

**ENLIGHTENMENT WITH A  
CAPITAL E**

**CAPITAL  BANK**

Capital Bank  
Group

Graz  
Salzburg  
Vienna

Kitzbühel  
Klagenfurt

Annual Report  
2016

**WE ACT WITH TRUST AND CONFIDENCE  
IN THE FUTURE.**

Capital Bank 2016

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## **CHRISTIAN JAUK**

CHAIRMAN OF THE MANAGEMENT BOARD

Leap of faith is a nice concept. On the one hand, it describes an important conviction, since interpersonal relationships are difficult to establish without faith, while on the other the "leap" part points towards the future and indicates that there will be something there that we are currently seeking and towards which we can align our plans. A confident look into the future is inspiring and exciting at the same time according to this.

## **CONSTANTIN VEYDER-MALBERG**

MEMBER OF THE MANAGEMENT BOARD

As a bank, we need to guarantee a relationship and cooperation with our customers that considers trust to be a central value. This also involves reliability, as anyone who trusts something also among other things wants to be reliably updated on the latest developments, which comes to another central value in any kind of relationship, i.e. responsibility.

## **WOLFGANG DORNER**

MEMBER OF THE MANAGEMENT BOARD

Trust, reliability and responsibility are a trio of values that can be used as a basis for embarking on paths for the future. These values also involve security, a readiness to align oneself consistently with established rules and an ability to permit and take into account other points of view. Together these all provide wonderful scope for action for all partners involved.

"All you need in this life is ignorance and confidence, and then success is sure", wrote Mark Twain once in a letter. Ignorance in turn leads to trust that is within the grey area between knowledge and a lack of knowledge, as stated by German philosopher Georg Simmel, who also noted that this is the important force within society which can be used as a basis for practical action. As such, Simmel's ideas are in line with those of John Locke, who in the 17th century replaced fate in authority-dominated societies with trust in action based on mutual respect. Trust is an important unifier, which establishes obligations and requires reliability. It would not be able to exist without a little bit of ignorance and uncertainty, and trust is the starting point for everything, which was the concept behind Deutsche Bank's advertisements in the 1990s.

Our guest author Michael Lehofer also states in his article that the word 'trust' also involves daring to do something. "It takes courage to trust. The courage that we need to learn to have trust is based upon the fact that we no longer react to our old traumas, and instead we look at ourselves and at others in new ways every day, and we take the risk of discovering others as well as ourselves as never before. If this helps us to stay young, and to experience life as a new adventure every day by setting aside our concepts and theories about the world and risking the adventure of our own life, then we will have a life that is trusting, confident and secure at the same time." And this is also how we come full circle in terms of economics, which also involves certain elements related to future sustainability, or as the title of this Annual Report puts it so well: We act with trust and confidence in the future!

# Performance and Key Figures

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

	31.12.2016 € '000	31.12.2015 € '000	31.12.2014 € '000
Total assets	847,896	882,830	933,233
Loans and advances to customers	244,284	251,319	219,473
Deposits from customers	343,747	380,748	382,010
Operating profit	15,559	16,725	20,428
Profit from ordinary activities	11,110	10,845	29,551
Total capital ratio pursuant to Art. 92 of EU Regulation no. 575/2013	15.9%	18.2%	16.9%
Volume of client custody accounts	9,798,387	8,929,724	8,818,643
Employees (excluding subsidiaries)	166	169	157

The environment for professional and responsible investment of funds was also extremely challenging in 2016. Political decisions and events in particular had a major impact on the financial markets. The referendum result in favour of the United Kingdom's exit from the EU, the failed constitutional referendum in Italy and the results of the US presidential election required many strategic skills in structuring portfolios.

Investors remained cautious as a result of the continued modest economic growth in the eurozone along with the sustained low level of interest rates, driven not least by the currency policy and interventions of the European Central Bank (ECB). The unresolved problem of government debt built up in numerous euro countries along with the highly tense issue of reciprocal assumption of liability are also hovering over the Continent like the sword of Damocles.

Capital Bank – GRAWE Gruppe AG (referred to hereafter as Capital Bank) requires of itself that it will make the right investment decisions, including against this difficult background. Reliability and fairness are qualities appreciated by customers and business partners, particularly in times of difficulty. 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 fact that Capital Bank and its employees are recognised as a centre of excellence in the finance sector can be seen from their frequent appearances in the relevant financial and business media. A high level of presence in the media has been maintained with around 2.4 mentions per week on relevant professional topics (compared with 3.5 mentions per week in the previous year).

Private banking is Capital Bank's core business. Assets under management rose by around 5.2% as a consequence of attracting new customer money and also generating gains on stock exchanges. Our customers' confidence in the central asset management was in particular rewarded by the good performance of our products.

The loans business remained at around the previous year's level of €295.5 million. The focus in the financing area here has traditionally been on securities

Lombard loans and selective real estate financing.

The private banking business concentrated on a number of priorities in the 2016 financial year. Several events, podium discussions and presentations on current professional topics were organised for instance throughout Austria. Working with selected experts we were able to offer an attractive additional service to our customer with these events.

Cooperation in the private banking area was expanded further in the 2016 financial year with our sister bank Bankhaus Schelhammer & Schattera AG, particularly in relation to gold. The Vienna-based Bankhaus has profound expertise here and our customers could now benefit from this.

The Family Office department specialises in services for high-net-worth individuals, private foundations and family businesses. The customer assets managed remained roughly consistent year-on-year. The core competency of the Family Office department

is specific consideration of individual customer requirements on all financial matters. This may also include the implementation of specific topics, such as support with the acquisition or sale of a company or structuring a special financing deal.

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

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

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

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

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 2016. However, this trend was significantly less pronounced than in previous years. The “Platform” was able to record a positive net inflow of funds.

We have also succeeded in the past year in automating further parts of the transaction processes and in reducing the need for manual intervention. The intention is to increase the degree of automation in the next financial year also by further developing software and interfaces.

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 2016. The High Yield Bonds segment experienced an upturn in 2015 following an extremely challenging market phase. The performance achieved in the last financial year was extremely attractive as a result of skilled management. We are particularly pleased that this Fund was able to participate directly in further positive development as it is a popular add-on for investment customers in private banking and the family office.

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 2016, Capital Bank had 170 employees (previous year: 161 employees).

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

### **Essential equity investments**

The investment firm Security Kapitalanlage Aktiengesellschaft (hereafter: Security KAG) has gained an outstanding reputation in more than 25 years of its history. As the asset manager for Grazer Wechselseitigen Versicherung and investment company for the

GRAWE Banking Group, it currently manages 63 funds with a value of around €4.7 billion as at 31 December 2016. The increased focus on sustainability that was heralded in 2015 was also continued consistently in the last financial year. Together with our sister bank Bankhaus Schelhammer & Schattera AG, it is already one of the leading providers of sustainable 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.

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

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**

Following patchy figures from 2015, the downward revisions for growth in the global economy continued in the first quarter of 2016. The eurozone economy saw comparatively stable performance despite these figures.

The International Monetary Fund (IMF) predicted growth of 1.7% for the entire eurozone at the start of the year. The first half of the year was overshadowed from both a political as well as an economic perspective by the UK's exit from the EU. UK voters voted for Brexit in June in a largely unexpected result. The eurozone economy also performed robustly in the second half of the year despite the uncertainty triggered by this. Growth in the eurozone was 1.7% in 2016 according to the latest estimate by the IMF.

Yet the picture remains uneven. It was not just in Italy that economic performance was disappointing. Growth in the third largest eurozone economy was just 0.7% according to the latest estimates by the European Commission. Only Greece is below this at - 0.3%. Yet Portugal was well below the eurozone average with growth of 0.9%.

### **Expansionary monetary policy of the ECB**

Against this background, the European Central Bank (ECB) continued its expansionary monetary policy in the year under review.

The custodians of the currency decided on a series of monetary policy measures on 10 March. First of all, the interest rate for the main refinancing transactions was reduced by 5 base points to 0.0% while the rate for marginal lending was reduced to 0.25%. The interest rate for the deposit facility was set at - 0.4%. Secondly, the volume of monthly bond purchases was increased from 60 to 80 billion euros. Thirdly, a new programme was announced aimed at purchasing investment grade corporate bonds in euros. Fourthly, the ECB introduced four new longer-term refinancing transactions aimed at encouraging the granting of loans in the eurozone.

The ECB then finally began to acquire corporate bonds on 8 June. Six months later on 8 December, the ECB stated its intention to continue the bond

acquisition programme until the end of December 2017 with a monthly volume of 60 billion euros.

### **US: A reinvigorated economy**

The United States also started the new year cautiously in 2016. Economic growth was just 0.2% in the first quarter of 2016. Net exports and investments were the main factors responsible for the disappointing growth. Consumer spending by private households remained the linchpin for US growth. This benefited from low oil prices and increases in household income as a result of strong performance in the labour market. The interest rate rises announced by the US Federal Reserve the previous year were not implemented in the first half of the year in this economic environment.

Both net exports and investments finally returned in the second half of the year. Growth in GDP rose to 3.2% on an annualised basis in the third quarter of 2016. Private consumption also increased. Given the reinvigorated economy and increase

in the rate of inflation, the US Federal Reserve was able to raise the prime rate once again one year later in December.

### **Japan's economy grows slightly**

The first half of the year proved a positive surprise in Japan. Japan's economic output increased by 0.5% in the first six months despite the difficult environment. The dip in China's growth did surprisingly little damage to Japan's net exports. Both private and public consumption also performed strongly. The only disappointment proved to be investment activity. As in the US and Europe, at - 0.3% the rate of inflation in Japan was below the core inflation rate of 0.7% as a result of oil prices. The Bank of Japan left the key interest rate unchanged at the end of the first half of the year despite the renewed phase of deflation.

Japan's economy was unable to grow further in the second half of the year. Growth in the third quarter was also 0.5%. The IMF currently estimates Japanese economic growth at 0.9% for the full year 2016. Although inflation rose to 0.2% in the third quarter, the core inflation rate which is less vulnerable to fluctuations, declined. In view of this, the Bank of Japan announced in its November meeting its intention to acquire government bonds to an unlimited extent.

### **Austria: growth of 1.4%**

The Austrian economy grew by 1.4% in 2016 according to the latest estimates of the Oesterreichischen Nationalbank (OeNB). This corresponds with an increased growth of 0.5 percentage points compared to the previous year. This recovery is supported in particular by demand in Austria.

Despite this economic momentum, the unemployment rate rose from 5.7% in 2015 to 6.1% in 2016 according to Eurostat. Inflation rose to 1.0% from 0.8% in the previous year. The OeNB expects the rate of inflation to continue to grow between 2017 and 2019 to 1.5% (2017), 1.7% (2018) and to up to 1.8% in 2019. Economic growth on the other hand will level off at 1.5% over the next three years according to OeNB expectations.

## **A conciliatory end to a turbulent year on the stock markets**

The stock markets had an exceptionally challenging start to 2016. As in the previous year, market participants were concerned with China's economic performance. The Chinese Hang Seng Index fell 16.4% in the first few weeks of trading. The falls in share prices were even greater in Germany. The German benchmark DAX index recorded a loss of 18.5% in the first six weeks of trading. The stock markets recovered once again once observers could foresee stabilisation in terms of Chinese economic growth.

However, the second quarter turned out to be a challenging one given the upcoming EU referendum in the UK. The DAX index recorded losses of just below 10% in the days following the Brexit referendum. Yet, once again, these losses lasted only a short time. The third quarter, for instance, began with a recovery on the stock exchanges. The Asian stock exchanges recorded considerable losses following Donald Trump's election as 45th president of the United States. The markets did recover over the course of the next few days, however, and both the European and US stock exchanges closed on a positive note the day after the election.

The economic policy expected from the Trump administration ultimately ensured a conciliatory end to a turbulent year on the stock markets. The Dow

Jones Industrial ended 2016 on 19,762.60 points and was therefore up 15.31% on the previous year's value. The DAX finished trading at 11,481.06 points, up 6.87%. The ATX recorded an increase of 11.13%, ending the year on 2,618.43 points.

The trend on the bond markets towards falling interest rates continued in the first half of the year in Europe and the US. Declining economic expectations, concerns about inflation and stock market volatility resulted in a fall in the returns on 10-year German government bonds to just under - 0.2% by July. As such, these instruments recorded their lowest returns in their history. Their US equivalents also recorded a historic low at 1.35%. However, a movement in the contrary direction did develop once again in the second half of the year as a result of rising expectations regarding growth and inflation. This then accelerated following the results of the US election. The return on 10-year US government bonds rose to 2.6% in December as a result of the new president's

expected economic policy, representing the highest value since 2014.

The returns on 10-year German government bonds also increased to 0.4% in the short term by mid-December. The 10-year US government bonds were quoting returns of 2.44% at year end. Their German equivalents ended the year with a return of 0.21%. The yield mark-ups for some euro countries also widened noticeably in the reporting year as a result of the declining growth prospects for some euro-periphery countries along with economic and political problems that remain unsolved.

The delayed interest rate increases in the US resulted in a somewhat weaker US dollar in the first half of the year. The euro rose 2.25% against the greenback by the end of June despite the pressures from the Brexit vote. The euro was at 1.1385 to the dollar on the day before the UK referendum, i.e. 4.81% ahead.

And sharper interest rate rhetoric from the US Federal Reserve subsequently ensured a stronger US dollar, which had risen to 1.05 to the euro by year end. From a yearly perspective, the dollar therefore finished trading slightly higher than the euro (+3.18%).

## **BUSINESS PERFORMANCE**

### **Balance sheet**

The total assets of Capital Bank fell slightly in 2016 by around 4.0% from €882.8 million to €847.9 million. On the assets side, loans and advances to customers fell by 2.8% to €244.3 million. On the liabilities side, deposits from customers fell by €37.0 million to €343.7 million. At the same time, the volume of the bank's own issues remained fairly consistent at €301.9 million from €305.0 million in the previous year.

Capital pursuant to Part 2 CRR increased in the 2016 financial year by approx. 4.3% from €136.8 million to €142.7 million. The capital requirements increased by 28.8% to €77.4 million. This resulted in a capital surplus of €65.3 million. The capital surplus was reduced by €11.4 million or 14.9% on the previous year. The capital ratio, i.e. the amount of capital in relation to the calculation basis pursuant to CRR, fell from 18.2% to 14.8%. Of the

reported eligible capital of €142.7 million, 87.7% 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: 2016: 8.9%; 2015: 8.7%) rose moderately by around 0.2 percentage points on the previous year's level. The return on assets, the ratio of the profit from ordinary activities to the average total assets, increased in the period from 1.2% to 1.3%. The return on capital employed fell from 18.1% to 14.4%. 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 2016 financial year amounting to €11.1 million, which is therefore above the previous

year's level of €10.8 million. Operationally the successful results from the previous year were generally repeated. The increase in profits from ordinary activities is therefore primarily the result of an improvement in valuation results. Net fee and commission income and net financial income together fell by €370 thousand to €23.2 million. Net interest income remained consistent in the report period at €9.9 million.

Personnel expenses increased slightly by 6.0% to €15.6 million, while administrative expenses rose moderately by 0.7% from €8.3 million to €8.4 million.

Capital Bank generated an operating profit of €15.6 million for 2016. This equated to a fall of approximately 7.0% on the operating profit of €16.7 million generated in 2015. The cost income ratio rose accordingly on the previous year from 59.0% to 61.7%.

## **Volume of client custody accounts**

Capital Bank also continued in the 2016 financial year to focus on gaining market share and thus expanding its volume of client custody accounts. Growth of 17.0% in the volume of client custody accounts from €8.9 billion to €10.4 billion was a positive result. Our subsidiary, Security Kapitalanlage Aktiengesellschaft, once again substantially increased its volume of custody accounts from €3.8 billion in 2015 to €4.7 billion in 2016. This equates to a year-on-year increase of 25.0%. Some of the growth is attributable to the transfer of funds from Bankhaus Schelhammer & Schattera KAG. In 2016, the Capital Bank subgroup recorded an 18.1% increase in assets under management (including its own issues) from €13.4 billion to €15.8 billion.

## **Proposed dividend**

The profit from ordinary activities generated in the 2016 financial year amounted to €11.1 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 IMF forecasts global growth of 3.4% for 2017 and 3.6% for 2018. It estimates growth of 3.10% for 2016. The IMF sees growth being driven by the emerging nations and the United States. Slightly weaker growth is expected from 1.7% to 1.6% between 2017 and 2018 for the eurozone. While expectations were most recently revised upwards slightly for Spain and Germany, the outlook for Italy worsened by - 0.2% and - 0.3% respectively for the next two years. As such, the problems already mentioned in some euro countries represent the biggest risk factors for the global economy in the new year. On the other hand, the growth forecasts for the US were revised upwards by many economists following Donald Trump's election victory. This included the IMF, which raised its forecasts for 2017 by 0.1% and for 2018 by 0.4% to between 2.3 and 2.5%. Yet these forecasts are subject in particular to major uncertainty given the ambiguities surrounding the new US president's economic policy.

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.

As a result of continuous evaluation of the internal processes and systems, the Management Board and Supervisory Board decided in December 2016 to change the core banking service provider and thereby to switch to a new accounting system.

We will be supported by the company Allgemeines Rechenzentrum (ARZ) in future as a cross-sectoral service provider. This decision was taken as a result of quality improvements as well as increased consultation regarding new and further developments. Our sister bank Bankhaus Schelhammer & Schattera has already been supported by ARZ for some time.

Aside from Capital Bank, HYPO-Bank Burgenland AG as well as Brüll Kallmus Bank will also be switching to ARZ as banks in the GRAWE Banking Group. Overall, the migration should result in a noticeable improvement in the quality of the status quo and ongoing further developments, along with significant synergy effects within the banking group based on consolidation of the entire GRAWE Banking Group

in Austria into one data processing centre as an overall solution provider. The project is expected to take 24 months.

It is also important for the successful operational results from previous years to be confirmed again. The intention is to achieve this by expanding the customer assets to be managed further. The challenge in the lending business will be in ensuring suitable replacements for profitable commitments that are expiring.

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

## **Events after the 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 risks defined in the GRAWE Banking Group. A risk management system with an appropriate level of quality is seen as a significant factor if the required growth of the business is to be successfully sustained over the long term. The risk-policy principles, responsibilities as well as control principles are enshrined in the GRAWE banking group's risk management. The responsibilities are clearly regulated in terms of content and function.

The objectives in the risk management unit are to identify, quantify and actively manage all the risks arising in connection with banking operations (credit risk, market risk, interest-rate risk, liquidity risk and operational risk). Pursuant to the 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 GRAWE Banking Group is to take on standard banking risks within a defined framework and to exploit the resulting potential returns. To this end, a risk management system has been set up in the GRAWE Banking Group. This system forms the foundation for strategic bank management based on risk and returns, and therefore promotes selective growth.

At Capital Bank, risk management is a central function that takes into account the regulatory framework based on the Austrian Banking Act (BWG), the CRR, as well as various policies and guidelines, along with the nature, scope and complexity of the transactions specific to the bank and the resulting risks to which the bank is exposed. The risk management system at Capital Bank is integrated into the risk management cycle managed by the GRAWE Banking Group.

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 GRAWE Banking Group is a strict segregation between front office and back office functions. The various risk management functions are brought together under the member of the Management Board responsible for risk management. The activities of the risk management units are conducted in accordance with the risk policy guidelines laid down by the Management Board. These guidelines specify how risks are to be managed and how they are to be monitored competently and in a timely manner in conjunction with the individual corporate units and the independent risk function. In application of the principle of proportionality, the organisation of risk management reflects – both qualitatively and quantitatively – internal requirements, the business activities involved, the bank's strategy and the risk situation. Organisationally, the risk management system is located at the GRAWE Banking Group level and is also implemented for the subsidiaries under the responsibility of 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 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 Group developments and guidelines. It covers the planned development of the business as a whole from a number of different dimensions, specifies limits for relevant risks and restricts concentration risk.

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

- The Management Board and all employees must act in accordance with the risk policy principles and must make decisions in compliance with these guidelines.
- In order to achieve the desired balance of risks and returns, the individual business divisions must be limited by means of risk and/or volume specifications taking into account the risk-bearing capacity of the bank.
- The methods used for assessing and measuring risk must be structured and applied according to the scope, complexity and risk content of the transactions involved in each case. The systems must cover not only the risk arising from trading business but also any risk arising from an analysis of the bank's activities as a whole. The selection of methods should be

flexible to permit sensible further development in the future.

- To ensure a consistent and coherent risk management process, standardised methods must be used for assessing and limiting risk.
- As part of the risk management system, a suitable system of limits must be implemented and continuously monitored. The overall bank limits must be used to derive and specify limit systems both for the individual sub-risks and also for the individual subsidiaries. The specified risk limits must be based on the potential risk cover. However, the entire potential risk cover must not be used up in connection with the measured risks; a proportion must be held in reserve for exceptional circumstances and other risks that have not been measured.
- Risk management and control processes reflect the statutory requirements currently applicable and will be adjusted in line with changing conditions. The risk management performance indicators are also included in a system for strategic bank management.
- In the case of significant types of risk that may jeopardise the bank as a going concern, the bank will endeavour to put in place a risk management system that is at least similar to that in comparable

banks in terms of structure and volumes (best practice principle).

- Responsibility for risk management lies at GRAWE Banking Group level. In addition, every employee is encouraged to identify potential risk and initiate appropriate corrective action.
- The organisation of risk management is subject to the principle of segregation of functions between front office and back office and must ensure that conflicts of interest are prevented at all decision-making levels.
- For the purposes of ongoing risk management, regular reports on the risk situation must be submitted to the Management Board and to the decision-making committees at Group and individual bank levels. The relevant organisational units are responsible for risk documentation and reporting.

Another key component of the risk management system is the product approval process, which is applied when the bank launches new products or ventures into

new markets. Capital Bank generally only takes on exposures in those areas of business in which it has appropriate professional knowledge or relevant experts and in which it can assess the specific risks involved and carry out suitable monitoring. When moving into new business areas or products, a key prerequisite is therefore a suitable analysis of the risks specific to the business concerned. To this end, Capital Bank has set up a product approval process, which comprises defined rules and regulations for the organisation of the procedures involved. The process determines the procedures to be followed for issues, investments in new products and entry into new markets or areas of business. When the process is implemented, it identifies the main opportunities and risks, which then serve as a basis for decision-making.

### **Risk management**

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

The overall bank risk strategy first defines general principles for risk management (basic principles, risk management process, organisation, etc.) and then set out risk strategies for each risk category. The objec-

tive of the risk manual is to meet the statutory and the business management requirements in respect of risk management. It provides support in the systematic handling of risk and enables employees and managers to systematically address the individual components of risk management. The service and work instructions, like the risk manual, have the objective of informing employees about special (risk) topics and their management in greater detail. In contrast to the risk manual, they are extremely detailed and are mostly restricted to specific individual topics.

The risk limits are defined at least once a year on the basis of the risk-bearing capacity calculation. Compliance with risk limits is continuously monitored and regularly reported to senior managers. If a limit is exceeded, limitation measures are to be decided upon in cooperation with the management board and the respective area head in accordance with the respective risk.

The main tool used for risk management at Capital Bank is the

calculation of risk-bearing capacity. In this calculation, the key risk figures from the individual types of risk are aggregated into an overall potential loss from the assumption of risk and in the same process compared against the cover assets (earnings, reserves, equity) available to be set against these potential losses. The aim of this comparison is to determine the extent to which the bank is able to sustain any unexpected losses (risk-bearing capacity). According to the risk-bearing capacity calculation, the goal is to ensure the certainty of the bank's continued existence. The Management Board decides on the overall risk strategy, which includes the allocation of the potential risk cover to the individual risk categories. The calculation of the risk-bearing capacity acts as a brake on all risky activities within the GRAWE Banking Group. The risk-bearing capacity is calculated quarterly at Group level and on an individual basis for all banks in the GRAWE banking group. Risk positions are also constantly monitored in order to be able to take ad-hoc risk-minimising steps when discrepancies arise.

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

Under the gone concern approach, the capital available to the GRAWE Banking Group for dealing

with risks is the equity composed of the tier 1 capital, reserves and the supplementary capital, including from the profit already generated by the key date. Under the going concern approach the forecast value is taken into account in determining the risk coverage potential instead of the results already achieved. The methodology used for calculating the risks varies depending on the risk category and the selected analysis method. Credit risk (incl. consideration of risks from loans in foreign currencies and country risks), market risks in the banking book (incl. credit spread risks), operational risk, liquidity risk, investment risk, real estate risk and other types of risk as well as the macroeconomic risk are all taken into account with this. To determine the overall risk, the individual types of risk are aggregated without factoring in any adjustment for the effects of correlation between the types of risk.

During 2016, the bank at all times took into account the mandatory reconciliation process between the quantified potential risk and the

risk coverage potential available to the bank. Calculations based on stress scenarios are also applied in order to assess the risks that could arise from extreme market volatility.

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

All risks in the GRAWE Banking Group are considered as part of the overall bank risk management for Capital Bank. Given the bank's direction, material risk arises primarily in the areas of operational risk, legal risk and market risk. Particular attention is given to these risks in the monitoring and management process.

### **Market risk**

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

related to interest-bearing securities caused by credit spread.

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

The bank may only conduct investments on its own account within

defined limits. These limits are monitored continuously in accordance with the risk management guidelines for treasury investments. To all intents and purposes, currency risk is effectively eliminated at Capital Bank by means of currency-matched funding and the use of foreign exchange derivatives.

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

A particular aspect of market risk that affects Capital Bank is the risk arising from guarantees given in connection with the securities business. Capital Bank has given capital guarantees for certain products that it has designed and sold itself, and for products that are sold by insurance companies. The PZV (prämienbegünstigte Zukunftsvorsorge) product, a special pension plan product offered in Austria with a government subsidy, is especially important in this context because Capital Bank assumes responsibility for the capital guarantee in connection with this investment product in accordance with statutory

requirements (section 108 (1) no. 3 of the Austrian Income Tax Act (EStG)). The Bank has also assumed guarantees for unit-linked life insurance. Under this capital guarantee, the bank guarantees with the PZV (prämienbegünstigte Zukunftsvorsorge) product, a special pension plan product offered in Austria with a government subsidy, that the client will receive a payout that is at least equivalent to the amounts paid in plus the government subsidy. Capital guarantees and maximum level guarantees are also provided in unit-linked life insurance. The risk associated with capital guarantees is subject to greater monitoring in the risk management system. Even before the bank took over responsibility for this guarantee, the product was subject to an authorisation process in which, both within the bank itself and also with third parties, the product process was discussed in detail, various problems were addressed and solutions drawn up. Within the capital guarantee management process at Capital Bank, trends regarding the guarantees are monitored, as are the investment criteria and the

performance of the underlying funds. Stress tests are also regularly carried out for the capital guarantees in order to highlight the impact of market trends on any payment that may have to be made under the guarantee. In addition, the bank holds regular guarantee meetings in which it discusses material changes concerning the capital guarantee portfolios and the underlying funds with Security KAG and Grazer Wechselseitige Versicherung AG. Guarantees with a total guaranteed sum of approximately €317.1 million were outstanding in the GRAWE Banking Group as at the balance sheet date. The guarantees are matched by corresponding recoverable investments.

### **Operational risk**

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

Such risks must be classified according to the cause of the risk so that operational risk can be identified and analysed with precision. The purpose of risk categories is to help the bank to analyse the size,

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

The management of operational risk at Capital Bank is the responsibility of the risk management unit. The duties of the unit include classifying the risks, drawing up standard guidelines for use throughout the

Group, managing the operational risk database, analysing loss events and preparing reports for the Management Board and various committees. Based on the standards applicable throughout the Group, loss events related to operational risk are assembled in one database. This database can then be used as a basis for identifying weaknesses in systems and processes and then for initiating appropriate corrective action.

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

In the context of operational risk, Capital Bank pays special attention to the risk associated with the provision of advice, a risk that arises particularly in the private banking business. To manage this risk, the bank has developed special risk management procedures that have now been used for a number

of years in the private banking business and have been refined over the course of time. The main focus of the risk strategy in this case is to discover any possible errors in advice or undesirable developments at an early stage and identify associated advisory or reputational risks. Regular meetings also take place with the market divisions and the Management Board as part of these risk management activities.

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

### **Credit risk**

At Capital Bank, credit risk is defined as the default risk that arises in connection with loans and advances not evidenced by certificates and loans and advances evidenced by certificates (securities) to third parties. The risk is that these loans and advances may not be repaid in full or on time to Capital Bank. The situation may arise from developments at

individual counterparties or from general problems affecting a large number of counterparties. Credit risk may also arise from particular types of product design or types of business. Expert 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 Group.

In the 2016 financial year, the lending volume (before allowances for losses on loans and advances and section 57 reserve) at Capital Bank fell by approximately €20 million to around €259 million as compared with 2015.

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

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

The investment risk represents a special form of credit risk and includes the risk of a need for depreciation or write down of the carrying amount of the equity investments. It describes the risk that the investments made may result in potential losses (as a result of a lack of a dividend, partial depreciation, losses made on sales or a reduction in undisclosed reserves) from equity provided, from profit-transfer agreements (assumption of losses) or from liability risks (e.g. letters of comfort). At Capital Bank the term investment risk only covers risks from so-called investments similar to loans. Risks from stocks, investment fund units and other investment securities on the other hand are stated under market risks. The 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 2016 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**

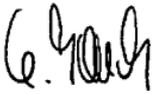
At Capital Bank, suitable action is taken to limit and minimise all material risks. An analysis of risk-bearing capacity is carried out in which all the measurable risks throughout the whole of the bank are aggregated. The measures to limit risk also include a suitable limit system and the calculation of different key risk indicators.

During 2017, the Capital Bank Group will continue its business activities in line with its chosen risk strategy. One of the key areas of focus in risk management activities will be the ongoing further development of risk methods, systems and management in the GRAWE Banking Group. Given the special nature of the business model at Capital Bank, risk monitoring in the private banking business will also continue to be a focus of risk management activities. In addition to this focal area, the ongoing ICAAP and ILAAP processes, capital guarantees, the extension of documentation requirements, the internal control system and continuous improvements to existing risk management activities will all represent further tasks for risk management. As in previous years, dealing with the latest supervisory topics will represent an important area in terms of risk management activities.

The focus in 2017 will also remain on developing management tools, supporting the professional development of employees and ensuring continuous improvements in internal risk quantification methods.

Graz, 6 March 2017

## The Management Board



Chairman of the Management Board  
Christian Jauk, MBA MAS



Member of the Management Board  
Mag. Constantin Veyder-Malberg



Member of the Management Board  
Wolfgang Dorner, CIA







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

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██████████	2003: 2,550
██████████	2004: 3,285
██████████	2005: 4,572
██████████	2006: 6,133
██████████	2007: 7,320
██████████	2008: 5,631
██████████	2009: 6,563
██████████	2010: 8,419
██████████	2011: 9,633
██████████	2012: 11,061
██████████	2013: 11,679
██████████	2014: 12,932
██████████	2015: 13,392
██████████	2016: 15,811







**Report by the  
Supervisory  
Board**

In 2016, 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 2016 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 2016. 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 2016.

Graz, March 2017

A handwritten signature in black ink, reading "Othmar Ederer". The signature is written in a cursive style with a large initial 'O'.

Dr. Othmar Ederer  
Chairman of the Supervisory Board

**08. BALANCE SHEET OF CAPITAL BANK – GRAWE GRUPPE AG**  
**AS AT 31 DECEMBER 2016**

<b>ASSETS</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>€</b>	<b>€ '000</b>
<b>1. Cash in hand and balances at central banks</b>	11,189,173.14	32,089
<b>2. Public-sector debt instruments eligible as collateral for central bank funding</b>		
Public-sector debt instruments and similar securities	19,007,637.18	20,794
<b>3. Loans and advances to banks</b>	174,937,194.36	192,245
a) Repayable on demand	141,490,195.91	
b) Other loans and advances	33,446,998.45	
<b>4. Loans and advances to customers</b>	244,284,046.84	251,319
<b>5. Bonds and other fixed-income securities</b>	60,944,815.40	61,601
<b>6. Shares and other variable-yield securities</b>	159,654,071.12	148,236
<b>7. Equity investments</b>	760,198.17	760
of which: in banks	4,215.01	
<b>8. Shares in affiliated companies</b>	23,707,255.30	23,707
of which: in banks	22,900,925.13	
<b>9. Intangible fixed assets</b>	160,163.05	248
<b>10. Property and equipment</b>	1,049,913.09	1,378
<b>11. Other assets</b>	144,901,223.46	149,830
<b>12. Prepaid expenses</b>	695,567.31	623
<b>13. Deferred tax assets</b>	6,604,989.16	0
<b>TOTAL ASSETS</b>	<b>847,896,247.58</b>	<b>882,830</b>
<b>Below-the-line items</b>		
<b>1. Foreign assets</b>	<b>377,569,521.75</b>	<b>393,554</b>

EQUITY AND LIABILITIES	31.12.2016	31.12.2015
	€	€ '000
<b>1. Deposits from banks</b>	9,966,231.57	22,757
a) Repayable on demand	9,150,741.03	
b) With agreed maturity or notice period	815,490.54	
<b>2. Deposits from customers</b>	343,746,561.47	380,748
a) Savings deposits	5,219,799.13	5,127
aa) Repayable on demand	2,714,874.95	2,335
bb) With agreed maturity or notice period	2,504,924.18	2,792
b) Other deposits	338,526,762.34	375,621
aa) Repayable on demand	322,677,951.38	351,645
bb) With agreed maturity or notice period	15,848,810.96	23,976
<b>3. Liabilities evidenced by certificates</b>	301,916,526.64	305,018
Other liabilities evidenced by certificates	301,916,526.64	
<b>4. Other liabilities</b>	21,379,889.99	19,878
<b>5. Prepaid expenses</b>	5,707,364.27	676
<b>6. Provisions</b>	24,078,462.11	21,032
a) Provisions for severance payments	5,170,669.53	4,251
b) Provisions for pensions	591,028.25	328
c) Tax provisions	100,000.00	43
d) Other	18,216,764.33	16,410
<b>7. Subscribed capital</b>	10,000,000.00	10,000
Nominal amount	10,000,000.00	10,000
<b>8. Capital reserves</b>	55,915,661.65	55,916
a) Non-distributable (share premium)	35,082,987.22	35,083
b) Distributable	20,832,674.43	20,833
<b>9. Retained income</b>	48,096,218.77	48,097
a) Legal reserve	1,504,504.45	1,505
b) Other reserves	46,591,714.32	46,592
<b>10. Liability reserve pursuant to section 57 (5) BWG</b>	11,127,000.00	11,127
<b>11. Distributable profit</b>	15,962,331.11	7,581
a) Profit brought forward	7,580,977.05	57
b) Net profit for the year	8,381,354.06	7,524
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>847,896,247.58</b>	<b>882,830</b>

	31.12.2016	31.12.2015
	€	€ '000
<b>Below-the-line items</b>		
<b>1. Contingent liabilities</b>		
Liabilities from guarantees and liabilities from the provision of collateral	3,980,421.61	6,545
<b>2. Credit risks</b>	34,182,247.24	29,264
<b>3. Liabilities from trust transactions</b>	28,350,958.32	31,246
<b>4. Eligible capital pursuant to part 2 of EU Regulation no. 575/2013</b>	142,717,694.42	136,799
of which: Supplementary capital pursuant to part 2 title I chapter 4 of EU Regulation no. 575/2013: €10,158,000.00 (previous year: €11,851 thousand)		
<b>5. Capital requirements pursuant to Art. 92 of EU Regulation no. 575/2013 (Total risk amount)</b>	897,005,408.37	751,148
of which: Capital requirements pursuant to 92 (1a-c) of EU Regulation no. 575/2013:		
a) Common equity tier 1 capital ratio	14.8%	16.6%
b) Tier 1 capital ratio	14.8%	16.6%
c) Total capital ratio	15.9%	18.2%
<b>6. Foreign liabilities</b>	67,580,401.81	72,740



**09. INCOME STATEMENT OF CAPITAL BANK – GRAWE GRUPPE AG FOR THE 2016 FINANCIAL YEAR**

		31.12.2016 €	31.12.2015 € '000
<b>1. Interest and similar income</b>		10,920,920.58	11,569
of which: from fixed-income securities	2,251,228.82		
<b>2. Interest and similar expenses</b>		-1,066,401.45	-1,715
<b>I. NET INTEREST INCOME</b>		9,854,519.13	9,854
<b>Income from securities and equity invest- 3. ments</b>		5,357,866.07	4,038
a) Income from shares, other equity interests and variable-yield securities	990,817.10		914
b) Income from equity investments	52.92		0
c) Income from shares in affiliated companies	4,366,996.05		3,124
<b>4. Fee and commission income</b>		48,072,622.01	50,821
<b>5. Fee and commission expenses</b>		-24,812,628.50	-26,451
<b>6. Income/expenses from financial operations</b>		-78,484.43	-818
<b>7. Other operating income</b>		2,219,721.20	3,312
<b>II. OPERATING INCOME</b>		40,613,615.48	40,756
<b>8. General and administrative expenses</b>		-24,019,181.81	-23,077
a) Personnel expenses	-15,607,855.65		-14,728
aa) Wages and salaries	-12,040,741.31		-12,056
bb) Social security costs, compulsory and other contributions linked to pay	-1,986,237.60		-1,995
cc) Other social security expenses	-100,271.82		-131
dd) Post-employment and other employee benefit costs	-267,944.78		-226
ee) Additions to pension provisions	-263,147.67		-41
ff) Expenses for severance payments and contributions to operational pension funds for employees	-949,512.47		-278
b) Other expenses (administrative expenses)	-8,411,326.16		-8,349
<b>9. Write-downs of assets reported under asset items 9 and 10</b>		-675,191.65	-673
<b>10. Other operating expenses</b>		-360,509.85	-281
<b>III. OPERATING EXPENSES</b>		-25,054,883.31	-24,031

	31.12.2016 €	31.12.2015 € '000
<b>IV. OPERATING PROFIT</b>	15,558,732.17	16,725
11. Allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks	-6,501,150.8	-14,601
12. Income from the reversal of allowances for losses on loans and advances and of provisions for contingent liabilities and credit risks	1,912,050.79	8,499
13. Write-downs of securities recognised as financial assets, and of shares in affiliated companies	0	-2
14. Income from the reversal of write-downs of securities recognised as financial assets, of equity investments and of shares in affiliated companies	140,609.07	224
<b>V. PROFIT FROM ORDINARY ACTIVITIES</b>	11,110,241.23	10,845
15. Income tax	-1,898,075.68	-3,315
16. Other taxes not reported under item 15	-830,811.49	-6
<b>VI. PROFIT FOR THE YEAR</b>	8,381,354.06	7,524
17. Changes in reserves	0.00	0
<b>VII. NET PROFIT FOR THE YEAR</b>	8,381,354.06	7,524
18. Profit brought forward	7,580,977.05	57
<b>VIII. DISTRIBUTABLE PROFIT</b>	15,962,331.11	7,581

**10. CAPITAL AND CAPITAL REQUIREMENT IN € THOUSANDS**

	CAPITAL BANK - GRAWE GRUPPE AG		
	2016	2015	2014
<b>Tier 1 capital</b>	132,560	124,948	124,874
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	7,581	57	57
Liability reserve	11,127	11,127	11,127
Intangible assets	-160	-248	-322
<b>Supplemental elements (tier 2)</b>	10,158	11,851	9,664
Hidden reserves pursuant to section 57 (1) BWG	10,158	11,851	9,664
Revaluation reserve	0	0	0
<b>Deductions</b>	0	0	0
<b>Eligible capital</b>	142,718	136,799	134,538
<b>Risk amount for</b>			
Credit risk	389,188	352,433	340,495
Trading book	294,396	240,828	285,329
Operational risk	78,282	75,381	71,695
Additional capital requirements major loans pursuant to 397 CRR	135,140	82,506	97,776
<b>Total risk amount</b>	897,006	751,148	795,295
<b>Total capital ratio</b>	15.9%	18.2%	16.9%
<b>Tier 1 capital ratio</b>	14.8%	16.6%	15.7%
<b>Common equity tier 1 capital ratio</b>	14.8%	16.6%	15.7%



## 11. CAPITAL BANK'S STATEMENT OF CHANGES IN EQUITY AS AT 31 DEC. 2016

in €	Cost				
	As at 1 Jan. 2016	Additions	Adjust- ments	Disposals	As at 31 Dec. 2016
<b>Public-sector debt instruments</b>	18,378,902.50			4,298,337.50	14,080,565.00
<b>Loans and advances to banks (Securities)</b>	990,215.00				990,215.00
<b>Loans and advances to customers (Securities)</b>					
<b>Bonds and other fixed-income securities</b>	20,257,259.25	1,740,268.50		6,576,649.50	15,420,878.25
<b>Shares and other variable-yield securities</b>	14,023,486.27				14,023,486.27
<b>Equity investments</b>	760,114.64	100.00			760,214.64
<b>Shares in affiliated companies</b>	24,007,255.30				24,007,255.30
<b>Intangible assets</b>	1,283,836.41	24,227.09			1,308,063.50
<b>Property and equipment</b>	7,626,155.24	226,836.02		65,483.20	7,787,508.06
<b>Low-value assets</b>		30,900.37		30,900.37	
<b>TOTAL FIXED ASSETS</b>	87,327,224.61	2,022,331.98		10,971,370.57	78,378,186.02

Cumulative depreciation, amortisation and write-downs						Net carrying amounts		
As at 1 Jan. 2016	Additions	Write-ups	Adjustments	Disposals	Appreciation, amortisation and write-downs current year	As at 31 Dec. 2016	Carrying amount 1 Jan. 2016	Carrying amount 31 Dec. 2016
78,868.42		11,527.50		49,430.00	26,440.29	44,351.21	18,300,034.08	14,036,213.79
							990,215.00	990,215.00
470,870.74		205,899.38		130,834.44	111,819.69	245,956.61	19,786,388.51	15,174,921.64
-333,975.32		545,121.39				-879,096.71	14,357,461.59	14,902,582.98
16.47						16.47	760,098.17	760,198.17
300,000.00						300,000.00	23,707,255.30	23,707,255.30
1,035,633.46					112,266.99	1,147,900.45	248,202.95	160,163.05
6,248,400.22				42,829.54	532,024.29	6,737,594.97	1,377,755.02	1,049,913.09
					30,900.37	30,900.37		
7,799,813.99		762,548.27		223,093.98	813,451.63	7,627,623.37	79,527,410.62	70,781,463.02

**Excerpt from  
the notes to the  
annual finan-  
cial statements  
of Capital Bank  
–  
Grawe Gruppe  
AG for the year  
ended 31  
December  
2016.**

## **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 Aktien-

gesellschaft, 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 2015 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 2016 or in an earlier financial year have been recognised in the financial statements. The measurement methods used to date have been retained.

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

The accounting and valuation methods applied up until now have been retained with the exception of changes required as a result of first time application of the Accounting Amendment Act (RÄG) 2014.

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

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

In accordance with the *principle of prudence*, only those gains realised as at the 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 2016 (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 pursuant to section 56 (2) of the BWG.

*Loans and advances to banks and customers* are in principle carried at their nominal values. Individual write-downs or provisions for contingent liabilities are formed for identifiable risks. There is a Group-based individual write-down or blanket write down for the general

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

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

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

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

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

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

*Liabilities evidenced by certificates* include items for which the settlement amount depends on the price of the defined underlying instrument. Derivatives and collateral instruments were, in accordance with corporate law, balanced in valuation units that are formed between underlying investments and liabilities evidenced by certificates if the documented hedging purpose was available and the material and formal conditions were met. All risks from the underlying investments were taken into account via the calculations of the redemption amount of the liabilities evidenced by certificates and were therefore hedged. The effectiveness of the hedging relationship is measured using the dollar offset method. The formation of valuation units results in the fact that the

assets and derivatives stated in various items and the liabilities evidenced by certificates with which the valuation units were formed are accounted for at their fair market value.

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

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

The calculation of the *provision for severance obligations* is based on recognised actuarial principles using the AVÖ 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 1.55% 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 1.40% (previous year: 2.0%).

Actuarial gains and losses on non-current personnel provisions are recognised in profit and loss in the period in which they arise. All changes are recorded in the personnel expenses. For the first time, in 2015 a fluctuation discount was considered when calculating the non-current personnel provisions. In the 2016 annual financial statements, as in the previous year, the bank made use of the election option available under section 57 (1) of the BWG.

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

Customer transactions and securities in equity are used as underlying hedging transactions. The transactions are hedged based on the individual transactions (micro hedging relationships). The

risks to be collateralised relate to the interest rate risk and the currency risk. They are managed primarily through swaps and currency forward agreements. The hedging period is essentially identical to the term of the underlying transaction.

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

Capital guarantees are accounted for as derivatives in the same way as in the consolidated financial statements. With these products, the relevant beneficiary under the guarantee has the guarantee that the amount available for disbursement after the binding period has expired will not be lower than the total amount of amounts paid in by the taxpayer plus the government premiums credited for this taxpayer pursuant to section 108g of the EStG.

Products with a capital guarantee from the pension provisions and fund-linked life insurance are presented as short-put options in the relevant guaranteed fund. The valuation is based on Monte-Carlo modelling.

## **C. BALANCE SHEET DIS- CLOSURES**

### **Fixed assets**

See annex I to the notes for the breakdown of fixed assets and the changes in fixed assets during the reporting year. 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 €352.2 million (previous year: €336.5 million). Of this total, an amount of €220.7 million (previous year: €206.6 million) was accounted for by underlying instruments for liabilities evidenced by certificates and total return swaps with which valuation units were formed. Underlying instruments amounting to €111.4 million (previous year: €94.2 million) were

pledged as collateral in favour of issue buyers and, of this amount, €1.1 million (previous year: €1.4 million) were assigned to one collateral trustee. Bonds and other fixed-income securities with a carrying amount of €11.6 million (previous year: €12.9 million) were due within the year following the balance sheet date.

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 €1.95 million (previous year: €1.6 million).

The bank's fixed assets as at 31 December 2016 included securities with a carrying amount of €45.1 million (previous year: €53.4 million). The difference between the cost and higher fair value amounted to €10.6 million (previous year: €10.0 million). The difference between the carrying amount and the lower settlement amount for fixed-income securities classified as fixed assets amounted to €189.8 thousand (previous year: €257 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 €14.4 million (previous year: €18.7 million);
- in A3, Public-sector debt instruments, in an amount of €1.0 million (previous year: €1.0 million)

- in A5, Bonds and other fixed-income securities, in an amount of €15.5 million (previous year: €20.1 million);
- in A6, Shares and other variable-yield securities, in an amount of €14.9 million (previous year: €14.4 million).

For further information, please refer to Annex I.

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 2016, 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 €88.2 million (previous year: €76.7 million) and in connection with fund-linked life insurance in an amount of €51.7 million (previous year: €42.4 mil-

lion). Under the arrangements for capital guarantees in the PZV product and fund-linked life insurance, the associated market risk is transferred from the pension or insurance provider to Capital Bank. With this the relevant beneficiary under the guarantee has the guarantee that the amount available for disbursement after the binding period has expired will not be lower than the total amount of amounts paid in by the taxpayer plus the government premiums credited for this taxpayer pursuant to section 108g of the EStG. The three essential input factors for determining the market value are the estimated cancellation rate for existing contracts, the long-term (target) volatilities of the guarantee funds and the estimated expected return from the guarantee funds. The valuation is based on Monte-Carlo modelling. A provision in the amount of €3,406 thousand (previous year: €0 thousand) was formed as at 31 December 2016 based on the calculation of negative market values for the capital guarantees associated with the PZV product and the fund-linked life insurance.

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

in € '000			Of which in	Of which
	listed	not listed	fixed assets	in current assets
<b>2015</b>				
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
<b>2016</b>				
Bonds and other fixed-income securities	60,945	-	15,462	45,483
Shares and other variable-yield securities	25,582	134,072	14,903	144,751

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 2016, the bank held direct equity investments in the following entities with shareholdings of at least 20%. <sup>1)</sup>

### LIST OF EQUITY INVESTMENTS

Equity investments and shares in affiliated companies	Share capital in € '000	Shareholding	Equity in € '000 <sup>2)</sup>	Profit for year in € '000 <sup>3)</sup> (provisional)	Balance sheet
Brüll Kallmus Bank AG	6,000	100%	15,691	3,376	2016
Security Kapitalanlage Aktiengesellschaft	4,362	100%	35,519	1,006	2016
Corporate Finance – Grawe Gruppe GmbH	1,000	100%	880	3	2016
CENTEC.AT Softwareentwicklungs und Dienstleistungs GmbH	35	100%	109	-47	2016
BK Immo Vorsorge GmbH	35	100%	2,353	939	2016
CB Family Office Service GmbH	35	100%	147	-4	2016

<sup>1)</sup> Elected to make use of section 241 (2) UGB.

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

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

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

The loans and advances to banks included €5.5 million (previous year: €5.6 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 €80.3 million (previous year: €87.3 million) are from the assignment to a collateral trustee of underlying instruments for liabilities evidenced by certificates.

The loans and advances to customers included €2.0 million (previous year: €0.7 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	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Up to 3 months	44,881	39,553	6,778	10,795
More than 3 months to 1 year	75,276	101,437	14,533	14,167
More than 1 year to 5 years	110,966	104,010	254	12,418
More than 5 years	5,339	9,707	4,894	4,645
<b>Total</b>	<b>236,462</b>	<b>254,707</b>	<b>26,459</b>	<b>42,025</b>

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

in € '000	31.12.2016	31.12.2015
<b>Loans and advances to banks</b>		
of which to affiliated companies	112,633	119,800
of which to other long-term investees and investors	8	8
<b>Loans and advances to customers</b>		
of which to affiliated companies	786	789
<b>Deposits from banks</b>		
of which to affiliated companies	7,343	9,900
of which to other long-term investees and investors	32	32
<b>Deposits from customers</b>		
of which to affiliated companies	14,154	35,157

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

Capital Bank forms 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 43I et seq. CRR are the responsibility of the parent bank HYPO-Bank Burgenland Aktiengesellschaft.

As at 31 December 2016, 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 €138.4 million (previous year: €139.1 million).

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

In € '000	Maturity	31.12.2016	31.12.2015
Other shares in companies	> 1 year	138,333	141,222
Consolidation pursuant to section 57 (1) BWG	> 1 year	-3,080	0
Carrying amount of other shares in companies	> 1 year	135,253	141,222
Loans and advances to affiliated companies	< 1 year	5,809	4,126
Various sales invoices and services	< 1 year	3,839	4,482

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

**DEFERRED TAX ASSETS**

In € '000	31.12.2016	31.12.2015
Property and equipment	108	88
Shares and other variable-yield securities	1,358	1,000
Write-downs	4,184	3,395
Long-term staff provisions	650	515
Long-term provisions	305	156
<b>Total differences</b>	<b>6,605</b>	<b>5,154</b>

## **Other liabilities**

This item includes liabilities to tax authorities amounting to €3,622 thousand (previous year: €4,847 thousand) and securities clearing liabilities of €3,675 thousand (previous year: €1,551 thousand). Expenses that were only payable after the reporting date largely consisted of personnel expenses of €3,561 thousand (previous year: €2,495 thousand) and various other administrative expenses. Other liabilities amounting to €21,380 thousand (previous year: €19,878 thousand) are due for payment within one year. The other liabilities include liabilities due to affiliated companies amounting to €7,830 thousand (previous year: €6,912 thousand).

## **Liabilities evidenced by certificates**

The liabilities evidenced by certificates are certificates of underlying investments. They form valuation units with assets and derivative transactions stated in various items on the balance sheet (underlying investments).

*Liabilities evidenced by certificates* are due in the next financial year amounting to €0.3 million (previous year: €0.0 million).

### **Other provisions**

*Other provisions* above all include provisions for claims amounting to €3,383 thousand (previous year: €4,870 thousand), for provisions for pending losses for capital guarantees amounting to €3,406 thousand (previous year: €1,118 thousand), for unused leave amounting to €984 thousand (previous year: €705 thousand), for other personnel expenses amounting to €4,619 thousand (previous year: €4,695 thousand) and for fee and commission payments of €3,539 thousand (previous year: €3,286 thousand).

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

## **Equity capital**

The company's share capital remained unchanged at €10.0 million and was divided into 1,376,030 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 as required by section 64 (1) no. 9 of the BWG has not been included because the geographical markets do not differ materially from the location of the bank organisation.

The loan processing fees amounting to €1,116 thousand stated in the interest income (previous year: €1.110 thousand) were deferred as in the previous year to reflect the duration of the loan.

The item *Interest and similar expenses* includes negative interest amounting to €103 thousand (previous year: €81 thousand) from deposits at the Austrian National Bank.

*Income from securities and equity investments* included €4,300 thousand (previous year: €3,100 thousand) relating to dividends from affiliated companies.

The *Commission income* is essentially composed of profit from securities

transactions amounting to €22,166 thousand (previous year: €22,746 thousand). A provision for impending losses of €650 thousand (previous year: €450 thousand) was accounted for in the commission income associated with the PZV product and fund-linked life insurance in the 2016 financial year.

*Income/expenses from financial operations* consisted of currency valuation gains and gains on the disposal of securities together amounting to €8,931 thousand (previous year: €6,331 thousand) and losses on similar transactions amounting to €9,009 thousand (previous year: €7,149 thousand).

*Other operating income* largely comprised income from service level agreements amounting to €910 thousand (previous year: €1,607 thousand) and income from the reversal of provisions amounting to €1,009 thousand (previous year: €221 thousand).

*Expenses for severance payments* and contributions to occupational pension funds included occupational pension fund expenses of €75 thousand (previous year: €73 thousand).

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

	€ '000	€ '000
Obligations 2017 (2016)	959.0	(962.0)
Obligations 2017–2021 (2016–2020)	5,300.0	(5,318.0)

*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. Provisions in the amount of €1,637 thousand (previous year: €0 thousand) were also formed in this item for negative market values for the capital guarantees associated with the PZV product and the fund-linked life insurance.

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 €209 million (previous year: €187 million) and the equity and liabilities on the balance sheet denominated in foreign currency were €33.5 million (previous year: €38.6 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: 1.0%).

**THE DERIVATIVE BUSINESS VOLUME OF CAPITAL BANK – GRAWE GROUP AG IS  
AS FOLLOWS AS AT 31 DEC. 2016  
WITH FAIR VALUES APPLIED:**

31.12.2016 € '000	Banking book	Notional amount Trading book
<b>Volume Total</b>	193,281	139,853
OTC products	193,281	139,853
Exchange-traded products	0	0
<b>Interest rate</b>	33,300	0
OTC products	33,300	0
Exchange-traded products	0	0
<b>Equity capital</b>	881	0
OTC products	881	0
Exchange-traded products	0	0
<b>Foreign currencies and gold</b>	150,426	0
OTC products	150,426	0
Exchange-traded products	0	0
<b>Loans</b>	8,673	0
OTC products	8,673	0
Exchange-traded products	0	0
<b>Other</b>	0	139,853
OTC products	0	139,853
Exchange-traded products	0	0

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

Positive fair value		Negative fair value	
Banking book	Trading book	Banking book	Trading book
522	580	3,251	1,347
522	580	3,251	1,347
0	0	0	0
273	0	457	0
273	0	457	0
0	0	0	0
253	0	0	0
253	0	0	0
0	0	0	0
25	0	2,794	0
25	0	2,794	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	580	0	1,347
0	580	0	1,347
0	0	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

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

Market values in the amount of €25.2 thousand (previous year: €174.5 thousand) are recorded in the Other assets and €1,958.5 thousand (previous year: €257.3 thousand) in the Other liabilities for currency forward agreements that form part of a valuation unit with the bank's own issues or other underlying transactions.

Negative fair values that are not covered by an equivalent positive fair value from an underlying transaction in a hedging relationship are taken into account by recognising a provision for imminent losses from pending forward transactions. A provision of this type had been recognised as at 31 December 2016 in the amount of €835.3 thousand (previous year: €0.0 thousand). No such provision had been recognised for negative market values in the amount of €457.2 thousand (previ-

ous year: €562.4 thousand) as valuation units were in place.

There were no material events after the balance sheet date.

From the distributable profit amounting to €15,240,399.42 (2015: €7,581 thousand) the proposal is, as in the previous year, not to distribute a dividend and instead to carry the entire distributable profit forward to new account.

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

The contingent liabilities include guarantees and financial commitments amounting to €5.0 million (previous year: €6.5 million).

The credit risks reported below the line on the balance sheet related to loans that had not yet been drawn amounting to €34.1 million (previous year: €29.3 million).

As a deposit to cover arrangements there are securities with a carrying amount of €16.4 million (previous year: €21.5 million). Securities with a carrying amount of €57.5 million (previous year: €57.2 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 €279 thousand (previous year: €269 thousand). There were no cover funds in place for trust money (previous year: €320 thousand).

## **F. OTHER DISCLOSURES**

During the 2016 financial year, the bank had an average of 158 (previous year: 161) salaried and 8 (previous year: 8) non-salaried employees.

As in the previous year, the loans and advances to customers as at 31 December 2016 did not include any loans to members of the Management Board. There are loans to Supervisory Board members amounting to €50 thousand (previous year: € 60 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 €935 thousand (previous year: €155 thousand); the equivalent expenses

for other employees were €561 thousand (previous year: €514 thousand).

Expenses for pensions paid to former members of the Management Board amounted to €347 thousand (previous year: €103 thousand).

Regarding remuneration paid to the members of the Management Board,

The details are not disclosed in application of the option available under section 242 (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 2016  
financial year**

### **Management Board**

Christian Jauk, MBA MAS  
Chief Executive Officer

Mag. Constantin Veyder-Malberg  
Member of the Management Board

Wolfgang Dorner, CIA  
Member of the Management Board  
(since 1 October 2016)

### **Supervisory Board**

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

DDIng. Mag. Dr. Günther Puchtler  
Member of the Management Board  
of Grazer Wechselseitige Versi-  
cherung AG  
Deputy Chairman of the Supervi-  
sory Board

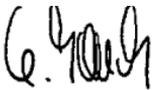
Dipl. Techn. Erik Venningdorf  
Member of the Management Board  
of Grazer Wechselseitige Versi-  
cherung AG  
Member of the Supervisory Board

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

Rudolf Laudon  
Harald Greimel

Graz, 6 March 2017

The Management Board



Chairman of the Management Board  
Christian Jauk, MBA MAS



Member of the Management Board  
Mag. Constantin Veyder-Malberg



Member of the Management Board  
Wolfgang Dorner, CIA

**Audit  
Certificate**

**The complete  
annual  
financial  
statements of  
Capital Bank –  
GRAWE  
GRUPPE AG  
for the year  
ended 31  
December  
2016 were  
given the  
following  
unqualified  
audit certifi-  
cate by the  
appointed  
independent  
auditors:**

**UNQUALIFIED AUDIT  
CERTIFICATE**

**Report on the Financial Statements**

**Audit Opinion**

We have audited the financial statements of CAPITAL BANK – GRAWE GRUPPE AG, Graz, Austria, that comprise the statement of financial position as of 31 December 2016, the income statement for the year then ended, and the notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2016, and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles, Austrian Banking Act and other legal or regulatory requirements.

## **Basis for our Opinion**

We conducted our audit in accordance with Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the “Auditors’ Responsibility” section of our report. We are independent of the Company within the meaning of Austrian commercial law, Austrian Banking Act and professional regulations, and have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Management’s Responsibility and Responsibility of the Supervisory Board for the Financial Statements**

The Company’s management is responsible for the preparation and fair presentation of these financial statements in accordance with Austrian Generally Accepted Accounting Principles, Austrian Banking Act and other legal or regulatory requirements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Company’s ability to continue as a going concern, and, where appropriate, to disclose matters that are

relevant to the Company's ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Company or closure of operations is planned or cases in which such measures appear unavoidable. The supervisory board is responsible for the oversight of the financial reporting process of the Company.

### **Auditors' Responsibility**

Our aim is to obtain reasonable assurance about whether the financial statements taken as a whole, are free of material – intentional or unintentional– misstatements and to issue an audit report containing our audit opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if they could, individually or as a whole,

be expected to influence the economic decisions of users based on the financial statements.

As part of an audit in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements – intentional or unintentional – in the financial statements, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation or override of internal control.
- We consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting

estimates as well as related disclosures made by management.

- We conclude on the appropriateness of management’s use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. In case we conclude that there is a material uncertainty about the entity’s ability to continue as a going concern, we are required to draw attention to the respective note in the financial statements in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions however may result in the Company departing from the going concern assumption.
- We assess the overall presentation, structure and content of the financial statements including the

notes as well as whether the financial statements give a true and fair view of the underlying business transactions and events.

- We communicate to the supervisory board the scope and timing of our audit as well as significant findings including significant deficiencies in internal control that we identify in the course of our audit.

### **Management Report**

In accordance with the Austrian Commercial Code the management report is to be audited as to whether it is consistent with the financial statements and as to whether it has been prepared in accordance with legal requirements.

The legal representatives of the Company are responsible for the preparation of the management report in accordance with the Austrian Commercial Code, Austrian Banking Act and other legal or regulatory requirements.

We have conducted our audit in accordance with generally accepted standards on the audit of management reports as applied in Austria.

## **Opinion**

In our opinion, the management report has been prepared in accordance with legal requirements and is consistent with the financial statements.

## **Statement**

Based on our knowledge gained in the course of the audit of the financial statements and the understanding of the Company and its environment, we did not note any material misstatements in the management report.

Vienna, 6. March 2017

This English language audit report is a translation provided for information purposes only. The original German text shall prevail in the event of any discrepancies between the English translation and the German original. We do not accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

This report is a translation of the original report in German, which is solely valid. The financial statements together with our auditor's opinion may only be published if the financial statements and the management report are identical with the audited version attached to this report. Section 28I Paragraph 2 UGB (Austrian Commercial Code) applies.

**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.**

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



**12. CAPITAL BANK – GRAWE GRUPPE AG SUBGROUP**  
**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016**

Assets	31.12.2016 €	31.12.2015 € '000
<b>1. Cash on hand and balances at central banks</b>	11,289,173.14	32,289
<b>2. Public-sector debt instruments eligible as collateral for central bank funding</b>		
Public-sector debt instruments and similar securities	20,785,659.57	23,087
<b>3. Loans and advances to banks</b>	191,816,927.04	204,334
<b>4. Loans and advances to customers</b>	244,837,212.90	251,964
<b>5. Bonds and other fixed-income securities</b>	67,721,983.37	69,904
<b>6. Shares and other variable-yield securities</b>	196,757,009.17	182,137
<b>7. Equity investments</b>	786,998.17	787
of which: in banks	4,215.01	9
<b>8. Shares in affiliated companies</b>	856,330.17	856
<b>9. Intangible fixed assets</b>	434,568.08	606
<b>10. Property and equipment</b>	3,660,402.93	4,107
<b>11. Other assets</b>	150,438,220.57	154,543
<b>12. Prepaid expenses</b>	947,704.12	823
<b>13. Deferred tax assets</b>	7,123,820.00	0
<b>TOTAL ASSETS</b>	<b>897,456,009.23</b>	<b>925,437</b>
<b>Below-the-line items</b>		
<b>1. Foreign assets</b>	427,244,637.62	405,811
<b>2. Fund assets of managed investment funds</b>	4,721,665,887.00	3,776,622

Equity and liabilities	31.12.2016 €	31.12.2015 € '000
<b>1. Deposits from banks</b>	9,325,637.57	21,968
<b>2. Deposits from customers</b>	343,875,448.26	381,135
a) Savings deposits	5,219,799.13	4,451
b) Other deposits	338,655,649.13	376,684
<b>3. Liabilities evidenced by certificates</b>	308,296,740.81	309,953
Other liabilities evidenced by certificates	308,296,740.81	309,953
<b>4. Other liabilities</b>	29,246,089.32	28,004
<b>5. Prepaid expenses</b>	7,065,713.07	676
<b>6. Provisions</b>	35,537,864.17	32,238
a) Provisions for severance payments	6,008,766.97	4,875
b) Provisions for pensions	591,028.25	328
c) Tax provisions	100,000.00	162
d) Other	28,838,068.95	26,873
<b>7. Subscribed capital</b>	65,915,661.65	65,916
<b>8. Generated capital</b>	98,192,854.38	85,547
<b>9. Minority interests</b>	0.00	0
<b>Total equity and liabilities</b>	897,456,009.23	925,437
<b>Below-the-line items</b>		
<b>1. Contingent liabilities</b>		
<b>Liabilities from guarantees and liabilities from the provision of collateral</b>	3,980,421.61	6,545
<b>2. Credit risks</b>	34,182,247.24	29,264
<b>3. Liabilities from trust transactions</b>	15,850,958.32	31,246
<b>4. Eligible capital pursuant to part 2 of EU Regulation no. 575/2013</b>	165,255,208.04	155,067
of which: supplementary capital pursuant to part 2 title I chapter 4 of EU Regulation no. 575/2013: €10,158,000.00 (previous year: €11,851 thousand)		
<b>5. Capital requirements pursuant to Art. 92 of EU Regulation no. 575/2013 (Total risk amount)</b>	919,336,176.74	771,999
of which: capital requirements pursuant to 92 (1a-c) of EU Regulation no. 575/2013:		
a) Common equity tier 1 capital ratio	16.8%	18.6%
b) Tier 1 capital ratio	16.8%	18.6%
c) Total capital ratio	17.9%	20.1%
<b>6. Foreign liabilities</b>	73,960,499.55	78,960

**13. CAPITAL BANK – GRAWE GRUPPE AG SUB-GROUP**  
**CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR 2016**

	2016 €	2015 € '000
<b>1. Interest and similar income</b>	11,137,567.42	11,865
of which: from fixed-income securities	2,716,660.07	3,755
<b>2. Interest and similar expenses</b>	-1,448,402.41	-1,718
<b>I. NET INTEREST INCOME</b>	9,689,165.01	10,147
<b>3. Income from securities and equity investments</b>	2,177,190.30	1,954
a) Income from shares, other equity interests and variable-yield securities	1,787,788.73	1,630
b) Income from equity investments	22,405.52	0
c) Income from shares in affiliated companies	366,996.05	324
<b>4. Fee and commission income</b>	84,323,052.66	85,001
<b>5. Fee and commission expenses</b>	-39,094,446.51	-43,941
<b>6. Income/expenses from financial operations</b>	-79,826.09	-818
<b>7. Other operating income</b>	3,123,515.83	4,163
<b>II. OPERATING INCOME</b>	60,138,651.20	56,506
<b>8. General and administrative expenses</b>	-34,336,234.35	-31,397
a) Personnel expenses	-22,989,725.47	-20,752
aa) Wages and salaries	-18,468,619.91	-17,250
bb) Social security costs, compulsory and other contributions linked to pay	-2,711,875.21	-2,676
cc) Other social security expenses	-123,678.15	-159
dd) Post-employment and other employee benefit costs	-317,068.86	-266
ee) Additions to pension provisions	-263,147.67	-40
ff) Expenses for severance payments and contributions to operational pension funds for employees	-1,105,335.67	-360
b) Other expenses (administrative expenses)	-11,346,508.88	-10,645
<b>9. Write-downs of assets reported under asset items 9 and 10</b>	-997,802.72	-976
<b>10. Other operating expenses</b>	-2,683,422.78	-282
<b>III. OPERATING EXPENSES</b>	-38,017,459.85	-32,655

	2016 €	2015 € '000
<b>IV. OPERATING PROFIT</b>	22,121,191.35	23,851
11. Allowances for losses on loans and advances and additions to provisions for contingent liabilities and credit risks	-6,501,234.24	-14,648
12. Income from the reversal of allowances for losses on loans and advances and of provisions for contingent liabilities and credit risks	1,920,510.79	8,526
13. Write-downs of securities recognised as financial assets, and of shares in affiliated companies	-40.85	-83
14. Income from the reversal of write-downs of securities recognised as financial assets, of equity investments and of shares in affiliated companies	1,079,702.45	280
<b>V. PROFIT FROM ORDINARY ACTIVITIES</b>	18,620,129.50	17,926
15. Income tax	-5,123,700.59	-6,271
16. Other taxes not reported under item 15	-850,973.52	-22
<b>VI. CONSOLIDATED PROFIT / LOSS FOR THE YEAR</b>	12,645,455.39	11,633
17. Changes in reserves of which: appropriation to the liability reserve	-5,300,000.00 0.00	-3,800 0
<b>VII. NET PROFIT FOR THE YEAR</b>	7,345,455.39	7,833
18. Profit brought forward	8,033,495.85	201
<b>VIII. DISTRIBUTABLE PROFIT (before minority interests)</b>	15,378,951.24	8,034
19. Minority interests' share of profit for the year	0.00	0
<b>IX. DISTRIBUTABLE PROFIT</b>	15,378,951.24	8,034

# IMPRINT

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