ENLIGHTENMENT WITH A CAPITAL E

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annual report 2015

THE WAY WE SEE IT, THE FUTURE IS A MOMENT OF HAPPINESS

The Capital Bank 2015

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GRAWE Bankengruppe

CHRISTIAN JAUK
CHAIRMAN OF THE BOARD

How much do our expectations and material resources have to do with each other? A good deal, according to research on happiness. If our material circumstances do not match our expectations, then happiness remains an elusive goal. A basic level of material comfort is of course necessary. Without it, achieving happiness is very difficult indeed. But equally important is something we call a feeling of coherence. This describes the condition under which a person experiences their life as meaningful, intelligible and something they can fashion for themselves. When it comes to finding happiness, these elements are of central importance.

CONSTANTIN VEYDER-MALBERG
MEMBER OF THE MANAGEMENT BOARD

Material goods can contribute to a sense of meaning in our lives. Through them, we can give shape to our own experiences and help to meet the needs of others. Altruism is as intrinsic to humanity as the pursuit of profit for oneself. When these two things exist in a well-balanced harmony with one another, we experience a feeling of well-being that most often arises when we are able to bring our own strengths to bear – whether these are intellectual or material in nature. I hope you will allow me a small observation: material goods are best put to use for social causes in exactly the manner demonstrated by our private philanthropic foundation, “Philanthropie Österreich”.

Do you always seem to be standing in the slow queue at the airport or stuck in the slower-moving lane on a congested motorway? Perhaps the neighbour’s grass is greener? We quickly start to believe that happiness has abandoned us and we trust our own perceptions in these moments much too readily. Because what seems to be “true” is often not as it appears – it is certainly not as true as we have convinced ourselves it is. Systems theory has filled bookshelves on exactly this topic.

Our guest author, Michael Lehofer, has spent a great deal of time considering the relationship between money and happiness. As a psychiatrist, psychologist, psychotherapist, philosopher and management coach, he knows what he is talking about and can illuminate the matter from a variety of perspectives. He discusses that common sense maxim that money cannot buy happiness and investigates in his essay here what it takes to be happy.

Imagine you suddenly came into some money and you may do what you want with it without having to answer to anyone. Would you save it? Buy something? Donate it? Whatever you end up doing, the money itself will not have a lasting effect on your happiness. The reverse of the popular maxim, that no or little money can ensure happiness, is also complete nonsense. A decent life is difficult without a sound financial basis and economic pressures cannot simply be ignored. Erich Kirchler, who used this scenario involving a windfall of money in a scientific experiment, demonstrated that happiness cannot be bought with money. The kind of happiness money brings dissipates much more rapidly than that which comes from strong relationships, for example. Michael Lehofer’s essay therefore has been given the provocative title “Happiness In Spite of Money”. We hope you will find it inspiring.

And for what it’s worth: statistically speaking, the reasonable course of action in congested traffic is simply to stay in your own lane and wait it out. Regardless of what your satnav tells you!

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FOREWORD

Researchers from across the globe are searching for the true meaning of happiness. Many find happiness in material wealth, others in ascetic renunciation. For some, happiness lasts only a fleeting moment, while others experience it as a sustained, almost meditative state of mind. One thing is certain: while we all want and hope for happiness, there is no single reliable formula for finding it. But that doesn't stop us from trying. Think of how many inventions such as penicillin, to name perhaps the most famous example, were the result of a just a bit of luck, the kind of luck we trust will shine on us from time to time.

Time and again, researchers find themselves turning to the relationship between money and happiness. We have all heard that money can't buy happiness. On the other hand, basic material well-being is necessary for providing the opportunities we need to find and experience happiness, such as holidays.

In his foreword to our annual report, guest author Michael Lehofer (Dr. med., Dr. phil.) investigates the relationship between money and happiness to uncover the real connection between them. We hope you enjoy reading it as much as we did.

HAPPY IN SPITE OF MONEY

An essay by Michael Lehofer

Money can't buy happiness, as we have been told time and again. And this is indeed confirmed by research on happiness. Though this must be qualified with an acknowledgement that too little money, on the other hand, can make one unhappy. The quantifiable difference between happiness and unhappiness is higher or lower depending on average income levels; in Central Europe, the threshold seems to be around an annual gross income of 70,000 euros. Because it is relative, people in countries that are less well off are able to achieve happiness at lower incomes. Once this level of income has been reached, it is no longer worthwhile investing more of your time in earning ever more money, at least not with the aim of increasing your happiness.

Average income levels are important here because of our innate tendency to compare ourselves to others. So what others around us earn is significant and determines whether we end up feeling sorry for ourselves or not. Feeling sorry for yourself is a perfect way to absolutely ruin your life and it is a path frequently taken. The advantage of feeling sorry for yourself is that it helps you avoid taking personal responsibility. Without self-pity, there is no way for you to delegate the responsibility for your own life to others. That is why self-pity is, in spite of its many drawbacks, so popular.

One original study investigated whether women who are married to wealthier men are happier than women who are married to men who earn average wages. The answer: yes, for a few months at least. These months are the moment of victory, at least from the perspective of female competition. After this, the women who managed to snag the higher earners end up experiencing the same average level of happiness as those who were less fortunate. That is because they have by then begun to start comparing themselves to the women in their new social situation.

We are by now well aware that happiness and satisfaction depend not least on comparing yourself to the right group. If you compare yourself to people who earn less than you do, then you will always come out the winner. But where's the fun in that? If, however, you compare yourself to someone in a category far superior to your own, then you've brought the resulting failure on yourself. This is precisely why women tend to choose women as their friends who are similarly attractive. In this way, you can always convince yourself that you come out at least a little bit on top.

In some circles, you don't get invited to parties and other events because you are an all-around great chap or because you're a lovely, kind, interesting and one-of-a-kind woman, but because who you are and where you are in life gives your hosts a bit of an ego-boost. You are invited as a sort of object of comparison. The whole point of comparing oneself to others is self-affirmation. And though I have no desire to moralise, I will say that these types of parties tend not to be very enjoyable. Does nice food and drink make up for the fact that you're only there to prop up someone else's weak self-esteem? But perhaps I, as a psychiatrist and psychotherapist, am simply sensitive to these situations. I have little interest in using my free time to stabilise someone's depressed self-esteem, especially not over the course of several hours with just a few canapés and three glasses of champagne for reward! I trust you can understand my point of view.

When it comes to happiness, things can be somewhat complicated. It is clear today that genes and experiences in early childhood establish – in a fairly determinative manner – whether one will be happy. An astonishingly high percentage of optimistic, cheerful, good-natured children end up as happy adults, regardless of what happens to them later in life. Our happiness is far less dependent on external factors than we tend to believe. This does not mean, however, that we are the masters of our own destiny when it comes to happiness. But we work assiduously on creating conditions necessary for happiness, and then wait for it to come. We should instead work directly on being happy, rather than on trying to create conditions that are themselves not effective. “There is no way to happiness, happiness is the way”, said the Buddha.

How can one work on being happy? I’ll admit it’s difficult. But it can be done. To really understand how one can work on being happy, you have to first understand what happiness is: being happy as opposed to being content. We tend to think of happy, cheerful and content as synonyms, or at the very least, they are difficult to tell apart. This is why I also use happy and content as synonyms in this essay, even though I know that we can differentiate between being happy and being content.

Happiness is always a moment. Happiness is even a moment when it lasts longer than a moment. If you think back to your own moments of happiness, it will seem clear to you that these were moments in which you forgot yourself. When you are captured fully and completely by wonder: that is when you experience happiness. The very experience of time is compromised in these situations. We are all familiar with how we lose all sense of time when we are in this trance-like state that we call happiness. This is why the experience of happiness seems like a moment, even when it lasts longer. It is in these situations that we step outside of the otherwise uninterrupted flow of our own sense of time. Isn't that magical?

But this is not what researchers investigating happiness are interested in. These researchers are often more interested in the state of contentedness. Contentedness denotes a sense of peace. To be content is to find myself in a state in which my inner voice is telling me that what is happening at that moment is exactly what I want to be happening (whereas my inner voice remains silent in happiness). If your goal is to take a degree, then you deliberately and temporarily put yourself into a state of discontentedness. But when you hold that degree in your hand, then you are finally content. There are of course many sources of discontent that supposedly stem from external influences. Someone who has been passed over for a pay rise, for example, is generally not content with that having happened. To summarise, contentedness is a result of needs being fulfilled. Being discontent is a matter of feeling frustration at not knowing how to move from that state to one of being content.

What researchers interested in happiness are looking at, then, is generally more like contentedness than happiness. We talk about happiness but really mean contentedness. We won't worry about the confusion of terms. Instead we want to turn our attention to finding the path to happiness. How can we be happy, or be happier? How can we increase our sense of contentedness?

To get to the bottom of things, we need to turn our attention to enjoyment. From what I have observed, the art of enjoyment is not very widespread. Otherwise people would not be so greedy. Greed is an alien feeling to someone who really knows how to enjoy life. The conclusion one can draw from the prevalence of greed and of consumerism is that the general state of the art of enjoyment leaves much to be desired.

I have long noticed that people really look forward to their holidays. When you ask them after their return how it was, most talk about how magical and wonderful it was. But when I have visited popular travel destinations and observed peoples' faces, they tend to look, at least in those moments when they're not feeling the mellow effects of alcohol, less than cheerful. This may simply be a projection of my own foul holiday mood, or I am always picking out unrepresentative examples from my observations. Perhaps people look forward to their holidays so much and this anticipation is so powerful that even the experience of a boring or disappointing holiday can do nothing to alter it. So they recall the anticipation after their return from their holiday, not the holiday itself. If this is what is happening, there is certainly an element of tragicomedy to it.

The truth is that we are all very much prisoners of our own expectations. What we imagine will happen is often more important to us than what we actually experience happening, or at least much of the time. The word anticipation is itself revealing. Anticipation is something that comes before ('ante') an experience. Experiments involving brain imaging have demonstrated that an experience can on average only change somewhat less than 20% of a pre-conceived notion. We therefore race from one lovely thing to another without ever realising how little we are getting from any of it.

If we want to truly enjoy, we have to give ourselves over to the moment. Giving yourself over to the moment means being fully present. Being present means, in turn, that whatever it is right in front of you is the most important thing in the world. All of us are inclined to start thinking about the past or the future when we are meant to be focusing on whatever it is that is meant to be occupying us in that moment. Thinking about the past or the future, what we generally call worrying, robs us of the energy and attentiveness we need in order to fully engage with the now. And that is a shame.

After all, there is only one chance in your life to miss something: the moment right now. Many chase after life experiences only to then completely miss them. Julio Iglesias is said to have had relationships with over a thousand women. I asked myself whether I, with a much more modest number, may have let opportunities pass me by. But there are over two billion women that Iglesias never got to know. Looked at from that perspective, there's really no difference between us. What it comes down to is fully experiencing whatever life throws your way in the present. We are also prone to overly rely on our imaginations when the experience of reality is right in front of us. How many people have travelled to countries all over the world and yet never really left the safe confines of their own heads? How many people have met famous individuals and yet seemed to be interacting only with their own narcissistic personalities? How many people are able to take advantage of the incredible opportunities available to them, but seem to experience nothing in it?

There is only one way to miss out on one's life, and that's to miss out on the immediate moment. Enjoyment comes precisely from experiencing the immediate moment. Experiencing the immediate moment also means not rushing to figure out whether it is good or bad. Unfortunately, judgement puts distance between me and the world. This is why you should judge only when it is meaningful to judge. But that is another matter entirely. We should enjoy the current moment, the time that we experience as now, so as not to let our lives to pass us by. Being present is the way to find happiness.

The key to being content is understanding what one really needs in life. I often speak of the need to be able to keep yourself in the conditions that are appropriate to your type. To do that, I need to know what my type needs. I will need to take an honest look at myself, free of any preconceptions, and accept that what others need may not be what I need, and vice versa. It is in this context we often talk about Socrates and how others could not even begin to conceive what it was he didn't need. I mean that we ourselves often do not really know what we do not need, or what it is that we actually do need. It is not rare to find that we fill ourselves up with things we claim to need but could not possibly need, and then deny ourselves those things we really do require.

Satisfaction comes from being a person who understands what it is he or she really needs and who is in a position to arrange to get it. We know from the research on happiness that each of us needs both obligations and self-efficacy. This is why a feeling of attachment to other people is essential to happiness. It is indeed a wonderful thing to know that one is not alone in the world. It is incredibly important to have role models on whom one can rely. The profound sense of peace this promotes leaves one feeling truly satisfied. The need for attachment is so strong that we all want to be that person who is everything to someone else. That is why we refuse to abandon the concept of monogamy in spite of different ways of living and contradictory experiences. Self-efficacy is, as stated above, equally important. Having an autonomous space in which I experience myself as self-efficacious is immensely important in determining how content people are.

The unfortunate contemporary development of a business culture that seeks to structure every aspect of life has led to restrictions on individual creativity, to the limiting of personal responsibility and, therefore, to a curtailment of self-efficacy, to dissatisfied, frustrated and, one could say, unhappy people. Unhappy people only achieve a lot out of fear. Sustainability requires endings. I am now wondering if this is perhaps a case of professional deformation: that is, thinking that happy people make the best employees. I must here ask the sympathetic reader to forgive me this flight into social romanticism.

Now that we have given serious attention to the topic of what makes one happy, and found it to be ourselves, we ought to turn back to our original subject of "happiness in spite of money". Contrary to what many argue, it is certainly not true that money brings unhappiness. Those who claim otherwise may just be suffering from envy. Admittedly, wealthier people are not necessarily any happier than others. And that's pretty fair, I'd say. If wealthier people were not only richer than others, but also happier, then being wealthy would start to look almost immoral. But as it is, one can look at a well-off individual and say simply: So he has a lot of stuff, what of it?

Many don't think that way though. More often we tend to enjoy feeling a bit of schadenfreude when they see a wealthier individual who is sad, anxious, or otherwise having a hard time. When it comes to envy, schadenfreude is the other side of the coin. Envy is wanting something someone else has, and therefore begrudging them it too. Why are wealthier people envied? Money is a means to create opportunities for oneself. That is what is attractive about money. It promises influence and status. Opportunities are a form of freedom, it is said. I can supposedly do whatever I want if I have money. Bill Gates can do anything he wants. Brilliant. But is he really free? Maybe, or I hope so for his sake, but it is certainly not true simply because he has a lot of money.

He is free when he has as few worries as possible. Freedom, after all, is not freedom to do things, but freedom from worry instead. Only a person who is free of worry is truly free. Money is not a means of reducing anxiety. As a matter of fact, your money can become a source of worry, as can all of the things you own. You identify yourself with the things you own and start to worry that you may still lose it all. There is much truth to the saying: possessions weigh you down.

I remember a patient plagued with anxiety who came to me after having gone from pillar to post. He came from a deprived background and was very well off. He told me that when he was a child he did not even own his own shoes. I jokingly suggested that he give up owning his own shoes, and that he'd eventually be free of worry. My patient did not find that humorous at all. As I say, I wasn't being entirely serious. But I did want to push him to not identify as much with what he owned. Psychotherapists do occasionally stage interventions that are only half in jest. This method is called provocative therapy.

Be that as it may, to identify oneself with something is to internalise it as oneself. When we are young we don't even know what belongs to us. We increasingly come to learn that our bodies, our feelings, our toys, our mum and dad, our gran and our auntie all belong to us. Later in life we add to our self-identity our academic degrees, our spouse, children, our political views, real estate and cars, and how we have decided to live our lives. It is possible that when I can't take the kind of holiday that I have come to expect, I fall into an existential crisis because I have begun to confuse myself with the way in which I spend my holidays.

I take on more and more because of this identification process. It's almost as if we inflate ourselves. More and more of the outside world becomes almost a part of myself. As I described above, this is partially because the feeling that something belongs to you is itself part of a psychological process. From the beginning of our lives onwards, an identity is built from this process of identification. Identity is nothing more than the fiction of a self. Identity is a working hypothesis that each of us have about ourselves. I want to stress here that this isn't a bad thing! Identity is based on an error, the error of thinking that everything that does belong to you would naturally belong to you (though of course, legally speaking whatever belongs to you does indeed belong to you). But to have no identity would not itself be very pleasant. This is why I am a rather ardent supporter of identity and think about it in ways that are the opposite of certain Asian philosophical and religious teachings on the subject of salvation. These propose that one should leave behind the illusion of identification and identity, since it will of course be distressing to lose them when that inevitable day comes.

There is of course no way of avoiding this aspect of the course of life. Children are not exactly how you thought they'd be, you lose your looks, your body grows weaker, perhaps you even become ill, your partner cheats on you. Anything is possible. These are the moments in which identification with something stops acting as a source of pleasure.

Wouldn't it be nice if one could understand that all of those things that one thought were a part of oneself are, in the end, not worth a farthing. What I want to say is that the loss of something that supposedly constituted who you are is in reality not a loss at all, because identity is a matter of having borrowed something, something that you eventually will have to give back. At the very latest this is the moment of death, when one no longer has any living body, let alone a beautiful one, no partner or children, and one is the poorest individual in the world. Accepting this is called de-identification. None of us can escape it. I must admit, I hate the process of de-identification. Many talk about grief. But the entire matter does have undeniable benefits: the process makes you free, there's nothing left to defend.

It is lovely to imagine that something belongs to you, and equally lovely when you're able to free yourself of that illusion. To each his own and at the appropriate moment. And that would be that. But for most people, it's not that simple. When it comes to letting go of something that supposedly belongs to them, they fight it tooth and nail. The suffering that results comes not from the big bad world, as is often supposed, but from the inability to let go. The art of living well has to do with being able to let the world in at the right moment and then, when the time has come, to let it go again, to drop out, so to speak. If someone can't manage one or the other or both, that's perfectly normal and fine, too, since doctors and psychiatrists need to make a living as well.

Many of those who are materially well off simply cannot believe what I've just written. I am not sure how well I can explain this, but there is indeed a difference between knowing something rationally and truly assimilating that knowledge. An example may help. Someone who is obsessive-compulsive knows that he has checked whether the door is locked x number of times, and he also knows that the door is indeed locked, but because he is, for some reason, unable to really assimilate the door's being locked, he essentially does not know that it is actually locked when he's on the other side, and so he must check again. Looked at in this way, it is clear that not every well-off individual knows how much he really has. To put it simply, many stay poor, even when rich.

And this is the root of stinginess. Stinginess is a curse, for those who are ungenerous and for everyone around them. That's what a miser is: a wealthy person who thinks himself poor. I am convinced that we do misers an injustice when we accuse them of stinginess. Why? If you look into the terror-stricken eyes of a miser who has no other choice at that particular moment than to be generous, you will see pure fear, a fear that is understandable from the perspective of the miser's delusion of poverty. This is why it is the wealthy who are most often the poorest. I think there is something wrong with that. It's mad, isn't it?

But still, with all due respect, it is hard to have sympathy for misers. Their unsympathetic character stems from their refusal to cultivate relationships. That is to say, the central dynamic of any relationship, the alternation of giving and taking like a stretching rubber band, does not function properly. Miserliness is a form of rejection, which prompts an antipathic response. Antipathy is a form of emotional knowledge we provide ourselves that tells us to keep our distance from someone else. It has often been my experience that stinginess is the root cause of loneliness. As a general rule, those who are miserly tend not to recognise this about themselves, and they are therefore confused by their loneliness and at a loss in trying to understand the world. What should one do in this situation?

In actual fact, stinginess is wealth's disavowal of itself to itself. But the miserly have to start with something. It is difficult for the truly poor to be stingy. It's the opposite with boasting. Boasting is pretending to have what one does not in fact have. Boasting is a form of aggressive self-marketing. The boaster wants to be more than he is. He sends out the signal that he's not enough for himself. There's quite a lot of boasting among the nouveau riche. People with new money tend to resent that they lack access, in spite of their material well-being, to the self-affirming class of the rich and famous.

Boastfulness is an attempt to present oneself as even more impressive as a way of overcoming one's own self-esteem issues. Unfortunately in doing so, the boaster reveals himself to be someone with a complex and poor self-esteem. I feel sorry for them. Many others find them detestable. That is because the boaster often comes across as aggressive. He wants to build himself up at the cost of others by repeatedly emphasising, "I have more than you, I am more than you." Those who boast seek to put themselves above others and therefore come across as aggressive. It's astounding that boasting these days is considered socially acceptable, and there are those who have absolutely no need to boast, but the very fact that they do so is a public statement that they do in fact feel it necessary.

Show-offs used to be sniffed at in finer circles. It seems to me that these days we are all so engrossed in a trance of consumerism, hypnotised almost, that we are no longer cognisant of the absurdity inherent in showing off. Many just want to keep up. This leads to an escalating social dynamic of ever more vulgar showing off. A more suitable and appropriate presentation of one's wealth would be far more elegant, subjectively speaking. Appropriateness reveals a deeply harmonious relationship to oneself and complete, affirmative acceptance of oneself. One is true to oneself, without any attempt to be more or less than what one is. The fullest you is revealed when you are authentic in your own self. If you make yourself smaller, you will be smaller, and even if you try to make yourself bigger, you'll shrink just the same. I take this to be a vital life lesson: Instead of trying to make something of ourselves, let's allow who we are, in its fullest sense, to be seen.

Whilst no one needs have a guilty conscience related to their wealth, since the time of Plato many of us have spent a good deal of time thinking about justice in this world. And it has to do with more than just money. The question of being well off has to do with whether one is rich in mental capacity, rich in health, rich in friends and in much else. Every individual who is blessed with wealth, of whatever type, would do well to give some of it back to others, to tend to those bonds that connect us to one other and unite all of creation.

The insufficient sense of connection in those people who do not strive to create balance is noticeable in the certain sense of aloofness that attaches itself to them. Aloofness comes from being closed off to the possibility of contact with the world of life surrounding you. It is clear from a psychological point of view that what we have here is a defence behaviour, a protective device. Every protective device costs energy and in the end becomes a locus minoris resistentiae, a predetermined breaking point. Defence costs more than just energy; it feeds on subconscious anxiety that curtails the enjoyment of life. Aloofness is not a very good idea. Nevertheless, balance is foregone in the interest of maintaining elitism, and aloofness plays its part in this.

And yet for the person who is rich in something, whatever it may be, balance costs very little. It is more a matter of sending a signal. These are clear signals, but nothing more than signals in the end. Balance provides freedom and no one is the poorer for it, let alone made poor. If not put into practice, it starts to act like an unidentified infection in a tooth that causes an unattributable discomfort. He who gives in the interest of creating balance does himself more good than he does anyone else. Balance is a question of common sense and caring for oneself.

To conclude I'd like to encourage you to take seriously what you have read here, but ultimately to forget about it. As we have seen, a certain amount of self-forgetfulness is an important component of happiness. To act responsibly means to respond to life, to respond to life in the most direct manner. We find in this response a devotion to life. A preoccupation with oneself has no place here. Preoccupation with money beyond that which is truly necessary causes us to lose sight of the need to forget ourselves and acts as a brake on finding happiness. Let us not allow our money to hold us back from being happy. Let us promise ourselves that we are not here for the money, or anything else for that matter, we are here simply for our own life, as we encounter it through ourselves and others.

Prim. Prof. Dr. phil.
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Performance and Key Figures

PERFORMANCE AND KEY FIGURES OF CAPITAL BANK – GRAWE GRUPPE AG

	31.12.2015 € '000	31.12.2014 € '000	31.12.2013 € '000
Total assets	882,830	933,233	920,513
Loans and advances to customers	251,319	219,473	170,454
Deposits from customers	380,748	382,011	362,075
Operating profit	16,725	20,429	14,101
Profit from ordinary activities	10,845	29,551	7,661
Total capital ratio pursuant to Art. 92 of EU Regulation no. 575/2013	18.2%	16.9%	24.8%
Volume of client custody accounts	8,929,724	8,818,643	8,202,288
Employees (excluding subsidiaries)	147	157	167

Business performance

Historically low interest rates, significant corrections on the international stock markets at the end of the year triggered by increasing concerns regarding China's economic development, as well as the rapid fall in oil prices presented serious challenges to investors in 2015. Major uncertainty prevails among market participants. These overall conditions will also persist in the 2016 financial year.

Capital Bank – GRAWE Gruppe AG (Capital Bank) requires of itself that it will make the right investment decisions, including against this difficult background. Being a reliable and fair partner to customers and business partners is particularly important during difficult times. Capital Bank showed the importance that it attaches to fairness by being the first bank in Austria to introduce independent fee-based advice. All hidden commissions from product providers are disclosed with this and shared with the customer.

The bank's reliability and professionalism is highlighted by its outstanding performance in the Fuchs Report. This involved an examination of numerous Austrian providers and a total of 89 European asset managers. The assessment states that Capital Bank can be recommended without restriction. It also states that "Capital Bank meets all requirements in the quality of its consultation and in transparency". As such we achieved an outstanding result once again after 2013, when we were awarded the honour of best Austrian private bank and were ranked second across the whole of Europe.

Capital Bank is also a favourite contact for the media. Around 3.5 mentions per week in various media on relevant professional topics in the financial sector illustrate that the bank's representatives are considered to be valued experts in the area of asset management.

Private banking is Capital Bank's core business. Assets under management rose by 13.4% as a consequence of attracting new customer money and also generating gains on stock exchanges. The value of expertise and support from a reliable partner in monetary investments can be seen in challenging times in particular. This was also confirmed to us by a large number of customers in intensive discussions.

The bank's loan business performed very favourably with an increase in total commitments of around 19.9% to €307.7 million. The focus in the financing area here has traditionally been on securities Lombard loans.

The private banking business concentrated on a number of priorities in the 2015 financial year. Several events, podium discussions and presentations on current professional topics were organised for instance throughout Austria. Statutory reforms in 2015, such as the reforms to inheritance law and property transfer tax as well as changes to the deductibility of donations, affected lots of different parties and incited real need for clarification. Working with selected experts we were able to offer an attractive additional service to our customer with these events.
New software has been in place for customer support in private banking since 2015. This software not only supports the customer support process, it also provides added value to our customers in the form of modern reporting.

The Family Office department, which specialises in services for high-net-worth individuals, private foundations and family businesses, delivered an encouraging performance once again by expanding its business volume by 13.3%. 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 and event-driven formulation of stock and market estimates. 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. A crucial increase in efficiency has been achieved by optimising depositories.

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.

The "Platform" is the division of Capital Bank that fulfils the role of depositary for clients of investment firms. The downward trend in numbers of securities deposited that has been in place for many years also continued in 2015. However, this trend was significantly less pronounced than in previous years. The "Platform" was able to record a positive net inflow of funds.

The division came under new management mid-year with the new Managing Director Stefan Wonisch and his deputy Markus Harrer. The Platform's internal processes and IT landscape were also improved at the same time. New resources were established in particular in relation to compliance in order to ensure that increased regulatory requirements are met.

The Investment Banking division specialises in investing in high yield corporate bonds. The collaboration that has been in place for several years with the Cardinal Point Fund located in San Francisco USA also continued successfully in 2015. The High Yield Bonds segment experienced its most challenging market phase this financial year since 2008/09. Although the High Yield Index finished the year with a negative performance, the Cardinal Point Fund managed to achieve a positive increase in value and to beat the benchmark index significantly as a result.

Capital Bank belongs to the GRAWE banking group. All staff and service divisions belonging to the banking group are located within the parent company HYPO-Bank Burgenland AG, 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 2015, Capital Bank had 161 employees (previous year: 168 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

Security Kapitalanlage Aktiengesellschaft (Security KAG) celebrated its 25th anniversary in

2015. Over this period Security KAG has managed to develop an outstanding reputation as asset manager for Grazer Wechselseitige Versicherung and as an investment company for the GRAWE banking group. It currently manages 54 funds with a value of approx. €3.8 billion as at 31 Dec. 2015. The 2015 financial year was used as an opportunity for aligning the company and its investment approach more towards sustainability. Together with its sister bank Bankhaus Schelhammer & Schattera AG it is already the second biggest provider of sustainable retail funds in Austria.

Brüll Kallmus Bank is the specialised bond bank of the GRAWE banking group. With branches in Vienna, Graz and Linz as well as in Sežana in Slovenia, the two business areas of Institutional Banking and Capital Market Financing service institutional and quasi-institutional customers as well as public institutions throughout Austria and neighbouring countries.

Providing support to professional market participants with bond and bonded loan issues, placing issues on the primary market and arranging deals on the secondary market complete the services offered by Brüll Kallmus Bank.

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.

General economic conditions

The eurozone had a comparatively good start to 2015. Aside from Spain with its comprehensive reforms and economically strong Germany, significantly positive growth rates were also recorded at the start of the year in Italy and France. Private and public consumption represented the growth drivers. A new package of aid was also provided to Greece in the summer, thereby avoiding a simmering source of danger for the time being. However, the international environment also turned out to be a challenging one in the first half of the year. As in the previous year, special factors such as the weather and wide-ranging strikes hampered economic development in the USA. The continuous fall in oil prices also affected the US economy.

However, this affected oil-exporting emerging nations such as Russia, Brazil and Venezuela in particular, which plunged into a deep recession over the course of the year as a result of oil price developments. For the eurozone, negative factors such as disappointing economic performance at the international level have so far been balanced out by positive factors such as the low euro, low oil prices and an expansionary monetary policy. According to the latest estimates from the International Monetary Fund (IMF) the eurozone economy is expected to have grown by 1.5% in 2015. This would correspond exactly with the IMF's estimate from the previous year. By contrast expectations had to be revised downwards slightly for the USA. Following growth of 2.4% in 2014, the IMF now expects just a marginally higher growth rate of 2.5% in 2015.

Divergent monetary policy

The European Central Bank (ECB) continued its expansionary monetary policy in the year under review. On 22 January the guardians of the currency in Frankfurt announced their intention to step up their bond purchases significantly and to extend these to eurozone government bonds. They aim to purchase assets amounting to 60 billion euros each month by September 2016 at a minimum. This step was the European Central Bank's response to the continued low inflation expected in the eurozone. The ECB increased its efforts again in December by reducing its deposit interest rate to -0.30% and by temporarily extending its bond purchase programme.

In the USA the Federal Reserve Bank considered it necessary to postpone its reversal in interest rates on several occasions, given the sluggish economic performance at the start of the year and the increased risk of a hard landing for the Chinese national economy. However, the first increase in interest rates did take place in just under ten years at the December meeting of the US Federal Reserve, with an increase of 0.25% to a range between 0.25% and 0.50%. Further interest rate increases are forecast for 2016, although capital market prices show that the interest rate steps could be more cautious than recently expected by the Fed's Open Market Committee.

The price of oil and China characterised a difficult year on the stock markets

Following a difficult autumn in 2014, the international stock markets started the new year in a jovial environment. The European stock markets in particular showed the strongest performance during the first few months, supported as they were by the ECB's expansionary monetary policy. By 10 April the German leading index the DAX had gained more than 25% to 12,374 points. The broader EUROSTOXX 50 Index was only just behind with an increase of just under 22% by mid-April.

At the same time the US stock markets also performed a solid sideways movement based on the increasing strength of the US dollar. European stock exchanges finally showed their first signs of fatigue from mid-April. At the same time the share prices on China's mainland stock markets appeared to rocket. By 8 June the Chinese CSI 300 Index had gained more than 52%. The aggressive speculation demonstrated by private Chinese investors did, however, have some nasty consequences, with a 30% fall in share prices in the second half of June. The Chinese authorities made every effort to halt the slump in prices. A second wave of sales followed in August, ultimately ensuring an earthquake on the global financial markets from which the latter had only partially recovered by the end of the year.

The risk of a “hard landing” for the Chinese economy was suddenly assessed as considerably higher by the capital markets than it had been just a few months before. The sustained fall in oil prices also fuelled these fears. However, no dramatic slowdown has been observed as of yet in China based on the economic data. Thanks to a strong first six months the year still ended on a positive note for the Chinese CSI 300 Index (+5.6%) and the German DAX (+7.6%). By contrast the US S&P 500 Index suffered its first negative year since 2011.

Turbulent year on the bond market

The bond market also experienced an unusually turbulent year. By mid-April returns on ten-year German government bonds had fallen from 0.55% to just a few basis points. This price of these instruments rose significantly as a result. As a benchmark for the price level of ten-year German government bonds the Deutscher Bund Future reached a new high in April at more than 160 points.

Yet this market also underwent a significant correction. Returns rose to just under one per cent within just two months. This resulted in price drops of between 7–8% for supposedly safe German government bonds. US government bonds also performed in a similar fashion, although this was less severe in both directions. Both markets did still record annual results that were marginally positive.

Strong US dollar, weak yuan

While the European Central Bank and Bank of Japan stepped up their expansionary monetary policy along with other central banks, the US Federal Reserve Bank had a somewhat more restrictive structure to their monetary policy. In view of the divergent monetary policy there was a significant upwards trend for the US dollar, particularly as compared with the European common currency. The euro for instance fell from more than 1.2 to less than 1.1 to the dollar over the course of the year.

However, the performance of the Chinese yuan, or renminbi, is particularly noteworthy at this point. After years of the yuan being pegged, China finally introduced a more flexible exchange rate system in 2005, even through this was still subject to heavy regulation. The yuan appreciated in value on a constant basis over the next few years, i.e. by around 35% against the US dollar, with this only interrupted by a new two-year pegging as a result of the 2008 financial crisis. China unexpectedly devalued the yuan in August 2015. Although this was praised by the International Monetary Fund, the capital market viewed the operation with major unease. Further devaluations followed until the end of the year, further increasing uncertainty on the capital markets.

BUSINESS PERFORMANCE

Balance sheet

The total assets of Capital Bank fell in 2015 by 5.4% from €933.2 million to €882.8 million. On the assets side, loans and advances to customers rose by 14.5% to €251.3 million. On the liabilities side, deposits from customers fell slightly by €1.3 million to €380.7 million. At the same time the volume of the bank's own issues fell 7.6% from €330.0 million to €305.0 million.

Capital pursuant to Part 2 CRR increased in the 2015 financial year by approx. 1.7% from €134.5 million to €136.8 million. By contrast the capital requirements fell by 5.4% to €60.1 million. This results in an capital surplus of €76.7 million. The capital surplus was capable of being expanded by €5.8 million or 8.1% on the previous year. The capital ratio, i.e. the amount of equity capital in relation to the calculation basis according to CRR, increased from 16.9% to 18.2%. Of the reported eligible capital of

€1036.8 million, 91.5% 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: 2015: 8.7%; 2014: 23.6%) fell by around 14.9 percentage points on the previous year's level. This is attributable to the lower profit for the year before taxes in 2015. The return on assets, the ratio of the profit from ordinary activities to the average total assets, fell in the period from 3.2% to 1.2%. The return on capital employed also fell by 28.3 percentage points, from 46.4% to 18.1%. 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 2015 financial year amounting to €10.8 million, which is therefore below the previous year's level of €29.6 million. The high result for the previous year was achieved not least as a result of one-off effects in the valuation results. The 2015 results are still above the average profit from ordinary activities recorded over many years, and therefore represent a welcome success. Net fee and commission income and net financial income together rose by €1.4 million to €23.6 million. Net interest income rose a substantial 24.0% in the period from €7.9 million to €9.9 million.

Personnel expenses fell slightly by 0.7% to €14.8 million, while administrative expenses rose moderately by 5.3% from €7.9 million to €8.3 million.

Capital Bank generated an operating profit of €16.7 million for 2015. This equated to a fall of approximately 18.1% on the operating profit of €20.4 million generated in 2014. The cost-income ratio rose accordingly on the previous year from 53.5% to 59.0%.

Volume of client custody accounts

In 2015, Capital Bank continue to focus on gaining market share and thus expanding its volume of client custody accounts. However, the growth of 1.3% in the volume of client custody accounts from €8.8 billion to €8.9 billion fell short of forecasts. Our subsidiary, Security Kapitalanlage Aktiengesellschaft, once again substantially increased its volume of custody accounts from €3.4 billion in 2014 to €3.8 billion in 2015. This equates to a year-on-year increase of 11.0%. In 2015, the Capital Bank subgroup achieved a new high of €13.4 billion (+3.6%), with a growth in assets under management (including own issues) of €460.1 million.

Proposed dividend

The profit from ordinary activities generated in the 2015 financial year amounted to €10.8 million. Capital Bank will not pay a dividend to its shareholder HYPO-Bank Burgenland AG following the resolution passed at the annual general meeting. The annual profit will therefore be used to reinforce the capital base even further.

Outlook

The economic outlook for the eurozone is brighter at the start of 2016. The forecasts for economic growth have risen slightly over the last twelve months, contrary to the international trend. The International Monetary Fund (IMF) for instance is predicting growth of 1.5% for 2015 (with 1.2% predicted in the previous year). For 2016 the previous year's forecast was 1.5% – the IMF is now expecting growth of 1.7% for 2016 and 2017. Favourable framework conditions have provided the prerequisites for this. The low price of oil has relieved the burden on private incomes and created a consumer-friendly environment, the low euro has boosted exports from the eurozone, and the expansionary monetary policy is beginning to have an impact on the demand for credit. The fact that growth has still been comparatively moderate given these framework conditions is down to global economic developments. Aside from a rekindling of the euro crisis, global growth currently represents the greatest risk to the eurozone economy.

Contrary to earlier expectations the dynamic in the US economy is failing to pick up speed. Current forecasts from the IMF assume growth of 2.5% in 2015 and 2.6% in both 2016 and 2017. This is considerably below expectations from the previous year. As in Europe, private consumption is also the pillar of growth in the USA. This trend is expected to continue given the fall in unemployment rates and rise in salaries.

The performance of the People's Republic of China is creating major uncertainty in all forecasts. Indications of a "hard landing" for the world's second largest economy are currently increasing. All growth expectations would have to be significantly revised downwards in such a scenario.

Our aspiration is to be the leading independent private and investment bank in Austria. In order to meet this aspiration we examine our internal processes and systems on a regular basis, review our business model constantly, scrutinise our advisory approach and do not shy away from making corresponding adjustments. The path for growth, i.e. winning new customers and expanding customer assets, is consistently pursued further.

The current uncertain market environment requires clear and structured decisions aimed at finding well-established investment strategies that meet the customer's needs. It can be difficult for private individuals, particularly from different lines of business, to track all current market developments and to draw logical comprehensible conclusions from these. It is often a question of time, since professional investment of funds can no longer be achieved on top of a career and other obligations. We take this need for trusting advice on investing assets seriously, and try to find the best individual investment solution for each and every customer.

Incorporation of Bankhaus Schelhammer & Schattera AG into the GRAWE banking group means that Capital Bank has had a new sister bank since 2015. Processes and resources need to be adapted and synergies leveraged against this background. Capital Bank, or rather the APQM division, will be taking on activities associated with ethically sustainable asset investment in this regard. The right framework conditions need to be ensured for this in 2016. Interested customers of Capital Bank should subsequently benefit from the expansion of the product range to include ethically sustainable asset investment.

Events after the balance sheet date

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

Introduction

At Capital Bank, risk management is defined as a process (based on a division of labour) for identifying, measuring, monitoring and managing defined risks at the banking group level. A risk management system with an appropriate level of quality is seen as a significant factor if the required growth of the business is to be successfully sustained over the long term. 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 provisions set out in section 30 (7) of the Austrian Banking Act (BWG), HYPO-Bank Burgenland AG, as the parent bank, is therefore responsible for satisfying the Internal

Capital Adequacy Assessment Process (ICAAP) requirements at consolidated level. The entities included in the ICAAP consolidation for HYPO-Bank Burgenland AG comprise Bankhaus Schelhammer & Schattera AG incl. subsidiaries, Capital Bank incl. subsidiary banks, BB Leasing, Sopron Bank as a banking subsidiary based in another EU country as well as GRAWE Vermögensverwaltung as a mixed financial holding company pursuant to. Article 4 para. 1 No. 21 CRR. The risk strategy in the HYPO-Bank Burgenland Aktiengesellschaft banking group is to take on standard banking risk within a defined framework and to exploit the resulting potential returns. To this end, a risk management system has been set up in the HYPO-Bank Burgenland Aktiengesellschaft banking group. This system forms the foundation for strategic bank management based on risk and returns and therefore promotes selective growth.

At Capital Bank, risk management is a central function that takes into account the regulatory framework based on the Austrian Banking Act (BWG), the 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 HYPO-Bank Burgenland Aktiengesellschaft.

Risk management is defined as a process (based on a division of labour) for identifying, measuring, monitoring and managing various risks. The basis for risk management in the HYPO-Bank Burgenland Aktiengesellschaft banking group is a strict segregation between front office and back office functions. The various risk management functions are brought together under the member of the Management Board responsible for risk management. The activities of the risk management units are conducted in accordance with the risk policy guidelines laid down by the Management Board. These guidelines specify how risks are to be controlled and how they are to be monitored competently and in a timely manner in conjunction with the individual corporate units and the independent risk function. In application of the principle of proportionality, the organisation of risk management reflects – both qualitatively and quantitatively – internal requirements, the business activities involved, the bank's strategy and the risk situation. Organisationally, the risk management system is located at banking group level and is the responsibility of HYPO-Bank Burgenland Aktiengesellschaft. 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 banking group involves close cooperation between the risk management unit at HYPO-Bank Burgenland Aktiengesellschaft 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 banking 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 banking group:

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

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

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

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

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

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

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

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

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

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

Another key 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 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 banking group. The risk-bearing capacity is calculated quarterly at banking 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 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 2015, 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 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 banking group. Key factors used in developing the limit structure are the desired degree of diversification in the portfolio and the trading strategy. The limits include country limits in addition to volume and exposure limits.

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.

At Capital Bank, interest-rate risk is defined as the risk of fluctuations in the price of interest-bearing securities, arising in turn from changes in capital market interest rates. Interest-rate risk is managed for the whole of the banking group by Group Treasury and the assets and liabilities committee, which manage the interest-rate structure taking into account the risk involved. On the basis of interest-rate risk statistics from the Austrian National Bank (OeNB), it is possible to state that interest-rate risk at Capital Bank is at a low level compared with the regulatory threshold of 20% of eligible capital.

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 KAG and Grazer Wechselseitige Versicherung AG. Guarantees with a total guaranteed sum of approximately €295.1 million were outstanding in the banking group as at the balance sheet date. The guarantees are matched by corresponding recoverable investments. The capital guarantees are stated as derivatives.

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.

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

The management of operational risk at Capital Bank is the responsibility of the risk management unit. The duties of the unit include classifying the risks, drawing up standard guidelines for use throughout the banking group, managing the operational risk database, analysing loss events and preparing reports for the Management Board and various committees. Based on the standards applicable throughout the banking group, loss events related to operational risk are assembled in one database. 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. Scheduled meetings take place with the market segments and the Management Board as part of these risk management activities.

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

Credit risk

At Capital Bank, credit risk is defined as the default risk that arises in connection with loans and advances not evidenced by certificates and loans and advances evidenced by certificates (securities) to third parties. The risk is that these loans and advances may not be repaid in full or on time to Capital Bank. The situation may arise from developments at individual counterparties or from general problems affecting a large number of counterparties. Credit risk may also arise from particular types of product design or types of business. Expert management of all credit risks is the responsibility of the credit management unit. This unit carries out the banking operations on the assets side of the balance sheet at an operational level. The tasks include checking all finance applications from the perspectives of risk and credit quality in accordance with the relevant guidelines, reviewing compliance with measurement and assessment guidelines and identifying any early warning indicators. 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 banking group.

In 2015, the lending volume (before allowances for losses on loans and advances and section 57 reserve) at

Capital Bank rose by approximately €43 million on 2014 to around €278 million.

To manage country risk, country limits have been set both at banking group and individual bank levels. Capital Bank has laid down guidelines for the approval of counterparties with the aim of minimising counterparty risk. The risk management unit is responsible for vetting new trading partners. The unit carries out checks on new partners and approves them using internal criteria.

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 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 investment commitment at Capital Bank consists overwhelmingly of the investment in Brüll Kallmus Bank AG and Security KAG. The real estate risk is a subordinate risk category.

Liquidity risk

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

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

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 2015 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 2016, the Capital Bank Group will continue its business activities in line with its chosen risk strategy. One of the key areas of focus in risk management activities will be the ongoing further development of risk methods, systems and management in the HYPO-Bank Burgenland Aktiengesellschaft banking group.

Given the special nature of the business model at Capital Bank, risk monitoring in the private banking business will also continue to be a focus of risk management activities. In addition to this focal area, the ongoing ICAAP process, 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. As in previous years, dealing with the latest supervisory topics will represent an important area in terms of risk management activities. The focus in 2016 will also remain on developing management tools, supporting the professional development of employees and ensuring continuous improvements in internal risk quantification methods.

Graz, 8 March 2016

The Management Board

Christian Jauk, MBA MAS
Member of the Management Board

Mag. Constantin Veyder-Malberg
Member of the Management Board

01. PROFIT FROM ORDINARY ACTIVITIES IN € THOUSANDS

02. TOTAL ASSETS IN € '000

03. OPERATING PROFIT IN € THOUSANDS

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

05. OPERATING INCOME IN € MILLIONS

06. NET INTEREST INCOME IN € THOUSANDS

07. PERSONNEL EXPENSES IN € MILLIONS

Report by the Supervisory Board

In 2015, 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 2015 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 2015. 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 2015.

Graz, March 2016

Dr. Othmar Ederer
Chairman of the Supervisory Board

08. BALANCE SHEET OF CAPITAL BANK – GRAWE GRUPPE AG AS AT 31 DECEMBER 2015

ASSETS		31.12.2015 €	31.12.2014 € '000
1. Cash in hand and balances at central banks		32,088,652.41	66,723
2. Public-sector debt instruments eligible as collateral for central bank funding			
Public-sector debt instruments and similar securities		20,794,100.92	21,017
3. Loans and advances to banks		192,245,080.35	231,376
a) Repayable on demand	147,367,360.45		
b) Other loans and advances	44,877,719.90		
4. Loans and advances to customers		251,319,051.78	219,473
5. Bonds and other fixed-income securities		61,600,691.06	68,589
6. Shares and other variable-yield securities		148,235,704.43	133,245
7. Equity investments		760,098.17	760
of which: in banks	8,575.30		
8. Shares in affiliated companies		23,707,255.30	23,704
of which: in banks	22,900,925.13		
9. Intangible fixed assets		248,202.95	322
10. Property and equipment		1,377,755.02	1,565
11. Other assets		149,829,675.08	165,835
12. Prepaid expenses		623,444.44	624
TOTAL ASSETS		882,829,711.91	933,233
Below-the-line items			
1. Foreign assets		393,553,843.71	390,540

EQUITY AND LIABILITIES		31.12.2015 €	31.12.2014 € '000
1. Deposits from banks		22,756,863.26	29,606
a) Repayable on demand	8,573,517.49		
b) With agreed maturity or notice period	14,183,345.77		
2. Deposits from customers		380,747,930.25	382,011
a) Savings deposits	5,126,936.51		5,574
aa) Repayable on demand	2,334,996.99		1,937
bb) With agreed maturity or notice period	2,791,939.52		3,637
b) Other deposits	375,620,993.74		376,437
aa) Repayable on demand	351,644,799.59		364,849
bb) With agreed maturity or notice period	23,976,194.15		11,587
3. Liabilities evidenced by certificates		305,017,865.85	329,952
Other liabilities evidenced by certificates	305,017,865.85		
4. Other liabilities		19,878,374.53	22,042
5. Prepaid expenses		675,996.03	0
6. Provisions		21,032,824.52	19,475
a) Provisions for severance payments	4,251,168.90		4,182
b) Provisions for pensions	327,880.58		287
c) Tax provisions	43,277.20		43
d) Other	16,410,497.84		14,963
7. Subscribed capital		10,000,000.00	10,000
Nominal amount	10,000,000.00		10,000
8. Capital reserves		55,915,661.65	55,916
a) Non-distributable (share premium)	35,082,987.22		35,083
b) Distributable	20,832,674.43		20,833
9. Retained income		48,096,218.77	48,097
a) Legal reserve	1,504,504.45		1,505
b) Other reserves	46,591,714.32		46,592
10. Liability reserve pursuant to section 57 (5) BWG		11,127,000.00	11,127
11. Distributable profit		7,580,977.05	25,007
a) Profit brought forward	56,974.21		211
b) Net profit for the year	7,524,002.84		24,796
TOTAL EQUITY AND LIABILITIES		882,829,711.91	933,233

	31.12.2015 €	31.12.2014 € '000
Below-the-line items		
1. Contingent liabilities		
Liabilities from guarantees and liabilities from the provision of collateral	6,544,940.36	11,247
2. Credit risks	29,264,392.63	24,729
3. Liabilities from trust transactions	31,245,870.80	36,001
4. Eligible capital pursuant to part 2 of EU Regulation no. 575/2013	136,798,651.68	134,538
of which: Supplementary capital pursuant to part 2 title I chapter 4 of EU regulation no. 575/2013: € 11,851,000.00		
5. Capital requirements pursuant to Art. 92 of EU Regulation no. 575/2013 (Total risk amount)	751,147,776.00	795,295
of which: Capital requirements pursuant to 92 (1a-c) of EU Regulation no. 575/2013:		
a) Common equity tier 1 capital ratio	16.6%	15.7%
b) Tier 1 capital ratio	16.6%	15.7%
c) Total capital ratio	18.2%	16.9%
6. Foreign liabilities	72,740,448.38	56,592

09. INCOME STATEMENT OF CAPITAL BANK – GRAWE GRUPPE AG FOR THE 2015 FINANCIAL YEAR

		31.12.2015 €	31.12.2014 € '000
1. Interest and similar income		11,568,796.68	9,899
of which: from fixed-income securities	3,469,791.03		
2. Interest and similar expenses		-1,715,398.79	-1,950
I. NET INTEREST INCOME		9,853,397.89	7,949
3. Income from securities and equity investments		4,037,782.26	9,818
a) Income from shares, other equity interests and variable-yield securities	913,992.92		2,717
b) Income from equity investments	54.75		1
c) Income from shares in affiliated companies	3,123,734.59		7,100
4. Fee and commission income		50,820,802.62	45,990
5. Fee and commission expenses		-26,450,936.47	-23,430
6. Income/expenses from financial operations		-817,889.22	-370
7. Other operating income		3,312,135.65	3,925
II. OPERATING INCOME		40,755,292.73	43,882
8. General and administrative expenses		-23,076,598.33	-22,763
a) Personnel expenses	-14,727,482.16		-14,831
aa) Wages and salaries	-12,056,082.09		-11,840
bb) Social security costs, compulsory and other contributions linked to pay	-1,995,314.21		-1,958
cc) Other social security expenses	-131,480.09		-111
dd) Post-employment and other employee benefit costs	-226,493.39		-229
ee) Additions to pension provisions	-40,587.01		85
ff) Expenses for severance payments and contributions to operational pension funds for employees	-277,525.37		-777
b) Other expenses (administrative expenses)	-8,349,116.17		-7,932
9. Write-downs of assets reported under asset items 9 and 10		-672,706.92	-672
10. Other operating expenses		-281,137.25	-18
III. OPERATING EXPENSES		-24,030,442.50	-23,453

	31.12.2015 €	31.12.2014 € '000
IV. OPERATING PROFIT	16,724,850.23	20,429
11. Allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks	-14,600,986.77	-17,871
12. Income from the reversal of allowances for losses on loans and advances and of provisions for contingent liabilities and credit risks	8,499,181.34	26,955
13. Write-downs of securities recognised as financial assets, and of shares in affiliated companies	-2,214.07	0
14. Income from the reversal of write-downs of securities recognised as financial assets, of equity investments and of shares in affiliated companies	223,698.27	37
V. PROFIT FROM ORDINARY ACTIVITIES	10,844,529.00	29,551
15. Income tax	-3,314,573.35	-4,749
16. Other taxes not reported under item 15	-5,952.81	-6
VI. PROFIT FOR THE YEAR	7,524,002.84	24,796
17. Changes in reserves	0.00	0
VII. NET PROFIT FOR THE YEAR	7,524,002.84	24,796
18. Profit brought forward	56,974.21	211
VIII. DISTRIBUTABLE PROFIT	7,580,977.05	25,007

10. CAPITAL AND CAPITAL REQUIREMENT IN € '000

	CAPITAL BANK - GRAWE GRUPPE AG		
	2015	**2014**	**2013**
Tier 1 capital	124,948	124,874	124,915
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	57	57	0
Liability reserve	11,127	11,127	11,127
Intangible assets	-248	-322	-224
Supplemental elements (tier 2)	11,851	9,664	22,930
Hidden reserves pursuant to section 57 (1) BWG	11,851	9,664	22,930
Revaluation reserve	0	0	0
Deductions	0	0	0
Eligible capital	136,799	134,538	147,845
Capital requirements for			
Credit risk	28,195	27,240	25,023
Trading book	19,266	22,826	14,388
Operational risk	6,030	5,736	5,266
Additional capital requirements major loans pursuant to 397 CRR	6,600	7,822	2,926
	60,091	63,624	47,603
Total risk amount		-	-
Risk amount for		-	-
Credit risk	352,433	340,495	312,788
Trading book	240,828	285,329	179,850
Operational risk	75,381	71,695	65,825
Additional capital requirements major loans pursuant to 397 CRR	82,506	97,776	36,575
Total risk amount	751,148	795,295	595,038
Total capital ratio	18.2%	16.9%	24.8%
Tier 1 capital ratio	16.6%	15.7%	21.0%
Common equity tier 1 capital ratio	16.6%	15.7%	21.0%

11. CAPITAL BANK'S STATEMENT OF CHANGES IN EQUITY AS AT 31 DEC. 2015

in €	Procurement and setting-up costs		
	As at 1 Jan. 2015	Additions	Disposals
Public-sector debt instruments	18,378,902.50	0.00	0.00
Loans and advances to banks (securities)	990,215.00	0.00	0.00
Loans and advances to customers (securities)	0.00	0.00	0.00
Bonds and other fixed-income securities	23,348,503.75	1,683,738.00	4,774,982.50
Shares and other variable-yield securities	14,023,486.27	0.00	0.00
Equity investments	759,714.64	400.00	0.00
Shares in affiliated companies	24,004,105.30	3,150.00	0.00
Intangible assets	1,251,067.88	32,768.53	0.00
Property and equipment	7,449,396.36	379,908.38	203,149.50
Low-value assets	0.00	12,312.77	12,312.77
TOTAL FIXED ASSETS	90,205,391.70	2,112,277.68	4,990,444.77

As at 31 Dec. 2015	Depreciation, amortisation and write-downs Cumulative	Appreciation in value Cumulative	Carrying amount 31.12.2015	Carrying amount 31.12.2014	Appreciation in value 2015	Depreciation, amortisation and write-downs 2015
18,378,902.50	78,868.42	0.00	18,300,034.08	18,313,756.10	0.00	13,722.02
990,215.00	0.00	0.00	990,215.00	990,215.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00
20,257,259.25	470,870.74	0.00	19,786,388.51	22,771,685.61	0.00	75,788.37
14,023,486.27	0.00	333,975.32	14,357,461.59	13,897,944.43	459,517.16	0.00
760,114.64	16.47	0.00	760,098.17	759,698.17	0.00	0.00
24,007,255.30	300,000.00	0.00	23,707,255.30	23,704,105.30	0.00	0.00
1,283,836.41	1,035,633.46	0.00	248,202.95	322,208.24	0.00	106,773.82
7,626,155.24	6,248,400.22	0.00	1,377,755.02	1,564,879.41	0.00	553,620.33
0.00	0.00	0.00	0.00	0.00	0.00	12,312.77
87,327,224.61	8,133,789.31	333,975.32	79,527,410.62	82,324,492.26	459,517.16	762,217.31

Excerpt from the notes to the annual financial statements of Capital Bank – GRAWE Gruppe AG for the year ended 31 December 2015

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

The ultimate parent company that prepares the consolidated financial statements for the greatest number of entities is 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 HYPO-Bank Burgenland Aktiengesellschaft, Eisenstadt, Austria. The consolidated financial statements of

HYPO-Bank Burgenland Aktiengesellschaft are submitted to the Eisenstadt regional court.

The comparative figures included in this report are taken from the 2014 annual financial statements and are shown in parentheses. The annual financial statements of Capital Bank have been prepared in accordance with the provisions of the Austrian Banking Act (BWG) as amended and also – where applicable – in accordance with the provisions of the Austrian Commercial Code (UGB). The balance sheet and the income statement have been broken down in accordance with the templates included in annex 2 to section 43 of the BWG.

B. ACCOUNTING POLICIES

The annual financial statements of Capital Bank 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 2015 or in an earlier financial year have been recognised in the financial statements. The measurement methods used to date have been retained.

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

The reference exchange rates published by the ECB on 31 December 2015 (middle rates) have been used for measuring *assets and liabilities denominated in foreign currency*.

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

Securities 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 generally carried at their principal amounts. Appropriate specific valuation allowances are recognised to take into account all risks identifiable in the lending business. Clients have also hedged risks by entering into derivatives with Capital Bank. For its part, the bank has entered into matching transactions with partner banks that are the opposite of these hedges, forming a valuation unit together.

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

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

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

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

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. Some of the liabilities evidenced by certificates have a capital guarantee.

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

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

The calculation of the *provision for severance obligations* is based on recognised actuarial principles using the AVÖ 2008 – P Pagler & Pagler tables for the calculation of pension insurance. The obligations are determined using the projected unit credit method. The calculations are also based on a pensionable age of 65 for men and 60 for women. A long-term market discount rate of 2.2% was applied (previous year: 2.2%). The salary increase trend used in the calculations was 3.0% (previous year: 3.0%).

The calculation of the *pension provision* is also based on recognised actuarial principles using the AVÖ 2008 – P Pagler & Pagler tables for the calculation of pension insurance. The projected unit credit method is used to calculate the obligation. The group of beneficiaries consists solely of pension recipients. The calculation used a long-term market discount rate of 2.0% (previous year: 1.9%).

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. For the first time, in 2015 a fluctuation discount was considered when calculating the non-current personnel provisions.

In the 2015 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.

C. BALANCE SHEET DISCLOSURES

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 €336.5 million (previous year: €333.1 million). Of this total, an amount of €206.6 million (previous year: €197.7 million) was accounted for by underlying instruments for liabilities evidenced by certificates and total return swaps with which hedging relationships were formed. Underlying instruments amounting to €94.2 million (previous year: €89.7 million) were pledged as collateral in favour of issue buyers and, of this amount, €1.4 million (previous year: €1.9 million) were assigned to one collateral trustee. Bonds and other fixed-income securities with a carrying amount of €12.9 million (previous year: €9.7 million) were due within one year.

The difference between the cost and higher fair value as at the balance sheet date for the listed securities not classified as financial assets and recognised at cost was €1.6 million (previous year: €1.8 million).

The bank's fixed assets as at 31 December 2015 included securities with a carrying amount of €53.4 million (previous year: €56.0 million). The difference between the cost and higher fair value amounted to €10.0 million (previous year: €9.7 million). The difference between the carrying amount and the lower settlement amount for fixed-income securities classified as fixed assets amounted to €257 thousand (previous year: €431 thousand).

Securities classified as fixed assets (including pro rata interest) were included in the following items:

- in A2, Public-sector debt instruments, in an amount of €18.7 million (previous year: €18.7 million);
- in A3, loans and advances to banks, in an amount of €1.0 million (previous year: €1.0 million);

- in A5, Bonds and other fixed-income securities, in an amount of €20.1 million (previous year: €23.2 million);
- in A6, Shares and other variable-yield securities, in an amount of €14.4 million (previous year: €13.9 million).

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

The company maintains a securities trading book as defined by Article 103 CRR. Items in the trading book are recognised at market value. As at 31 December 2015, the trading book did not include any securities, as in the previous year.

Capital Bank had provided capital guarantees in the trading book, specifically in connection with the PZV (prämienbegünstigte Zukunftsvorsorge) product, a special pension plan product offered in Austria with a government subsidy, in an amount of €76.7 million (previous year: €80.3 million) and in connection with fund-linked life insurance in an amount of €42.4 million (previous year: €30.0 million). Under the arrangements for capital guarantees in the PZV product and fund-linked life insurance, the associated market risk is transferred from the pension or insurance provider to Capital Bank. Each of the assets behind the capital guarantees is considered separately (as a substitute for the guarantee) to assess whether there is any need for a provision for the guarantees.

The breakdown of the securities included in 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
2014				
Bonds and other fixed-income securities	69,615	828	23,197	47,246
Shares and other variable-yield securities	23,799	114,419	13,898	124,320
2015				
Bonds and other fixed-income securities	61,301	300	20,144	41,457
Shares and other variable-yield securities	27,051	121,185	14,357	133,878

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

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

Equity investments

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

As at 31 December 2015, the bank held direct equity investments in the following entities with shareholdings of at least 20%[1)]

LIST OF EQUITY INVESTMENTS

Equity investments and shares in affiliated companies	Share capital in € '000	Share-holding	Equity in € '000[2)]	Profit for year in € '000[3)]	Balance sheet (provisional)
Brüll Kallmus Bank AG	6,000	100%	14,114	2,097	2015
Security Kapitalanlage Aktiengesellschaft	4,362	100%	30,213	1,003	2015
Corporate Finance – Grawe Gruppe GmbH	1,000	100%	877	-150	2015
CENTEC.AT Softwareentwicklungs und Dienstleistungs GmbH	35	100%	272	173	2015
BK Immo Vorsorge GmbH	35	100%	1,852	604	2015
CB Family Office Service GmbH	35	100%	151	-2	2015

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

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

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

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

The loans and advances to banks included €5.6 million (previous year: €6.2 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 €87.3 million (previous year: €103.8 million) are from the assignment to a collateral trustee of underlying instruments for liabilities evidenced by certificates.

The loans and advances to customers included €0.7 million (previous year: €0.9 million) relating to loans and advances evidenced by certificates but not admitted to trading on an exchange.

MATURITY STRUCTURE

Loans and advances/deposits not repayable on demand Total for banks and customers (€ '000)	Loans and advances		Deposits	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Up to 3 months	39,553	40,102	10,795	10,088
More than 3 months to 1 year	101,437	88,124	14,167	8,779
More than 1 year to 5 years	104,010	59,221	12,418	12,025
More than 5 years	9,707	16,445	4,645	30,489
Total	254,708	203,892	42,025	61,380

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

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

The disclosures pursuant to section 431 ff CRR are the responsibility of the parent bank HYPO-Bank Burgenland Aktiengesellschaft.

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

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

in € '000	31.12.2015	31.12.2014
Loans and advances to banks		
of which to affiliated companies	119,800	141,107
of which to other long-term investees and investors	8	8
Loans and advances to customers		
of which to affiliated companies	789	786
Deposits from banks		
of which to affiliated companies	9,900	13,239
of which to other long-term investees and investors	32	32
Deposits from customers		
of which to affiliated companies	35,157	20,866

As at 31 December 2015, the bank held trust fund deposits, but these deposits were of minor significance.

Other assets

Other assets included underlying instruments for liabilities evidenced by certificates amounting to €139.1 million (previous year: €146.4 million).

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

In € '000	Maturity	31.12.2015	31.12.2014
Other shares in companies	> 1 year	141,222	148,623
Consolidation pursuant to section 57 (1) BWG	> 1 year	0	-579
Loans and advances to affiliated companies	< 1 year	4,126	9,119
Various sales invoices and services	< 1 year	4,482	8,274

Other liabilities

This item includes liabilities to tax authorities amounting to €4,847 thousand (previous year: €4,870 thousand) and securities clearing liabilities of €1,551 thousand (previous year: €3,105 thousand). Expenses that were only payable after the reporting date largely consisted of personnel expenses of €2,495 thousand (previous year: €1,912 thousand) and various other administrative expenses. Other liabilities amounting to €19,878 thousand (previous year: €22,042 thousand) are due for payment within one year. The other liabilities include liabilities due to affiliated companies amounting to €6,912 thousand (previous year: €3,601 thousand).

Liabilities evidenced by certificates

The liabilities evidenced by certificates form valuation units with assets and derivative transactions stated in various items (underlying investments). Liabilities evidenced by certificates are due in the next financial year amounting to €0.0 million (previous year: €9.2 million).

Other provisions

Other provisions primarily comprised provisions for losses amounting to €5,988 thousand (previous year: €4,028 thousand), for unused leave amounting to €705 thousand (previous year: €767 thousand), for other personnel expenses amounting to €4,695 thousand (previous year: €3,779 thousand) and for fee and commission payments of €3,286 thousand (previous year: €3,579 thousand).

Equity capital

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

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

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

D. INCOME STATEMENT DISCLOSURES

A breakdown of income by geographical markets pursuant to 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 €1,110 thousand stated in the interest income (previous year: €218 thousand) were deferred as in the previous year to reflect the duration of the loan.

Fro the first time, the item interest and similar expenses include negative interest amounting to €81 thousand from deposits at the Austrian National Bank.

Income from securities and equity investments included €3,100 thousand (previous year: €7,100 thousand) relating to dividends from affiliated companies.

Income/expenses from financial operations consisted of currency valuation gains and gains on the disposal of securities together amounting to €6,331 thousand (previous year: €3,706 thousand) And losses on similar transactions amounting to €7,149 thousand (previous year: €4,052 thousand).

Other operating income largely comprised income from service level agreements amounting to €1,607 thousand (previous year: €1,570 thousand) and income from the reversal of provisions amounting to €221 thousand (previous year: €2,137 thousand).

Expenses for severance payments and contributions to occupational pension funds included occupational pension fund expenses of €73 thousand (previous year: €68 thousand).

The recognition of an income tax prepayment permitted pursuant to section 198 (10) of the Austrian Commercial Code (UGB) amounted to €4.2 million as at the reporting date (previous year: €3.3 million). The bank did not make any use of the capitalisation option.

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

	€ '000	€ '000
Obligations 2016 (2015)	962.0	(830.0)
Obligations 2016–2020 (2015–2019)	5,318.0	(4,550.0)

The *allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks* were adjusted as permitted by section 57 (1) of the BWG.

Reversals of write-downs on securities not recognised for reasons in connection with tax law amounted to €1,171 thousand (previous year: €1,416 thousand). This could lead to tax expenses in subsequent years of up to €293 thousand (previous year: €354 thousand).

Net income tax pursuant to section 237 no. 6b of the UGB attributable to the current financial year amounted to €3,500 thousand (previous year: €3,514 thousand). A net tax income amount of €185 thousand (previous year: €1,235 thousand) are related to taxes from prior periods.

Disclosure of the expenses incurred in the financial year for auditor fees has not been included because these disclosures are published at banking group level by HYPO-Bank Burgenland Aktiengesellschaft.

E. ADDITIONAL DISCLOSURES

As at the reporting date, assets reported on the balance sheet denominated in foreign currency amounted to €187.0 million (previous year: €155.6 million) and the liabilities on the balance sheet denominated in foreign currency were €38.6 million (previous year: €27.8 million).

The company's total return on assets, the quotient of the annual net profit after taxes divided by the total assets on the balance sheet date is 1.0% (previous year: 2.7%).

AS YET UNSETTLED FORWARD TRANSACTIONS AS AT THE BALANCE SHEET DATE

31.12.2015 € '000	Notional amount Banking book	 Trading book
Volume Total	183,962	119,118
OTC products	183,962	119,118
Exchange-traded products	0	0
Interest rate	36,300	0
OTC products	36,300	0
Exchange-traded products	0	0
Equity capital	1,813	0
OTC products	1,813	0
Exchange-traded products	0	0
Foreign currencies and gold	140,578	0
OTC products	140,578	0
Exchange-traded products	0	0
Loans	5,270	0
OTC products	5,270	0
Exchange-traded products	0	0
Other	0	119,118
OTC products	0	119,118
Exchange-traded products	0	0

31.12.2014 € '000	Notional amount Banking book	 Trading book
Volume Total	184,077	110,251
OTC products	184,077	110,251
Exchange-traded products	0	0
Interest rate	46,300	0
OTC products	46,300	0
Exchange-traded products	0	0
Equity capital	113	0
OTC products	113	0
Exchange-traded products	0	0
Foreign currencies and gold	132,925	0
OTC products	132,925	0
Exchange-traded products	0	0
Loans	4,739	0
OTC products	4,739	0
Exchange-traded products	0	0
Other	0	110,251
OTC products	0	110,251
Exchange-traded products	0	0

	Positive fair value		Negative fair value	
	Banking book	Trading book	Banking book	Trading book
	516	2,803	823	0
	516	2,803	823	0
	0	0	0	0
	110	0	530	0
	110	0	530	0
	0	0	0	0
	142	0	3	0
	142	0	3	0
	0	0	0	0
	264	0	290	0
	264	0	290	0
	0	0	0	0
	0	0	0	0
	0	0	0	0
	0	0	0	0
	0	2,803	0	0
	0	2,803	0	0
	0	0	0	0

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

Currency forward agreements and swaps were measured using the rates published by the ECB for the reporting date taking into account the interest rates for the currencies involved and the residual maturities.

Positive and negative fair values are recognised if derivatives are assigned to the trading portfolio or form part of a 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. As at 31 December 2015, no such provision had been recognised (previous year: €945 thousand).

Contingent liabilities and other financial commitments

The contingent liabilities include guarantees and financial commitments amounting to €6.5 million (previous year: €11.2 million).

The credit risks reported below the line on the balance sheet related to loans that had not yet been drawn amounting to €29.3 million (previous year: €24.7 million).

As a deposit to cover arrangements there are securities with a carrying amount of €21.5 million (previous year: €17.5 million). Securities with a carrying amount of €57.2 million (previous year: €54.6 million) were held blocked as a deposit to cover the use of the refinancing option via the ECB tender procedure. There are also cash deposits in the amount of €0.5 million (previous year: €0.5 million). In addition, the bank held cover assets for pension provisions in a volume of €269 thousand (previous year: €269 thousand) and cover funds for trust money amounting to €320 thousand (previous year: €320 thousand).

As a deposit to cover arrangements there are securities with a carrying amount of €17.5 million (previous year: €16.2 million). Securities with a carrying amount of €54.5 million (previous year: none) were held blocked as a deposit to cover the use of the refinancing option via the ECB tender procedure. There are also cash deposits in the amount of €0.5 million (previous year: €8.1 million). In addition, the bank held cover assets for pension provisions in a volume of €269 thousand (previous year: €269 thousand) and cover funds for trust money amounting to €320 thousand (previous year: €320 thousand).

F. OTHER DISCLOSURES

During the 2015 financial year, the bank had an average of 147 (previous year: 157) salaried and 5 (previous year: 7) non-salaried employees.

As in the previous year, the loans and advances to customers as at 31 December 2015 did not include any loans to members of the Management Board. There are loans to Supervisory Board members amounting to €60 thousand (previous year: €0 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 €155 thousand (previous year: €623 thousand); the equivalent expenses for other employees were €514 thousand (previous year: €422 thousand).

Expenses for pensions paid to former members of the Management Board amounted to €103 thousand (previous year: €90 thousand).

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

Company boards of Capital Bank – GRAWE Gruppe AG in the 2015 financial year

Management Board

Christian Jauk, MBA MAS
Chief Executive Officer

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

Supervisory Board

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

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

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

Dr. Franz Hörhager
Member of the Supervisory Board

Members nominated by the Works Council

Rudolf Laudon
Harald Greimel

Graz, 8 March 2016

The Management Board

Christian Jauk, MBA MAS
Member of the Management Board

Mag. Constantin Veyder-Malberg
Member of the Management Board

Audit Certificate

UNQUALIFIED AUDIT CERTIFICATE

The complete annual financial statements of Capital Bank – GRAWE GRUPPE AG for the year ended 31 December 2015 were given the following unqualified audit certificate by the appointed independent auditors:

Report on the annual financial statements

We have audited the accompanying financial statements of Capital Bank – GRAWE Group AG, Graz, consisting of the balance sheet as at 31 December 2015, the income statement for the financial year ending at this reporting date, and the notes.

Management's responsibility for the financial statements

The Management Board of the company is responsible for the preparation and proper overall presentation of the financial statements in accordance with applicable Austrian corporate and bank laws and for the internal controls it deems necessary in order to enable the preparation of financial statements that are free from material misstatements due to either inaccuracies or fraud.

Responsibility of the bank auditor

It is our responsibility to express an opinion on these financial statements, based on our audit. We conducted our audit in agreement with the generally accepted auditing standards in Austria. These standards require the application of the international auditing standards (International Standards on Auditing, ISA). According to these standards, we must comply with the professional rules of conduct, and plan and perform the audit in such a manner that material misstatements in the financial statements are detected with reasonable certainty.

An audit of the annual financial statements includes the performance of audit procedures to obtain audit evidence for the figures and information contained in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. When judging these risks, the auditor takes into consideration the preparation and proper overall presentation of the annual financial statements by the bank’s relevant internal control system, in order to plan audit activities that are appropriate under the given circumstances. However, these activities do not aim to make a judgement of the effectiveness of the company’s internal control system. An audit of the financial statement also includes an assessment of the appropriateness of the accounting principles and the acceptability of the estimates made by the legal representatives of the bank, as well as an evaluation of the overall presentation of the financial statements.

In our view, the audit evidence we obtained provides a satisfactory and suitable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the findings of our audit, the financial statements comply with legal requirements and give a true and fair view of the financial position of the company as at 31 December 2015 and of its financial performance for the financial year ending on said date, in agreement with the Austrian generally accepted accounting principle and the special statutory principles.

Comments on the Management Report

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

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

Vienna, on 8 March 2016

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Michael Schlenk
Wirtschaftsprüfer

The annual financial statements containing our audit certificate may only be published or forwarded in the version that we have endorsed. This audit certificate relates exclusively to the full German-language annual financial statements including management report. The provisions of section 281 (2) of the UGB must be observed with regard to any differing versions.

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

SUB-GROUP OF CAPITAL BANK – GRAWE GRUPPE AG

12. CAPITAL BANK – GRAWE GRUPPE AG SUBGROUP
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2015

Assets		**31.12.2015** **€**		**31.12.2014** **€ '000**
1. Cash on hand and balances at central banks		32,288,652.41		66,823
2. Public-sector debt instruments eligible as collateral for central bank funding				
Public-sector debt instruments and similar securities		23,086,533.02		23,321
3. Loans and advances to banks		204,333,959.10		241,386
4. Loans and advances to customers		251,964,475.71		220,461
5. Bonds and other fixed-income securities		69,904,021.13		78,057
6. Shares and other variable-yield securities		182,136,816.50		165,211
7. Equity investments		786,998.17		787
of which: in banks	8,575.00		9	
8. Shares in affiliated companies		856,330.17		853
9. Intangible fixed assets		605,792.68		797
10. Property and equipment		4,106,821.28		4,411
11. Other assets		154,542,769.30		160,321
12. Prepaid expenses		823,323.85		784
TOTAL ASSETS		925,436,493.32		963,211
Below-the-line items				
1. Foreign assets		405,811,436.15		399,174
2. Fund assets of managed investment funds		3,776,622,339.70		3,392,338

Equity and liabilities		31.12.2015 €		31.12.2014 € '000
1. Deposits from banks		21,968,534.98		27,723
2. Deposits from customers		381,134,883.66		383,132
a) Savings deposits	4,450,940.48		5,574	
b) Other deposits	376,683,943.18		377,558	
3. Liabilities evidenced by certificates		309,952,770.88		329,953
Other liabilities evidenced by certificates	309,952,770.88		329,953	
4. Other liabilities		28,003,523.53		28,028
5. Prepaid expenses		675,996.03		
6. Provisions		32,237,723.60		29,595
a) Provisions for severance payments	4,874,502.10		4,723	
b) Provisions for pensions	327,880.58		287	
c) Tax provisions	161,821.29		60	
d) Other	26,873,519.63		24,525	
7. Subscribed capital		65,915,661.65		65,916
8. Generated capital		85,547,398.99		98,865
9. Minority interests		0.00		
Total equity and liabilities		925,436,493.32		963,211
Below-the-line items				
1. Contingent liabilities				
Liabilities from guarantees and liabilities from the provision of collateral		6,544,940.36		11,247
2. Credit risks		29,264,382.63		24,763
3. Liabilities from trust transactions		31,245,870.80		36,001
4. Eligible capital pursuant to part 2 of EU Regulation no. 575/2013 of which: supplementary capital pursuant to part 2 title I chapter 4 of EU Regulation no. 575/2013: €11,851,000.00		155,066,605.37		148,522
5. Capital requirements pursuant to Art. 92 of EU Regulation no. 575/2013 (Total risk amount) of which: capital requirements pursuant to 92 (1a-c) of EU Regulation no. 575/2013:		771,998,671.99		817,644
a) Common equity tier 1 capital ratio		18.6%		17.0%
b) Tier 1 capital ratio		18.6%		17.0%
c) Total capital ratio		20.1%		18.2%
6. Foreign liabilities		78,959,797.40		57,790

13. CAPITAL BANK – GRAWE GRUPPE AG SUB-GROUP
CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR 2015

		2015 €		2014 € '000
1. Interest and similar income		11,864,985.30		10,232
of which: from fixed-income securities	3,754,917.16		4,289	
2. Interest and similar expenses		-1,717,884.14		-1,952
I. NET INTEREST INCOME		10,147,101.16		8,279
3. Income from securities and equity investments		1,954,200.98		3,681
a) Income from shares, other equity interests and variable-yield securities	1,630,466.39		3,528	
b) Income from equity investments	0.00		1	
c) Income from shares in affiliated companies	323,734.59		152	
4. Fee and commission income		85,001,228.32		77,053
5. Fee and commission expenses		-43,941,468.11		-38,562
6. Income/expenses from financial operations		-818,026.14		-370
7. Other operating income		4,163,491.16		5,279
II. OPERATING INCOME		56,506,527.37		55,359
8. General and administrative expenses		-31,396,367.10		-31,100
a) Personnel expenses	-20,751,620.23		-20,992	
aa) Wages and salaries	-17,250,092.21		-17,100	
bb) Social security costs, compulsory and other contributions linked to pay	-2,675,543.14		-2,553	
cc) Other social security expenses	-159,262.72		-134	
dd) Post-employment and other employee benefit costs	-265,826.84		-394	
ee) Additions to pension provisions	-40,587.01		85	
ff) Expenses for severance payments and contributions to operational pension funds for employees	-360,308.31		-896	
b) Other expenses (administrative expenses)	-10,644,746.87		-10,108	
9. Write-downs of assets reported under asset items 9 and 10		-976,145.35		-1,005
10. Other operating expenses		-282,733.25		-18
III. OPERATING EXPENSES		-32,655,245.70		-32,124

	2015 €	2014 € '000
IV. OPERATING PROFIT	23,851,281.67	23,236
11. Allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks	-14,647,647.88	-17,871
12. Income from the reversal of allowances for losses on loans and advances and of provisions for contingent liabilities and credit risks	8,526,124.79	26,955
13. Write-downs of securities recognised as financial assets, and of shares in affiliated companies	-83,185.52	-48
14. Income from the reversal of write-downs of securities recognised as financial assets, of equity investments and of shares in affiliated companies	279,470.77	252
V. PROFIT FROM ORDINARY ACTIVITIES	17,926,043.83	32,525
15. Income tax	-6,271,492.22	-7,687
16. Other taxes not reported under item 15	-22,463.89	-20
VI. CONSOLIDATED PROFIT / LOSS FOR THE YEAR	11,632,087.72	24,818
17. Changes in reserves	-3,800,000.00	0
of which: appropriation to the liability reserve	0.00	0
VII. NET PROFIT FOR THE YEAR	7,832,087.72	24,818
20. Profit brought forward	201,408.13	334
VIII. DISTRIBUTABLE PROFIT (before minority interests)	8,033,495.85	25,151
21. Minority interests' share of profit for the year	0.00	0
IX. DISTRIBUTABLE PROFIT	8,033,495.85	25,151

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