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Annual Report 2020

TOWARDS THE FUTURE

Capital Bank 2020

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In addition to the function they serve of reporting on the past financial year, annual reports are always also an instrument for looking back and taking stock; a kind of inventory of the recent past. So when we look back at the past twelve months, we read in the cover text of last year's report that the world is saying goodbye to the reality we knew. We can all see now that this diagnosis came true. And yet we have also already become more or less accustomed to the new normality. How could we have done otherwise. We need normality – however we define it – for systems to function.

On the other hand, annual reports are also a means of looking at what is to come. So “Towards the future” is the motto of our report, because we cannot help but turn happily to what is coming, because there is no doubt: we can shape the future, and shape it responsibly. In other words, what we should take away from the COVID crisis is the question of how our current normality can be equipped for future realities in order to be able to counter future uncertainties quickly and easily.
Capital Bank has always taken this task on and continues to work on it consistently, so that we can look back on a good year even in unusual times. Our guest author Klaus-Dieter Koch provides an analysis of this and titles his article “The New Closeness” – which we are all counting on and hoping for!

CHRISTIAN JAUK
CHAIRMAN OF THE MANAGEMENT BOARD

Until recently, “normal” was an unspectacular word. It was only with the COVID-19 crisis that it took on a certain magic, and if you’ve managed to find some form of normality to navigate through these extraordinary times, you have already won half the game.
At Capital Bank, we are glad to have taken the right measures in the past that make us fit to skilfully face the new normal from an economic point of view.

CONSTANTIN VEYDER-MALBERG
MEMBER OF THE MANAGEMENT BOARD

Participation is a beautiful word and an even more beautiful thought. After many months in a state of emergency, we are all longing for participation again – we are mentally and tangibly ready for a new beginning and for joint action, because what would humanity be without interaction?
The fact that we never lost contact with our customers during these extraordinary past months, but rather intensified it, is part of the reason why you placed your trust in us!

WOLFGANG DORNER
MEMBER OF THE MANAGEMENT BOARD

Will everything remain different? This question has been with us for several months and it sounds negative given the circumstances. But we can also approach it in a positive way and see it as a challenge for ourselves to develop ideas early, to see the New and Different as something that we can shape positively, that encourages us to work towards solutions. This is the attitude that we at Capital Bank are happy to adopt.

BERTHOLD TROIß
MEMBER OF THE MANAGEMENT BOARD

Solutions developed in the past are stabilisers of the present – COVID made this quite clear. We can be proud to reap the rewards of our forward-looking actions and systemic changes in recent years. Thanks to these, our customers always knew they were on the safe side. We have navigated these turbulent times together – always looking towards the future.

CONTENTS

Foreword 7

The new closeness 9

Capital Bank – GRAWE Gruppe AG

Performance and Key Figures 29
Management Report 30
Risk Report 56
Report by the Supervisory Board 86
Statement of Financial Position 87
Income Statement 91
Capital base 92
Statement of Changes in Equity 96
Notes 100
Company boards 140
Audit Certificate 144
Consolidated Statement of Financial Position 164

Legal notice 167

FOREWORD

In addition to the function they serve of reporting on the past financial year, annual reports are always also an instrument for looking back and taking stock, in a way an inventory of the recent past. So when we look back at the past twelve months, we read in the cover text of last year's report that the world is saying goodbye to the reality we knew. And as we see now, this diagnosis came true. Yet we have also become somewhat accustomed to the new normality.

On the other hand, annual reports are also a means of looking at what is to come. So "Towards the future" is the motto of our report, because we cannot help but turn happily to what is coming, because there is no doubt: we can shape the future, and shape it responsibly. In other words, what we should take away from the Covid crisis is the question of how our current normality can equip itself for future realities in order to be able to counter future uncertainties quickly and easily. Capital Bank has always taken this task on and continues to take it on consistently, so that we can look back on a good year even in special times. Our guest author Klaus-Dieter Koch provides an analysis of this and titles his article "The New Closeness" – which we are all counting on and hoping for!

THE NEW CLOSENESS
"How much is Covid changing the world?"

This is one of the most frequent questions I have been asked since the beginning of the pandemic. Covid is undoubtedly a "black swan": a major, unexpected event that changes everything. But will Covid really change the world, or just reinforce developments that were already underway (flight shame)? Will Covid, like a magnifying glass, reveal the fears and problems we suffered before but were not aware of (burnout)? Will it make clear to us the border areas in which we have been operating but which have long been unsustainable to manage (climate change)? Will Covid act as a process accelerator and give the developments that were already becoming apparent a further push that can no longer be ignored?

I started writing my new book in 2019. I wanted to talk about where I think the digital transformation is really leading and what is crucial about this all-encompassing upheaval. As a strategist who looks at things from a distance and often from a different angle, I wanted to wait until the major lines of development, and their effects on us humans, became apparent. In 2019, I saw the time had come and I also already had a central thesis that I wanted to address in this book: the "New Closeness".

From my everyday life as a consultant, from our research and from countless conversations with colleagues and clients, I realised that the whole pursuit of digital transformation knows only one goal: to be closer to the customer than the competition. Whether this is achieved by manning a strategically important interface, absolute customer centricity or more customer love – a race for the lowest prices has turned into a race for closer customer relations. Data, AI and apps are nothing more than a means to an end, and that end is to be closer to more customers than anyone else.

This customer closeness, which goes hand in hand with better understanding, more adequate behaviour, greater efforts to achieve customer satisfaction, real-time measurability and many other things, will in future decide who does the business, who does the follow-up business or creates customer loyalty in such a way that he or she no longer wants to leave the (eco)system at all. The intention of this book was to get to the bottom of the causes, make practical deductions and inspire my readers to rethink their actions, overcome their shyness about digitalisation and not only to imitate others, but to resolutely develop their own strategy.

Then Covid came along and all everyone talked about was just the opposite: social distancing. Maintaining 1.5-metre distance and a baby elephant between you became the new standard. All forms of distanced, digital trade gained, while traditional trade suffered due to lockdown measures. All opportunities to meet people and spend time with them, such as at work, in the theatre, in restaurants, on trips or at events, were suspended. The distance between people has never been as great as it is now. It started to work. The last holdout companies facilitated home offices, Netflix rushed from record to record, as did Amazon and all those who had previously done their digital homework. Because gyms were closed, distance fitness services like Peloton experienced a surge in demand of unprecedented proportions. DIY, gardening and even puzzle games were in demand like never before. We were at home, but connected to the world. Many enjoyed the time without travel and evening invitations and with more time for the children and family.

Was I wrong about the "new closeness"?
Not at all, as it now turns out. Because where there is light, there is also shadow – and that was abundantly clear. "People live in social relations", as Prof. Michael Reder from the Munich School of Philosophy explained to me. People can only thrive and develop in interaction with other people. Everything else leads to standstill and what stands still is dead. Only when things we take for granted are no longer there do we begin to appreciate their value. And that is exactly what the Covid pandemic is doing to us: it is taking away many things that were taken for granted, because they have always been like that, often cost nothing and were therefore worth nothing. A good conversation, a person who cares about you, wants to do something good for you or, and this is also part of it, wants to sell you something.

The process of selling something is one of the oldest types of interpersonal interaction, which often leads to lifelong good and appreciative relationships if it is designed to build trust, i.e. if it is conducted competently, with integrity and benevolence. Distance business is hard to beat in terms of efficiency, but ultimately it has nothing to do with "selling". What is missing is the interaction, the appraisal, the testing, the pros and cons, the empathy, the daring, the persuasion and seduction of a good salesperson, the game of value and the right price. The back and forth of success or defeat, the satisfaction of having made a good deal or the thrill of winning a negotiation. All of this was self-evident and Covid made us realise what it is really about, what is really fun, what is really satisfying and what is really important.

In this sense, I wish you much joy and inspiration with my views on the "new closeness".

From the possible to the necessary
Attitude and mindset in a digital world – the "digital mindset" – are far more decisive than technology. How one sees the world and defines one's relationship with the players is causing the great upheavals in the digital transformation. A central expression of this new mindset is the relationship with customers. This relationship and the ambition that arises from it is, in our view, the nucleus of change. In a way, this can be seen as a major flashback to pre-industrial times.

The pre-industrial era shaped humanity for many thousands of years. Production was extremely order- and customer-oriented. Basically, everything was custom-made and individually manufactured. There were hardly any warehouses and there were no financing banks for a long time. The client or customer was absolutely the centre of attention and was not only the client but also the best marketing force, if he spoke well about his supplier and recommended him to others. In addition, he was also an innovator, in that he had special requests that later became fashionable or were also offered to other customers by the supplier in question. Prototypes or MVP-phase (Minimum Viable Product) were also not foreign to customers at that time, because one-off productions are by nature immature; they only underwent continuous improvement and optimisation during use.

Order-based individual production – which largely did not require warehousing and was locally or regionally limited and monopolistically protected by guilds and similar pre-industrial organisations – meant that there was almost always a demand market in economic terms. Due to bad harvests, weather influences and wars whose many casualties included craftsmen and farmers, the demand market repeatedly intensified to the point of extreme shortage markets and famines.

This relationship changed fundamentally with the invention of the steam engine, manufacturing based on the division of labour, and the assembly line. Serial production made it possible not only to produce much more, but also to do so in standardised quality. Once set correctly, the machine spat out an infinite number of exactly the same results. Other inventions, such as those by Carl von Linde (refrigeration) or Justus von Liebig (mineral fertiliser) dramatically increased crop yields and made food durable and thus transportable over long distances. Suddenly, high quality products were in abundance everywhere, and at a comparatively low price. More was produced than could be sold, and factory owners considered it their purpose in life to control the means of production and the knowledge of how best to use it. From then on, the market and customer desires played a much smaller role. New machines that could produce more and more products per unit of time, at even better quality or at even lower cost, were what counted. The ever-expanding market soaked up these products of unprecedented quality, making them even cheaper, and more people could afford them, which in turn led to increased production, making the products a bit cheaper again. Those who had the necessary means of production and knowledge were kings in this phase of the economy. So all the effort and money was focused on the back end of the value chain. New, more efficient machines, raw materials and logistics were the drivers of industrialisation. More and more, and ever cheaper, was the mantra. In many companies, this is still true today, and entrepreneurs and employees draw their identity from machines and huge production halls.

Shortly after the end of World War II, the game changed again. First the US economy and then the European and Japanese economies developed a productivity and output that the world had never seen before. As a result, the wartime demand market tipped over into a supply market.

Suddenly the customers had the power. They could choose and decide what to buy and according to which criteria. These criteria became increasingly personal and also more unpredictable, as many purchase motives went beyond simple utility. Before starting production, you had to examine the market and its capacity to absorb your product. The age of market research and marketing began. The market was segmented, categories were invented and buyers were divided into target groups whose commonalities and behaviours were researched in detail. Those who could translate these insights into better offers and could communicate this had the better cards in the sellers' market. Market knowledge replaced production resources as a success factor. The more saturated the markets became, the more important this knowledge was in order to be able to leverage every bit of potential in the area of marginal utility.

With the simultaneous establishment of TV as the globally dominant mass medium, advertising acted as an amplifier. The new mantra was creativity. TV commercials reached an audience of millions and sometimes became a cult unto themselves, and advertisers became their priests. TV opened up completely undreamt-of possibilities for product performance, adding an image and thus expanding the concept of a brand beyond its visual manifestations. The time of the façade painters began. Everyone was suddenly talking about an image that had to be created. Image campaigns without concrete statements, which demonstrably brought nothing, dominated the image and dreams of marketeers everywhere. Advertising became a panacea, as long as enough money was available. In the 1990s, advertising finally became independent, and detached itself from its original task: to increase the sale of products. A good commercial that made people laugh became more important than the performance of the product or service itself. With the decoupling of the means (TV advertising) and ends (selling), the protagonists, the advertisers, also managed to glorify their own role. They now put on airs and graces and wanted to become brands themselves and step out of the shadow of their clients. Marketing managers, who were actually supposed to guide and monitor them, became accomplices and willingly played along with the battle for the golden calf. This self-decoupling did not help the brands they were supposed to be representing, but for the most part weakened them considerably. There was hardly anyone left with influence who could counter the unholy and unmanaged alliance of client and contractor with something like a sense of responsibility or common sense.

Numerous brand casualties (Praktiker, Media Markt, Seat, Bionade, Benetton) of this development lie buried in the cemeteries of vanity and self-centredness.

In the middle of this frenzy of communication sentiments burst the digital transformation that began with the demise of the dotcom era. The internet was rethought. Facebook, Paypal, Uber, Airbnb and above all Amazon mark this development. They got rid of all means of production and concentrated only on the interface to the customer. People began to look forward in the value chain, to the customer, and no longer backwards to the means of production. Many of these digital superstars don't even own a means of production anymore. Airbnb doesn't own a single hotel, Uber doesn't own any cars and Paypal isn't a bank, but all three beat their manufacturing competitors hands down in terms of customer focus and customer service. People have begun to rethink and redefine the customer relationship. If you own nothing but customers and only their number, satisfaction (NPS) and return on investment (RPU) determine the value of the company, then there is no reason why, for the first time in economic history, the customer should not be at the centre of all entrepreneurial activity. What were previously marketing slogans without commitment and consistency are becoming essential benchmarks for success through digitalisation.

The drivers for success in this mindset can be summarised in the concept of closeness. Those who are closer to their customers than the competition will win this new battle, which must be fought with different means than the battle of the 1980s and 1990s, which was fought with the help of creativity. This "new closeness" demands a kind of uncompromising focus on customer wishes and needs that was previously unknown. Not just short and simple processes that anyone can master without instructions, as Steve Jobs embodied with the iPhone, with only one button instead of many buttons, or the error-free logistics at Amazon or the extremely customer-oriented handling of complaints at Uber, where guests are not asked for proof for an error, as is usually the case in the travel and mobility industry, but for the first time the firm's contractors themselves. These companies focus all their energy on mastering and shaping the interface with their end customers. They want to own their customers and make sure they have no reason to leave the system built around them. To use Hans Domizlaff's brand definition, they want to build "monopolies in the head". Building and maintaining these monopolies is what determines company behaviour.

Convenience is the new price

The less you know your customers, the more important pricing becomes. If I don't know how my customers think and act on certain occasions, I try to trigger the "market" – i.e. everyone – at the same time with the same message, e.g. a good price, as in the days of marketing. But there are far more motives than price. Some customers are not interested

in the price; they are more interested in speed and reliability. Others want simplicity or convenience. Nevertheless, they all get the same price. Whether they want to or not. Mastering the customer interface will change that. You know the customer and the nature of their relationship, you know their value set and their buying motives, you can see why they buy what and in what context. This all helps to find the sweet spot between the best of all customer experiences and maximising revenue.
It then leads, for example, to the fact that Amazon has been proven to be up to 20% more expensive than the competition in certain product groups, such as electronics, and customers still buy from Amazon. And this despite the fact that they know about the price difference! Because the price comparison is only a click away. There you can see that the large specialist retail chains or electronics stores offer the exact same brand-name items considerably below the Amazon price. Nevertheless, people do not buy there. Why is that? Because convenience is the top priority at Amazon, and because they aim to master the customer interface and not just sell products. From the ordering process (one-click button), information (customer reviews), purchase process management (customers have also bought this or that) to the reliability and speed of logistics and customer service or behaviour in the event of dissatisfaction and complaints. At Amazon, everything runs like clockwork, from the customer's point of view and only from the customer's point of view. The inconve-

nience of registering on other websites, unclear purchase processes, the lack of experience with logistics (how quickly will the package arrive and where and will it even come) and customer service, etc. The uncertainty of the unknown leads to accepting the deliberately higher price at Amazon in exchange for an all-round carefree ecosystem. Admittedly, for about 20% of customers this does not work. These customers are absolutely fixated on price, for economic reasons or out of thriftiness. These customers know no loyalty to place of purchase or brands. If they can get it cheaper somewhere else, they change locations and are also prepared to accept longer distances or higher risks.

All providers who operate on the basis of price fight over this 20% of customers. They pay a lot of money to attract these customers to the shop and yet they do not make any money from them because they do not succeed in retaining these price nomads. The vast majority, the remaining 80%, have other primary motives for their purchase. These are now becoming visible and are being addressed. This "new closeness" makes it possible to act in a more differentiated way and to know and cater to motives beyond price. For the first time in economic history, the customer really has become the benchmark for all entrepreneurial activity. For the first time, the customer has a feedback channel to the manufacturer and knows how to use it. For the first time, individual customers can join together with their experiences to form networks and form a counterweight to trade and producers. For the first time, they can make their wishes and dissatisfactions known in real time and with the same reach as the marketing measures of the brands and their manufacturers. For the first time, there is a balance of power between supplier and buyer. This is the state we call the "new closeness", which will redefine the interaction of all market participants.

Many banks have not yet recognised this. That is due to the usual reflexes of the industry, characterised by risk aversion and cost reduction. This inevitably leads to more automation, and algorithms make decisions on the quality of the customer relationship. Employees are degraded to acting as consultants. This is not a problem as long as a bank clearly decides who it wants to be. Either a more or less automated digital bank, characterised by simplicity and accessibility, which gains its attractiveness through the perfection and speed of its processes. For mass business such as payments, consumer loans and standardised building financing, these banks will be unbeatable as long as they can at least keep up with Amazon, Apple and the rest.

Or you devote yourself to your clients with all your might, as private banks typically do. Listen, listen and listen again. Responding to the customer and finding a solution that the customer perceives as the result of good listening and many years of expertise, and thus as tailor-made and not as a standard prod-

uct off the shelf in a pseudo-individualised shell. These banks put the scarcities of life (wishes, desires, dreams and hopes) of their clients above all else and very quickly become more than just the managers of finances for their clients.
The only thing that won't work is indecision. A little automation and a little empathic closeness won't work; nor will a little app and a little branch office.

Brand management means deciding and thus creating a profile. Corners and edges only emerge from a series of clear, consistently followed-through decisions – because only zeros have no corners.

Let's define the different types of closeness, because there are several dimensions behind this term, the understanding of which is crucial to anticipate the concept of "new closeness" as the meta-idea of brand management in the digital world.
Closeness can be divided into two basic dimensions:

1. Geographical closeness

   a. Identity, one to many
   b. Intellectual closeness, rational understanding
   c. Emotional closeness, empathy
   d. Spiritual closeness, soul kinship

1. Noline is the better online
Geographical closeness means being where the customer needs you. Always approachable at any time, always able to provide comprehensive information

and always informed about the customer's history. That was an expensive thing to do in pre-digital times. Geographical closeness was synonymous with local presence and people who filled that presence. Depending on the entrepreneurial strategy, this presence had to be in the most expensive city locations. The fierce competition forced the suppliers to build bigger and bigger stores with a lot of storage space and expensive parking spaces for the customers. The solution: lots of branches = lots of turnover. If a trading company was to be highly valued, it opened branches wherever it could and thus multiplied its turnover.

The only bottleneck was finding the right properties, which led to an exorbitant increase in rents and thus increased property valuations, which in turn attracted new investors who drove rents up further. This led to the commercially strange situation that many so-called flagship stores did not even earn their rents. This means that the loss was booked into the marketing budget and all kinds of excuses, described as "strategic", were used to conceal this wrong decision.

Geographical closeness is an expression of the will to relate.

You are so important to me that I will locate my business near you. What is common practice between people takes on a new quality in the digital transformation that brands can position themselves on. Shops, branch systems and retail are not dead; they are just manifesting themselves in a different form and, above all, with a different mindset.

It is the mindset and not the industry in which you operates that decides whether you are close to or far from your customers. Selling is no longer just a question of supply and demand. From "I have something you would like", to a relationship, "I trust you, I like you", to love, "I want you to play a role in my life".

2. Social Closeness
Social closeness is more complex and therefore we divide it into four subgroups:

2.a If an individual feels that he or she belongs to or is connected with many people (one to many), we speak of identity. Identities are defined by a volitional, transparent and articulated value system. The will to separate oneself from the outside world plays the same role as cultivating a sense of belonging on the inside. Identities are systems highly charged with energy that have a particularly high force of attraction and can therefore grow exponentially. The trick is rather to keep these energy systems together permanently and to prevent the formation of subgroups.

2.b We speak of intellectual closeness when one has a rather rational relationship with one's neighbour. You understand very well why you do what you do and you can understand everything well. There is a kind of pact with reason, whose motives for allegiance can always be put into arguments very well. These alliances are often very stable and durable as long as no emotional system intervenes. Typically, the relationship of clients to financial service providers or insurance companies is very often of a purely rational nature and only vulnerable to attack by highly trained empathic systems.

2.c In contrast to this there is empathic closeness, which is based on a strong emotional harmony; one can empathise with the other person very well. Although you don't always understand their actions or they even disturb you, you always have a good feeling about it because you simply like the character you are following and therefore want to be as close to him as possible.

2.d The highest form of closeness is spiritual closeness. To be a soulmate means to identify rationally and emotionally with individual personalities or whole groups. Anticipate and actively advocate, defend and justify their actions, views and values as well as their contradictions unquestioningly. Supporters are often unable to justify their motives. For them, the motives feel rather diffuse, but this does not detract from the desire for commitment and the intensity.

Common to all manifestations of social closeness is the bond beyond actual actions. High levels of tolerance and the pursuit of lasting alliances dominate the motives. You want to be part of something bigger than yourself. Social closeness means wanting to belong to a community whose norms and values are so attractive that one wants to adopt them. Raising one's own profile or exalting oneself are further drivers of this desire for commitment.

As highly condensed systems of meaning and significance, brands are virtually predestined to accumulate the social forms of closeness. If managed well, they offer meaning and have a strong will to play a relevant role in the lives of their clients and followers.
Brands in the digital world have long since left their origins as mere marking systems behind. In addition to marking and standardising the style and expression, the performances associated with it, its real significance lies in conveying the "why" of its existence. The question of, "Why do we do what we do?" What socially relevant benefit does the company and its services provide, which is characterised and held together by the brand?
The highest form of social closeness manifests itself in the strongest force the world knows – love. Love is the moment when the striving for intimate closeness and connection detaches itself from purpose and benefit, at the moment when closeness becomes selfless and one wants to merge with the other only for its own sake, at the moment when one no longer wants to change anything and accept everything as it is.

Klaus-Dieter Koch founded "BrandTrust" in 2003 because he recognised the enormous untapped potential of brand management as a value driver for companies and institutions. With his unique combination of passion, expertise and ingenuity, he has been successfully supporting decision-makers since then and has been able to help numerous brand managers find answers to problems such as brand management in the digital age, differentiation from the competition, making brands fit for the future and leadership management, and to exploit their potential entrepreneurially and systematically.

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