPITAL BANK - GRAWE GRUPPE AG AS AT 31 DECEMBER 2014

ASSETS		31.12.2014 €	31.12.2013 € '000
1. Cash on hand and balances at central banks		66,722,960.01	6,175
2. Public-sector debt instruments eligible as collateral for central bank funding			
Public-sector debt instruments and similar securities		21,017,083.32	20,877
3. Loans and advances to banks		231,376,613.18	338,439
a) Repayable on demand	216,254,172.02		
b) Other loans and advances	15,122,441.16		
4. Loans and advances to customers		219,472,839.09	170,454
5. Bonds and other fixed-income securities		68,588,875.81	81,573
6. Shares and other variable-yield securities		133,245,250.02	116,446
7. Equity investments		759,698.17	9
of which: in banks	8,575.30		
8. Shares in affiliates		23,704,105.30	23,704
of which: in banks	22,900,925.13		
9. Intangible fixed assets		322,208.24	224
10. Property and equipment		1,564,879.41	1,863
11. Other assets		165,834,805.40	160,162
12. Prepaid expenses		623,845.49	586
TOTAL ASSETS		933,233,163.44	920,513
Below-the-line items			
1. Foreign assets		390,540,389.78	368,788

EQUITY AND LIABILITIES		31.12.2014 €	31.12.2013 € '000
1. Deposits from banks		29,606,318.28	24,648
a) Repayable on demand	13,751,171.10		
b) With agreed maturity or notice period	15,855,147.18		
2. Deposits from customers		382,010,578.29	362,075
a) Savings deposits	5,574,036.94		7,305
aa) Repayable on demand	1,936,588.90		1,519
bb) With agreed maturity or notice period	3,637,448.04		5,786
b) Other deposits	376,436,541.35		354,770
aa) Repayable on demand	364,849,266.85		302,400
bb) With agreed maturity or notice period	11,587,274.50		52,370
3. Liabilities evidenced by certificates		329,952,578.01	374,020
Other liabilities evidenced by certificates	329,952,578.01		
4. Other liabilities		22,042,335.26	14,233
5. Provisions		19,475,498.97	15,188
a) Provisions for severance payments	4,182,343.50		3,473
b) Provisions for pensions	287,293.57		372
c) Tax provisions	43,277.20		43
d) Other	14,962,584.70		11,300
7. Subscribed capital		10,000,000.00	10,000
Nominal amount	10,000,000.00		10,000
8. 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
9. Retained earnings		48,096,218.77	48,096
a) Legal reserve	1,504,504.45		1,505
b) Other reserves	46,591,714.32		46,592
10. Liability reserve pursuant to section 23 (6) BWG		11,127,000.00	11,127
11. Distributable profit		25,006,974.21	5,211
a) Profit brought forward	210,533.66		2,643
b) Net profit for the year	24,796,440.55		2,568
TOTAL EQUITY AND LIABILITIES		933,233,163.44	920,513

	31.12.2014 €	31.12.2013 € '000
Below-the-line items		
1. Contingent liabilities		
Liabilities from guarantees and liabilities from the provision of collateral	11,247,443.29	260,629
2. Credit risks	24,728,921.49	34,565
3. Liabilities from trust transactions	36,001,084.43	15,288
4. Eligible capital pursuant to part 2 of EU Regulation no. 575/2013	134,537,646.39	-
of which: Supplementary capital as per part 2 title I chapter 4 of EU Regulation no. 575/2013: € 9,644,000.00		
5. Capital requirements as per Article 92 of EU Regulation no. 575/2013 (Total risk amount)	795,294,602.29	-
of which: Capital requirements as per 92 (1a-c) of Regulation (EU) no. 575/2013:		
a) Common Equity Tier 1 capital ratio	15,7%	-
b) Tier 1 capital ratio	15,7%	-
c) Total capital ratio	16,9%	-
6. Eligible capital pursuant to section 23 (1) (BWG)[1)]	-	147,845
7. Capital requirement pursuant to section 22 (1) BWG[2)]	-	47,603
of which: capital requirement pursuant to section 22 (1) nos. 1 and 4 BWG: € 30,289 thousand		
8. Foreign liabilities	56,592,296.29	66,066

[1)] 31 Dec. 2013 Liability reserve pursuant to section 23 (6) BWG (in the version applicable at 31 Dec. 2013)

[2)] BWG in the version applicable at 31 Dec. 2013

09. INCOME STATEMENT OF CAPITAL BANK - GRAWE GRUPPE AG FOR THE 2014 FINANCIAL YEAR

		31.12.2014 €	31.12.2013 € '000
1. Interest and similar income		9.899.541,09	9.152
of which: from fixed-income securities	2.978.195,55		
2. Interest and similar expenses		-1.950.198,33	-2.162
I. NET INTEREST INCOME		7.949.342,76	6.991
3. Income from securities and equity investments		9.818.236,05	5.655
a) Income from shares, other equity interests, and variable-yield securities	2.717.034,43		1.619
b) Income from equity investments	1.108,70		1
c) Income from shares in affiliates	7.100.092,92		4.001
d) Increase in net assets from transfer of shares	0,00		35
4. Fee and commission income		45.990.036,01	43.602
5. Fee and commission expenses		-23.429.964,56	-22.487
6. Income/expenses from financial operations		-370.278,93	147
7. Other operating income		3.924.656,78	2.065
II. OPERATING INCOME		43.882.028,11	35.972
8. General and administrative expenses		-22.763.291,05	-21.263
a) Personnel expenses	-14.831.053,50		-13.589
aa) Wages and salaries	-11.840.301,80		-11.243
bb) Social security costs, compulsory and other contributions linked to pay	-1.957.887,02		-1.823
cc) Other social security expenses	-111.497,57		-128
dd) Post-employment and other employee benefit costs	-228.946,60		-203
ee) Additions to pension provisions	84.745,27		12
ff) Expenses for severance payments and contributions to occupational pension funds for employees	-777.165,78		-204
b) Other expenses (administrative expenses)	-7.932.237,55		-7.674
9. Write-downs of assets reported under asset items 9 and 10		-672.174,97	-594
10. Other operating expenses		-17.785,11	-15
III. OPERATING EXPENSES		-23.453.251,13	-21.871

	31.12. 2014 €	31.12.2013 € '000
IV. OPERATING PROFIT	20,428,776.98	14,101
11. Allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks	-17,870,550.02	-22,617
12. Income from the reversal of allowances for losses on loans and advances and of provisions for contingent liabilities and credit risks	26,955,379.73	16,114
13. Write-downs of securities recognised as financial assets, and of shares in affiliates	0.00	-7
14. Income from the reversal of write-downs of securities recognised as financial assets, and of shares in affiliates	37,384.29	71
V. PROFIT FROM ORDINARY ACTIVITIES	29,550,990.98	7,661
15. Income tax	-4,748,730.68	-1,588
16. Other taxes not reported under item 15	-5,819.75	-5
VI. PROFIT FOR THE YEAR	24,796,440.55	6,068
17. Changes in reserves	0.00	-3,500
VII. NET PROFIT FOR THE YEAR	24,796,440.55	2,568
18. Profit brought forward	210,533.66	2,643
VIII. DISTRIBUTABLE PROFIT	25,006,974.21	5,211

10. CAPITAL AND CAPITAL REQUIREMENT IN € ‘000

	CAPITAL BANK - GRAWE GRUPPE AG		
	2014	**2013**	**2012**
Tier 1 capital	124,874	124,915	121,406
Subscribed capital	10,000	10,000	10,000
Capital reserve	55,916	55,916	55,916
Retained income	48,096	48,096	44,596
Retained earnings	57	0	
Liability reserve	11,127	11,127	11,127
Consolidation pursuant to section 24 (2) BWG	0	0	0
Intangible assets	-322	-224	-233
Supplemental elements (Tier 2)	9,664	22,930	16,930
Hidden reserves pursuant to section 57 (1) BWG	9,664	22,930	16,930
Revaluation reserve	0	0	0
Deductions	0	0	0
Eligible capital	134,538	147,845	138,336
Capital requirements for			
Credit risk	27,240	25,023	22,971
Trading book	22,826	14,388	24,987
Operational risk	5,736	5,266	5,039
Additional capital requirements major loans pursuant to 397 CRR	7,822	2,926	0
	63,624	47,603	52,997
Total risk amount		-	-
Risk amount for		-	-
Credit risk	340,495	-	-
Trading book	285,329	-	-
Operational risk	71,695	-	-
Additional capital requirements major loans pursuant to 397 CRR	97,776	-	-
Total risk amount	795,295	-	-
Total capital ratio	16.9%	-	-
Tier 1 capital ratio	15.7%	-	-
Common Equity Tier 1 capital ratio	15.7%	-	-

11. STATEMENT OF CHANGES IN FIXED ASSETS FOR THE FINANCIAL YEAR 2014

in €	Procurement and setting up costs		
	As at 1 Jan. 2014	Additions	Disposals
Public-sector debt instruments	17,880,617.50	498,285.00	0.00
Loans and advances to banks (securities)	0.00	990,215.00	0.00
Bonds and other fixed-income securities	27,694,035.91	993,680.00	5,339,212.16
Shares and other variable-yield securities	14,023,486.27	0.00	0.00
Equity investments	9,334.89	750,815.79	436.04
Shares in affiliates	24,004,105.30	0.00	0.00
Intangible assets	1,058,208.78	192,859.10	0.00
Property and equipment	7,241,942.53	240,526.40	33,072.57
Low-value assets	0.00	38,891.84	38,891.84
TOTAL FIXED ASSETS	91,911,731.18	3,705,273.13	5,411,612.61

	Depreciation, amortisation and write-downs	Carrying amount	Carrying amount	Appreciation in value	Depreciation, amortisation and write-downs
As at 31 Dec. 2014	Cumulative	31 Dec. 2014	31 Dec. 2013	2014	2014
18,378,902.50	65,146.40	18,313,756.10	17,828,886.61	0.00	13,415.51
990,215.00	0.00	990,215.00	0.00	0.00	0.00
23,348,503.75	576,818.14	22,771,685.61	27,092,020.60	0.00	78,832.17
14,023,486.27	125,541.84	13,897,944.43	13,420,634.35	477,310.08	0.00
759,714.64	16.47	759,698.17	9,318.42	0.00	0.00
24,004,105.30	300,000.00	23,704,105.30	23,704,105.30	0.00	0.00
1,251,067.88	928,859.64	322,208.24	223,721.14	0.00	94,372.00
7,449,396.36	5,884,516.95	1,564,879.41	1,863,379.95	0.00	538,911.13
0.00	0,00	0.00	0.00	0.00	38,891.84
90,205,391.70	7,880,899.44	82,324,492.26	84,142,066.37	477,310.08	764,422.65

Excerpt from the notes to the annual financial statements of Capital Bank – GRAWE Gruppe AG

A. GENERAL

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 2013 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.

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 2014 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 2014 (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. Based on the corporate law accounting of derivatives and collateral instruments, valuation units were formed between underlying investments and liabilities evidenced by securities if the documented hedging purpose was available and the material and formal conditions were met. All risks from the underlying investments were taken into account via the calculations of the redemption amount for the liabilities evidenced by securities and were therefore hedged. The effectiveness of the hedging relationship is measured using the dollar offset method. The formation of valuation units results in the fact that the assets and derivatives stated in various items and the liabilities evidenced by securities with which the valuation units were formed are accounted for at their fair market 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. A long-term capital market interest rate of 2.2% (31 December 2013: 3.2%) was applied. The salary increase trend used in the calculations was 3.0% (31 December 2013: 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 used a long-term market discount rate of 1.9% (31 December 2013: 3.0%).

Actuarial gains and losses on non-current personnel provisions are recognised in profit and loss in the period in which they arise. All changes are recorded in the personnel expenses. No fluctuation discount is considered when calculating the non-current term personnel provisions.

In the 2014 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 the previous year.

Derivatives are accounted for in accordance with the principle of the individual valuation method. Valuation units are formed if there is a documented purpose regarding the hedging of an underlying transaction (assets, liabilities along with pending transactions) and if the material and formal conditions are met with banking book derivatives.

Customer transactions and securities in equity are used as underlying hedging transactions. The transactions are hedged based on the individual transactions (micro hedging relationships). The risks to be collateralised relate to the interest rate risk and the currency risk. They are managed primarily through swaps and currency forward agreements. The hedging period is essentially identical to the term of the underlying transaction.

Effectiveness is measured almost exclusively in a simplified manner (critical term match), since all parameters for the underlying transaction and the hedging transaction (in particular the term, nominal value and interest) which determine the extent of the hedged value changes are identical but contrary with the hedging relationships used. This is seen as an indicator of a completely effective hedging relationship. For the remaining hedging relationships the effectiveness is determined using the dollar offset method.

Capital guarantees were stated in the contingent liabilities up until 31 December 2013. As of 2014 they are accounted for as derivatives in accordance with the consolidated financial statements. The change has no essential effect on the company's financial position and financial performance.

C. BALANCE SHEET DISCLOSURES

Fixed assets

The breakdown of fixed assets and the changes in fixed assets during the year under review 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 was also the case in the previous year.

Securities

The total value of the securities portfolio (including pro rata interest) as at the end of the year amounted to €333.1 million (31 December 2013: €334.9 million). Of this total, an amount of €197.7 million (31 December 2013: €198.0 million) was accounted for by underlying instruments for liabilities evidenced by certificates and total return swaps with which hedging relationships were recognised. Underlying instruments amounting to €89.7 million (31 December 2013: €98.5 million) were pledged as collateral in favour of issue buyers and, of this amount, €1.9 million (31 December 2013: €1.9 million) were assigned to one collateral trustee. Bonds and other fixed-income securities with a carrying amount of €9.7 million (31 December 2013: €13.3 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 €1.8 million (31 December 2013: €0.8 million).

The bank's fixed assets as at 31 December 2014 included securities with a carrying amount of €56.0 million (31 December 2013: €58.3 million). The difference between the cost and higher fair value amounted to €9.7 million (31 December 2013: €6.8 million). The difference between the carrying amount and the lower settlement amount for fixed-income securities classified as fixed assets amounted to €339 thousand (31 December 2013: €431 thousand).

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 €18.7 million (31 December 2013: €18.3 million).

- in A3, Public-sector debt instruments, in an amount of 1.0 (31 December 2013: none)
- in A5, Bonds and other fixed-income securities, in an amount of €23.2 million (31 December 2013: €27.6 million).
- in A6, Shares and other variable-yield securities, in an amount of €13.9 million (31 December 2013: €13.4 million).

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

The company maintains a securities trading book as defined by Article 103 CRR. Items in the trading book are recognised at market value. As at 31 December 2014, the trading book did not include any securities, as in the previous year.

Capital Bank 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 €80.3 million (31 December 2013: €149.3 million) and in connection with fund-linked life insurance in an amount of €30.0 million (31 December 2013: €95.7 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. 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 public-sector debt instruments admitted for refinancing at the central bank, bonds and other fixed-income securities and in shares and other variable-yield securities was as follows:

In € '000	Listed	Not listed	Of which in fixed assets	Of which in current assets
2013				
Public-sector debt instruments admitted for refinancing at the central funding	20,877	-	18,252	2,625
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
2014				
Public-sector debt instruments admitted for refinancing at the central funding	21,017	-	18,734	2,283
Bonds and other fixed-income securities	69,615	828	23,197	47,246
Shares and other variable-yield securities	23,799	114,419	13,898	124,320

As in the previous year, 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 2014, the bank held direct equity investments in the following entities with shareholdings of at least 20% [1]:

REPRESENTATION OF THE INVESTMENTS

Equity investments and shares in affiliated companies	Share capital in € '000	Share-holding	Equity in € '000 [2]	Profit for year in € '000[3]	Balance sheet (provisional)
Brüll Kallmus Bank AG	6,000	100%	14,517	2,506	2014
Security Kapitalanlage Aktiengesellschaft	4,362	100%	30,010	4,619	2014
Corporate Finance – Grawe Gruppe GmbH	1,000	100%	1,027	-152	2014
CENTEC,AT Softwareentwicklungs und Dienstleistungs GmbH	35	58%	140	82	2014
BK Immo Vorsorge GmbH	35	100%	1,307	483	2014
CB Family Office Service GmbH	35	100%	143	3	2014

[1] Elected to make use of section 241 (2) UGB..

[2] Equity calculated in accordance with section 229 UGB including reserves after tax; includes distributable profit.

[3] Pursuant to section 231 (2) no. 22 UGB, profit/loss for the year is figure before adjustments to reserves.

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

The loans and advances to banks amount to €6.2 million (31 December 2013: €4.6 million) relating to loans and advances evidenced by certificates but not admitted to trading on an exchange, and loans and advances to banks amounting to €103.8 million (31 December 2013: €145.5 million) from the assignment to a collateral trustee of underlying instruments for liabilities evidenced by certificates.

The loans and advances to customers amount to €0.9 million (31 December 2013: €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 Total for banks and customers (€'000)	Loans and advances		Deposits	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
up to 3 months	40,102	98,686	10,088	14,165
more than 3 months to 1 year	88,124	46,075	8,779	41,427
more than 1 year to 5 years	59,221	56,365	12,025	2,002
more than 5 years	16,445	4,486	30,489	4,271
Total	203,892	205,613	61,380	61,864

Capital Bank 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 is HYPO-Bank Burgenland Aktiengesellschaft.

The disclosures pursuant to section 431 ff CRR 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

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

in € '000	31 Dec. 2014	31 Dec. 2013
Loans and advances to banks		
of which to affiliated companies	141,107	197,999
of which to other long-term investees and investors	8	8
Loans and advances to customers		
of which to affiliated companies	786	786
Deposits from banks		
of which to affiliated companies	13,239	22,463
of which to other long-term investees and investors	32	32
Deposits from customers		
of which to affiliated companies	20,866	13,191

As at 31 December 2014, the bank held trust fund deposits, but these deposits were of minor significance.

Other assets

Other assets included underlying instruments for liabilities evidenced by certificates amounting to €146.4 million (31 December 2013: €147.5 million).

ITEMS OF €1 MILLION OR MORE (ALL VALUES IN € '000)

In TEUR	MATURITY	31 Dec. 2014	31 Dec. 2013
Other shares in companies	> 1 year	148,623	149,935
Valuation allowances pursuant to section 57 BWG	> 1 year	-579	-4,213
Carrying amount of other shares in companies	> 1 year	148,044	145,722
Tax clearing with group parent	< 1 year	399	1,377
Loans and advances to affiliated companies	< 1 year	9,119	4,136
Fair values of currency forward agreements	< 1 year	0	2,194
Various sales invoices and services	< 1 year	8,274	6,733

Other liabilities

This item includes liabilities to tax authorities of €4,870 thousand (31 December 2013: €4,374 thousand) and securities clearing liabilities of €3,105 thousand (31 December 2013: €2,036 thousand). Expenses that were only payable after the reporting date largely consisted of personnel expenses of €1,912 thousand (31 December 2013: €1,243 thousand) and various other administrative expenses. Other liabilities amounting to €22,042 thousand (31 December 2013: €14,233 thousand) are due for payment within one year. The other liabilities include liabilities due to affiliated companies amounting to €3,601 thousand (31 December 2013: €1,888 thousand).

Liabilities evidenced by certificates

The liabilities evidenced by certificates form valuation units with assets and derivative transactions stated in various items (underlying investments).

Liabilities evidenced by certificates are due in the next financial year amounting to €9.2 million (31 December 2013: €6.3 million).

Other provisions

Other provisions primarily comprised provisions for losses amounting to €4,028 thousand (31 December 2013: €2,417 thousand), for unused leave amounting to €767 thousand (31 December 2013: €728 thousand), for other personnel expenses amounting to €3,779 thousand (31 December 2013: €4.664 thousand) and for fee and commission payments of €3,579 thousand (31 December 2013: €1,441 thousand).

Equity 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.

The capital reserves result from payments and deposits made by the shareholder.

The retained earnings of the company encompass statutory and voluntary reserves as well as profits generated in previous years, reduced by dividend disbursements.

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.

The loan processing fees amounting to €218 thousand stated in the interest income (31 December 2013: €380 thousand) were deferred for the first time in 2014 to reflect the duration of the loan.

Income from securities and equity investments included €7,100 thousand (31 December 2013: €4,001 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 €3,706 thousand (31 December 2013: €6.330 thousand) and losses on similar transactions amounting to €4,076 thousand (31 December 2013: €6,183 thousand).

Other operating income largely comprised income from service level agreements amounting to €1,570 thousand (31 December 2013: €1,724 thousand) and income from the reversal of provisions amounting to €2.137 thousand (31 December 2013: €78 thousand).

Expenses for severance payments and contributions to occupational pension funds included occupational pension fund expenses of €68 thousand (31 December 2013: €80 thousand).

The recognition of an income tax prepayment permitted in accordance with section 198 (10) of the Austrian Commercial Code (UGB) amounted to €0.3 million as at the reporting date (31 December 2013: €0.6 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 VALUE GUARANTEE):

	€ '000	€ '000
Obligations 2015 (2014)	830.0	(800.0)
Obligations 2015–2019 (2014–2018)	4,550.0	(4,410.0)

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 (1) of the BWG by €10.85 million (31 December 2013: €6.0 million allowance).

Reversals of write-downs on securities not recognised for reasons in connection with tax law amounted to €1,416 thousand (31 December 2013: €1,601 thousand). This could lead to tax expenses in subsequent years of up to €354 thousand (31 December 2013: €400 thousand).

Net income tax pursuant to section 237 no. 6b of the UGB attributable to the year under review amounted to €3,514 thousand (31 December 2013: €1.655 thousand). A net tax income amount of €1,235 thousand (31 December 2013: tax income of €-66 thousand) is related to taxes from prior periods.

Disclosure of the expenses incurred in the financial year 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 €155.6 million (31 December 2013: €144.0 million) and the liabilities on the balance sheet denominated in foreign currency were €27.8 million (31 December 2013: €23.0 million).

The company's total return on assets, the quotient of the annual net profit after taxes divided by the total assets on the balance sheet date is 2.7% (31 December 2013: 0.7%).

AS YET UNSETTLED FORWARD TRANSACTIONS AS AT THE BALANCE SHEET DATE

31 Dec. 2014 € '000	Notional amount Banking book	 Trading book
Volume Total	184,077	110,251
OTC products	184,077	110,251
Exchange-traded products	0	0
Interest rate	46,300	0
OTC-Produkte	46,300	0
Exchange-traded products	0	0
Equity	113	0
OTC products	113	0
Exchange-traded products	0	0
Foreign currencies and gold	132,925	0
OTC products	132,925	0
Exchange-traded products	0	0
Loans	4,739	0
OTC products	4,739	0
Exchange-traded products	0	0
Other	0	110,251
OTC products	0	110,251
Exchange-traded products	0	0

31 Dec. 2013 € '000	Notional amount Banking book	 Trading book
Volume Total	205,118	0
OTC products	205,118	0
Exchange-traded products	0	0
Interest rate	46,300	0
OTC-Produkte	46,300	0
Exchange-traded products	0	0
Equity	100	0
OTC products	100	0
Exchange-traded products	0	0
Foreign currencies and gold	133,234	0
OTC products	133,234	0
Exchange-traded products	0	0
Loans	25,484	0
OTC products	25,484	0
Exchange-traded products	0	0
Other	0	0
OTC products	0	0
Exchange-traded products	0	0

Positive fair value		Negative fair value	
Banking book	Trading book	Banking book	Trading book
348	464	4,374	802
348	464	4,374	802
0	0	0	0
274	0	912	0
274	0	912	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
74	0	3,462	0
74	0	3,462	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	464	0	802
0	464	0	802
0	0	0	0

Positive fair value		Negative fair value	
Banking book	Trading book	Banking book	Trading book
2,219	0	1,511	0
2,219	0	1,511	0
0	0	0	0
482	0	1,377	0
482	0	1,377	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
1,737	0	134	0
1,737	0	134	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0

Audit certification

The unabridged Financial Accounts for CAPITAL BANK – GRAWE GRUPPE AG as at 31 Dec. 2014 were issued with the following unqualified audit certificate by the chosen auditor:

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.

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. Such a provision amounting to €945 thousand was formed as at 31 December 2014 (31 December 2013: €0 thousand).

The accounting policies for derivatives can be found under appendix I/8.

Contingent liabilities and other financial commitments

The contingent liabilities include guarantees and financial commitments amounting to €11.2 million (31 December 2013: €15.7 million).

Guarantees and financial commitments as at the end of 2013 included capital guarantees for PZV products amounting to €149.3 million and other capital guarantees totalling €108.3 million. As of 2014 the capital guarantees are accounted for as derivatives in accordance with the consolidated financial statements.

The credit risks reported below the line on the balance sheet related to loans that had not yet been drawn as at 31 December 2014 amounting to €24.7 million (31 December 2013: €34.6 million).

The bank is also subject to an obligation arising from its membership in 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 as specified in section 92 (3a) of Regulation (EU) No. 575/2013, 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 was therefore calculated to be €5.5 million (31 December 2013: €7.3 million).

Securities with a carrying amount of €17.5 million (31 December 2013: €16.2 million) were lodged as an arrangement bond. As at the reporting date, securities with a carrying amount of €54.5 million (31 December 2013: none) were held blocked as a bond for using the refinancing option via the ECB tender procedure. A sum of €0.5 million (31 December 2013: €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 2013: €269 thousand) and cover funds for trust money amounting to €320 thousand (31 December 2013: €320 thousand).

F. OTHER DISCLOSURES

During 2014, the bank had an average of 157 (2013: 156) salaried and 7 (2013: 11) non-salaried employees.

As had also been the case in the previous year, the loans and advances to customers as at 31 December 2014 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 €623 thousand (2013: €152 thousand); the equivalent expenses for other employees were €422 thousand (2013: €183 thousand).

Expenses for pensions paid to former members of the Management Board amounted to €90 thousand (2013: €27 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.

Management Board

Christian Jauk, MBA MAS
Chief Executive Officer

Mag. Constantin Veyder-Malberg
Member of the Management Board

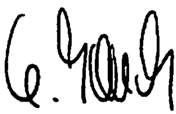
Supervisory Board

Mag. Dr. Othmar Ederer
General Manager of Grazer Wechselseitige Versicherung Aktiengesellschaft
Chairman of the Supervisory Board

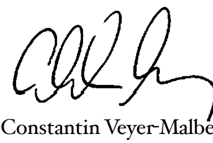
DDIng. Mag. Dr. Günther Puchtler
Member of the Board of Directors of Grazer Wechselseitige Versicherung Aktiengesellschaft
Deputy Chairman of the Supervisory Board

Dipl. Techn. Erik Venningdorf
Member of the Board of Directors of Grazer Wechselseitige Versicherung Aktiengesellschaft
Member of the Supervisory Board

Dr. Franz-Michael Hörhager
Managing Director of
Mezzanine Management GmbH
Member of the Supervisory Board



Christian Jauk, MBA m.p.
Chairman of the
Management Board



Mag. Constantin Veyer-Malber m.p.
Member of the
Management Board

SUBGROUP OF CAPITAL BANK – GRAWE GRUPPE AG

The following consolitated financial statements in accordance with UGB/BWG for the subgroup of Capital Bank – GRAWE Gruppe AG are intented to provide the reader with information on the financial performance of Capital Bank and its subsidiaries. The consolitated financial statements for the subgroup in accordance with UGB/BWG were autited by the independent auditors as part of the audit of the consolitated financial statements of HYPO-Bank Burgenland AG.

12. CAPITAL BANK - GRAWE GRUPPE AG SUB-GROUP
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2014

Assets		31.12.2014 €		31.12.2013 € '000
1. Cash on hand and balances at central banks		66,822,960.01		6,675
2. Public-sector debt instruments eligible as collateral for central bank funding				
Public-sector debt instruments and similar securities		23,320,641.14		23,191
3. Loans and advances to banks		241,386,011.17		342,560
4. Loans and advances to customers		220,460,997.29		170,780
5. Bonds and other fixed-income securities		78,056,792.48		92,685
6. Shares and other variable-yield securities		165,210,662.89		143,921
7. Equity investments		786,598.17		36
of which: in banks	8.575.00		9	
8. Shares in affiliates		853,180.17		888
9. Intangible		797,084.97		686
10. Property and equipment		4,410,858.61		4,880
11. Other assets		160,321,143.52		159,995
12. Prepaid expenses		784,325.53		748
TOTAL ASSETS		963,211,255.95		947,045
Below-the-line items				
1. Foreign assets		399,173,738.94		377,201
2. Fund assets of managed investment funds		3,392,337,905.88		2,740,555

Equity and liabilities		31.12.2014 €		31.12.2013 € '000
1. Deposits from banks		27,722,556.21		20,974
2. Deposits from customers		383,131,622.37		362,673
a) Other deposits	5,574,036.94		7,305	
b) Other deposits	377,557,585.43		355,368	
3. Liabilities evidenced by certificates		329,952,578.01		374,020
Other liabilities evidenced by certificates	329,952,578.01		374,020	
4. Other liabilities		28,028,281.72		21,005
5. Deferred income		0.00		0
6. Provisions		29,595,244.72		23,514
a) Provisions for severance payments	4,722,893.76		3,911	
b) Provisions for pensions	287,293.57		372	
c) Tax provisions	59,918.82		43	
d) Other	24,525,138.57		19,188	
7. Subscribed capital		65,915,661.65		65,916
8. Generated capital		98,865,311.27		78,943
9. Minority interests		0.00		0
TOTAL EQUITY AND LIABILITIES		963,211,255.95		947,045
Below-the-line items				
1. Contingent liabilities				
Liabilities from guarantees and liabilities from the pledging of collateral		11,247,443.29		260,629
2. Credit risks		24,762,672.95		34,758
3. Liabilities from trust transactions		36,001,084.43		15,288
4. Eligible capital pursuant to part 2 of EU Regulation No. 575/2013		148,521,667.97		-
of which: Supplementary capital as per part 2 title I chapter 4 of EU Regulation no. 575/2013: € 9,644,000.00				
5. Capital requirements as per Article 92 of EU Regulation no. 575/2013 (Total risk amount)		817,644,063.99		-
of which: Capital requirements as per Article 92 (1a-c) of EU Regulation no. 575/2013				
a) Common equity Tier 1 capital ratio		17.0%		-
b) Tier 1 capital ratio		17.0%		-
c) Total capital ratio		18.2%		-
6. Eligible capital pursuant to section 23 (1) (BWG)		-		161,874
7. Capital requirement pursuant to section 22 (1) BWG		-		48,928
of which: capital requirement pursuant to section 22 (1) nos. 1 and 4 BWG: € 30,289 thousand				
8. Foreign liabilities		57,790,326.97		67,587

13. CAPITAL BANK - GRAWE GRUPPE AG SUB-GROUP CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR 2014

		2014 €		2013 € '000
1. Interest and similar income		10,231,539.29		9,469
of which: from fixed-income securities	4,289,374.00		3,831	
2. Interest and similar expenses		-1,952,408.39		-2,164
I. NET INTEREST INCOME		8,279,130.90		7,305
3. Income from securities and equity investments		3,680,896.64		
a) Income from shares, other equity interests, and variable-yield securities	3,527,695.02		2,423	0
b) Income from equity investments	1,108.70		1	
c) Income from shares in affiliates	152,092.92		459	
4. Fee and commission income		77,052,994.23	0	
5. Fee and commission expenses		-38,562,496.96		-35,661
6. Income/expenses from financial operations		-370,054.77		163
7. Other operating income		5,278,787.17		2,597
II. OPERATING INCOME		55,359,257.21		49,890
8. General and administrative expenses		-31,100,422.34		-29,220
a) Personnel expenses	-20,992,382.09		-19,515	
aa) Wages and salaries	-17,100,342.98		-16,433	
bb) Social security costs, compulsory and other contributions linked to pay	-2,553,122.53		-2,425	
cc) Other social security expenses	-134,042.35		-164	
dd) Post-employment and other employee benefit costs	-393,727.05		-259	
ee) Additions to pension provisions	84,745.27		12	
ff) Expenses for severance payments and contributions to occupational pension funds for employees	-895,892.45		-246	
b) Other expenses (administrative expenses)	-10,108,040.25		-9,705	
9.Write-downs of assets reported under asset items 9 and 10		-1,005,394.18		-837
10.Other operating expenses		-17,785.11		-15
III.OPERATING EXPENSES		-32,123,601.63		-30,072

	2014 €	2013 € '000
IV. OPERATING PROFIT	23.235.655.58	19.818
11. Allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks	-17.870.550.02	-6.504
12. Income from the reversal of allowances for losses on loans and advances and of provisions for contingent liabilities and credit risks	26.955.379.73	0
13. Write-downs of securities recognised as financial assets, and of shares in affiliates	-47.612.42	0
14. Income from the reversal of write-downs of securities recognised as financial assets, of equity investments and of shares in affiliates	252.145.90	27
V. PROFIT FROM ORDINARY ACTIVITIES	32.525.018.77	13.341
15. Extraordinary income	0.00	35
16. Net extraordinary income	0.00	35
17. Income tax	-7.686.778.48	-4.064
18. Other taxes not reported under item 15	-20.485.70	-17
VI. CONSOLIDATED PROFIT / LOSS FOR THE YEAR	24.817.754.59	9.295
19. Changes in reserves	0.00	-6.800
of which: appropriation to the liability reserve	0.00	0
VII. NET PROFIT FOR THE YEAR	24.817.754.59	2.495
20. Profit brought forward	333.653.54	2.734
VIII. DISTRIBUTABLE PROFIT (before minority interests)	25.151.408.13	5.229
21. Minority interests	0.00	0
IX. DISTRIBUTABLE PROFIT	25.151.408.13	5.229

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