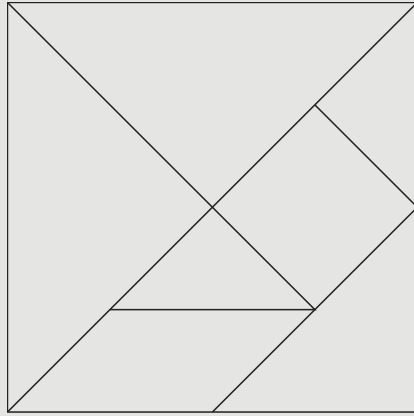


EXCERPT FROM THE ANNUAL REPORT  
OF HYPO-BANK BURGENLAND AG

2017



Legend has it that the tile game tangram was invented when a wise old man sent out a monk to capture the diverse beauty of the world on a single clay tablet. The monk set off on his quest but accidentally dropped the tablet, which shattered into several fragments. He immediately tried to put the tablet back together. Yet however hard he tried, the monk was unable to recreate a complete square.

After countless attempts, he realised that the fragments produced incredible shapes in various combinations. In one moment he formed a crane, in another a mountain that he had passed just a few days previously. The monk recognised that his supposed mistake was actually the solution to the task: if you choose the right parts and assemble them correctly, you can capture the world in all its different facets.

The moral of this legend tells us something about life. And just like the tiles in the old game, the banks within the GRAWE Banking Group are not only capable of facing all the different facets, challenges and possibilities of the world in the 21st century, but can actively shape this world.

## KEY FIGURES FROM THE CONSOLIDATED BALANCE SHEET

	in € millions	2017	2016	2015
Total assets		<b>4,976.6</b>	4,794.0	4,964.6
Loans and advances to customers		<b>3,169.4</b>	2,884.8	2,749.1
Liabilities to customers		<b>2,743.3</b>	2,519.9	2,396.4

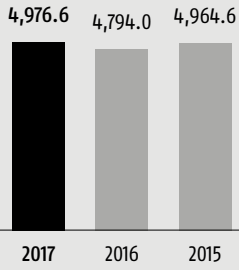
## KEY FIGURES FROM THE CONSOLIDATED INCOME STATEMENT

	in € millions	2017	2016	2015
Net interest income		<b>78.2</b>	76.1	75.8
Net commission income		<b>71.8</b>	67.0	59.8
Administrative expense		<b>-107.2</b>	-99.8	-92.3
Earnings before tax		<b>71.5</b>	76.2	72.3
Group earnings (after tax)		<b>56.3</b>	51.9	66.9

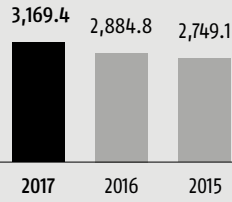
## ADDITIONAL KEY FIGURES

	in € millions	2017	2016	2015
Cost-to-income ratio		<b>75.0%</b>	72.9%	71.3%
Eligible capital		<b>685.8</b>	652.7	581.1
Capital surplus		<b>337.8</b>	341.3	307.9
Equity capital ratio (in relation to the overall risk)		<b>20.4%</b>	18.1%	17.0%
Number of employees (annual weighted average)		<b>730</b>	722	728

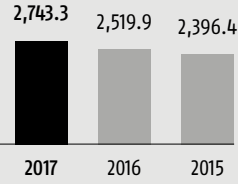
**Total assets**  
in € millions



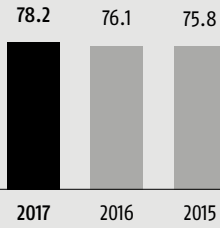
**Loans and advances to customers**  
in € millions



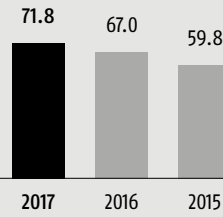
**Liabilities to customers**  
in € millions



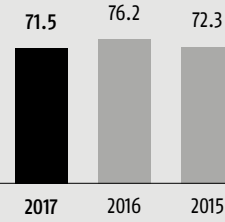
**Net interest income**  
in € millions



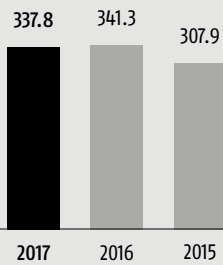
**Net commission income**  
in € millions



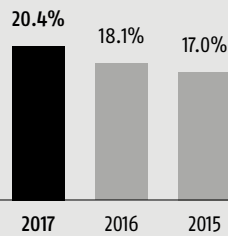
**Earnings before tax**  
in € millions



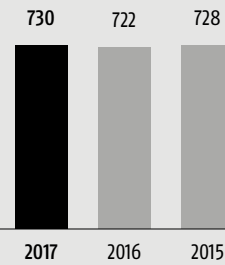
**Capital surplus**



**Equity capital ratio**  
in relation to the overall risk



**Number of employees**  
annual weighted average



## Most successful financial year operationally in the GRAWE Banking Group

- Group earnings after tax of €56.3 million  
(+8.5% on the previous year)
- Increase in net interest income  
(+2.7% on the previous year)  
and net commission income  
(+7.1% on the previous year)
- positive risk result
- further expansion of the equity  
capital ratio to 20.4%

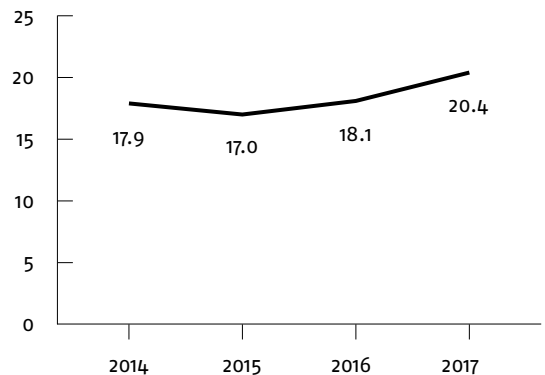


## First rating for Bank Burgenland

- AA+ for mortgage-backed bonds (Pfandbriefe)
- Outlook stable

Equity capital ratio in relation  
to the overall risk (in %)

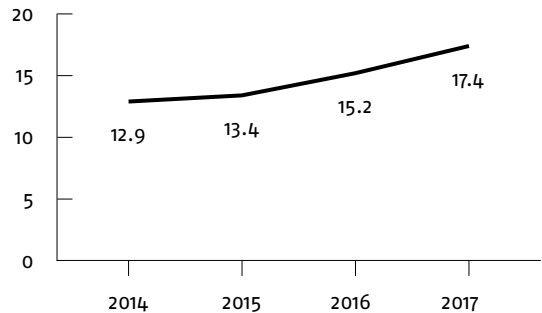
**AA+**



## Private Banking outstanding once again at Capital Bank

- Overall rating “Very good” by Fuchs-briefe, the most important inspection organisation for private banking in the German-speaking countries
- Ranked no. 1 for portfolio quality
- Ranked no. 1 for transparency
- Increase in assets under management to €17.4 billion

Assets under Management (in € billions)



## Successful market launch for DADAT Bank

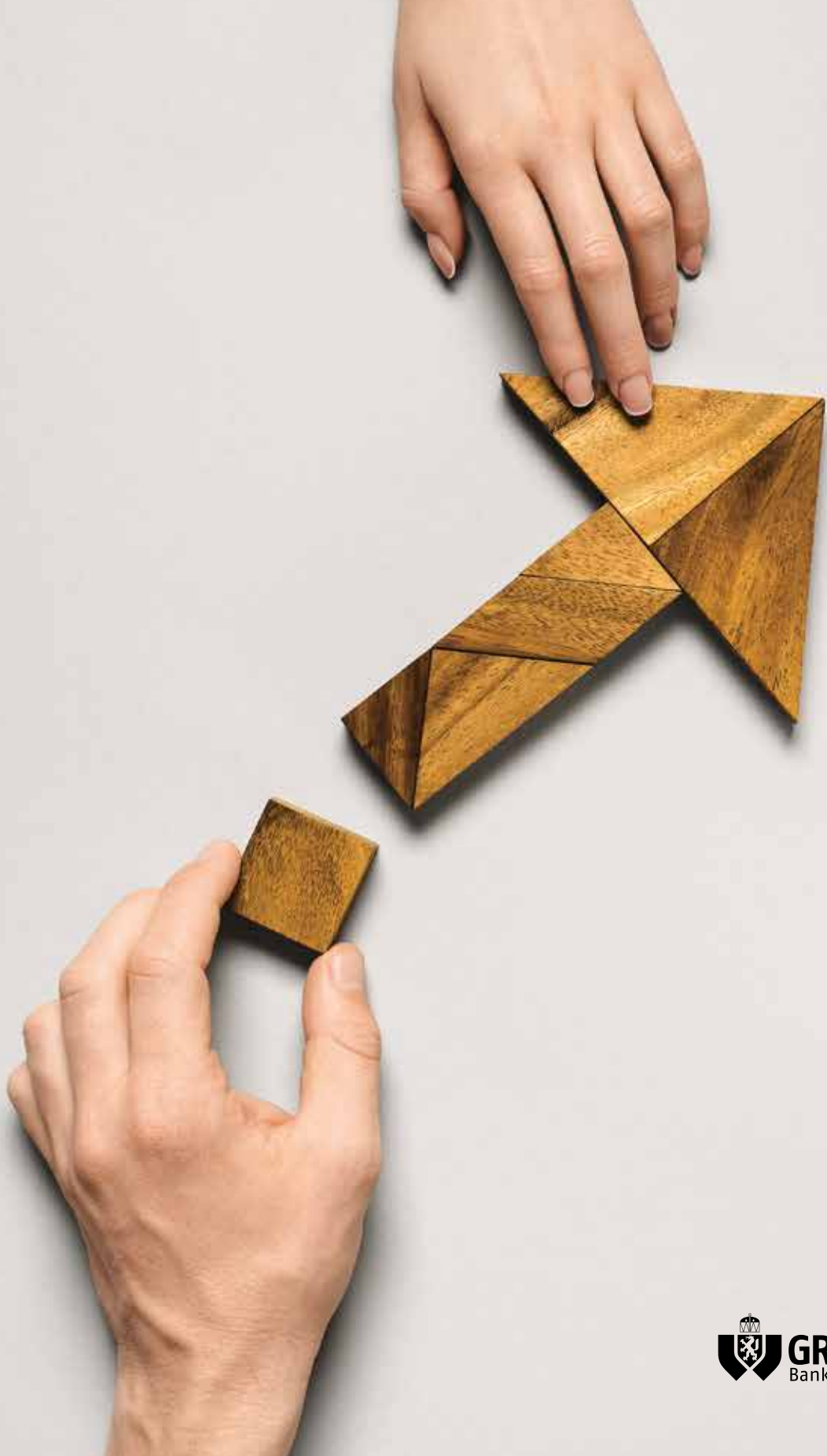
- Launch of operations in April 2017
- Significant level of name awareness of 28% after one year
- Positive development of business volumes in the first year



## Security KAG largest provider of sustainable mutual funds in Austria

- Volume of over €1.6 billion of sustainable mutual funds
- Market share of 21.4%
- 31.1 % of Security KAG's assets under management are invested sustainably





# Foreword

Last year the Annual Report was based around a concept that sums up the entire GRAWE Banking Group: "The whole is more than just a sum of its parts." Using the old Chinese game tangram as a contextual background for the 2017 Annual Report represents a logical continuation of this idea. By themselves the individual tangram squares are precisely that: individual squares. However, with a little bit of creative thinking and collective design skills, a few carefully selected tiles are able to represent and shape the world in all its diversity and complexity. Seen from this perspective, tangram is actually more than suitable as a metaphor for the GRAWE Banking Group, which achieved another record business year as can be seen from this Annual Report.

## 2017 – A SUCCESSFUL YEAR

The obliging economic climate in Austria and Europe in 2017 is also reflected in the GRAWE Banking Group's economic success. Rarely before has volatility – i.e. risk – been as low on the capital markets as in this past year. The GRAWE Banking Group was also able to use this headwind to good effect.

The GRAWE Banking Group includes Bank Burgenland as the higher-level bank in the group of companies, as well Capital Bank, Bankhaus Schelhammer & Schattera, Security KAG, Brüll Kallmus Bank, Sopron Bank and BB Leasing.

## MORE THAN THE SUM OF THE INDIVIDUAL PARTS

The GRAWE Banking Group has been able to establish itself as a comprehensive and independent provider of financial services with a strong base. The individual members successfully act as independent brands in the relevant target market as part of the multiple brand strategy. Internally the banks form a joint group with shared departments and service divisions, lean processes and a transfer of knowledge which benefits all members. This corporate structure is unique in the Austrian banking environment. It forms the basis for our actions together with our independence, our financial strength and our members' conviction and commitment.



# Management Board

Dear Readers,

Shaping a meaningful whole that is considerably more than the sum of its parts. This image not only runs through our Annual Report for 2017, it also to a certain extent sums up what the GRAWE Banking Group represents. It is our job to improve each and every day for customers, business partners and employees. We want to create a meaningful whole both today and for the future – not just with a view to each individual, but also to our entire group of companies.

The GRAWE Banking Group has grown stably and consistently and today covers a diverse range of banking and financial service transactions with its well-known brands: from local banking to real estate financing transactions, from leasing and private and institutional banking to platform and fund business. The GRAWE Banking Group has also been operating



successfully in the direct banking market since March 2017 with DADAT Bank. Being part of such a diverse and extensive banking family allows us to benefit from each other reciprocally and offer additional services and expertise. Our clear commitment to independence and our long history, together with our strong local roots, stable capital base and focus on ethical and sustainable investments, allow us to play a leading role on the Austrian market and give us a strong foundation in our business activities.

We are proud that the GRAWE Banking Group was once again able to increase its key operating figures in the 2017 financial year following our record year 2016. Bank Burgenland and the entire GRAWE Banking Group are constantly developing in a positive direction. Yet we are also proud of the many successes that we have achieved beyond the measurable figures. The trust of our customers and business partners is particularly important to us here. Reliability, high levels of expertise, rapid decision-making processes and our roots in our local economy all play a part in this.

Yours sincerely,  
**CHRISTIAN JAUK, MBA**  
CEO of GRAWE Banking Group

# National economic environment

The global economic upswing continued in the year under review. According to current estimates by the International Monetary Fund (January 2018), global economic growth amounted to 3.7% in 2017. The eurozone also developed strongly at 2.4%. At the beginning of 2017, the IMF's forecast for the eurozone was only 1.6%. However, the positive overall picture continues to be clouded by the heterogeneity of the growth figures. As in the previous year, Italy was the country in the euro area that benefited least from the global upturn, alongside Greece.

## ECB CONTINUES ITS EXPANSIONARY MONETARY POLICY

The uncertainties surrounding the sluggish progress of the Brexit negotiations have so far been felt primarily in the United Kingdom. As a result of the depreciation of the British pound, the inflation rate hit 3% in September. This finally prompted the Bank of England to raise the key interest rate by 25 basis points to 0.5% in November. By contrast, the European Central Bank (ECB) maintained its expansionary monetary policy in the year under review. The interest rates on the main refinancing transactions as well as on the marginal lending facility and the deposit facility have remained unchanged over the year at 0.00%, 0.25% and -0.40% respectively. On 26 October, at the Council press conference, the ECB announced that it would extend the bond purchase programme for at least nine more months until the end of September 2018 or longer if necessary, at a monthly amount of €30 billion.

Austria's economy picked up considerable momentum, particularly in the second half of 2017, and is in a phase of particularly strong

upswing. According to current estimates by the Oesterreichische Nationalbank (OeNB), real economic growth in 2017 will amount to 3.1%. In that same forecast, growth in 2018 is also expected to be a strong 2.8%. This represents a significant increase over last year's forecasts. Thanks to the global upturn, Austria's exports increased significantly. And domestic demand is also developing strongly. The development of investments is pleasing, with growth exceeding 8% not only due to replacement but also due to expansion motives. However, these growth figures cannot easily be maintained. In 2019, the latest IMF forecasts expect the rise in growth to weaken to 1.9%, and 1.6% in 2020. According to Eurostat, the European statistical authority, the Austrian unemployment rate has recently fallen to 5.4%. At 2.2%, the inflation rate in 2017 was significantly higher than in the previous year and again above the eurozone average.

# Economic factors from the State of Burgenland

The state of Burgenland certainly plays a minor role economically when compared with other Austrian states, not least as a result of its low number of inhabitants. However, Austria's most easterly state is on a par with the other states in terms of dynamism. Burgenland is an attractive place for business as a result of its economic and political stability, its excellent educational facilities and its business-friendly climate. Being a direct neighbour to the three EU member states of Slovakia, Hungary and Slovenia enables it to engage in cross-border partnerships and cooperation. Northern Burgenland is in a traditionally stronger position than the southern part on account of its proximity to Vienna. Burgenland has been able to develop in recent years with great success. Particularly in terms of the economy and employment it takes the lead compared with other Austrian federal states. Burgenland's appeal as a place for business can be seen in the major investment and settlement projects there. Burgenland continues to show above-average growth in employment, economic potential and tourism. This has allowed it to take the lead among Austrian federal states in terms of economic growth.

## A STABLE POSITION ON THE LABOUR MARKET

Burgenland reported record employment figures for December 2017 with 99,000 people in gainful employment. With a figure of -8.9% Burgenland remains above the Austrian average in reducing unemployment. The highest figures for economic growth in Burgenland for years have also led to strong increases in the demand for workers. Fortunately the position on the labour market remained very stable in 2017. According to Austrian Employment Service AMS, Burgenland recorded above-average falls in unemployment among young people (-22%)

and the long-term unemployed (-9.8%). Aside from the health of the labour market, which resulted in greater successes in recruitment, the other factors principally responsible for this positive development were the demographic situation among young people, along with the current funding programmes aimed at the long-term unemployed. The AMS forecasts moderate rises in employment for 2018. The supply of labour is expected to remain on an upward trend. There is an assumption that economic growth will continue in Burgenland over the next few years and that unemployment will continue to fall in parallel.

# Capital market

In an environment of a globally synchronised economic upswing and the absence of drastic election decisions, the capital markets were characterised by exceptionally low volatility in 2017. Even the dangerous saber rattling between North Korea's Kim Jong Un and American President Donald Trump did not unsettle the stock markets. The S&P 500, which comprises the 500 largest listed companies in the USA, increased by almost 24% over the course of the year, including dividend income. It ended the year at 2,673.61 points. After several largely disappointing years, the equity markets of the emerging markets also experienced a significant upswing again. The MSCI Emerging Markets Index, which comprises the equity markets of the major emerging markets, increased by 37.15% in the reporting period. The DAX, Germany's leading index, gained 12.5% in the course of the year. It ended trading at 12,917.64 points. The ATX truly soared. With 3,420.14 points and an increase of 32.78%, it was one of the strongest stock indices in the world.

## THE BOND MARKET UNDER PRESSURE

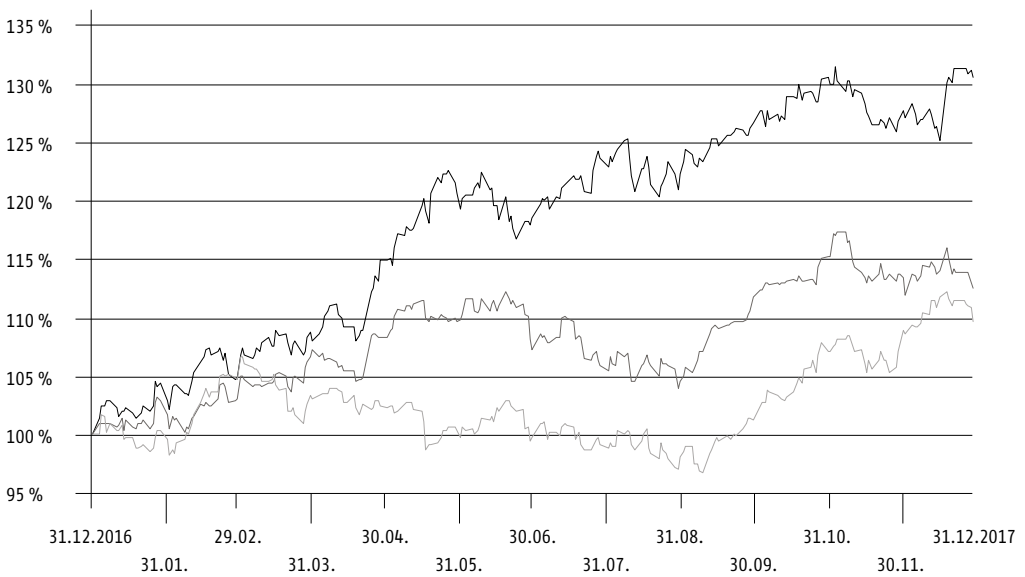
By contrast, 2017 was a difficult year for the bond market. The rise in yields on German and US government bonds that began in the second half of 2016 largely continued in the year under review. In view of the increased economic and inflation data, yields on 10-year German government bonds rose from 0.21% to 0.43%. This increase essentially took place over the entire yield curve in the form of a parallel shift. The resulting price losses were hardly offset by the low interest income. By contrast, government bonds from peripheral countries benefited from further declines in

their credit spreads. While 5-year CDSs on Italian government bonds were still trading at 157.22 basis points at the beginning of the year, these fell to 117.37 in the course of the year. Yields also rose in the USA during the year. But unlike in Europe, there was no parallel shift in the curve. Instead, yield increases were concentrated on maturities of one to seven years, which significantly flattened the yield curve. A similar shift could already be observed under Federal Reserve President Greenspan when he began to raise the US key interest rate step by step in 2004.

## PERFORMANCE ON THE STOCK MARKETS

Source: Bloomberg

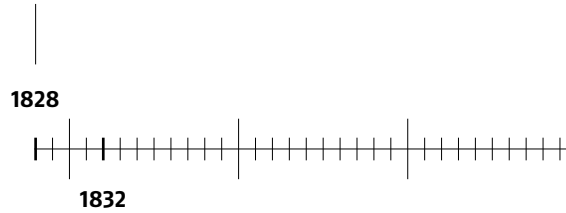
ATX DAX DOW JONES in EUR



# History of the group

The GRAWE Banking Group has a long and successful history stretching back over more than 185 years to the establishment of the first member of the Group in 1832. Tradition, constancy and flexibility are the guarantors of future growth. Success and steady growth in all member companies is built on traditional banking business combined with innovative products.

**Grazer Wechselseitige (GRAWE)**  
founded by Archduke Johann



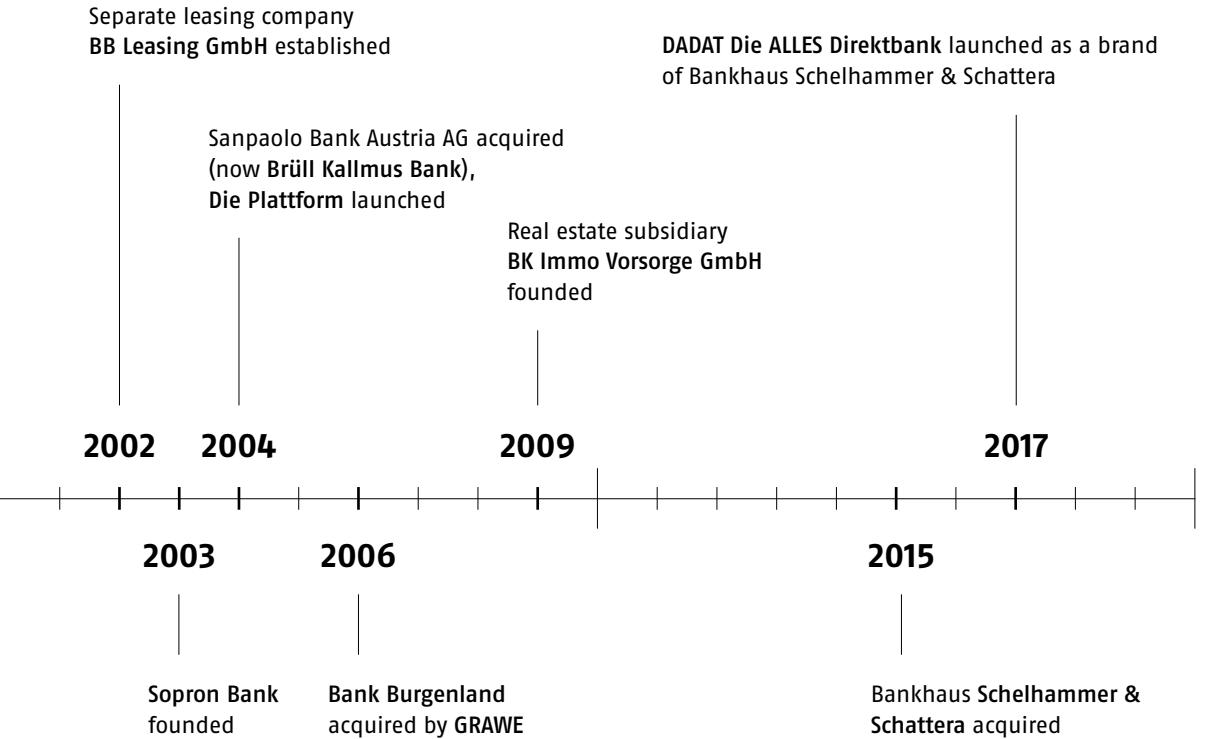
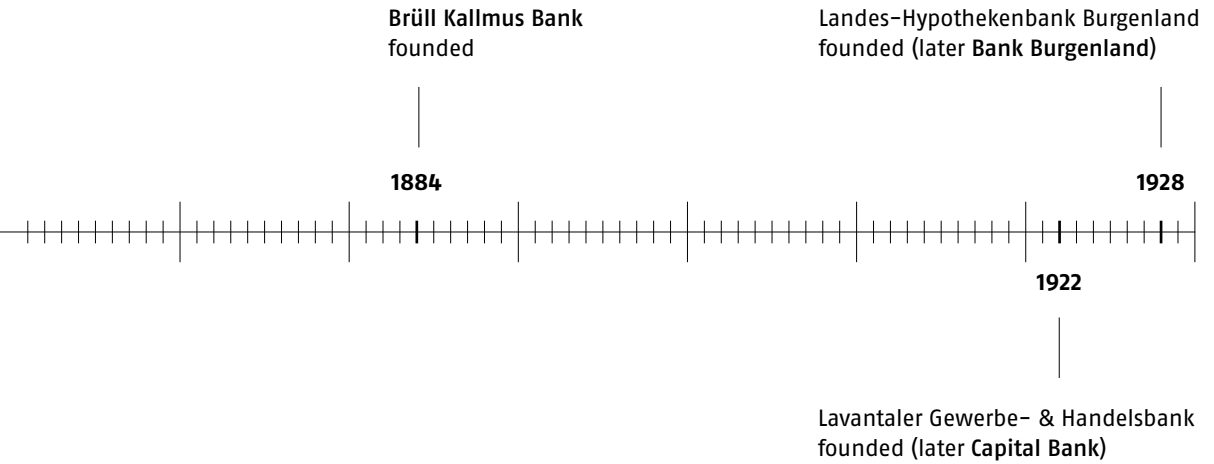
**Bankhaus Schelhammer & Schattera**  
founded

Landes-Hypothekenbank Burgenland merged  
with Eisenstädter Bank AG to become  
**EB und HYPO-BANK BURGENLAND AG**



**1989**

**Security KAG** founded  
owned 50% by GRAWE Versicherung,  
50% RBB Bank AG



# Growth in strength

A lot has happened since Grazer Wechelseitige was founded in 1828. The original fire insurance company has turned into a multifaceted international organisation. Insurance, financial services and real estate are the core competences at GRAWE. As a responsible group with a tradition dating back more than 185 years, the GRAWE Group's motto is "The insurance company on your side". The international structure of the organisation is reflected in the subsidiaries in central and eastern Europe. These subsidiaries are located in Slovenia, Croatia, Serbia, Bosnia-Herzegovina, Montenegro, Hungary, Ukraine, Bulgaria, Romania, Moldova, Macedonia and in Kosovo. They have an expanding network of branches in addition to the head offices.

This success story is expressed through constancy and financial stability. Offering client-friendly, individual advice coupled with tailored, needs-based products, GRAWE is a byword for international quality accompanied by Austrian standards of safety and security.





CAPITAL >>> BANK



BRÜLL KALLMUS

BK IMMO





There is a reason why we compare life to a journey on a ship. Sometimes the water is calm, other times it is choppy. Everyone goes through stages when the rough winds blow you off course as well as times with sustained tailwinds. Whichever direction the wind blows from, we always try to select the road ahead with vision and to maintain an overview. This also means being able to head for a safe haven at all times. As a regional universal bank, Bank Burgenland is precisely this haven for private, business and corporate customers. Whether this involves saving, leasing, finance, provident schemes or insurance: having a safe port of call at home allows you to focus on the journey ahead free from worry.



Bank Burgenland sees itself as a typical regional bank with a central mission of providing a comprehensive banking infrastructure to the local economy. The Bank endeavours to provide support mainly to small and medium-sized enterprises in order to fulfil this mission. Last year, Bank Burgenland was able to effectively implement its most important strategic objectives: arranging simple and efficient financial operations for customers and sustainably improving profitability in the subsidiary business through quality and growth.

#### PRIVATE & BUSINESS CUSTOMERS

The positioning of the retail business at Bank Burgenland as a regional universal bank with strong roots in Burgenland's market and a clear niche strategy at the Vienna and Graz sites, combined with premium-quality advice from a customer-focused sales force, again guaranteed success in a competitive market in 2017. Outstanding collaboration within the GRAWE Group also allowed us to achieve a very successful year in insurance in 2017. In occupational pensions in particular we achieved very positive results through our high level of advisory expertise combined with our longstanding ties with and knowledge of our clients, enabling many clients to make the most of the benefits of this product range. Consistent implementation of our strategic direction as a bank with local roots, and therefore a strong partner to our clients in implementing projects in the real economy will also ensure that 2018 is a successful financial year for us and our clients.

#### CORPORATE CLIENTS

A positive economic upturn was recorded in 2017 for the first time in many years; this had already begun at the start of the year and continued throughout the rest of the year. The corporate client division was able to capitalise on the tailwinds of the economic recovery in this environment and to increase its volumes both in assets and in equity and liabilities, maintaining high levels of earnings despite the pressures on margins. The economic trend for growth is expected to continue in 2018 based on current forecasts, and we will do our best to consistently drive our positive performance in recent years forward even further.

#### REAL ESTATE DIVISION

The "Real Estate and Project Finance" division operates from the Vienna, Eisenstadt and Graz sites. Its main responsibilities include all aspects related to real estate finance (e.g. apartment blocks, trading and commercial properties as well as special-purpose properties). Not-for-profit housing cooperatives are also supported from the Eisenstadt site, while foreign property investments are managed from Vienna. Clients also receive advice and support with potential hedging instruments, particularly in relation to interest rate risks.

We cover our clients' potential investment requirements together with the "Investment centre". The real estate division has experienced above-average success over the past year. We benefited from good performance generally in property transactions and the volumes of these, particularly in the area of new finance transactions. Many clients trust us time and again with their finance transactions. We are successful on the market in particular

through our flexibility, rapid implementation and proximity to clients. These guiding principles are far more than mere buzzwords from marketing campaigns.

## TREASURY

Bank Burgenland's cash position remains a comfortable one. Issues due in 2017 amounting to approx. €220 million were compensated primarily by a rise in primary funds in the Group and participation in the 4th TLTRO tender from the ECB, which limited funding requirements in terms of issues. The main focus for new issues related consequently to retail bonds. Rating agency Scope Ratings awarded the rating AA+/ Stable on 15 November 2017 for mortgage-backed bonds (Pfandbriefe). Continued very low returns represented a major challenge with bonds, particularly when it comes to substituting high-interest securities that are expiring. Investments were primarily made in bonds with very good credit ratings that are ECB-eligible and can be used for refinancing with the European Central Bank. Dividend income and profit taking from stocks along with interest earned from debt instruments made a positive contribution to overall results for 2017.



The activities of BB Leasing GmbH involve awarding lease and hire-purchase agreements, particularly for commercial vehicles and movable goods. The agricultural and medical technology divisions have expanded continuously over the last few years. They operate primarily in the markets in eastern Austria (Burgenland, Styria, Lower Austria and Vienna). BB Leasing GmbH's expertise is not in any way linked to high-volume business but to the provision of solutions for business clients requiring a high degree of client consultation. Increased demand for finance was recorded in the 2017 financial year, which had a positive effect on the volumes of new business. A total of 1,181 new agreements were entered into in 2017 involving finance valued at around €47.8 million. By comparison BB Leasing GmbH entered into 903 new finance agreements in 2016 at a value of around €39.3 million. The lease portfolio currently includes around 3,400 agreements. Annual pre-tax profits amounted to €550 thousand in the 2017 financial year (2016: €50 thousand).



CAPITAL ►► BANK

Ascending to new heights economically and heading towards previously unreachable destinations requires a high degree of dynamism, flexibility and readiness to innovate. This does not just apply to those who shape the world of finance on a day-to-day basis. It also applies to Capital Bank, which supports high-net-worth individuals, family businesses and private foundations in responding flexibly to investment challenges and in benefiting from dynamism on the financial markets. A clear commitment to transparency and a readiness to find individual solutions for every customer request make Capital Bank the ideal partner for investments.

## CAPITAL ►►► BANK

Capital Bank has always managed to adapt well to the economic environment in the past and to bring innovation to the Austrian private banking market. The fact that we again lived up to our standards last year is highlighted by the result of the renowned Private Banking Comparison by the publisher Fuchsbriefe. Capital Bank came an outstanding 6th out of 92 private banks tested. In particular in the categories transparency and portfolio quality none of the other test candidates came close to Capital Bank. Private banking is Capital Bank's core business. Assets under management rose by 14.3% as a consequence of attracting new customer money and also generating gains on stock exchanges. The Family Office department specialises in services for high-net-worth individuals, private foundations and family businesses. Assets under management increased compared with the previous year, supported by a number of special effects, by a substantial 53.7%. Together with the market divisions, the Asset, Product & Quality Management (APQM) division plays a central role in premium customer support. The division is responsible for central asset management. The clear focus here is on achieving an attractive risk/earnings ratio. APQM also provides capital market expertise to private banking, e.g. through preparation of investment proposals and event-driven formulation of stock and market estimates.

"Die Plattform" is a division of Capital Bank and the leading B2B investment fund platform in Austria. In the role of custodian bank, securities transactions are processed for clients of investment firms and investment service

providers. The number of custody accounts remained stable in the past year, while the value of custody accounts increased over the course of the year as a result of positive net inflows of funds.

Capital Bank generated a profit from ordinary activities in the 2017 financial year amounting to €17.3 million, which is therefore above the previous year's level of €11.1 million. Operationally the successful results from the previous year were exceeded once again. The further increase in profit on ordinary activities results from positive effects on the risk result.

## BRÜLL KALLMUS

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. Brüll Kallmus Bank focuses here on arranging bond transactions on the secondary market, in particular illiquid debt instruments. Profits from ordinary activities of €2.7 million represented an outstanding result and made a valuable contribution to the GRAWE Banking Group's overall results.

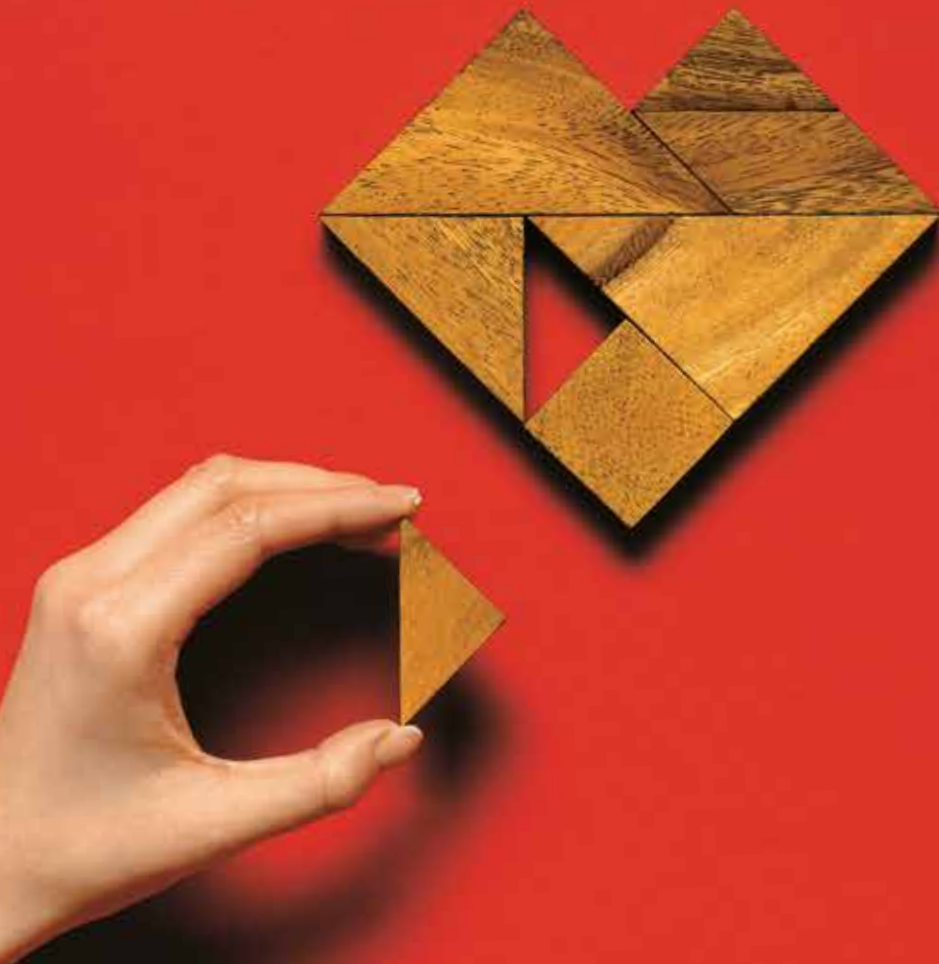


## BK IMMO

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.



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 Wechselseitige Versicherung and investment company for the GRAWE Banking Group, it currently manages 63 funds with a value of around €5.2 billion as at 31 December 2017. The increased focus on sustainability that was heralded in 2015 was also continued consistently in the last financial year. Together with our sister bank Bankhaus Schelhammer & Schattera AG, it is already one of the leading providers of sustainable public funds in Austria.



Investment and finance issues are close to the hearts of more and more clients, with sustainability, responsibility and moral integrity determining factors here. Bankhaus Schelhammer & Schattera supports NGOs, church institutions, freelancers and companies that attach particular importance to the ethical components in doing business by endeavouring to reconcile financial matters with social, moral and ecological aspects. Schelhammer & Schattera is the first point of contact throughout Austria when it comes to sustainable and ethically responsible banking services.



BANKHAUS

**Schelhammer & Schattera**

Bankhaus Schelhammer & Schattera is the leading provider of ethically sustainable banking services in Austria.

After Bank Burgenland had acquired a majority stake in Bankhaus in 2015, further blocks of shares were acquired from minority shareholders in the financial year, with the result that an 87.35% stake is now held via holding company "Communitas" Holding GmbH.

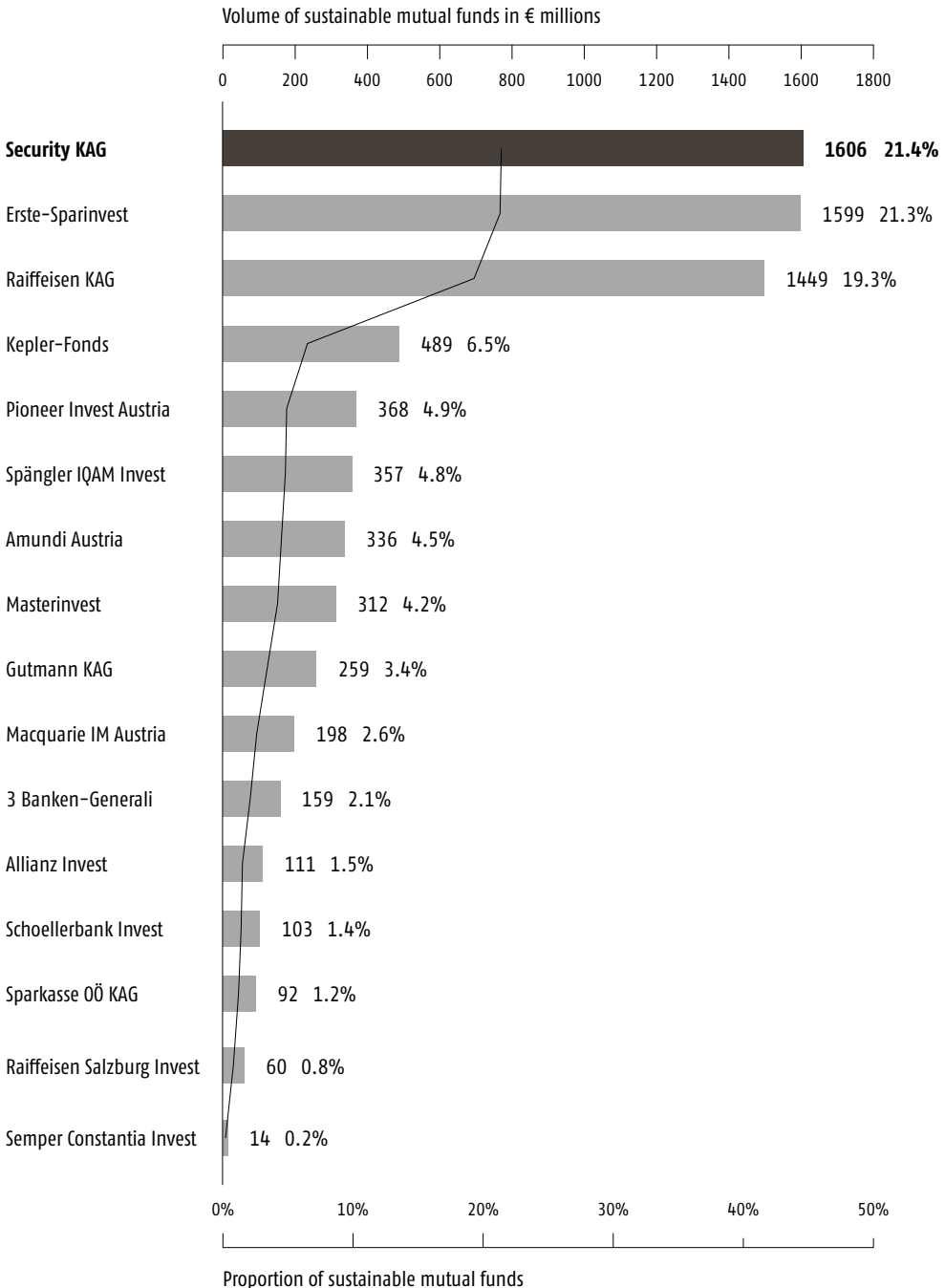
Bankhaus Schelhammer & Schattera is the bank for churches, institutions and companies for which Christian values are important in their business operations. This is why a separate division was created at the Bank dedicated exclusively to clients for whom ethics and sustainability are a central concern. As such the Bank is positioning itself as the first point of contact throughout Austria on issues of

sustainability in all banking services (payment transactions, investment, finance, insurance, bond issues and trading, mutual and major investor funds and real estate, as well as special topics such as social impact bonds), and as a centre of excellence for ethical business and sustainability.

Profit from ordinary activities amounted to €6.5 million. This was an extremely encouraging result taking into account the expense incurred in the direct banking division (DADAT Bank) which was launched in 2017.

## SUSTAINABLE MUTUAL FUNDS FROM AUSTRIAN INVESTMENT COMPANIES AS AT 12/2017

Source: rfu © 2018





**A building is only ever as stable as its foundations. Sopron Bank provides the secure foundations upon which small and medium-sized enterprises as well as private clients in western Hungary can build in order to implement their desires, visions and plans for the future with success. Whether for investments, insurance or banking transactions – a knowledge of local requirements allows employees at Sopron Bank to respond to each customer matter individually. This ensures trust, security and the confidence of a positive outlook for the future.**



2017 showed that Hungary's years of crisis are behind it. Dynamic wage growth, accompanied by rising consumption, a highly active property market and government investments are all driving economic growth. The regulatory framework remains as difficult as ever, resulting in significant administrative and financial expense for the banking sector. Hungary's national bank the MNB is continuing with its attempts to encourage banks to issue credit.

2017 saw significant growth in the demand for credit, resulting in significant increases in credit levels among corporate customers as well as in new credit awarded for private house purchases. Intense competition among banks is reflected in falling credit margins and higher risk appetite.

Sopron Bank relaxed its risk policy in 2017 in line with the improvements in the economy, although this policy continues to be a conservative one.

Sopron Bank's profit from ordinary activities as at 31 December 2017 was €4,919 thousand not including bank taxes, and €4,565 thousand after bank taxes. The release of provisions based on new statutory regulations in the valuation area was the main reason for the excellent result.



# Responsibility for a good life

With more than 800 employees in eastern Austria and western Hungary, the GRAWE Banking Group not only bears responsibility for its employees. We are also fully aware of our social responsibilities.

## A FIXED PART OF THE LOCAL LANDSCAPE

Bank Burgenland is seen as a stable and reliable partner with deep local roots in Burgenland society. Bank Burgenland has been supporting cultural and sporting projects at numerous clubs and associations as a committed source of funds for years in order to give clients and the local population a share in its economic success. We help local clubs to boost solidarity and cooperation in the relevant localities through their activities. As a bank for the inhabitants of Burgenland we feel a particular connection with the people and the state. This is why we enjoy playing our part in keeping funds and added value in the region to benefit all of us over the long term. Supporting social clubs and organisations is also particularly important to us. Instead of giving Christmas presents to children and employees the amount earmarked for this is donated to local charities every year before Christmas.

## BANKHAUS SCHELHAMMER & SCHATTERA, ETHICAL AND SUSTAINABLE

As Vienna's oldest private bank, Bankhaus Schelhammer & Schattera is the leading provider of ethically sustainable banking services. No other Austrian bank has implemented the concept of ethical responsibility for a good life and sustainability as consistently in its business and social activities. The Bank's longstanding tradition of implementing Christian initiatives as a close partner to the

church, and specifically dealing with key issues for the economy and society, and being a subject-matter and opinion leader on issues of ethical sustainability, is also implemented in particular by the Council of Christian Leaders. As an opinion leader and building on Christian values, the central task of the Council of Christian Leaders is to develop common goals and visions and promote economic activity based around values.

Ethically sustainable fund management is displayed by investment company Security KAG. The close collaboration with Bankhaus Schelhammer & Schattera has enabled extensive expertise to be established in this area over recent years. As of the reporting date of 31 December 2017, Security KAG is the largest provider of sustainable mutual funds in Austria.

## MONEY THAT PROVIDES MORE

Is the security of your money as important to you as a commitment to greater fairness and responsibility towards society, the environment and economy? The innovative ethical savings account provides a responsible alternative to conventional savings products. Bankhaus Schelhammer & Schattera guarantees that the savings held will be invested exclusively in line with ethically sustainable criteria.

# Saving resources and providing purpose

Aside from Bankhaus Schelhammer & Schattera, which through its special form of business activity acts as a pioneer both within the GRAWE Banking Group as well as in Austria as a whole, a further initiative also needs to be mentioned. By founding the Philanthropy Austria Foundation, Capital Bank is supporting people with professional implementation of their social commitments. The ideal conditions have been created for this through the Foundation. Interested parties can support prestigious projects through the Foundation, including Jugend eine Welt, WWF, Red Noses Clowndoctors and the Austrian Science Fund FWF.

## RESPONSIBLE USE OF ENERGY

When it comes to our employees' mobility we are mindful of using resources as sparingly as possible in order to avoid unnecessary CO<sub>2</sub> emissions. Some banks within the GRAWE Banking Group provide annual tickets for public transport, and the GRAWE Banking Group implements high technical standards to ensure that employees at the different sites are able to hold meetings in the form of video conferences. This prevents miles of car journeys each year and therefore prevents significant CO<sub>2</sub> emissions.

## FOCUS ON TRAINING AND FURTHER EDUCATION

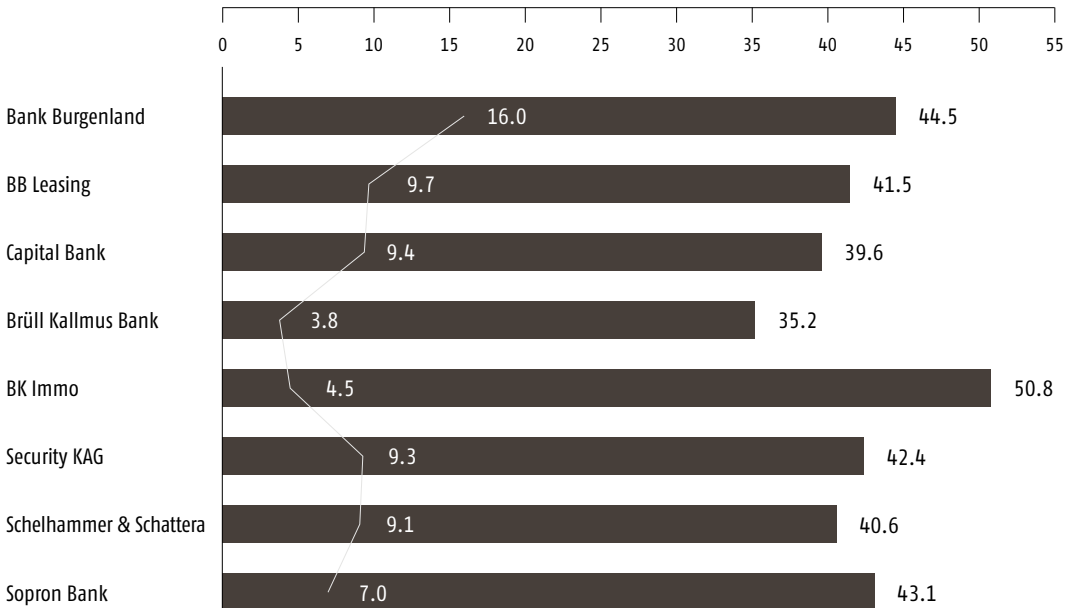
Only satisfied employees can make clients happy. Our employees are our most important asset and guarantee our future success. The wellbeing of our employees and their ongoing further professional education are therefore very important to us. The existing historical differences and autonomy at the individual banks have resulted in differences in the training and further education on offer at the individual businesses, with these offerings gradually being harmonised. In addition to concessions for cultural and sporting events and free beverages or food vouchers, the service offering also includes the option of further personal training, in particular via the Hypo Bildung facility.

Our average employee is 41.8 years old and has been working in the banking group for almost 9 years. The proportion of female employees in the overall banking group is just under 50%, making the distribution very balanced. Years of service depend on the relevant company, and are between 4 years in Brüll Kallmus Bank and up to 16 years in Bank Burgenland. The employee turnover rate was 8.5% on average as at 31 December 2017, with the sick leave rate around 2.3%.

## KEY EMPLOYEE FIGURES

	Proportion of female employees	Part-time rate	Age (Years)	Seminar days / FTE	Sick leave rate	Turnover	Average Length of employment (Years)
Bank Burgenland	45.5%	19.5%	44.5	2.8	3.7%	5.6%	16.0
BB Leasing	61.5%	15.4%	41.5	0.6	1.7%	8.0%	9.7
Capital Bank	50.7%	24.0%	39.6	1.9	2.8%	9.2%	9.4
Brüill Kallmus Bank	41.7%	25.0%	35.2	0.5	4.1%	9.9%	3.8
BK Immo	20.0%	20.0%	50.8	0.4	0.5%	0.0%	4.5
Security KAG	30.0%	26.7%	42.4	2.1	1.7%	0.0%	9.3
Schelhammer & Schattera	46.0%	17.0%	40.6	2.2	3.6%	12.0%	9.1
Sopron Bank	68.8%	3.5%	43.1	2.8	1.8%	18.8%	7.0

Years (average length of employment/age)



# Risk report

A risk management system with an appropriate level of quality is seen as a significant factor in the HYPO-Bank Burgenland Aktiengesellschaft Banking Group if the required growth of the business is to be successfully sustained over the long term, and is perceived as a process of identifying, monitoring and controlling defined risks at Group level.

The objectives of the risk management unit are to identify, quantify, monitor and actively manage all the risks relevant to the Banking Group (credit risk, market risk, interest-rate risk, liquidity risk, operational and other risks, investment risk and real estate risks). Pursuant to the statutory provisions set out in section 30 (7) of the Austrian Banking Act (BWG), Bank Burgenland, as the parent bank, is therefore responsible for satisfying the Internal Capital Adequacy Assessment Process (ICAAP) requirements at consolidated level. The entities included in the ICAAP consolidation for Bank Burgenland comprise Bankhaus Schelhammer & Schattera AG incl. subsidiaries, Capital Bank incl. subsidiary banks, BB Leasing as well as Sopron Bank as a banking subsidiary based in another EU country.

Action is taken within the Banking Group to limit and minimise all risks that are significant to the Group. An analysis of risk-bearing capacity is carried out in which all the measurable risks throughout the whole of the bank are aggregated. The risks are also actively managed using a suitable limit system and through ongoing calculation of the various key risk figures. An ongoing review of the suitability of the methods and instruments used as well as continuous development of these are prerequisites in terms of meeting the requirements of timely risk management as effectively as possible. This guarantees an active risk policy that continuously searches

out opportunities with sustainable success and limited loss dimensions.

The focus for risk within the banking group is on the credit risk. If we consider the distribution of loans and advances for 2017 the majority of the risk volume remains at levels featuring good credit ratings in Austria. The prevailing environment of low interest rates puts further pressure on the net interest rate margins and also represents a challenge for the planned growth in primary funds aimed at ensuring long-term refinancing for the entire Group. The material risks arise primarily in the area of market and operational risks, given the specialisation of Capital Bank – GRAWE Gruppe AG in the private and investment banking divisions. Aside from the market and operational risks, material risks also arise from the investment and real estate risk area as a result of the strategic direction at Bankhaus Schelhammer & Schattera Aktiengesellschaft. The capital guarantees assumed for products sold by insurance companies represent a major focal point for the banking group of Bank Burgenland within the scope of the market risk. Within the capital guarantee management process, trends regarding the guarantees are monitored, as are the investment criteria and the performance of the underlying funds. Stress tests are also carried out regularly for the capital guarantees aimed at revealing any effects of market developments on any potential guarantees.

In particular the persistent low level of interest rates represents a fairly considerable risk potential for capital guarantees. Bank Burgenland will continue its business activities in 2018 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.

Aside from these areas, further tasks in risk management involve the ongoing processes related to ICAAP, ILAAP, the capital guarantees, expansion of the documentary requirements, the internal monitoring system and continuous improvement of existing risk management activities. As in previous years, dealing with the latest supervisory topics will represent an important area in terms of risk management activities. The focus in 2018 will also remain on developing management tools, supporting the professional development of employees and ensuring continuous improvements in internal risk quantification methods.

#### STATE LIABILITY

A Burgenland state law states that the liabilities incurred by Bank Burgenland up to and including 2 April 2003 are covered by default liability of the state of Burgenland until they mature. This type of liability also existed for liabilities incurred in the period from 3 April 2003 until completion of the sale of Bank Burgenland to GRAWE (12 May 2006) if the agreed maturity date ended no later than by the end of 30 September 2017. As such the state of Burgenland is now only liable for existing liabilities of Bank Burgenland established prior to 3 April 2003.

Bank Burgenland reports to the state of Burgenland periodically on changes to the liability amount. The state of Burgenland also had a member sitting on the Supervisory Board of Bank Burgenland as at the reporting date. Under section 2 of the Austrian Pfandbriefstelle Act (PfBrStG) there is also a liability in place for all Austrian mortgage banks and their guarantors, i.e. all federal states except for Vienna, for liabilities of the Pfandbriefstelle (mortgage bond division) of the Austrian state mortgage banks.

# Outlook

The IMF forecasts a further acceleration in global growth to 3.9% in 2018 and 2019 compared with 2017, and economists expect a significant growth increase to 2.7% in 2018, especially for the USA, also due to the tax reform. The forecasts do not predict another slight slowdown until 2019, when they expect a 2.5% drop. After a particularly strong year in 2017, on the other hand, Europe is expected to see a slowdown again in 2018. After 2.4% in the reporting year, the estimates for 2018 and 2019 are 2.2% and 2.0% respectively. The trend in Italy, which will continue to bring up the rear in the eurozone in the coming years, remains a cause for concern. Starting at 1.6%, the forecast for 2018 is 1.4%. A further decline in economic growth to 1.1% is expected for 2019. Nevertheless, risk premiums on Italian government bonds have returned to pre-crisis levels. A further increase in financing costs in Italy could therefore once again be a test for the country. France is one of the few countries in the eurozone that can look forward to a slight acceleration in the economy in 2018. Starting at 1.8%, French gross domestic product was able to increase by 1.9% in each of the following two years. The emerging markets are also strong. For the first time in years, the IMF forecasts do not predict a recession for any of the countries listed in the economic report.

Based on 4.4 % in 2016 and 4.7% in 2017, the current estimates for 2018 and 2019 are 4.9% and 5.0% respectively.

Bank Burgenland has recorded positive development over the last few years from an operational point of view which has also led to very satisfying operating results, particularly in the last financial year. This positive trend is expected to continue in 2018 through continued implementation of the current business and risk strategy. As such 2018 will be characterised by continuation of the risk and margin-appropriate business policy related to awarding credit, and the achievement of ambitious goals related to net commissions income, depending on the developments on the capital markets and in the economic space where Bank Burgenland operates.

We expect the economic conditions to continue overall in the 2018 financial year based on the latest macroeconomic data available. Developments are eagerly anticipated with respect to interest rates, private consumption, the willingness of companies to invest and the demand for credit from the private and corporate sectors. On the basis that no fundamental macroeconomic faults arise, we are assuming a stable outlook for 2018 given the stable positioning and long-term business model of Bank Burgenland and the entire GRAWE Banking Group.



## STATEMENT OF INCOME AND ACCUMULATED EARNINGS FOR THE 2017 FINANCIAL YEAR

### Consolidated income statement for the financial year 2017

	in € '000	2017	2016	Change in € '000	Change in %
Interest and similar income		104,254	112,047	-7,793	-7,0
Interest and similar expenses		-26,081	-35,947	9,866	-27,4
<b>Net interest income</b>		<b>78,173</b>	<b>76,100</b>	<b>2,073</b>	<b>2,7</b>
Risk provisions in the lending business		5,113	32,658	-27,545	-84,3
Fee and commission income		119,614	108,738	10,876	10,0
Fee and commission expenses		-47,843	-41,708	-6,135	14,7
<b>Net commission income</b>		<b>71,771</b>	<b>67,029</b>	<b>4,742</b>	<b>7,1</b>
Trading result		-7,053	-6,283	-770	12,3
Net profit from financial assets - at fair value through profit or loss		9,055	-4,273	13,328	-
Net profit from financial assets - available for sale		5,112	2,073	3,039	-
Administrative expense		-107,229	-99,811	-7,418	7,4
Other operating profit		16,537	8,673	7,864	90,7
<b>Earnings before tax</b>		<b>71,479</b>	<b>76,167</b>	<b>-4,688</b>	<b>-6,2</b>
Income tax		-15,183	-24,270	9,087	-37,4
<b>Consolidated net profit</b>		<b>56,296</b>	<b>51,897</b>	<b>4,399</b>	<b>8,5</b>
Non-controlling interests		584	723	-139	-19,3
Shares owned by the owners of the parent company		55,712	51,173	4,539	8,9

### Consolidation with the consolidated comprehensive income

	in € '000	2017	2016
<b>Consolidated net profit</b>		<b>56,296</b>	<b>51,897</b>
Items that will (be able to) be posted via the income statement in future		-2,852	9,959
AfS reserve		-2,822	9,542
Currency conversion		-30	417
Items that will not (be able to) be posted via the income statement in future		631	-1,216
Actuarial gains and losses		149	-1,154
Other changes		482	-62
<b>Other comprehensive income</b>		<b>-2,220</b>	<b>8,743</b>
<b>Overall result</b>		<b>54,076</b>	<b>60,639</b>
Shares owned by the owners of the parent company		53,472	59,267
Non-controlling interests		604	1,372



## CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017

### Assets

	in € '000	31.12.2017	32.12.2016	Change in € '000	Change in %
1. Cash reserves		254,782	181,401	73,381	40.5
2. Loans and advances to banks		41,320	53,500	-12,180	-22.8
3. Loans and advances to customers		3,169,353	2,884,796	284,557	9.9
4. Assets held for trading		58,135	63,379	-5,244	-8.3
5. Financial assets - at fair value through profit or loss		350,514	463,801	-113,287	-24.4
6. Financial assets - available for sale		962,842	999,267	-36,425	-3.6
7. Financial assets - held to maturity		0	779	-779	-100.0
8. Property and equipment and intangible assets		43,054	43,585	-531	-1.2
9. Investment property		57,860	59,874	-2,014	-3.4
10. Deferred tax assets		520	379	141	37.1
11. Other assets		38,196	43,230	-5,034	-11.6
<b>Assets</b>		<b>4,976,576</b>	<b>4,793,991</b>	<b>182,585</b>	<b>3.8</b>

### Equity and liabilities

	in € '000	31.12.2017	32.12.2016	Change in € '000	Change in %
1. Financial liabilities - at amortised cost		3,387,463	3,068,627	318,836	10.4
Deposits from banks		455,616	352,339	103,277	29.3
Deposits from customers		2,743,309	2,519,877	223,432	8.9
Liabilities evidenced by certificates		188,538	196,411	-7,873	-4.0
2. Trading liabilities		29,106	36,503	-7,397	-20.3
3. Financial liabilities - at fair value through profit or loss		620,313	816,719	-196,406	-24.0
Deposits from banks		0	8,301	-8,301	-100.0
Deposits from customers		0	42,002	-42,002	-100.0
Liabilities evidenced by certificates		620,313	766,416	-146,103	-19.1
4. Provisions		63,583	60,144	3,439	5.7
5. Tax liabilities		56,670	52,463	4,207	8.0
a) Ongoing tax liabilities		16,178	12,604	3,574	28.4
b) Deferred tax liabilities		40,492	39,858	634	1.6
6. Other equity and liabilities		71,225	55,642	15,583	28.0
7. Equity capital		748,216	703,893	44,323	6.3
of which non-controlling interests		1,536	990	546	55.1
<b>Equity and liabilities</b>		<b>4,976,576</b>	<b>4,793,991</b>	<b>182,585</b>	<b>3.8</b>

## CHANGES IN IFRS EQUITY CAPITAL

Group in € '000	Subscribed capital	Capital reserves	Retained income	Available-for-Sale reserves	Reserves from currency conversions	Total owner of the parent company	Non-controlling interests	Total equity capital
<b>As at 1 January 2016</b>	<b>18,700</b>	<b>305,099</b>	<b>275,160</b>	<b>40,511</b>	<b>-3,619</b>	<b>635,851</b>	<b>29,008</b>	<b>664,858</b>
Consolidated net profit	0	0	51,173	0	0	51,173	723	51,896
Expense and income recognised directly in the equity capital	0	0	-1,216	8,893	417	8,094	649	8,743
<b>Overall result</b>	<b>0</b>	<b>0</b>	<b>49,957</b>	<b>8,893</b>	<b>417</b>	<b>59,267</b>	<b>1,372</b>	<b>60,639</b>
Acquisition of subsidiaries with non-controlling interests	0	0	7,785	0	0	7,785	-29,054	-21,268
Distributions	0	0	0	0	0	0	-336	-336
<b>As at 31 Dec. 2016</b>	<b>18,700</b>	<b>305,099</b>	<b>332,902</b>	<b>49,404</b>	<b>-3,202</b>	<b>702,902</b>	<b>990</b>	<b>703,893</b>
<b>As at 1 January 2017</b>	<b>18,700</b>	<b>305,099</b>	<b>332,902</b>	<b>49,404</b>	<b>-3,202</b>	<b>702,902</b>	<b>990</b>	<b>703,893</b>
Consolidated net profit	0	0	55,712	0	0	55,712	584	56,296
Expense and income recognised directly in the equity capital	0	0	631	-2,842	-30	-2,241	20	-2,220
<b>Overall result</b>	<b>0</b>	<b>0</b>	<b>56,344</b>	<b>-2,842</b>	<b>-30</b>	<b>53,472</b>	<b>604</b>	<b>54,076</b>
Acquisition of non-controlling interests	0	0	305	0	0	305	17	323
Distributions	0	0	-10,000	0	0	-10,000	-76	-10,076
<b>As at 31 Dec. 2017</b>	<b>18,700</b>	<b>305,099</b>	<b>379,550</b>	<b>46,562</b>	<b>-3,232</b>	<b>746,680</b>	<b>1,536</b>	<b>748,216</b>

## CONSOLIDATED CASH FLOW STATEMENT

	in € '000	2017	2016
<b>Consolidated net profit</b>		<b>56,295</b>	<b>51,896</b>
Non-cash items contained in the consolidated net profit and consolidation with the cash flow from operations			
+/- "Depreciation/appreciation of assets in the investment area"		5,610	5,601
+/- Changes to staff and other provisions		20,539	12,665
+/- Allocation to/release of risk reserves and provisions		-3,325	-31,573
+/- "Loss/gain from the disposal of assets in the investment area"		-5,630	-2,117
+/- Other expense/income		-62,311	-53,637
<b>Interim result</b>		<b>11,178</b>	<b>-17,165</b>
Changes in assets and liabilities from operations following adjustment for non-cash items			
+/- Assets held for trading and derivatives		5,244	16,422
Loans and advances to banks		12,133	44,369
Loans and advances to customers		-278,776	-111,780
Financial assets - at fair value through profit or loss		113,287	-54,199
other assets from operations		5,030	-2,999
+/- Trading liabilities		-7,397	3,192
Deposits from banks		103,355	-16,033
Deposits from customers		223,673	122,706
Liabilities evidenced by certificates		6,394	-174,652
Financial liabilities - at fair value through profit or loss		-156,406	-171,063
Other equity and liabilities from operations		15,585	10,087
Consumption of provisions		-15,858	-23,182
+ Interest earned		94,376	101,208
- Interest paid		-29,410	-36,218
+ Dividends earned		9,074	8,690
- Income tax paid		-5,735	-5,049
<b>Cashflow from operations</b>		<b>105,747</b>	<b>-305,666</b>
Funds received from			
+ payments from the sale of financial assets - held to maturity		779	3,077
+ payments from the sale of financial assets - available for sale		559,420	442,533
+ payments from the sale of intangible assets and property and equipment		12,920	3,648
+ payments from deconsolidation		0	202
Funds paid through			
- investments in financial assets - available for sale		-525,646	-430,721
- investments in intangible assets and property and equipment		-15,467	-7,319
<b>Cashflow from investments</b>		<b>32,007</b>	<b>11,419</b>
Funds received / paid from			
+/- repayment of supplementary capital		-54,267	-2,028
- dividend distribution		-10,076	-336
+/- changes to non-controlling interests		0	-3,145
<b>Cashflow from financing</b>		<b>-64,343</b>	<b>-5,509</b>
<b>Cash reserves as at the end of the previous period</b>		<b>181,401</b>	<b>480,976</b>
Cashflow from operations		105,747	-305,666
Cashflow from investments		32,007	11,419
Cashflow from financing		-64,343	-5,509
Effects from exchange rate changes		-29	181
<b>Cash reserves as at the end of the period</b>		<b>254,782</b>	<b>181,401</b>

HYPO-BANK BURGENLAND Aktiengesellschaft (hereafter: Bank Burgenland) would like to point out that this publication relates to an excerpt from the 2017 Annual Report. The full version of the Annual Report is available at [www.bank-bgld.at](http://www.bank-bgld.at).

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