

**DEPARTURE WITH A  
CAPITAL D**

**CAPITAL**  **BANK**

Capital Bank  
Group

Graz  
Salzburg  
Vienna

Kitzbühel  
Klagenfurt

Annual Report  
2018

**OFF TO THE FUTURE**

The Capital Bank 2018

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The journalist, sailor and book author Marc Bielefeld has given one of his books the wonderful title „Wer Meer hat, braucht weniger“ („He who has the sea needs less“). In it, he describes the art of reducing, minimizing and doing without. Much of what we believe we have to own is not really necessary, the author says, and his teacher is the sea. Alone on a ship one learns to concentrate on the essentials and Bielefeld means this both in the sense of possession of goods and in the abstract sense: What use are prestigious symbols to us on the one hand if we are anything but satisfied on the other? Why do we think we have to climb the career ladder if we really would rather be breeding bees?

Our guest author Christian Ortner approaches the topic of ownership from a different angle. He speaks less about the aspect of voluntary renunciation than the aspect of expropriation. What is the point of striving for asset growth if we disregard essential risk avoidance factors? If we let ourselves be blinded or blind ourselves because we believe that things cannot happen, circumstances do not occur, because: „This time everything is different, isn't it?“ as the essay is called. Ortner deals with the subject of expropriation with reference to the „Aktion Bernhard“, reflecting on negative interest rates and redistribution of wealth. The question is: „What good are possessions if we disregard the fact that they can be taken from us at any moment if we invest poorly?“ Yet the answer is a positive one: referring to secure investment opportunities.

## **CHRISTIAN JAUK**

CHAIRMAN  
OF THE MANAGEMENT BOARD

Last year I wrote here about Capital Bank as a safe haven that gives you confidence in the future. After reading this year's guest article, I regard this role as an extremely important asset, because as a bank dedicated to traditional values, we can counter a market that is sometimes also dedicated to the ruthless accumulation of profits with something that cannot be taken for granted: responsibility, and in particular the responsible handling of our clients' assets.

## **CONSTANTIN VEYDER-MALBERG**

MEMBER OF THE MANAGEMENT BOARD

The truth is, you have less control than you believe you have. Think of those buttons that are supposed to close the lift doors faster, but which are often not even connected. Or think of your assets that you hope you have invested safely, even though you have not made any modifications for many years. When you have a reliable partner at your side, the perspectives widen and you optimise chance to identify possible risk factors.

## **WOLFGANG DORNER**

MEMBER OF THE MANAGEMENT BOARD

Capital Bank has always been built on consistent values such as reliability and trust. These factors allow us to develop perspectives for the future so our customers can be carefree. We create situations that aim to expand and increase the scope of action. This in turn increases the opportunities to shape the future, as positively as possible.

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# Performance and Key Figures

## PERFORMANCE AND KEY FIGURES OF CAPITAL BANK – GRAWE GRUPPE AG

	31 Dec. 2018 € '000	31 Dec. 2017 € '000	31 Dec. 2016 € '000
Total assets	964,741	935,480	847,896
Loans and advances to customers	336,928	316,520	244,284
Deposits from customers	476,493	370,669	343,747
Operating profit	14,746	14,910	15,559
Profit from ordinary activities	17,394	17,301	11,110
Total capital ratio pursuant to Art. 92 of EU Regulation No. 575/2013	26.8%	22.6%	15.9%
Volume of client custody accounts	11,621,560	11,612,897	9,798,387
Employees (excluding subsidiaries)	165	170	166

## **Management Report 2018 of CAPITAL BANK – GRAWE GRUPPE AG**

### **Business performance**

After a historically quiet phase, the environment of the international capital markets in 2018 was nervous and volatile, posing major challenges for responsible asset managers. In addition to political upheavals, such as the parliamentary elections in Italy, in which the 5-star movement emerged as the strongest force, the announcement of Angela Merkel's withdrawal from politics after the end of the current legislative period and the continuing protest actions of the so-called "yellow vests" in France, the sluggish Brexit negotiations in particular created uncertainty.

The emerging global trade war, particularly between the world's major economic powers, the US and China, and numerous regional conflicts dampened global economic prospects.

The sustained low level of interest rates, driven not least by the currency policy and interventions of the European Central Bank (ECB) continued to put pressure on returns on the bond market. Economic growth in the eurozone slowed somewhat in 2018 and was even negative in Germany in the third quarter. This negative development was reflected in the stock markets. The German share index DAX fell by 18.26% in the 2018 financial year, the Austrian ATX even closed 19.72% lower.

In this difficult environment, CAPITAL BANK – GRAWE GRUPPE AG (referred to hereafter as Capital Bank) aspires to make the right investment decisions and support its customers to the greatest extent possible in structuring their assets.

In the internationally renowned private banking comparison conducted by Fuchsbriefe Verlag, Capital Bank was awarded an outstanding third place out of 90 banks tested from the entire German-speaking region. The bank was able to achieve this in all four valuation categories: consultation, investment proposal, portfolio quality and transparency.

With the new Markets in Financial Instruments Directive (MiFID II) coming into force on 3 January 2018, the framework conditions in private banking changed once again. In particular, the technical implementation of the new requirements posed a noticeable additional burden.

As a result of MiFID II, the advisory concept for private banking was expanded to include so-called wealth strategy consulting. This is product-independent advice on asset investment that does not include any specific securities. The findings document is bank neutral and can therefore also be implemented at other financial institutions.

The fact that Capital Bank and its employees are recognised as a centre of excellence in the finance sector can be seen from their frequent appearances

in the relevant financial and business media. We were able to keep our presence in the media at a high level with around 2.6 mentions per week on relevant professional topics (compared with 2.8 mentions per week in the previous year). Print media accounted for around 91.2% and online media for 8.2%.

Capital Bank presents itself online with a newly designed homepage. This is a further component of the company's social media strategy. The focus in the implementation was placed on making the customer journey exciting, and on the topic of search engine optimisation.

Capital Bank specialises in providing advisory services in the field of asset management. The bank's core business is private banking, where the foundation for successful cooperation is always the trust between client and advisor. In private banking, assets under management remained virtually unchanged in 2018 despite the challenging market environment.

Capital Bank recorded further growth in the lending business in 2018. The lending volume was increased from €408.7 million to €432.2 million. As in the years before, the focus in the financing area here was on securities Lombard loans and selective real estate financing.

The private banking business concentrated on a number of priorities in the 2018 financial year. Several events, podium discussions and presentations



on current professional topics were organised for instance throughout Austria. Working with selected experts we were able to offer an attractive additional service to our customer with these events. Special emphasis was placed on the topic of financial provision.

The Family Office unit specialises in client relationship management for high-net-worth individuals, private charitable foundations and family businesses. Assets under management were increased again this year. The core competency of the Family Office department is specific consideration of individual customer requirements on all financial matters. This may also include the implementation of specific topics, such as support with the acquisition or sale of a company or structuring a special financing deal.

In recent years the Family Office has established itself as a centre of expertise for absolute return deals and investments in private equity funds, providing an attractive earnings component for portfolio diversification.

The Asset, Product & Quality Management (APQM) division occupies a central role at Capital Bank with various areas of responsibility. Its main role is central asset management of customer funds. The focus here is on achieving an attractive risk / earnings ratio in line with the different risk classes.

APQM also provides capital market expertise to private banking, e.g. through preparation of investment proposals, event-driven formulation of stock and market estimates and the newsletter which is published daily and is very popular with customers and business partners. In addition to topics specific to the capital market, the APQM deals with all questions relating to securities taxation. The bank's own issues of securities are also structured and managed by this division. APQM has also been responsible for advising on fund management at Bankhaus Schelhammer & Schattera AG since the end of 2015, particularly in connection with sustainable asset investment. The division also provides support with securities deposits by third-party banks and insurance companies.

The issue of charitable and not-for-profit activities is also handled by APQM. Aside from the administration for the Philanthropy Austria Foundation, this also includes the provision of philanthropy advisory services. As such, Capital Bank is acting as a pioneer in Austria.

“Die Plattform” is a division of Capital Bank and the leading B2B investment fund platform in Austria. As an independent custodian bank, securities transactions are processed for clients of investment firms and investment service providers.

Last year, despite the difficult market environment, the positive trend continued, and the market share

was further expanded. In addition to implementing regulatory requirements such as MiFID II, it was important for “Die Plattform” to expand its product range and adapt it to the needs of the investment advisors. The digitisation of transaction processes and the increase in the degree of automation also remain an ongoing focus.

The Investment Banking division specialises in investing in high yield corporate bonds. The successful collaboration with the Cardinal Point Fund located in San Francisco USA also continued profitably in 2018. In the past financial year, efficiency in bond trading was increased through the use of data analysis tools. Positive effects from this, such as an increase in the level of investment, were already noticeable from the second half of the year onwards.

Capital Bank belongs to the GRAWE banking group. The staff and service divisions of the banking group are mainly located within the parent company HYPO-Bank Burgenland Aktiengesellschaft (hereafter Bank Burgenland), where they provide their services to the banks in the GRAWE Banking Group. Significant quality and cost synergies have been realised in recent years as a result of this consolidation.

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 2018, Capital Bank had 168 employees (previous year: 173 employees).

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.

### **Essential equity investments**

The investment firm Security Kapitalanlage Aktiengesellschaft (hereafter: Security KAG) has gained an outstanding reputation in its almost 30-year history. As the asset manager for the GRAWE Banking Group, it currently manages 61 funds with a value of around €4.9 billion as at 31 December 2018. The increased focus on sustainability that was heralded in 2015 was also continued consistently in the last financial year. Together with our sister bank Bankhaus Schelhammer & Schattera AG, it is already

one of the leading providers of sustainable public funds in Austria.

Brüll Kallmus Bank AG is the GRAWE Banking Group's specialised bank for fixed-income securities. With branches in Vienna and Graz, the two business areas Institutional Banking and Capital Market Financing service institutional and quasi-institutional customers as well as public institutions throughout Austria and in neighbouring countries.

Aside from arranging bond transactions on the secondary market, especially illiquid debt instruments, the team at Brüll Kallmus Bank AG also provides support to professional market participants with bond and bonded loan issues and with placing new issues on the primary market.

In the middle of the year, part of the team left the bank at their own request. The hence necessary recruiting activities were intensified so that several new employees were hired before the end of 2018. Brüll Kallmus Bank AG continues to focus on its core business and looks to the future with optimism.

BK Immo Vorsorge GmbH which was established in 2009 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 company has

been able to maintain a good position in all existing market phases on the real estate market and has made an encouraging contribution to comprehensive income over the last few years. In addition, the acquisition of several properties in Vienna and Graz created a promising project pipeline for the coming years.

### **General economic conditions**

The global economic upswing did not fully maintain its momentum in the year under review. According to current estimates by the International Monetary Fund (Update on the World Economic Outlook, January 2018), global economic growth amounted to 3.7% in 2018. Growth was thus below that of the previous year (+3.8%) as well as below the expectations prevailing at the beginning of 2018 (3.9%). The decline was particularly marked in the growth figures of the eurozone. While economic output in the eurozone rose by 2.4% in 2017, current estimates suggest that growth declined to 1.8% in 2018. The weakening of the economy was particularly pronounced in the third quarter (+0.2% compared with the previous quarter). At the country level, the decline in Germany from 0.5% to -0.2% and in the Netherlands from 0.7% to 0.2% are worth mentioning. Although special factors from the automotive sector can be held responsible for parts of the decline, they do not fully explain it. Consumers were also more cautious in the third quarter. In addition, the ongoing trade dispute with the US had a negative impact on

exports. In Italy, economic output fell by 0.1% in the third quarter. For 2018 as a whole, growth of 1.0% is expected to be well below the eurozone average. The unemployment rate in the eurozone improved to 8.1% in September 2018, its lowest level for 10 years. A look at the country level shows that, with the exception of Italy, the unemployment rate was decreasing or unchanged in all countries. Despite the improved situation on the labour market, inflationary pressure has so far failed to materialise in the eurozone. The core inflation rate in the eurozone barely moved from 0.9% to 1.0% in the course of the year. Overall inflation fluctuated between 1.1% and 2.2% due to oil price developments. At the end of the year, the inflation rate in the eurozone was 1.6%, 0.2% higher than at the beginning of the year. In this environment, the European Central Bank kept the interest rates for main refinancing operations, the marginal lending facility rate and the deposit facility rate unchanged at 0.00%, 0.25% and -0.40% respectively for the second consecutive year. The scope of the Asset Purchase Programme (APP) was reduced from monthly asset purchases of €60 billion to €30 billion at 1 January 2018. In October, the monthly purchase volume was further reduced to €15 billion. At its December meeting, the Governing Council decided to end net purchases under the APP in December 2018. At the same time, the Council announced that it would reinvest, in full, the principal payments from securities purchased under the programme for an extended period of time past the date when it starts raising the key interest

rate, and in any case for as long as necessary. As part of the Forward Guidance, the Governing Council also announced that key eurozone interest rates would remain at their current level at least until after summer 2019, and in any case for as long as necessary.

In the United Kingdom, economic output increased in the second and third quarters despite the still unresolved Brexit negotiations. On 25 November 2018, the European Council approved the text of the withdrawal agreement with Great Britain. However, the British parliament has so far failed to approve the negotiated withdrawal agreement. The International Monetary Fund is predicting growth of 1.4% for 2018.

The growth of the US economy significantly exceeded that of the eurozone in the year under review. Particularly in the second half of the year, the US was able to escape the weakening trend. In the third quarter, gross domestic product grew by 0.9% compared to the previous quarter. This development is driven by both, private consumption and gross investment. The US tax reform also made a significant contribution to the prevailing economic boom. The International Monetary Fund is currently predicting growth of 2.9% for 2018. This means that the growth rate will be both above that of the previous year and above expectations at the beginning of the year. Inflation showed similar moves in the course of the year to those in the eurozone. It rose from 2.1% to 2.9% by the end of July but fell to 1.9% in



the second half of the year. In this strong economic environment, the US Federal Reserve under Jerome Powell increased the key interest rate in four steps of 0.25% each to a range of 2.25% to 2.50%.

According to current forecasts, Chinese economic growth slowed from 6.9% to 6.6% in the course of 2018. A further slowdown in growth to 6.2% is expected for the next two years. At the same time, the risks for the Chinese economy are increasing. The trade conflict with the USA has so far been cushioned by the depreciation of the renminbi, by exports brought forward and by the transport of goods destined for the US market via third countries. On the fringes of the G-20 summit, US President Trump postponed an increase in US tariffs from 10% to 25% on Chinese imports worth around USD 200 billion for the time being until 2 March 2019. However, the trade dispute remains the biggest uncertainty factor for the Chinese economy. But domestic risk factors in the form of rising debts in the private as well as in the public sector increase too.

Contrary to the general trend in the eurozone, Austria's economy was able to continue the economic momentum of the previous year. According to the latest estimates of the Oesterreichische Nationalbank (OeNB), real GDP growth in 2018 will be 2.7%, as in the previous year. Despite the global economic development, export growth weakened only slightly from 4.6% to 4.2% compared to 2017 and thus once again represented a major pillar of the Austrian

economy. Investments by domestic industry and residential construction also increased significantly in the year under review. However, first indicators point to a decline in residential construction activity in the coming years. Domestic consumer spending also rose strongly for the third year in a row. Thanks to the Family Bonus Plus program, the purchasing power of families with children will increase by €800 million (2019) and €1.2 billion (2020) respectively in 2019 and 2020. The labour market was also strong in 2018. According to Eurostat measurements, the unemployment rate fell from 5.4% to 4.7% in November 2018. Private consumption will thus continue to be supported in the coming years. According to current expectations, Austria's economic growth will therefore continue to be above the eurozone average. Growth of 2.0% (2019) and 1.9% (2020) is forecast for the coming years. At 1.7%, the inflation rate in December 2018 was slightly above the euro average. Thanks to the good economic development and falling interest expenditure, the general government budget balance for 2018 will be balanced.

### **Capital market**

In 2018, volatility returned to the capital markets. Measured by the Chicago Board Options Exchange SPX Volatility Index ("VIX"), volatility on the US stock market declined steadily over the whole of 2017 and reached a multi-year low of 9.2% on 3 January 2018. In the course of 2018, however, volatility increased significantly again, reaching multi-year

peaks on 5 February with values of 37.3% and on 24 December with 36.07%. Parallel to the rise in volatility, prices on the stock markets fell, in some cases sharply. The American S&P 500 Index recorded its low for the year at 2,351 points on 24 December. A drop of just under 20% compared with the levels at the beginning of October. For 2018 as a whole, the same index fell by 6.1%. The Austrian ATX closed the year at 2,745.78 points, 19.7% lower. Hit hard by the car scandal and the trade dispute, the German benchmark index had a particularly difficult year. It closed at 10,558.96 points, down 18.3% on the previous year. The global stock market index MSCI World also recorded a minus of 8.7% after dividends in the year under review. Developments in the emerging markets were comparatively heterogeneous. While the stock exchange in Sao Paulo also closed out the year with a strong plus due to the political shift in Brazil, the Chinese stock exchanges recorded a clear minus. Measured against the MSCI Emerging Markets Index, emerging market equities lost an average of 14.6% over the course of the year.

The bond markets were only able to counter this development to a limited extent. The key interest rate increases by the US Federal Reserve led to rising yields across all US government bonds. However, the increases were particularly strong in the short maturities. The yield on 2-year US government bonds rose from 1.9% to 2.5%. In 10-year US government bonds, the rise in yields from 2.4% at the beginning of the year to 2.7% was less pronounced, resulting

in a marked flattening of the entire US yield curve. The small yield gap between 2-year and 10-year US Treasuries also increased market participants' fears of a recession. In the past, an inverted yield curve was a good indicator of subsequent recessions. German bonds, on the other hand, recorded slight gains. The Bund Future closed trading at 163.5 points and a small plus of 1.2%. The yield on 10-year German government bonds fell in the course of the year from 0.4% to 0.2%. The yield on two-year German government bonds remained largely unchanged over the course of the year at 0.6%. As a result, the German yield curve flattened considerably over the course of the year also. The currency markets developed in line with the equity and bond markets. So-called safe-haven currencies, such as the US dollar and the Japanese yen, gained against the euro again. The euro fell from 1.2 to 1.15 against the dollar and from 135 to 126 against the Japanese yen. Despite the Brexit uncertainties, the British pound ended 2018 almost unchanged against the European single currency. The euro rose against the pound from 0.89 to 0.9.

## **BUSINESS PERFORMANCE**

### **Statement of financial position**

Capital Bank's total assets rose moderately by about 3.1% from €935.5 million to €964.7 million in 2018. In particular the increase in loans and advances to customers, which rose by €20.4 million to €336.9 million increased the total assets. On the

liabilities side, deposits from customers increased significantly by € 105.8 million to € 476.5 million due to large-volume customer deposits. At the same time, the volume of own issues decreased to € 228.8 million after € 299.3 million in the previous year.

Capital pursuant to Part 2 CRR increased in the 2018 financial year by approx. 9.3% from €149.1 million to €162.9 million. The capital requirements decreased by 1.2% to €60.3 million. This resulted in a capital surplus of €102.6 million. The capital surplus was increased by €14.6 million or 16.6% compared to the previous year. The common equity tier 1 capital ratio increased from 21.3% in the previous year to 25.7% in 2018. The total capital ratio also rose by 4.3 percentage points over the course of the year and stood at an excellent 26.8% at year-end. The quotas shown are calculated on the basis of the minimum own funds requirement. Of the reported eligible capital of €162.9 million, 95.8% was accounted for by tier 1 capital.

The return on equity, which is calculated from the ratio of the profit for the year before taxes to the equity excluding distributable profit before changes in reserves, (ROE: 2018: 13.9%; 2017: 13.8%) remained more or less the same compared to the previous year. The return on assets, the ratio of the profit from ordinary activities to the average total assets, barely changed in the period from 1.9% to 1.8%. At 28.8 percent, the return on capital employed also remained more or less unchanged from the prior-year figure of 28.3 percent. The return on

capital employed is calculated as the ratio of profit from ordinary activities to the capital requirements.

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**

Capital Bank generated a profit from ordinary activities in the 2018 financial year amounting to €17.4 million, which is therefore just above the previous year's level of €17.3 million. Operationally the successful results from the previous year were exceeded. Net fee and commission income and net financial income increased by €2.4 million to €27.5 million. Net interest income increased by €1.4 million to €10.6 million in the period under review. In addition, the Group benefited from positive effects in the valuation results of securities.

As expected, personnel expenses increased slightly by 3.6% to €16.4 million, while administrative expenses rose moderately by 15.0% from €9.2 million to €10.6 million.

Capital Bank generated an operating profit of €14.7 million for 2018. This equated to a fall of approximately 1.1% on the operating profit of €14.9 million generated in 2017. The cost income ratio rose slightly compared to the previous year from 63.6% to 65.6%.

### **Volume of client custody accounts**

Capital Bank also continued in the 2018 financial year to focus on gaining market share and thus expanding its volume of client custody accounts. In addition to the negative development of the capital markets, extraordinary redemptions also meant that expectations with regard to the further expansion of the customer custody account volume could not be fulfilled. With a customer custody account volume of € 11.6 billion, this is slightly above the previous year's figure.

Our subsidiary, the Security Kapitalanlagegesellschaft, recorded a slight decline of 4.4% in the volume of custody accounts to € 4.9 billion. At the same time, the assets under management, including own issues, of the Capital Bank sub-group fell by 2.1% to € 17.0 billion.

### **Proposed dividend**

The profit from ordinary activities generated in the 2018 financial year amounted to €17.4 million. Capital Bank will pay a dividend of €5.0 million to its shareholder Bank Burgenland following the

resolution passed at the annual general meeting. The remainder of the annual profit will be allocated to equity to reinforce the capital base even further.

## **Outlook**

The economic forecasts for the coming years were withdrawn by all major institutes and organisations in the course of the year under review. Nevertheless, robust growth is still expected in the baseline scenario. After 3.7% growth in 2018, the International Monetary Fund forecasts an increase in annual economic output of 3.5% (2019) and 3.6% (2020) for the years 2019 and 2020. Compared to the previous year, however, the downside risks dominate. Escalating trade conflicts, the Chinese shadow banking system, a resurgence of the euro crisis or a hard Brexit would have the potential to seriously endanger economic development. In the future, central banks would have fewer opportunities to counter the threat of recession. Historically, the US Federal Reserve lowered the key interest rate by an average of 5% in order to get the economy going again in the event of a recession. Despite the key rate hikes of recent years, the potential for key rate cuts in the USA remains severely limited. This problem becomes even clearer with a view to the European Central Bank or the Bank of Japan - both in terms of the level of key interest rates and the extended central bank balance sheets. However, at 1.6% for 2019 and 1.7% for 2020, expectations in the eurozone are still close to potential growth.



In order to live up to our claim of being the leading independent private and investment bank in Austria, we are committed to continuously improving our advisory approach and to constantly reviewing our business model. We do not consider the implementation of legal requirements resulting from the entry into force of MiFID II, for example, as a necessary evil but see it as an opportunity to set ourselves apart from the competition. In this context, we see further potential to make the consulting process even more convenient and thus to create noticeable added value for existing and new customers.

In the coming financial year, a relaunch of the in-house wealth management is also planned in order to specifically address new customer groups. A more active fund selection is aimed at in order to make future investment themes such as digitalisation, global aging or automation & robotics investable.

The adaptation of the core banking service provider that was launched in the 2017 financial year along with the accompanying switch to a new data centre is proceeding according to plan. The effective change-over to the Allgemeine Rechenzentrum (ARZ – data processing centre) is scheduled for the first half of 2019. Aside from Capital Bank, Bank Burgenland as well as Brüll Kallmus Bank AG will also be switching to ARZ as banks in the GRAWE Banking Group.

Due to the consolidation of the entire GRAWE Banking Group in Austria in one data centre as

an overall solution provider, we expect significant synergy effects within the banking group.

And the change in the core banking system also offers numerous opportunities at Capital Bank level. Even though private banking naturally depends heavily on the relationship between people, the subject of digitisation is becoming increasingly important. In addition to improving customer service, for example by means of new communication methods or improved reporting systems, digitisation also opens up significant optimisation potential for internal processes.

We are convinced that we will be able to continue operating successfully on the market in future with the backing of a traditional insurance group, the strength of a broad-based banking group, our sophisticated business model and the quality and commitment of Capital Bank's employees.

### **Events after the reporting date**

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

## **Risk Report CAPITAL BANK – GRAWE GRUPPE AG**

At Capital Bank, risk management is defined as a process (based on a division of labour) for identifying, measuring, monitoring and managing risks defined in the GRAWE Banking Group. 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. The risk-policy principles, responsibilities as well as control principles are enshrined in the GRAWE banking group's risk management. The responsibilities are clearly regulated in terms of content and function.

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), Bank Burgenland, 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 ICAAP consolidation for Bank Burgenland comprise Bankhaus Schelhammer & Schattera Aktiengesellschaft incl. subsidiaries, Capital Bank incl. subsidiary banks, BB LEASING GMBH as well as Sopron Bank Burgenland Rt. as a banking subsidiary based in another EU country. The risk strategy in the GRAWE Banking Group is

to take on standard banking risks within a defined framework and to exploit the resulting potential returns. To this end, a risk management system has been set up in the GRAWE 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 CRR, as well as various policies and guidelines, along with 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 the GRAWE Banking Group.

The basis for risk management in the GRAWE 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 the GRAWE Banking Group level and is also implemented for the subsidiaries under the responsibility of Bank Burgenland. The responsibilities of the risk management unit at Capital Bank include the control of market risk, liquidity risk, credit risk and operational risks, risk management for the subsidiaries of Capital Bank as well as overall control over the bank. The operational management of credit risk is carried out by the credit risk management department. The implementation of risk management for the Group involves close cooperation between the risk management unit at Bank Burgenland and Capital Bank.

### **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 Group developments and guidelines. 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.

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 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 GRAWE Banking Group level. In addition, every

employee is encouraged to identify potential risk and initiate appropriate corrective action.

- The organisation of risk management is subject to the principle of segregation of functions between front office and back office and must ensure that conflicts of interest are prevented at all decision-making levels.
- For the purposes of ongoing risk management, regular reports on the risk situation must be submitted to the Management Board and to the decision-making committees at 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 systematically address the individual components of risk management. The service and work instructions, like the risk manual, have the objective 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.

The risk limits are defined at least once a year on the basis of the risk-bearing capacity calculation. Compliance with risk limits is continuously monitored and regularly reported to senior managers. If 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, 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 GRAWE Banking Group. The risk-bearing capacity is calculated quarterly at Group level and on an individual basis for all banks in the GRAWE banking group. Risk positions are also constantly monitored in order to be able to take

ad-hoc risk-minimising steps when discrepancies arise.

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.

Under the gone concern approach, the capital available to the GRAWE Banking Group for dealing with risks is the equity composed of the tier 1 capital, reserves and the supplementary capital, including from the profit already generated by the key date. Under the going concern approach the forecast value is taken into account in determining the risk coverage potential instead of the results already achieved. The methodology used for calculating the risks varies depending on the risk category and the selected analysis method. Credit risk (incl. consideration of risks from loans in foreign currencies and country risks), market risks in the banking book (incl. credit spread risks), operational risk, liquidity risk, investment risk, real estate risk and other types of risk as well as the macroeconomic risk are all taken into account with this. 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 2018, the bank at all times took into account the mandatory reconciliation process between the quantified potential risk and the risk coverage potential available to the bank. Calculations based on stress scenarios are also applied in order to assess the risks that could arise from extreme market volatility.

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

All risks in the GRAWE Banking Group are considered as part of the overall bank risk management for Capital Bank. Given the bank's direction, material risk arises primarily in the areas of operational risk, 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 spread.

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 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.

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 by means of currency-matched funding and the use of foreign exchange derivatives. Tight limits are imposed if foreign exchange exposures are left open.

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 Group by Group Treasury and the assets and liabilities committee, which manage the interest-rate structure taking into account the risk involved. On the basis of interest-rate risk statistics from the Austrian National Bank (OeNB), it is possible to state that interest-rate risk at CAPITAL BANK – GRAWE GRUPPE AG is at a low level compared with the regulatory threshold of 20% of eligible capital.

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)). The Bank has also assumed guarantees for unit-linked life insurance. Under this capital guarantee, the bank guarantees with the PZV (prämienbegünstigte Zukunftsvorsorge) product, a special pension plan product offered in Austria with a government subsidy, that the client will receive a payout that is at least equivalent to the amounts paid in plus the government subsidy. Capital guarantees and maximum level guarantees are also provided in unit-linked life insurance. The risk associated with capital guarantees 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 around €156.8 million (2017: around €151.3 million) were outstanding at Capital Bank as at the reporting date. The guarantees are matched by corresponding recoverable investments. Guarantees with a total guaranteed sum of around €332.8 million (2017: around €327.3 million) were outstanding in the GRAWE Banking Group as at the reporting date. The guarantees are matched by corresponding recoverable investments.

### **Operational risk**

At Capital Bank, operational risk is defined in the same way as in the statutory 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. Operational risk also includes cyber risks. The term cyber risk essentially describes the risk that arises when navigating in a digital and networked world



(the cyberspace). On the one hand, cyber risks exist due to the possibility of deliberate, targeted IT-supported attacks on data and IT systems. These attacks are likely to have the following consequences: violation of the confidentiality of data (e.g. loss of data, spying on data), violation of the integrity of the system or data (e.g. data corruption, possibly by means of malware), fast, massive, inexpensive and far-reaching dissemination (e.g. e-mail campaigns against companies, calls for boycotts via social media) and through "social hacking".

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 Group, managing the operational risk database, analysing loss events and preparing reports for the Management Board and various committees. Based on the standards applicable throughout the Group, loss events related to operational risk are assembled in one database. 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, the 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 manage-

ment 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. At Capital Bank, 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. The basic principles of lending business at Capital Bank include a clear credit and associated risk policy. The detailed risk assessment for each loan commitment, in particular the customer's creditworthiness rating, is very important as part of the process for approving loans. Each loan decision is based on a thorough analysis of the loan commitment, including an assessment of all relevant influencing factors. Following the initial loan application the Bank's loan commitments are generally monitored once per year.

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 are also defined for the credit exposure which inter alia simulate a deterioration in the collateral situation. In addition, concentrations in the securities furnished as collateral are continuously analysed in order to highlight any resulting cluster or concentration risk. Credit risk data from Capital Bank is also fed into the analysis and assessment of the credit risk for the whole of the Group.

To manage country risk, country limits have been set both at 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.

### **Investment and real estate risk**

The investment risk represents a special form of credit risk and includes the risk of a need for depreciation or write down of the carrying amount of the equity investments. It describes the risk that the investments made may result in potential losses (as a result of a lack of a dividend, partial depreciation, losses made on sales or a reduction in undisclosed reserves) from equity provided, from profit-transfer agreements (assumption of losses) or from liability risks (e.g. letters of comfort). At Capital Bank the

term investment risk only covers risks from so-called investments similar to loans. Risks from stocks, investment fund units and other investment securities on the other hand are stated under market risks. The real estate risk arises from fluctuations in market prices for real estate.

The investment commitment at Capital Bank consists overwhelmingly of the investment in Brüll Kallmus Bank AG and Security Kapitalanlage Aktiengesellschaft. The real estate risk is a subordinate risk category. The GRAWE Banking Group has set up its own department for managing equity investments and real estate.

### **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 Bank Burgenland. Liquidity risk is managed centrally for the whole of the banking group under the auspices of the assets and liabilities committee, which meets regularly.

Making provision for an unforeseeable increased need for liquidity is guaranteed through maintaining a sufficient portfolio of liquid assets which can be used for liquidity procurement at short notice. The amount of the liquidity buffer is determined based on the liquidity simulations for various scenarios which are regularly reported to the Management Board. Capital Bank had sufficient liquidity at its disposal at all times in 2018 and was above the key figures required under supervisory law at all times.

### **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. 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.

Responsibility for strategic corporate management lies with the Management Board of Capital Bank. 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. Decisions on the fundamental direction and development of the Bank's business activities harbour a risk that the consequences in terms of attaining long-term corporate objectives may include a range of problems from undesirable developments to a complete failure to achieve objectives.



## Summary and outlook

At Capital Bank, 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.

During 2019, 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 GRAWE 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 addition to this focal area, the ongoing ICAAP and ILAAP processes, capital guarantees, the extension of documentation requirements, the internal control system and continuous improvements to existing risk management activities will all represent further tasks for risk management. Another focus in 2019 will be the preparations for the move to a new data centre. In the course of this project, mainly operational risks are being identified.

As in previous years, the discussion of current regulatory issues continues to be an important component of risk management activities. The focus in 2019 will also remain on developing management tools,

supporting the professional training of employees and ensuring continuous development in internal risk quantification methods.

Graz, 27 February 2019

The Management Board



Christian Jauk, MBA MAS Member of the Management Board



Mag. Constantin Veyder-Malberg Member of the Management Board



Wolfgang Dorner, CIA, Member of the Management Board



## 01. PROFIT FROM ORDINARY ACTIVITIES IN € THOUSANDS

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	2004: 14,830
	2005: 15,961
	2006: 16,840
	2007: 17,663
I	2008: 175
	2009: 5,451
	2010: 7,088
	2011: 6,905
	2012: 7,181
	2013: 7,661
	2014: 29,551
	2015: 10,845
	2016: 11,110
	2017: 17,301
	2018: 17,394

## 02. TOTAL ASSETS IN € '000

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	2004: 225,975
	2005: 389,054
	2006: 563,684
	2007: 735,829
	2008: 731,082
	2009: 653,309
	2010: 679,772
	2011: 704,449
	2012: 833,990
	2013: 920,513
	2014: 933,233
	2015: 882,830
	2016: 847,896
	2017: 935,480
	2018: 964,741

### 03. OPERATING PROFIT IN € THOUSANDS

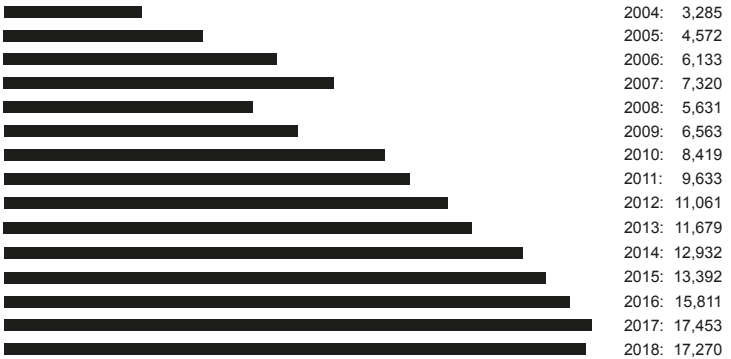
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2004:	26,666
2005:	25,858
2006:	21,901
2007:	22,558
2008:	11,781
2009:	9,260
2010:	10,390
2011:	12,879
2012:	13,222
2013:	14,101
2014:	20,429
2015:	16,725
2016:	15,559
2017:	14,910
2018:	14,746

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

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2004:	3,285
2005:	4,572
2006:	6,133
2007:	7,320
2008:	5,631
2009:	6,563
2010:	8,419
2011:	9,633
2012:	11,061
2013:	11,679
2014:	12,932
2015:	13,392
2016:	15,811
2017:	17,453
2018:	17,270



**07. PERSONNEL EXPENSES IN € MILLIONS**

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	2004:	11.2
	2005:	13.2
	2006:	16.3
	2007:	15.5
	2008:	11.1
	2009:	11.0
	2010:	12.0
	2011:	12.8
	2012:	13.3
	2013:	13.6
	2014:	14.8
	2015:	14.7
	2016:	15.6
	2017:	15.9
	2018:	16.4

## Report by the Supervisory Board

In 2018, 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 2018 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 certificate.

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 2017. 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 2018.

Graz, April 2019



Dr. Othmar Ederer  
Chairman of the Supervisory Board



**STATEMENT OF FINANCIAL POSITION  
OF CAPITAL BANK – GRAWE GRUPPE AG**

**08. STATEMENT OF FINANCIAL POSITION OF CAPITAL BANK – GRAWE GRUPPE AG  
AS AT 31 DECEMBER 2018**

<b>ASSETS</b>	<b>31 Dec. 2018</b>	<b>31 Dec. 2017</b>
	<b>€</b>	<b>€ '000</b>
<b>1. Cash on hand and balances at central banks</b>	101,189,022.95	34,099
<b>2. Public-sector debt instruments eligible as collateral for central bank funding</b>		
Public-sector debt instruments and similar securities	16,418,821.39	18,293
<b>3. Loans and advances to banks</b>	229,124,150.32	211,895
a) Repayable on demand	185,895,004.36	202,901
b) Other loans and advances	43,229,145.96	8,993
<b>4. Loans and advances to customers</b>	336,928,201.50	316,520
<b>5. Bonds and other fixed-income securities</b>	42,303,997.26	51,408
<b>6. Shares and other variable-yield securities</b>	96,967,699.73	134,360
<b>7. Equity investments</b>	665,140.05	775
of which: in banks	4,215.01	
<b>8. Shares in affiliated companies</b>	23,707,255.30	23,707
of which: in banks	22,900,925.13	22,901
<b>9. Intangible fixed assets</b>	322,560.89	502
<b>10. Property and equipment</b>	1,042,678.17	963
<b>11. Other assets</b>	105,884,040.63	133,378
<b>12. Prepaid expenses</b>	716,564.94	775
<b>13. Deferred tax assets</b>	9,470,894.07	8,805
<b>TOTAL ASSETS</b>	<b>964,741,027.20</b>	<b>935,480</b>
<b>Below-the-line items</b>		
<b>1. Foreign assets</b>	361,271,811.03	383,913

**EQUITY AND LIABILITIES**

	31 Dec. 2018	31 Dec. 2017
	€	€ '000
<b>1. Deposits from banks</b>	22,306,955.86	41,244
a) Repayable on demand	12,306,955.86	30,177
b) With agreed maturity or notice period	10,000,000.00	11,067
<b>2. Deposits from customers</b>	476,492,573.07	370,669
a) Savings deposits	4,996,759.23	4,495
aa) Repayable on demand	3,908,461.03	2,287
bb) With agreed maturity or notice period	1,088,298.20	2,209
b) Other deposits	471,495,813.84	366,174
aa) Repayable on demand	396,137,889.07	336,429
bb) With agreed maturity or notice period	75,357,924.77	29,745
<b>3. Liabilities evidenced by certificates</b>	228,760,779.24	299,295
Other liabilities evidenced by certificates	228,760,779.24	299,295
<b>4. Other liabilities</b>	30,061,331.58	29,942
<b>5. Prepaid expenses</b>	3,648,602.50	4,291
<b>6. Provisions</b>	33,102,816.64	33,606
a) Provisions for severance payments	7,325,905.32	5,902
b) Provisions for pensions	639,859.41	418
c) Tax provisions	0.00	0
d) Other	25,137,051.91	27,286
<b>7. Subscribed capital</b>	10,000,000.00	10,000
Nominal amount	10,000,000.00	10,000
<b>8. Capital reserves</b>	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
<b>9. Retained income</b>	48,096,218.77	48,096
a) Legal reserve	1,504,504.45	1,505
b) Other reserves	46,591,714.32	46,592
<b>10. Liability reserve pursuant to section 57 (5) BWG</b>	11,127,000.00	11,127
<b>11. Distributable profit</b>	45,229,087.89	31,294
a) Profit brought forward	31,294,200.49	15,962
b) Net profit for the year	13,934,887.40	15,332
<b>TOTAL EQUITY AND LIABILITIES</b>	964,741,027.20	935,480

	31 Dec. 2018	31 Dec. 2017
	€	€ '000
<b>Below-the-line items</b>		
<b>1. Contingent liabilities</b>		
Liabilities from guarantees and liabilities from the provision of collateral	13,444,277.92	14,801
<b>2. Credit risks</b>	67,486,966.24	60,430
<b>3. Liabilities from trust transactions</b>	63,822,633.77	20,552
<b>4. Eligible capital pursuant to part 2 of EU Regulation no. 575/2013</b>	162,882,520.02	149,065
of which: supplementary capital pursuant to part 2 title I chapter 4 of EU Regulation no. 575/2013: €6,772,000.00 (previous year: €8,465 thousand)		
<b>5. Capital requirements pursuant to Art. 92 of EU Regulation no. 575/2013 (Total risk amount)</b>	608,139,135.51	658,947
of which: capital requirements pursuant to 92 (1a-c) of EU Regulation no. 575/2013:		
a) Common equity tier 1 capital ratio	25.7%	21.3%
b) Tier 1 capital ratio	25.7%	21.3%
c) Total capital ratio	26.8%	22.6%
<b>6. Foreign liabilities</b>	92,378,111.28	67,218

**INCOME STATEMENT  
OF CAPITAL BANK – GRAWE GRUPPE AG**

**9. INCOME STATEMENT OF CAPITAL BANK – GRAWE GRUPPE AG FOR THE 2018 FINANCIAL YEAR**

	2018 €	2017 € '000
<b>1. Interest and similar income</b>	10,994,539.77	9,404
of which: from fixed-income securities	1,768,343.69	2,142
<b>2. Interest and similar expenses</b>	-445,021.78	-225
<b>I. NET INTEREST INCOME</b>	10,549,517.99	9,179
<b>3. Income from securities and equity investments</b>	2,424,816.12	4,348
a) fixed-income securities	1,121,427.47	1,048
b) Income from equity investments	3,388.65	0
c) Income from shares in affiliated companies	1,300,000.00	3,300
<b>4. Fee and commission income</b>	58,219,181.13	56,587
<b>5. Fee and commission expenses</b>	-31,365,641.27	-30,409
<b>6. Income/expenses from financial operations</b>	652,571.07	-1,073
<b>7. Other operating income</b>	2,322,107.01	2,330
<b>II. OPERATING INCOME</b>	42,802,552.05	40,961
<b>8. General and administrative expenses</b>	-27,040,293.63	-25,076
a) Personnel expenses	-16,428,893.78	-15,852
aa) Wages and salaries	-12,738,937.41	-12,789
bb) Social security costs, compulsory and other contributions linked to pay	-2,039,015.08	-2,125
cc) Other social security expenses	-157,170.73	-109
dd) Post-employment and other employee benefit costs	-261,930.45	-235
ee) Additions to pension provisions	-221,667.02	173
ff) Expenses for severance payments and contributions to operational pension funds for employees	-1,010,173.09	-767
b) Other expenses (administrative expenses)	-10,611,399.85	-9,223
<b>9. Write-downs of assets reported under asset items 9 and 10</b>	-686,872.05	-681
<b>10. Other operating expenses</b>	-329,831.58	-294
<b>III. OPERATING EXPENSES</b>	-28,056,997.26	-26,051

<b>IV. OPERATING PROFIT</b>	14,745,554.79	14,910
<b>11. Allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks</b>	-1,881,081.98	-7,507
<b>12. Income from the reversal of allowances for losses on loans and advances and of provisions for contingent liabilities and credit risks</b>	4,618,289.56	9,487
<b>13. Write-downs of securities recognised as financial assets, and of shares in affiliated companies</b>	-109,401.00	-48
<b>14. Income from the reversal of write-downs of securities recognised as financial assets, of equity investments and of shares in affiliated companies</b>	20,678.33	458
<b>V. PROFIT FROM ORDINARY ACTIVITIES</b>	17,394,039.70	17,301
<b>15. Income tax</b>	-3,358,592.56	-1,890
<b>16. Other taxes not reported under item 15</b>	-100,559.74	-80
<b>VI. PROFIT FOR THE YEAR</b>	13,934,887.40	15,332
<b>17. Changes in reserves</b>	0.00	0
<b>VII. NET PROFIT FOR THE YEAR</b>	13,934,887.40	15,332
<b>18. Profit brought forward</b>	31,294,200.49	15,962
<b>VIII. DISTRIBUTABLE PROFIT</b>	45,229,087.89	31,294

**10. CAPITAL AND CAPITAL REQUIREMENT IN € '000**

	<b>CAPITAL BANK – GRAWE GRUPPE AG</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Tier 1 capital</b>	156,111	140,600	132,560
Subscribed capital	10,000	10,000	10,000
Capital reserves	55,916	55,916	55,916
Retained income	48,096	48,096	48,096
Retained earnings	31,294	15,962	7,581
Liability reserve	11,127	11,127	11,127
Intangible assets	-323	-501	-160
<b>Supplemental elements (Tier 2)</b>	6,772	8,465	10,158
Hidden reserves pursuant to Section 57 (1) BWG	6,772	8,465	10,158
Revaluation reserve	0	0	0
<b>Deductions</b>	0	0	0
<b>Eligible capital</b>	162,883	149,065	142,718
<b>Risk amount for</b>			
Credit risk	526,658	572,313	389,188
Trading book	3,745	10,178	294,396
Operational risk	77,736	76,456	78,282
Additional capital requirements major loans pursuant to 397 CRR	0	0	135,140
<b>Total risk amount</b>	608,139	658,947	897,006
<b>Total capital ratio</b>	26.8%	22.6%	15.9%
<b>Tier 1 capital ratio</b>	25.7%	21.3%	14.8%
<b>Common equity tier 1 capital ratio</b>	25.7%	21.3%	14.8%



**SCHEDULE OF ASSETS  
OF CAPITAL BANKAS AT 31 Dec. 2018**

## 11. CAPITAL BANK'S STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

in €	Cost			
	As at 1 Jan. 2018	Additions	Disposals	As at 31 Dec. 2018
Public-sector debt instruments	12,060,835.00	11,335,157.69	12,182,747.69	11,213,245.00
Loans and advances to banks (securities)	990,215.00	497,560.00	0.00	1,487,775.00
Loans and advances to customers (securities)	0.00	0.00	0.00	0.00
Bonds and other fixed-income securities	11,110,470.75	2,493,675.00	1,745,641.25	11,858,504.50
Shares and other variable-yield securities	9,963,960.65			9,963,960.65
Equity investments	774,557.52	200.00	200.00	774,557.52
Shares in affiliated companies	24,007,255.30			24,007,255.30
Intangible assets	1,819,161.92	23,663.20		1,842,825.12
Property and equipment	8,022,748.13	530,411.51	1,873,311.87	6,679,847.77
Low-value assets	0.00	33,259.55	33,259.55	0.00
<b>TOTAL FIXED ASSETS</b>	<b>68,749,204.27</b>	<b>14,913,926.95</b>	<b>15,835,160.36</b>	<b>67,827,970.86</b>

Cumulative depreciation, amortisation and write-downs					Net carrying amounts	
As at 1 Jan. 2018	Additions	Write-ups	Disposals	As at 31 Dec. 2018	Carrying amount 1 Jan. 2018	Carrying amount 31 Dec. 2018
42,434.17	35,017.08			77,451.25	12,018,400.83	11,135,793.75
0.00				0.00	990,215.00	1,487,775.00
0.00				0.00	0.00	0.00
63,228.54	13,730.67	0.00	0.00	76,959.21	11,047,242.21	11,781,545.29
-304,812.37		197,713.59		-502,525.96	10,268,773.02	10,466,486.61
16.47	109,401.00			109,417.47	774,541.05	665,140.05
300,000.00				300,000.00	23,707,255.30	23,707,255.30
1,317,526.97	202,737.26			1,520,264.23	501,634.95	322,560.89
7,059,606.23	450,875.24		1,873,311.87	5,637,169.60	963,141.90	1,042,678.17
0.00	33,259.55		33,259.55	0.00	0.00	0.00
8,478,000.01	845,020.80	197,713.59	1,906,571.42	7,218,735.80	60,271,204.26	60,609,235.06

**Notes to the annual financial statements of CAPITAL BANK – GRAWE GRUPPE AG for the year ended 31 December 2018**

**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. Our range of services includes both investment and the procurement of capital.

Capital Bank is a subsidiary of Bank Burgenland, which acts as the parent bank. 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 GRAWE-Vermögensverwaltung in Graz. 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 Bank Burgenland, Eisenstadt. The consolidated financial statements of Bank Burgenland are submitted to the Eisenstadt regional court.

The comparative figures included in this report are taken from the 2017 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 statement of financial position 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 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. In preparing the annual financial statements the principle of completeness has been observed. Assets and liabilities have been measured individually. All identifiable risks and impending losses that arose in 2018 or in an earlier financial year have been recognised in the financial statements. The measurement methods used to date have been retained.

The company was assumed to be a going concern for valuation purposes.

As a result of the first time application of the RÄG 2014, write-ups were generally applied if the reasons for an unscheduled depreciation ceased to exist or in the event of an appreciation in value, with the maximum value applied for the write-up that represents the residual value with due regard to consistent scheduled depreciation. A tax write-up provision has been formed pursuant to section 124b no. 270 of the Income Tax Act (EStG) for the write-ups not implemented by 31 December 2015. This is recognised as deferred income in accordance with section 906 sub-section 32 UGB and will be released in accordance with these tax provisions.

The deferred taxes were recognised as at 1 January 2016 on account of the RÄG 2014. The balance of deferred tax assets existing as at 1 January 2016 was capitalised in full and will be distributed in line with income over 5 years by forming a deferred income item pursuant to section 906 sub-section 33f UGB.

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

The reference exchange rates published by the ECB on 31 December 2018 (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 reporting date.

*Securities* were 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 were measured at market value. The criteria for classifying securities as fixed assets was 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 in principle carried at their nominal values. At each reporting date, the extent to which there is objective evidence of impairment of a financial asset or group of financial assets is assessed. Individual write-downs or provisions for contingent liabilities are formed for identifiable credit risks.

As part of its credit monitoring activities, the Bank continuously checks whether default events exist for credit exposures and whether specific risk provisions have to be formed as a result. For non-performing loans that are not significant on their own, the bank determines an individual value adjustment on the basis of a cover invoice. The amount by which the outstanding credit exposure exceeds the assigned collateral is determined. This shortfall in cover is recorded in its entirety as risk provisioning.

General loan loss provisions are established for all loans not classified as impaired, depending on their respective risk profile. The calculation takes into account historical default rates per rating level, taking into account existing collateral and parameters based on statistical assumptions and empirical values.



Clients have also hedged risks by entering into derivatives with Capital Bank. For its part, the bank has entered into matching transactions with Bank Burgenland that are the opposite of these hedges, forming a valuation unit together.

*Equity investments and shares in affiliated companies* are valued at cost unless there has been permanent impairment from sustained losses which makes devaluation necessary. Write-downs are implemented if the reasons for the unscheduled depreciation or amortisation no longer apply.

*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 for immovable assets range from 6.66% to 10% p.a., and for movable assets from 5% to 33.3% p.a. 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.

The *other assets* are recognised at cost or, in the event of any permanent impairment, at the lower fair value as at the reporting date. Underlying investments included in the other assets that form a valuation unit with liabilities evidenced by certificates are measured at fair value.

*Liabilities evidenced by certificates* include items for which the settlement amount depends on the price of the defined underlying instrument. Derivatives and collateral instruments were, in accordance with corporate law, balanced in valuation units that are formed between underlying investments and liabilities evidenced by certificates 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 of the liabilities evidenced by certificates 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 certificates with which the valuation units were formed are accounted for at their fair market value.

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 2018 – P 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 market discount rate of 1.8% was applied (previous year: 1.6%). The salary increase trend used in the calculations was 4.1% (previous year: 3.5%).

The calculation of the *pension provision* is also based on recognised actuarial principles using the AVÖ 2018 – P tables for the calculation of pension insurance. The projected unit credit method is used to calculate the obligation. The group of beneficiaries consists of pension recipients and active employees. The calculation used a long-term market discount rate of 1.55% (previous year: 1.25%).

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.

In the 2018 annual financial statements, as in the previous year the bank made use of the election option available under section 57 (1) of the BWG.

*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 are accounted for as derivatives. With these products, the relevant beneficiary under

the guarantee has the guarantee that the amount available for disbursement after the binding period has expired will not be lower than the total amount of amounts paid in by the taxpayer plus the government premiums credited for this taxpayer pursuant to section 108g of the EStG.

Products with a capital guarantee from the pension provisions and fund-linked life insurance are presented as short-put options in the relevant guaranteed fund. The three essential unobservable internal input factors are the estimated lapse rate of existing contracts, the long-term (target) volatilities of the guarantee funds and the estimated expected return of the guarantee funds. The lapse rates used in the model are estimates by the experts from Grazer Wechselseitige Versicherung AG, which are continuously validated in Group Risk & Financial Controlling through the development of premium sums. The lapse rate used is 5% p.a. (2017: 5% p.a.). The target volatilities reported by the fund management are continuously reviewed by Group Risk & Finance Controlling using rolling historical volatilities. The range is between 5.5 and 8% (2017: 5.5 to 8%). The expected fund returns are calculated by the Xentis system and range from 162 to 225 basis points (2017: 50 to 160 basis points, calculations by Security KAG) after deducting all costs. The valuation is based on Monte-Carlo modelling. The market values of the derivatives are calculated with the software Unrisk Factory and ZEB Portfolio risk Manager (PRM).

In the course of accounting, the market values for maturity ranges with equivalent criteria (closing year, contract term) are formed. Due to the imparity principle, positive fair values are not taken into account in the financial statements.

## **C. DISCLOSURES TO THE STATEMENT OF FINANCIAL POSITION**

### **Fixed assets**

The breakdown of fixed assets and the changes in fixed assets during the reporting year are presented 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 €201.1 million (previous year: €300.0 million). Of this total, an amount of €103.2 million (previous year: €184.4 million) was accounted for by underlying investments in liabilities evidenced by certificates with which valuation units were formed. Basic investments in the amount of € 37.8 million (previous year: € 78.9 million) have been pledged in favour of the issue buyers. Bonds and other fixed-income securities with a carrying amount of €5.0 million (previous year: €8.4 million) were due within the year following the reporting date.

The difference between the cost and higher fair value as at the reporting date for the listed securities not

classified as financial assets and recognised at cost was €1.1 million (previous year: €2.2 million).

The bank's fixed assets as at 31 December 2018 included securities with a carrying amount of €34.9 million (previous year: €34.3 million). The difference between the cost and higher fair value amounted to €8.7 million (previous year: €8.4 million). The difference between the carrying amount and the lower settlement amount for fixed-income securities classified as fixed assets amounted to €242.2 thousand (previous year: €136.6 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 €11.2 million (previous year: €12.3 million);
- in A3, Public-sector debt instruments, in an amount of €1.5 million (previous year: €1.0 million)
- in A5, Bonds and other fixed-income securities, in an amount of €11.9 million (previous year: €11.2 million);
- in A6, Shares and other variable-yield securities, in an amount of €10.5 million (previous year: €10.3 million).

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

The company maintains a trading book as defined by Article 103 CRR. Items in the trading book are



recognised at market value. As at 31 December 2018, the trading book did not include any securities, as in the previous year.

Capital Bank had provided capital guarantees in the banking 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 €98.6 million (previous year: €96.8 million) and in connection with fund-linked life insurance in an amount of €58.1 million (previous year: €54.2 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. With this the relevant beneficiary under the guarantee has the guarantee that the amount available for disbursement after the binding period has expired will not be lower than the total amount of amounts paid in by the taxpayer plus the government premiums credited for this taxpayer pursuant to section 108g of the EStG. The three essential input factors for determining the market value are the estimated cancellation rate for existing contracts, the long-term (target) volatilities of the guarantee funds and the estimated expected return from the guarantee funds. The valuation is based on Monte-Carlo modelling. A provision in the amount of €3,950 thousand (previous year: €2,673 thousand) was formed as at 31 December 2018 based on the calculation of negative market values for the capital guarantees associated

with the PZV product and the fund-linked life insurance.

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

in € '000				
	listed	not listed	Of which in fixed assets	Of which in current assets
<b>2017</b>				
Bonds and other fixed-income securities	51,801	607	11,224	41,184
Shares and other variable-yield securities	25,921	113,439	10,269	129,091
<b>2018</b>				
Bonds and other fixed-income securities	41,030	1,274	11,942	30,362
Shares and other variable-yield securities	21,987	74,981	10,467	86,501

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

## Equity investments

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

As at 31 December 2018, the bank held direct equity investments in the following entities with shareholdings of at least 20%.

### LIST OF EQUITY INVESTMENTS

Equity investments and shares in affiliated companies	Share capital in € '000	Shareholding	Equity in € '000 <sup>1)</sup>	Profit for year in € '000 <sup>2)</sup>	Statement of financial position (provisional)
Brüll Kallmus Bank AG	6,000	100%	12,977	259	2018
Security Kapitalanlage Aktiengesellschaft	4,362	100%	48,249	7,173	2018
Corporate Finance – Grawe Gruppe GmbH	1,000	100%	976	10	2018
CENTEC.AT Softwareentwicklungs und Dienstleistungs GmbH	35	100%	162	5	2018
BK Immo Vorsorge GmbH	35	100%	2,823	569	2018
CB Family Office Service GmbH	35	100%	142	-2	2018

<sup>1)</sup> Equity calculated in accordance with section 229 UGB including reserves after tax; includes distributable profit.

<sup>2)</sup> Pursuant to section 231 (2) no. 22 UGB, profit/loss for the year is figured before changes in reserves.

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

The loans and advances to banks included €3.5 million (previous year: €5.3 million) relating to loans and advances evidenced by certificates but not admitted to trading on an exchange. The loans and advances to banks amounting to €62.8 million (previous year: €73.4 million) are from the assignment to a collateral trustee of underlying instruments for liabilities evidenced by certificates.

The loans and advances to customers included €3.0 million (previous year: €3.3 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		Liabilities	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Up to 3 months	148,095	35,564	4,399	10,238
More than 3 months to 1 year	96,109	77,253	21,104	11,546
More than 1 year to 5 years	153,470	107,135	46,203	12,628
More than 5 years	11,949	8,712	4,635	4,467
<b>Total</b>	<b>409,623</b>	<b>228,664</b>	<b>76,341</b>	<b>38,879</b>

Loans and advances to, and deposits from, affiliated companies and other long-term investees and investors.

in € '000	31 Dec. 2018	31 Dec. 2017
<b>Loans and advances to banks</b>		
of which to affiliated companies	159,324	158,060
of which to other long-term investees and investors	0	0
<b>Loans and advances to customers</b>		
of which to affiliated companies	0	0
<b>Deposits from banks</b>		
of which to affiliated companies	6,064	27,245
of which to other long-term investees and investors	0	0
<b>Deposits from customers</b>		
of which to affiliated companies	2,827	1,005

Capital Bank forms part of a tax group for value added tax purposes with Corporate Finance – Grawe Gruppe GmbH and CENTEC.AT Softwareentwicklungen 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 Bank Burgenland.

The disclosures pursuant to section 43I ff CRR are the responsibility of the parent bank, Bank Burgenland.

As at 31 December 2018, there were no trust fund deposits.

## Other assets

Other assets included underlying instruments for liabilities evidenced by certificates amounting to €100.1 million (previous year: €127.5 million).

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

In € '000	Maturity	31 Dec. 2018	31 Dec. 2017
Other shares in companies	> 1 year	100,561	126,381
Valuation allowances pursuant to section 57 BWG	> 1 year	-1,500	-1,280
Loans and advances to affiliated companies	< 1 year	2,661	3,397
Various sales invoices and services	< 1 year	4,162	4,225

The deferred tax assets at the reporting date were formed for temporary differences between the tax and corporate valuation for the following items:

### DEFERRED TAX ASSETS

In € '000	31 Dec. 2018	31 Dec. 2017
Property and equipment	147	453
Shares and other variable-yield securities	4,422	6,434
Write-downs	24,807	22,935
Long-term staff provisions	5,358	3,449
Long-term provisions	3,150	1,951
<b>Total differences</b>	<b>37,884</b>	<b>35,222</b>
<b>Resulting deferred taxes as at 31 Dec. (25%)</b>	<b>9,471</b>	<b>8,805</b>

## **Other liabilities**

This item includes liabilities to tax authorities amounting to €2,435 thousand (previous year: €5,683 thousand) and securities clearing liabilities of €6,384 thousand (previous year: €7,665 thousand). Expenses that were only payable after the reporting date largely consisted of personnel expenses of €4,444 thousand (previous year: €4,541 thousand) and various other administrative expenses. Other liabilities amounting to €30,061 thousand (previous year: €29,942 thousand) are mainly due for payment within one year. The other liabilities include liabilities due to affiliated companies amounting to €14,719 thousand (previous year: €9,628 thousand).

## **Liabilities evidenced by certificates**

The liabilities evidenced by certificates are certificates of underlying investments. They form valuation units with assets and derivative transactions stated in various items on the statement of financial position (underlying investments) and have no final maturity (open end).

## **Other provisions**

*Other provisions* primarily comprised provisions for losses amounting to €7,284 thousand (previous year: €12,045 thousand), for capital guarantees amounting to € 3,950 thousand (previous year: € 2,673 thousand), for unused leave amounting to €931 thousand

(previous year: €956 thousand), for other personnel expenses amounting to €5,132 thousand (previous year: €5,004 thousand) and for fee and commission payments of €5,178 thousand (previous year: €4,825 thousand).

In the 2017 and 2018 financial year, Capital Bank received distributions from investments made by the Bank, some of which also include loans and advances to customers. Insofar as it was legally possible to allocate the amounts distributed to customer portfolios on the one hand and bank portfolios on the other, this has since been done. To what extent further distributed sums ultimately remain with the Bank or are to be allocated to customer portfolios in accordance with the agreements reached in each case, and if so, at what amount, cannot yet be precisely quantified on the reporting date. There are still legal uncertainties here, especially proceedings at the investment level in the respective jurisdictions have not yet been concluded.

Based on the information available and taking a security discount into account for the distribution amounts not yet allocated to customer portfolios on the one hand and bank portfolios on the other, Capital Bank estimated what amount of the distribution sums are to be allocated in any event to the Bank on the reporting date. The amount in excess of this was allocated to a provision at the reporting date.



Long-term provisions, in particular provisions for warranty payments, are recognised and discounted at their settlement amount and using the Euro Swaps Curve.

### **Equity capital**

The company's share capital remained unchanged at €10.0 million and was divided into 1,376,030 registered shares.

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

The retained income of the company encompasses 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 €878 thousand stated in the interest income (previous year: €689 thousand) were deferred as in the previous year to reflect the duration of the loan.

The item *Interest and similar expenses* includes negative interest amounting to €64 thousand (previous year: €22 thousand) from deposits at the Austrian National Bank.

*Income from securities and equity investments* included €1,300 thousand (previous year: €3,300 thousand) relating to dividends from affiliated companies.

The *Commission income* is essentially composed of profit from securities transactions amounting to €28,323 thousand (previous year: €27,690 thousand). A provision for impending losses of €952 thousand (previous year: €905 thousand) was accounted for in the commission income associated with the PZV product and fund-linked life insurance in the 2018 financial year.

*Income/expenses from financial operations* consisted of currency valuation gains and gains on the disposal of securities together amounting to €5,326 thousand (previous year: €3,751 thousand) And losses on similar transactions amounting to €4,673 thousand (previous year: €4,824 thousand).

*Other operating income* largely comprised income from service level agreements amounting to €1,761 thousand (previous year: €1,558 thousand) and income from the reversal of provisions amounting to €131 thousand (previous year: €595 thousand).

*Expenses for severance payments* and contributions to occupational pension funds included occupational pension fund expenses of €81 thousand (previous year: €41 thousand).

**OBLIGATIONS FROM THE USE OF PROPERTY AND EQUIPMENT NOT REPORTED IN THE STATEMENT OF FINANCIAL POSITION (EXCLUDING VALUE GUARANTEE):**

	€ '000	€ '000
Obligations 2019 (2018)	1,046	(1,020)
Obligations 2019–2023 (2018–2022)	5,778	(5,634)

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. Provisions in the amount of €324 thousand (previous year: reversal €1,637 thousand) were also formed in this item for negative market values for the capital guarantees associated with the PZV product and the fund-linked life insurance.

## **E. ADDITIONAL DISCLOSURES**

As at the reporting date, assets reported on the statement of financial position denominated in foreign currency amounted to €133.5 million (previous year: €193.9 million) and the equity and liabilities on the statement of financial position denominated in foreign currency were €35.9 million (previous year: €36.8 million).

The company's total return on assets, the quotient of the annual net profit after taxes divided by the total assets on the reporting date is 1.4% (previous year: 1.6%).

## AS YET UNSETTLED FORWARD TRANSACTIONS AS AT THE REPORTING DATE

31 Dec. 2018 € '000	Notional amount	
	Banking book	Trading book
<b>Volume Total</b>	287,744	0
OTC products	282,020	0
Exchange-traded products	5,724	0
<b>Interest rate</b>	38,516	0
OTC products	32,792	0
Exchange-traded products	5,724	0
<b>Equity capital</b>	0	0
OTC products	0	0
Exchange-traded products	0	0
<b>Foreign currencies and gold</b>	92,512	0
OTC products	92,512	0
Exchange-traded products	0	0
<b>Loans</b>	0	0
OTC products	0	0
Exchange-traded products	0	0
<b>Other</b>	156,716	0
OTC products	156,716	0
Exchange-traded products	0	0

31 Dec. 2017 € '000	Notional amount	
	Banking book	Trading book
<b>Volume Total</b>	380,971	0
OTC products	380,971	0
Exchange-traded products	0	0
<b>Interest rate</b>	33,300	0
OTC products	33,300	0
Exchange-traded products	0	0
<b>Equity capital</b>	2,251	0
OTC products	2,251	0
Exchange-traded products	0	0
<b>Foreign currencies and gold</b>	195,041	0
OTC products	195,041	0
Exchange-traded products	0	0
<b>Loans</b>	5,402	0
OTC products	5,402	0
Exchange-traded products	0	0
<b>Other</b>	144,978	0
OTC products	144,978	0
Exchange-traded products	0	0

Positive fair value		Negative fair value	
Banking book	Trading book	Banking book	Trading book
3,923	0	7,446	0
3,923	0	7,399	0
0	0	47	0
165	0	246	0
165	0	198	0
0	0	47	0
0	0	0	0
0	0	0	0
0	0	0	0
416	0	1,865	0
416	0	1,865	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
3,342	0	5,336	0
3,342	0	5,336	0
0	0	0	0

Positive fair value		Negative fair value	
Banking book	Trading book	Banking book	Trading book
7,085	0	3,323	0
7,085	0	3,323	0
0	0	0	0
171	0	180	0
171	0	180	0
0	0	0	0
274	0	0	0
274	0	0	0
0	0	0	0
2,802	0	85	0
2,802	0	85	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
3,838	0	3,058	0
3,838	0	3,058	0
0	0	0	0

As yet unsettled forward transactions as at the reporting date

The capital guarantees reported in the category “Other” were presented as a banking book product from 31 December 2017 in accordance with the regulatory reclassification because there is no longer any intent to trade.

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.

Market values in the amount of €416 thousand (previous year: €1,785 thousand) are recorded in the Other assets and €908 thousand (previous year: €0 thousand) in the Other liabilities for currency forward agreements that form part of a valuation unit 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. A provision of this type was recognised as at 31 December 2018 in the amount of €957.6 thousand (previous year: €0 thousand).



The Bank proposes that from the distributable profit amounting to €45,229 thousand (2017: €31,294 thousand), a dividend is distributed of €5,000 thousand (previous year: € 0 thousand) to the owner Bank Burgenland and to carry forward the remaining distributable profit to new account.

### **Contingent liabilities and other financial commitments**

The contingent liabilities include guarantees and financial commitments amounting to €13.4 million (previous year: €14.8 million).

The credit risks reported below the line on the statement of financial position related to loans that had not yet been drawn amounting to €67.5 million (previous year: €60.4 million).

As a deposit to cover arrangements there are securities with a carrying amount of €10.2 million (previous year: €15.5 million). Securities with a carrying amount of €47.5 million (previous year: €53.7 million) were held blocked as a deposit to cover the use of the refinancing option via the ECB tender procedure. In addition, the bank held cover assets for pension provisions in a volume of €279 thousand (previous year: €279 thousand).

## F. OTHER DISCLOSURES

During the 2018 financial year, the bank had an average of 160 (previous year: 162) salaried and 7 (previous year: 8) non-salaried employees.

As in the previous year, the loans and advances to customers as at 31 December 2018 did not include any loans to members of the Management Board. There are loans to Supervisory Board members amounting to €35 thousand (previous year: € 38 thousand).

The expenses for severance payments and pensions, including additions to provisions, for active members of the Management Board and for other executives came to €1,248 thousand (previous year: €503 thousand); the equivalent expenses for other employees were €274 thousand (previous year: €384 thousand).

Expenses for pensions paid to other former employees amounted to €20 thousand (previous year: €24 thousand).

Remuneration to active members of the Management Board amounted to € 1,441 thousand (previous year: € 1,359 thousand). The members of the Supervisory Board did not receive any remuneration during the financial year under review.

## **G. EVENTS AFTER THE REPORTING DATE**

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

**Executive bodies of CAPITAL BANK – GRAWE  
GRUPPE AG  
in the 2018 financial year**

**Management Board**

Christian Jauk, MBA MAS  
Chief Executive Officer

Mag. Constantin Veyder-Malberg  
Member of the Management Board

Wolfgang Dorner  
Member of the Management Board

**Supervisory Board**

Dr. Othmar Ederer  
Chairman of the Management Board of  
GRAWE-Vermögensverwaltung  
Chairman of the Supervisory Board

Mag. Klaus Scheitegel  
Deputy Chairman of the Supervisory Board

Dipl. Techn. Erik Venningdorf  
Member of the Management Board of GRAWE  
Vermögensverwaltung  
Member of the Supervisory Board

Dr. Franz Hörhager  
Member of the Supervisory Board  
**Members nominated by the Works Council**

Rudolf Laudon  
Harald Greimel

Graz, 27 February 2019

The Management Board



Christian Jauk, MBA MAS  
Chief Executive Officer



Mag. Constantin Veyder-Malberg  
Member of the Management Board



Wolfgang Dorner, CIA  
Member of the Management Board

# AUDIT CERTIFICATE

## **CAPITAL BANK – GRAWE GRUPPE AG, Graz** **Report on the audit of the annual financial statements** **as at 31 December 2018**

### **Report on the annual financial statements**

We have audited the annual financial statements of Capital Bank, Graz, consisting of the statement of financial position as at 31 December 2018, the income statement for the financial year ending at this reporting date, and the notes.

In our opinion, which is based on the findings of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position as at 31 December 2018 and of its financial performance for the financial year ending on said date, in agreement with Austrian statutory company and banking regulations.

### **Basis for the audit opinion**

We completed our audit in accordance with the EU Regulation No 537/2014 (hereinafter referred to as the Regulation of the Appendix to the Audit Report) and with the Austrian principles of orderly accounting. These standards require application of the International Standards on Auditing (ISA). Our responsibilities under these regulations and standards are described in further detail in the “Responsibilities of the auditor for

auditing the annual financial statements” section of our audit certificate. We are independent of the company in accordance with Austrian company, banking and professional laws and have fulfilled our other professional obligations in accordance with these requirements. In our view, the audit evidence we obtained provides a satisfactory and suitable basis for our audit opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year. These matters were considered in association with our audit of the annual financial statements as a whole and for the purposes of forming our audit assessment, and we do not give any separate audit assessment on these matters.

Below we present what we consider to be particularly important audit issues:

- Impairment of receivables from customers (loans)
- Recognition and measurement of capital guarantees

#### ***Impairment of receivables from customers (loans)***

##### *The risk for the financial statements*

Loans and advances to customers are shown in the statement of financial position – after deduction of risk provisions – in the amount of €337 million and are mainly spread over Lombard loans and real estate financing.

The Management Board describes the process for monitoring credit risk and the procedure for determining risk provisions in Chapter B "Accounting policies" in the notes and in the "Credit risk" section of the risk report in the management report.

As part of its credit monitoring, the Bank examines whether there is a risk of default and whether specific individual value adjustments have to be formed and liabilities issued as a result.

For non-performing loans the bank determines an individual value adjustment on the basis of a cover invoice. The amount by which the outstanding credit exposure exceeds the assigned collateral is determined and individual value adjustments are made.

General loan loss provisions are established for all loans not classified as impaired, depending on their respective risk profile (rating level). The calculation takes into account historical default rates per rating level, taking into account existing collateral and parameters based on statistical assumptions and empirical values.

The risk for the financial statements results from the fact that the risk of default is not recognised in good time and that the calculation of provisioning for impairment losses is based to a significant extent on assumptions and estimates which give rise to discretionary scope and estimation uncertainties with regard to the level of provisioning for impairment losses.



### *Our audit approach*

We have documented the processes for granting, monitoring and risk provisioning for loans and assessed whether these processes are suitable for identifying a risk of default and adequately depicting the recoverability of customer receivables. We tested the relevant key controls for design, implementation and, on a random basis, for effectiveness.

We examined on the basis of a random sample of loans whether there is a risk of default and whether adequate provisioning for impairment losses had been formed. In the process, we analysed the calculation of the cover gap and reconstructed the value of the collateral, particularly in test cases. The selection procedure for determining the sample was risk-oriented on the one hand on the basis of customer ratings and on the other hand – in the case of customer loans with a low default risk – based on a randomised approach.

In examining the general loan loss provisions, we assessed the methodology used and the parameters taken into account. To this end, we assessed whether the assumptions are appropriate, in particular on the basis of analyses of back-testings and validations carried out. We have included a valuation specialist in the analysis of the methodology and back-testing reports. We have tracked the calculation of provisions by means of spot checks.

Finally, we assessed whether the disclosures in the Notes are appropriate for determining the allowance for losses on loans.

### ***Recognition and measurement of capital guarantees***

#### *The risk for the financial statements*

As at 31 December 2018, the Bank issued capital guarantees for products of “government-aided pension provision (PZV)” and “unit-linked life insurance” (FLV) with a guaranteed amount of €156.7 million. The Bank allocates these capital guarantees to the banking book as derivative financial instruments.

The presentation of these derivatives and their ongoing valuation are described in the Notes in Chapter B “Accounting policies” and Chapter C “Notes to the annual financial statements” and in the Management Report under “Market risk”.

The valuation of these instruments is based on financial mathematical calculation models. The parameters used depend on future developments on the capital markets and the estimated cancellation rates for existing contracts.

The risk for the financial statements results from the fact that the determination of the market values of the capital guarantees is based on assumptions and estimates which give rise to discretionary scope and estimation uncertainties with regard to the amount of the provision for impending losses.

### *Our audit approach*

We have documented the processes for monitoring, accounting and valuation of capital guarantees and assessed whether these processes are suitable for ensuring an appropriate risk assessment and market value determination. We tested the relevant key controls for design, implementation and, on a random basis, for effectiveness.

We have evaluated the valuation model, the planning assumptions and the parameters used with the involvement of our valuation specialists. The valuation model used was reconstructed and it was examined whether it is suitable to adequately determine the risk from these capital guarantees. The assumptions taken into account in the model – primarily interest rate components and volatilities – were evaluated and assessed by comparison with standard market benchmarks to determine whether the assumptions used to determine interest rates and volatilities are appropriate.

The calculation of the provisions for negative market values and their depiction in the annual financial statements was simulated in test cases.

Finally, we assessed whether the disclosures in the Notes on valuation and accounting as well as the disclosures in the risk report of the Management Report on capital guarantees are appropriate.

## **Responsibility of the legal representatives and the Supervisory Board of the financial statements**

The management is responsible for preparing the annual financial statements and for the fact that these provide a true and accurate picture of the company's financial and earnings position in accordance with Austrian generally accepted accounting principles and statutory company and banking requirements. The management is also responsible for the internal controls it deems necessary in order to enable the preparation of annual financial statements that are free from intentional or unintentional material misstatements.

When preparing the annual financial statements, the management of the company is responsible for assessing the company's ability to continue its corporate activities as a going concern, for stating any facts associated with continuing its corporate activities as a going concern as relevant, and for applying the accounting principles to continuation of its corporate activities as a going concern, unless the management of the company intends either to liquidate the company or to discontinue its corporate activities, or has no other realistic alternative to this.

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

## **Responsibilities of the auditor for auditing the annual financial statements**

Our objectives are to obtain sufficient certainty as to whether the annual financial statements as a whole are free from material misstatements whether as a result of inaccuracy or through fraud, and to award an audit certificate which contains our audit opinion. Adequate certainty is a high degree of certainty, but not a guarantee, that any audit of the financial statements carried out in accordance with the Regulation of the Appendix to the Audit Report (AP-VO) and in accordance with Austrian generally accepted auditing standards, which require the application of ISAs, will always reveal a material misrepresentation if one has been made. Misstatements may be the result of fraud or a mistake and are considered to be material if either individually or as a whole there could be a reasonable expectation that these will influence the economic and financial decisions of readers made based on these annual financial statements.

As part of any audit in accordance with the Regulation of the Appendix to the Audit Report and in accordance with Austrian generally accepted auditing standards we exercise due diligence and maintain a critical approach during the entire audit.

The following provisions also apply:

- We identify and assess the risks of intentional or unintentional material misstatements in the financial statements, plan audit actions as a response to these risks, implement these and obtain audit evidence that forms an adequate and appropriate basis for our audit opinion. The risk that material misstatements resulting from fraudulent action will not be uncovered is higher than those resulting from inaccuracies, as fraudulent action may involve fraudulent collusion, forgeries, intentional incompleteness, misleading statements or bypassing of internal controls.
- We gain an understanding of the internal control system relevant to the audit in order to plan audit activities that are appropriate under the given circumstances. However, these activities are not intended to represent a judgement of the effectiveness of the company's internal control system.
- We assess the appropriateness of the accounting methods applied by the company management and the tenability of the estimated values provided by the company management in the accounts and associated statements.
- We draw conclusions on the appropriateness of the application of the accounting principle of continuation of the company's activities as a going concern by the company management, and on whether

there is any material uncertainty associated with events or facts which could raise significant doubts regarding the company's ability to continue as a going concern based on the audit evidence obtained. If we conclude that there is material uncertainty, we are under an obligation to refer to the associated statements in the annual financial statements in our audit certificate, or to amend our audit certificate if these statements are inappropriate. We draw our conclusions based on the audit evidence obtained by the date of our audit certificate. Future events or facts may result, however, in the company discontinuing its corporate activities.

- We assess the overall presentation, structure and content of the annual financial statements, including the notes, and judge whether the annual financial statements convey the underlying transactions and events in a manner that provides a picture that is as true and accurate as possible.
- We hold discussions with the Supervisory Board *inter alia* on the planned scope and schedule for the statutory audit and on significant audit findings, including any significant defects in the internal control system that we identify during our statutory audit.
- Based upon the circumstances which we have discussed with the Supervisory Board, we determine those circumstances that were most significant for the audit of the annual financial statements for the financial year and are therefore the audit cir-

cumstances that are of particular importance. We describe these circumstances in our Audit Certificate, unless statutes or other legal regulations prohibit public disclosure of the relevant facts, or in extremely rare cases if we determine that a circumstance should not be communicated in our Audit Certificate as it can be reasonably expected that the negative consequences of any such communication would exceed the benefits of this to the public interest.

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

#### **Report on the Management Report**

Pursuant to Austrian company law, the Management Report must be audited in order to review whether it is consistent with the annual financial statements and whether it has been prepared in accordance with the applicable legal requirements.

The company's management is responsible for preparing the Management Report in accordance with Austrian company law. We prepared our audit in line with professional principles related to conducting audits of management reports.

#### *Opinion*

In our opinion, the Management Report has been prepared in accordance with the applicable legal requirements and is consistent with the annual financial statements.



### *Declaration*

We have not identified any material misstatements in the Management Report based on the findings from the audit of the annual financial statements and the understanding acquired of the company and its environment.

### **Other information**

The legal representatives are responsible for the other information. Other information includes all information in the Annual Report, with the exception of the annual and consolidated financial statements, the (Group) Management Report and the associated Audit Certificates. The Annual Report is expected to be provided to us after the date of the Audit Certificate.

Our audit assessment on the annual financial statements does not cover this other information and we will not be providing any type of warranty regarding this.

In association with our audit of the annual financial statements it is our responsibility to read this other information once it is available and to determine whether it materially contradicts the annual financial statements given the understanding obtained in the audit, or otherwise appears to include material misrepresentations.

**Additional information according to Article 10 of the Regulation of the Appendix to the Audit Report**

We were elected at the Annual General Meeting on 10 March 2017 to audit the financial statements and were commissioned by the Supervisory Board on 7 June 2017. We have been the auditors of the Bank's financial statements without interruption since the financial statements as at 31 December 2003.

We hereby declare that the audit opinion in the section "Report on the Financial Statements" is consistent with the additional report to the Supervisory Board pursuant to Article 11 of the Regulation of the Appendix to the Audit Report.

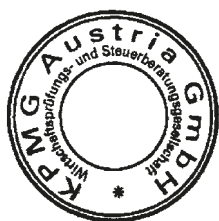
We declare that we have not provided any prohibited non-audit services (Article 5 (1) of the Regulation of the Appendix to the Audit Report) and that we have maintained our independence from the audited company in the performance of the audit.

We have not performed any other services for the audited company or the company controlled by it in addition to the audit of the financial statements that were not disclosed in the annual financial statements or Management Report.

**Auditor responsible for the engagement**

The auditor responsible for the audit of the financial statements is Mag. Georg Blazek.

Vienna, 27 February 2019



Mag. Georg Blazek  
Wirtschaftsprüfer

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

## **CAPITAL BANK – GRAWE GRUPPE AG SUB-GROUP**

The following financial statements in accordance with UGB/BWG for the subgroup of CAPITAL BANK – GRAWE GRUPPE AG are intended to provide the reader with information on the financial performance of Capital Bank and its subsidiaries.



**12. CAPITAL BANK – GRAWE GRUPPE AG SUBGROUP**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018**

Assets	31 Dec. 2018 €	31 Dec. 2017 € '000
<b>1. Cash on hand and balances at central banks</b>	101,289,183.05	34,199
<b>2. Public-sector debt instruments eligible as collateral for central bank funding</b>		
Public-sector debt instruments and similar securities	17,174,830.41	19,298
<b>3. Loans and advances to banks</b>	241,576,358.42	229,000
<b>4. Loans and advances to customers</b>	337,325,172.60	317,008
<b>5. Bonds and other fixed-income securities</b>	46,765,224.88	56,636
<b>6. Shares and other variable-yield securities</b>	149,752,017.38	177,875
<b>7. Equity investments</b>	672,027.80	781
of which: in banks	4,215.01	4
<b>8. Shares in affiliated companies</b>	35,000.00	35
<b>9. Intangible assets in fixed assets</b>	387,636.32	664
<b>10. Property and equipment</b>	3,536,720.10	3,520
<b>11. Other assets</b>	111,517,605.04	144,592
<b>12. Prepaid expenses</b>	1,105,743.82	1,017
<b>13. Deferred tax assets</b>	10,032,140.00	9,321
<b>TOTAL ASSETS</b>	<b>1,021,169,659.82</b>	<b>993,947</b>
<b>Below-the-line items</b>		
<b>1. Foreign assets</b>	369,293,175.54	398,665
<b>2. Fund assets of managed investment funds</b>	4,942,504,599.81	5,170,389

Equity and liabilities	31 Dec. 2018 €	31 Dec. 2017 € '000
1. Deposits from banks	20,299,655.90	39,656
2. Deposits from customers	475,063,900.93	371,062
a) Savings deposits	4,996,759.23	4,495
b) Other deposits	470,067,141.70	366,567
3. Liabilities evidenced by certificates	232,193,215.70	308,546
Other liabilities evidenced by certificates	232,193,215.70	308,546
4. Other liabilities	35,790,776.90	36,586
5. Prepaid expenses	4,323,362.40	5,303
6. Provisions	45,620,876.37	44,816
a) Provisions for severance payments	8,429,575.86	5,924
b) Provisions for pensions	639,859.41	418
c) Tax provisions	79.12	1
d) Other	36,551,361.98	38,473
7. Subscribed capital	65,915,661.65	65,916
8. Generated capital	141,962,209.97	122,061
9. Minority interests	0.00	0
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,021,169,659.82</b>	<b>993,947</b>
<b>Below-the-line items</b>		
1. Liabilities from guarantees and liabilities from the provision of collateral	13,444,277.92	15,444
2. Credit risks	67,486,966.24	60,430
3. Liabilities from trust transactions	63,822,633.77	14,552
4. Eligible capital pursuant to part 2 of EU Regulation no. 575/2013	199,796,844.65	179,097
of which: supplementary capital pursuant to part 2 title I chapter 4 of EU Regulation no. 575/2013: €6,772,000.00 (previous year: €8,465 thousand)		
5. Capital requirements pursuant to Art. 92 of EU Regulation no. 575/2013 (Total risk amount)	638,969,395.38	685,296
of which: capital requirements pursuant to 92 (1a-c) of EU Regulation no. 575/2013:		
a) Common equity tier 1 capital ratio	30.2%	24.9%
b) Tier 1 capital ratio	30.2%	24.9%
c) Total capital ratio	31.3%	26.1%
6. Foreign liabilities	97,028,941.78	77,801

**13. CAPITAL BANK – GRAWE GRUPPE AG SUB-GROUP**  
**CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR 2018**

	2018 €	2017 € '000
<b>1. Interest and similar income</b>	11,115,247.61	9,552
of which: from fixed-income securities	1,903,046.60	2,269
<b>2. Interest and similar expenses</b>	-827,618.85	-630
<b>I. NET INTEREST INCOME</b>	10,287,628.76	8,922
<b>3. Income from securities and equity investments</b>	2,324,701.56	2,045
a) Income from shares, other equity interests and variable-yield securities	2,017,262.91	1,745
b) Income from equity investments	7,438.65	0
c) Income from shares in affiliated companies	300,000.00	300
<b>4. Fee and commission income</b>	93,774,655.35	95,216
<b>5. Fee and commission expenses</b>	-47,984,081.49	-47,120
<b>6. Income/expenses from financial operations</b>	652,677.23	-1,089
<b>7. Other operating income</b>	3,034,443.91	3,493
<b>II. OPERATING INCOME</b>	62,090,025.32	61,467
<b>8. General and administrative expenses</b>	-35,846,425.53	-35,050
a) Personnel expenses	-23,140,808.56	-23,707
aa) Wages and salaries	-18,426,710.70	-19,603
bb) Social security costs, compulsory and other contributions linked to pay	-2,807,634.49	-2,971
cc) Other social security expenses	-193,869.76	-153
dd) Post-employment and other employee benefit costs	-399,461.17	-306
ee) Additions to pension provisions	-221,667.02	175
ff) Expenses for severance payments and contributions to operational pension funds for employees	-1,091,465.42	-850
b) Other expenses (administrative expenses)	-12,705,616.97	-11,343
<b>9. Write-downs of assets reported under asset items 9 and 10</b>	-972,316.19	-1,003
<b>10. Other operating expenses</b>	-391,167.61	-433
<b>III. OPERATING EXPENSES</b>	-37,209,909.33	-36,486
<b>IV. OPERATING PROFIT</b>	24,880,115.99	24,981



	2018 €	2017 € '000
<b>11. Allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks</b>	-2,085,084.41	-7,700
<b>12. Income from the reversal of allowances for losses, contingent liabilities and for credit risks</b>	4,628,602.79	9,563
<b>13. Write-downs of securities recognised as financial assets, and of shares in affiliated companies</b>	-617,134.72	-109
<b>14. Income from the reversal of write-downs of securities recognised as financial assets, of equity investments and of shares in affiliated companies</b>	34,942.92	584
<b>V. PROFIT FROM ORDINARY ACTIVITIES</b>	26,841,442.57	27,319
<b>15. Income tax</b>	-5,817,283.21	-4,653
<b>16. Other taxes not reported under item 15</b>	-123,679.93	-100
<b>VI. CONSOLIDATED PROFIT / LOSS FOR THE YEAR</b>	20,900,479.43	22,565
<b>17. Changes in reserves</b> of which: appropriation to the liability reserve	-6,205,000.00 0.00	-6,500 0
<b>VII. NET PROFIT FOR THE YEAR</b>	14,695,479.43	16,065
<b>18. Profit brought forward</b>	32,241,136.04	16,676
<b>VIII. DISTRIBUTABLE PROFIT (before minority interests)</b>	46,936,615.47	32,741
<b>19. Minority interests' share of profit for the year</b>	0.00	0
<b>IX. DISTRIBUTABLE PROFIT</b>	46,936,615.47	32,741

# IMPRINT

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