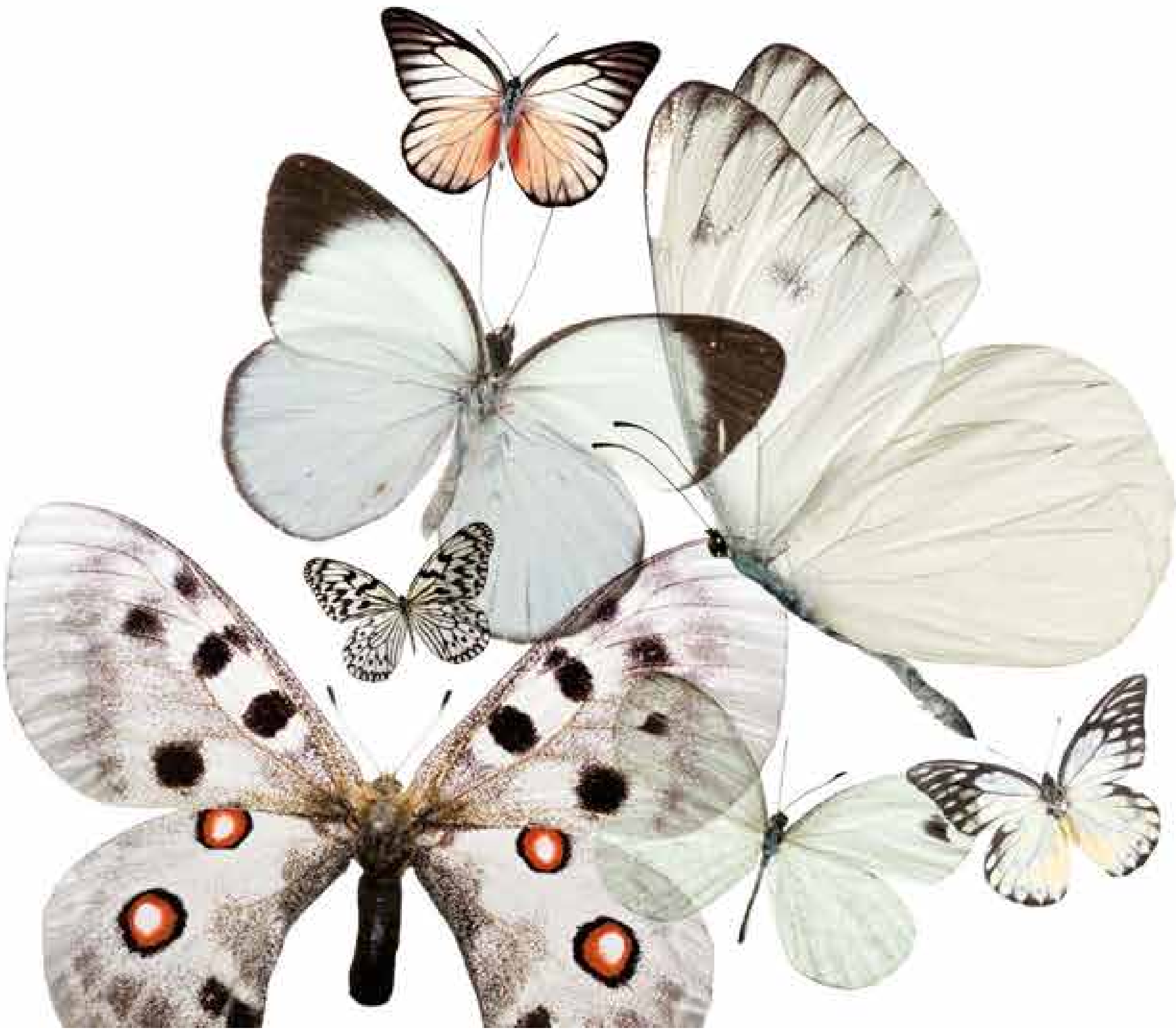
ANNUAL REPORT 2017

BKS Bank
3 Banken Gruppe

PROMOTING DIVERSITY. CELEBRATING SUCCESS.



With over 160,000 species, butterflies enrich our environment. And diversity enriches BKS Bank. Diversity of talent. Diversity of development. Diversity of success.

Inspired by the artist, Gabriele Sturm, we adopted the butterfly as a symbol of diversity for this Annual Report.

The artist took an infinite number of photographs of butterflies for her exhibition under the motto "Art in the Here and Now". She produced these on thin Japan paper, cut them out and colourised the photos. The result was a butterfly box that shows diversity at its most beautiful and colourful.

Diversity is also reflected in the credo of BKS Bank. It is not an empty phrase, but a mission statement brought to life.

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Minimal deviations of the values in the tables and charts are due to rounding differences.
This Annual Report is an unaudited translation from the German into English. In the event of any discrepancies, the German version shall prevail.

THREE-YEAR PERFORMANCE COMPARISON

INCOME STATEMENT in €m	2015	2016	2017
Net interest income	123.5	120.5	120.7
Impairment charges on receivables from customers	-48.5	-31.0	-26.7
Net fee and commission income	53.0	48.8	49.9
General administrative expenses	-105.1	-106.4	-107.8
Profit for the year before tax	60.7	49.8	77.2
Profit for the year after tax	53.6	46.2	68.0
BALANCE SHEET in €m			
Total assets	7,063.4	7,581.1	7,579.5
Receivables from customers after impairment charges	4,920.1	5,175.3	5,313.2
Primary deposits	5,109.8	5,568.0	5,669.1
– of which savings deposits	1,629.8	1,529.0	1,475.1
– of which securitized debt incl. subordinated debt capital	758.1	743.2	712.6
Equity	860.2	958.8	1,046.5
Customer funds under management	13,212.1	13,723.2	14,150.7
– of which on custody accounts	8,102.3	8,155.1	8,481.6
OWN FUNDS PURSUANT TO CRR in €m			
Total risk exposure amount	4,883.4	4,974.1	5,016.7
Own funds	599.9	670.0	701.6
– of which common equity tier 1 (CET1) capital	575.6	625.9	614.5
– of which total tier 1 capital (CET1 and AT1)	575.6	625.9	627.8
Common equity tier 1 capital ratio (in %)	11.8	12.6	12.3
Total capital ratio (in %)	12.3	13.5	14.0
PERFORMANCE RATIOS			
Return on equity after tax	6.5	5.1	6.8
Return on assets after tax	0.8	0.6	0.9
Cost/income ratio	48.7	56.2	51.9
Risk/earnings ratio	29.2	20.1	16.7
NPL ratio	6.6	4.8	3.5
LCR	130.7	155.6	145.2
Leverage ratio	7.7	8.5	8.0
RESOURCES			
Average number of staff	923	926	928
Number of branches	59	60	63

THE BKS BANK'S SHARES	2015	2016	2017
Number of no-par ordinary shares (ISIN AT0000624705)	34,236,000	37,839,600	37,839,600
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000	1,800,000
High (ordinary/preference share) in €	17.5/15.7	17.3/15.4	18.5/17.8
Low (ordinary/preference share) in €	16.5/14.8	15.8/13.9	16.8/15.4
Close (ordinary/preference share) in €	16.9/15.1	16.8/15.4	17.8/17.7
Market capitalisation in €m as at 31 Dec.	605.8	662.7	705.3
Dividend per share in €	0.23	0.23	0.23[1)]
Price/earnings ratio, ordinary/preference share	11.3/10.1	13.7/12.5	10.4/10.3

[1)] Proposal made to the 79th Annual General Meeting of BKS Bank AG on 9 May 2018

PREFACE BY THE CHAIRWOMAN OF THE MANAGEMENT BOARD

DIVERSITY IS OUR MOST VALUABLE ASSET.

Herta Stockbauer
Chairwoman

DEAR SHAREHOLDERS,

Victor Hugo once said, "The future has many names: for the weak it is the unattainable; for the fearsome, it is the unknown; for the brave it is an opportunity". BKS Bank bravely faces the challenges that are more than trying for the entire banking industry: digitalisation, the all-time low level of interest rates and the excessive regulation.

In order to keep up with the swift pace of technological development, we are investing in the IT systems and in our digital services. In 2017, major steps were taken to complete our customer portal for corporate and business customers. We have substantially enlarged our services for retail customers. We are also advancing the digitisation of our internal processes. At the same time, we are improving the digital fitness of our staff. Because we believe that the recipe for our future success is a combination of an up-to-date digital range of offers and excellent advisory services.

Significant gain in net profit

The interest rate landscape hardly changed in 2017. The bond buying programme of the European Central Bank (ECB) was prolonged until September 2018 and for this reason profitability decreased again in the lending business. This contrasted with a substantial improvement in economic development. In all markets in which we operate, gross domestic product increased steeply and boosted demand for loans. The economic situation also had a positive influence on our borrowers. The excellent result achieved is an expression of this brighter sentiment, and also shows that we are on the right course with our strategy. We are pleased about the significant rise in profit for the year from 47.3% to EUR 68.0 million.

We are also especially pleased with the development of new business. The volume of new loans was EUR 1.5 billion in the reporting year. Primary deposits increased from EUR 5.57 billion to EUR 5.76 billion, which is a sign of the enormous trust customers have in BKS Bank. Total assets remained unchanged at EUR 7.58 billion. Our performance ratios all indicate significant improvement. The overall capital ratio rose to 14.0% and the cost/income ratio was only 51.9%, while return-on-assets after taxes went up to a pleasing 0.9%. The improved risk situation in the lending business is seen in a much lower risk/earnings ratio.

First-time nomination for state award for corporate quality

Furthermore, apart from the financial ratios, 2017 was truly an excellent year for BKS Bank. In May, BKS Bank won the state award for corporate quality in the category "large enterprises" and was thus nominated for the first time for the state award. Our Slovenian leasing subsidiary is one of the few leasing companies that is entitled to bear the AAA Seal of Bisnode. In Croatia, BKS Bank was distinguished as an especially family-friendly enterprise by MAMFORCE©. A further highlight was the outcome of the ratings of our sustainability activities by oekom research AG. We once again improved our rating and thus retain our prime status. This ranks us among the top CSR companies in Austria. There was also quite a lot to celebrate in 2017: our ten-year anniversary in the Croatian banking market, the 15th anniversary of BKS-leasing Croatia d.o.o and the opening of new branches in Vienna, Ljubljana and Split.

Lively demand for innovative products

Responsible business policy is not only good for protecting our reputation, but is also a driver of innovation. In the reporting year, BKS Bank was the first bank in Austria to issue a social bond[1)] for the purpose of financing a social project, MaVida-Park of the AHA Group, a competence centre for patients with dementia and their relatives. In the autumn of 2017, we issued the first green bond[1)]. The proceeds went into the financing of a small hydro power plant erected by Hasslacher Energie GmbH. Both products met with lively interest. Especially innovative is our product ‘BKS Bank-Komplett’ - a package offer for retail banking customers that includes the entire range of banking services at an inexpensive monthly flat rate. Simple, transparent and inexpensive.

Secure future backed by solid capital cover

A robust level of equity is the guarantee for future growth. In the first quarter of 2018, we completed a capital increase at a ratio of 12 :1. We plan to invest the proceeds of the issuance of EUR 55.2 million in our future growth and especially in digitisation.

Changes on the Supervisory Board

After Peter Hofbauer resigned from his mandate on the Supervisory Board effective 30 September 2016, Gregor Hofstätter-Pobst, management board member of UniCredit Bank Austria AG, was newly appointed to the Board. We would like to express our appreciation to Mr. Hofbauer for his commitment and thank him for the valuable expertise he contributed. Christina Fromme-Knoch and Sabine Urnik were re-elected to the Supervisory Board at the annual general meeting.

Our special thanks go to our employees for their hard work and loyalty. Our personal thanks go to all capital and employee representatives on the Supervisory Board. Their enthusiastic and competent work is highly appreciated by BKS Bank.

Herta Stockbauer
Chairwoman of the Management Board

[1)] The information provided in this text serves only as non-binding information and does in any way not replace advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bonds mentioned here, and neither is it a buy or sell recommendation. The exclusive legal basis of the bonds described are the base prospectuses published by BKS Bank AG on 6 April 2017 together with all the documents incorporated by way of reference thereto and all addenda and the final terms and conditions published in each case. These are available free of charge from the issuer’s website at www.bks.at under ‘Investor Relations > Anleihenemissionen’ and from the branches of BKS Bank AG, St. Veiter Ring 43, 9020 Klagenfurt, Austria, during normal business hours.

DIVERSITY
IS ENRICHING.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE AT BKS BANK

We are committed to the principles of good and responsible management as defined in the Austrian Code of Corporate Governance. Social and ecological responsibility towards our shareholders, customers, employees and the general public is also part and parcel of our commitment to good corporate governance. Our sustainability strategy sets out the principles of our highly responsible business policy.

Austrian Code of Corporate Governance

The Austrian Code of Corporate Governance (Österreichischer Corporate Governance Kodex, ÖCGK) provides listed companies with a self-regulatory framework for the governance of their companies, supplementing existing stock company, stock exchange and capital market legislation. The aim is to establish responsible corporate management and controls guided by the aspiration to create long-term value. The ÖCGK is designed to increase transparency for all stakeholders: shareholders, business partners, customers and employees alike.

Key principles such as equal treatment of all shareholders, transparency, independence of supervisory board members, open communication between supervisory board and management board, minimising conflicts of interest and efficient supervision by supervisory board and auditors are to strengthen investor confidence in both the company and in Austria as a financial centre.

The standards for responsible corporate governance are grouped into three categories: The L-Rules (Legal Requirements) – these rules are based on mandatory legal requirements. The C-Rules (Comply or Explain) permits deviations, but require an explanation for them. The Code also contains R-Rules (Recommendations), which are recommendations without any binding character. Where R-Rules are not complied with, a company need neither disclose nor justify such non-compliance. Special rules applicable to banks and insurance companies remain unaffected by the ÖCGK. The ÖCGK does not require the disclosure of operational or business secrets.

Corporate Governance Statement

The members of the Supervisory Board and of the Management Board of BKS Bank explicitly declare themselves committed to comply with C-Rule 61 and with the principles, objectives and purposes of the ÖCGK. The Supervisory Board renewed its commitment to the ÖCGK at the first meeting of the Supervisory Board on 30 March 2017.

BKS Bank complied with the L-Rules and R-Rules in the reporting year; in the case of the C-Rules there were some departures that resulted from the individual situation of BKS Bank AG and of the 3 Banken Group. The table below explains and provides reasons for the departures from C-Rules 2, 31 and 45.

EXPLANATIONS OF BKS BANK ON DEVIATIONS FROM C-RULES

C-Rule 2 *(one share – one vote): Apart from ordinary shares, BKS Bank has also issued non-voting preference shares. They come with a preferred dividend right which offers shareholders an attractive alternative investment opportunity. Each of the ordinary no-par shares issued by BKS Bank carries just one vote. No single shareholder holds a disproportionate number of voting rights. The decision to issue non-voting preference shares was reached in 1991.*

C-Rule 31: *The remuneration of the members of the Management Board is disclosed in accordance with statutory provisions. For reasons of data protection and out of respect for the privacy of the individual Management Board members, no breakdown of the remuneration into its fixed and variable components has been disclosed. The remuneration rules defined by BKS Bank ensure that the variable remuneration paid to the members of the Management Board is commensurate with the personal performance of the respective member. Furthermore, the bank's earnings, risk and liquidity situation is taken into account accordingly.*

C-Rule 45: *Because of the way our shareholder structure has evolved over time, representatives of the largest shareholders have been elected to the Supervisory Board. As the major shareholders are themselves banks, their representatives also hold executive positions in other banks which are competitors of BKS Bank. All of them have, in a personal statement, declared their independence.*

The ÖCGK, the Guidelines on the Independence of Supervisory Board Members, the BKS Bank Corporate Governance Report and the articles of association of BKS Bank are available for downloading at www.bks.at/Corporate_Governance.

This report was compiled in conformity with § 243c and § 267b Austrian Commercial Code (Unternehmensgesetzbuch, UGB) and Rules 60 et seq. of the ÖCGK. Further themes of relevance for the ÖCGK such as shareholding structure and the annual general meeting, corporate communications and the passing on of information are described in the group management report, in the chapter on investor relations as well as in the notes to the consolidated financial statements.

The rules of the ÖCGK apply to all companies of the BKS Bank Group. At these companies, the governance tasks and, as necessary, the Supervisory Board mandates are assumed by serving members of the Management Board, heads of departments and former management staff members of BKS Bank. All Group companies are included in the reporting of the BKS Bank Group. Additionally, the directors of these subsidiaries report regularly to their supervisory boards and to the management board of the parent company. They are also extensively involved in the AML, the risk and compliance management system of the BKS Bank Group.

The remuneration principles also apply to their management staff, provided the respective executive bodies receive remuneration for their activities in these companies. Regular reports are made to the supervisory board of the parent company on developments at significant subsidiaries with business operations.

Revision of the Corporate Governance Code

In January 2018, the Austrian Working Group on Corporate Governance announced a revision of the ÖCGK. Adaptation were made to the L Rules resulting from amended national and international standards. Furthermore, Annex 2a was adapted to the revised Statement of the Austrian Financial Reporting and Auditing Committee (AFRAC). This Corporate Governance Report complies with the new standards of the revised ÖCGK.

External evaluation in accordance with C Rule 62

The company must review compliance with C-Rule 62 of the ÖCGK periodically – as a minimum every three years – conducted by an external institution. In the reporting year, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt branch reviewed compliance with the C-Rules with the exception of No 77 to 83 on the basis of the Corporate Governance Report of the year 2016. The findings of the external review showed that BKS Bank met the requirements of the Corporate Governance Code. The results of the review were discussed at the 2nd meeting of the Audit Committee and reported to the Supervisory Board.

INFORMATION ON THE INTERNET ON CORPORATE GOVERNANCE AND ON BKS BANK

	Address on the internet
Austrian Code of Corporate Governance	www.corporate-governance.at
The BKS Bank's shares	www.bks.at/Aktie
Shareholder structure	www.bks.at/Aktionaersstruktur
Financial calendar	www.bks.at/Unternehmenskalender
Annual General Meeting	www.bks.at/Hauptversammlung
Corporate Governance - Conformity Declaration of BKS Bank AG – Guidelines on Independence – BKS Bank's Code of Corporate Governance Report 2017 – Disclosures pursuant to § 65a Austrian Banking Act, BWG regarding corporate governance & remuneration – Articles of Association of BKS Bank	www.bks.at/Corporate_Governance
Business, financial and sustainability reports of BKS Bank	www.bks.at/Berichte
Disclosures pursuant to CRR	www.bks.at/Berichte
Press releases of BKS Bank	www.bks.at/Pressemitteilungen

MANAGEMENT BOARD AND SUPERVISORY BOARD

Working Procedures of the Management Board

The Management Board is accountable for the management of the BKS Bank Group, with due consideration of the interests of shareholders, employees, customers and the general public. The Management Board manages the bank's operations on the basis of the law, the articles of association and the business rules. The Management Board determines the strategic orientation of the bank, sets the corporate goals and coordinates the corporate strategy with the Supervisory Board. The Management Board takes the appropriate measures to ensure compliance with all relevant laws and guarantees efficient risk management and risk control.

The member of the Management Board in charge of a specific remit is directly responsible for that field of activity. However, the other members of the Management Board are always kept fully informed about the enterprise as a whole, and fundamental decisions are submitted to the Management Board as a whole for approval. In some areas of responsibility, the Management Board members are involved in day-to-day business and are kept informed of the business situation and of major transactions. Events of relevance for the company, strategic issues and measures are discussed at regular meetings for implementation by the Management Board member responsible or by the full Board.

Management Board decisions are usually reached by consensus. The principle of dual control applies to the signing of contracts and to risk-sensitive internal approvals. Comprehensive internal reporting supports the careful preparation of management decisions.

Members of the Management Board

In the reporting year, the Management Board of BKS Bank consisted of three jointly responsible members.

HERTA STOCKBAUER

Chairwoman of the Management Board, born 1960
Date of initial appointment: 1 July 2004
End of the period of office: 30 June 2019

Herta Stockbauer studied business administration at Vienna's University of Economics and Business Administration and then worked as an assistant professor and lecturer at the Institute of Economics at Alpen-Adria University in Klagenfurt. In 1992, she joined BKS Bank and worked in the corporate customers and securities departments before she switched to controlling and accounting. In 1996, she was appointed head of department; in 2004 she became a member of the Management Board and in March 2014, Chairwoman of the Management Board.

Her areas of responsibility include Corporates, Treasury and International Operations, Human Resources, Public Relations, Marketing, Social Media, Investor Relations, Accounting and Sales Management Accounting, Real Estate and Construction, Subsidiaries and Investments as well as International Business in Slovenia, Croatia, Hungary and Slovakia.

Mandates in companies included in the group of consolidated companies:
– Chairwoman of the Supervisory Board of Oberbank AG
– Deputy Chairwoman of the Supervisory Board of Bank für Tirol und Vorarlberg Aktiengesellschaft
– Member of the Supervisory Board of BKS-leasing Croatia d.o.o.

Mandates in other Austrian companies not included in the group of consolidated companies:
– Member of the Supervisory Board of Österreichische Post Aktiengesellschaft
– Member of the Supervisory Board of SW-Umwelttechnik Stoiser & Wolschner AG
– Member of the Supervisory Board of Oesterreichische Kontrollbank Aktiengesellschaft
– Member of the Supervisory Board of Einlagensicherung AUSTRIA Ges.m.b.H. and Member of the Advisory Council of the Bank Deposit Protection Organisation

Further positions:
– Member of the Management Board of the Austrian Bankers Association (Verband österreichischer Banken und Bankiers)
– Member of the Management Board of the Federation of Austrian Industries for Carinthia
– Member of the Board of the Austrian Society for Banking Research (Österreichische Bankwissenschaftliche Gesellschaft)
– Spokeswoman of the Banking and Insurance Section of the Chamber of Commerce of Carinthia
– Vice President of respACT – Austrian Business Council for Sustainable Development
– Honorary Consul for Sweden for the province of Carinthia

DIETER KRASSNITZER

Member of the Management Board, born 1959
Date of initial appointment: 1 September 2010
End of the period of office: 31 August 2020

Having graduated in business administration, Dieter Kraßnitzer worked for the publication Börsenkurier as a journalist and completed several internships at auditing and tax advisory firms. He has been working at BKS Bank since 1987. He became the bank's Head of Internal Audit in 1992. In 2006, he qualified as a Certified Internal Auditor (CIA©) at the Institute of Internal Auditors in the United States. Mr. Kraßnitzer celebrated his 30-year anniversary with the bank in 2017.

On the Management Board of BKS Bank, Dieter Kraßnitzer is responsible for Risk Management, Risk Controlling, Credit Back Office, Treasury Back Office, Business Organisation, IT and Technical Services and for the cooperation with 3 Banken IT GmbH[1)]. In international business, he is responsible for Back Office, Risk Management and IT.

Mandates in companies included in the group of consolidated companies:
– Chairman of the Supervisory Board of BKS-leasing Croatia d.o.o.

Mandates in other Austrian companies not included in the group of consolidated companies:
– Member of the Expert Advisory Council of 3 Banken IT GmbH[1)]

Further positions:
– President of the Carinthian Economics Society (Volkswirtschaftliche Gesellschaft)

[1)] Formerly DREI-BANKEN-EDV Gesellschaft m.b.H.

WOLFGANG MANDL

Member of the Management Board, born 1969
Date of initial appointment: 1 June 2013
End of the period of office: 31 December 2018

Wolfgang Mandl started his career in 1990 as an account manager for retail customers at the Spittal branch and in 1997 completed his studies of applied business administration at Alpen-Adria University Klagenfurt. He then held various positions in corporate and business customer care at our Klagenfurt Regional Head Office, before becoming its head in 2003 and also assuming responsibility for the retail segment.

On the Management Board of BKS Bank, Wolfgang Mandl is responsible for Retail, Private Banking and the Securities and Custody Account Business. He is also responsible for cooperation with sales partners such as Wüstenrot, card complete Service Bank AG, and 3 Banken-Generali Investment-Gesellschaft m.b.H., which is the joint investment management company of 3 Banken Group. Within the scope of BKS Bank's international operations, he is responsible for Italy.

Further positions:
– President of the Administrative Board of BCS Fiduciaria S.r.l
– Honorary Consul for Italy in the province of Carinthia

REMITS OF THE MANAGEMENT BOARD

HERTA STOCKBAUER	DIETER KRASSNITZER	WOLFGANG MANDL
Internal Audit		
Compliance		
Anti-Money Laundering: *Board member in charge pursuant to § 23 (4) Financial Market Anti-Money Laundering Act: Dieter Kraßnitzer*		
Due Diligence and Risk Management purs. to BR, Code of Corporate Governance and supervisory law		
– Corporate and Business Banking – Treasury and International Operations – Human Resources – Public Relations, Marketing, Social Media, Investor Relations – Accounting and Management Accounting for Sales – Real Estate and Construction – Subsidiaries and Investees – International Business Slovak Republic, Slovenia, Croatia, Hungary	*– Risk Management – Risk Controlling – IT, Business Organisation, Technical Services – Credit Back Office, BKS Service GmbH – 3 Banken IT GmbH[1)] Gesellschaft m.b.H. – Treasury Back Office – International Business Back Office, Risk Management and IT*	*– Retail and Healing Professions – Private Banking, Securities Operations – Asset Management and Custodian Operations – Sales Partners – International Business Italy*

The number and nature of all additional mandates held by the members of the Management Board are in conformity with the guidelines of C-Rule 26 of the ÖCGK and the provisions of § 28a BWG.

Working Procedures of the Supervisory Board

The Supervisory Board aims to perform as effectively as possible its supervisory and advisory role by bringing its members' professional qualifications, diversity and personal capabilities to bear.

As of 9 May 2017, the Supervisory Board of BKS Bank had ten shareholder representatives and five members delegated by the Works Council under the one-third-parity rule. The Supervisory Board advises and supervises the Management Board of the bank, performing its role both in plenary meetings and in individual committees. The supervisory board takes decisions autonomously on the election and thus the selection of the management board members, and on the establishment of the position of chairperson of the management board. The Supervisory Board monitors the management in accordance with the requirements of the law, the articles of association and the business rules. The Supervisory Board discusses the implementation of strategic planning and projects in its remit, and decides on matters of relevance for the company together with the Management Board.

The Supervisory Board may at any time conduct exhaustive audits itself or commission experts to conduct such audits. The Supervisory Board deals especially with the audit of the financial statements of BKS Bank AG and of the BKS Bank Group in accordance with international auditing standards (ISAs) and is, therefore, also directly involved in the decision on presenting a proposal for dividend distribution to the annual general meeting. A major role is played by the chairperson of the supervisory board who is responsible for the organisation of the supervisory board, its meetings and collaboration with the management board. The chairperson also presides over the annual general meetings of BKS Bank and heads the committees of the Supervisory Board.

The rights and obligations of the staff representatives are generally the same as those of the shareholder representatives. This applies, in particular, to their rights to information, their supervisory rights, their duties of care, their obligations of secrecy and any liability in the event of a breach of duty. In the event of personal conflicts of interest, staff representatives shall abstain from voting, the same being applicable to shareholder representatives. In the reporting year, no member of the Supervisory Board disclosed a conflict of interests within the meaning of C-Rule 46 of the ÖCGK. The remuneration of the Members of the Supervisory Board is presented in detail in the Remuneration Report starting on page 34.

Members of the Supervisory Board of BKS Bank AG

HONORARY PRESIDENT

HERMANN BELL

Mr. Hermann Bell was elected honorary president of the Supervisory Board for life at the meeting of the Supervisory Board on 15 May 2014.

SHAREHOLDER REPRESENTATIVES

GERHARD BURTSCHER

Chairman, independent, born 1967

Initially elected: On 19 May 2016, appointed until the 82nd annual general meeting (2021)

List of all supervisory board mandates or similar positions in other domestic and foreign listed companies:

– Deputy Chair of the Supervisory Board of Oberbank AG

FRANZ GASSELSBERGER

Vice-Chairman, independent, born 1959

Initially elected: 19 April 2002, appointed until 81st annual general meeting (2020)

List of all supervisory board mandates or similar positions in other domestic and foreign listed companies:

Bank für Tirol und Vorarlberg

– Member of the Supervisory Board of AMAG Austria Metall AG

– Member of the Supervisory Board of Lenzing Aktiengesellschaft

– Member of the Supervisory Board of voestalpine AG

CHRISTINA FROMME-KNOCH

Independent, born 1970

Initially elected: 15 May 2012, appointed until the 83rd annual general meeting (2022)

GREGOR HOFSTÄTTER-POBST

Independent, born 1972

Initially elected: 9 May 2017, appointed until the 81st annual general meeting (2020)

List of all supervisory board mandates or similar positions in other domestic and foreign listed companies:

– Member of the Supervisory Board of Bank für Tirol und Vorarlberg

– Member of the Supervisory Board of Oberbank AG

REINHARD IRO

Independent, born 1949

Initially elected: 26 April 2000, appointed until the 79th annual general meeting (2018)

List of all supervisory board mandates or similar positions in other domestic and foreign listed companies:

– Member of the Supervisory Board of SW-Umwelttechnik Stoiser & Wolschner AG

JOSEF KORAK

Independent, born 1948

Initially elected: 26 April 2005, appointed until the 80th general shareholders’ meeting (2019)

HEIMO PENKER
Independent, born 1947
Initially elected: 15 May 2014, appointed until the 80th annual general meeting (2019)

KARL SAMSTAG
Independent, born 1944
Initially elected: 19 April 2002, appointed until the 82nd annual general meeting (2021)
List of all supervisory board mandates or similar positions in other domestic and foreign listed companies:
– Member of the Supervisory Board of Bank für Tirol und Vorarlberg
– Member of the Supervisory Board of Oberbank AG

SABINE URNIK
Independent, born 1967
Initially elected: 15 May 2014, appointed until the 83rd annual general meeting (2022)

KLAUS WALLNER
Independent, born 1966
Initially elected: 20 May 2015, appointed until the 81st annual general meeting (2020)

Representatives delegated by the Works Council
MAXIMILIAN MEDWED, *born in 1963; first delegated on 1 December 2012*
HERTA POBASCHNIG, *born 1960, initially delegated: 1 June 2007*
HANSPETER TRAAR, *born 1956, initially delegated: 1 January 2003*
GERTRUDE WOLF, *born 1960, initially delegated: 1 November 2013*
ULRIKE ZAMBELLI, *born in 1972; first delegated 15 June 2015*

The number and nature of all additional mandates of Supervisory Board members comply with the mandate restrictions pursuant to § 28a (5) BWG.

Representatives of the Supervisory Authority
PETER LADISLAV, *born 1962*
Initially appointed: 1 January 2016
End of the period of office: 31 August 2017

GERHARD PIPAL, *born 1962*
Initially appointed: 1 June 2017
End of the period of office: 30 November 2017

WOLFGANG EDER, *born 1964*
Initially appointed: 1 September 2017

Independence of the Supervisory Board

C-Rule 53 of the ÖCGK requires the majority of the members of the Supervisory Board to be independent. A member of the Supervisory Board shall be deemed independent if said member does not have any business or personal relations with the company or its management board that would give rise to a material conflict of interests and would therefore be capable of influencing the behaviour of the member.

All Supervisory Board members elected by the annual general meeting have provided individual declarations of independence in accordance with the guidelines below. What is more - with the exception of Franz Gasselsberger, Gerhard Burtscher, Karl Samstag and Gregor Hofstätter-Pobst - no shareholders with a stake of more than 10% are represented on the Supervisory Board.

Outside the scope of its ordinary banking activities, BKS Bank has no business relationships with affiliated companies or related parties (including Supervisory Board members) that could jeopardize the Bank's independence.

The Supervisory Board has set out the following criteria for assessing the independence of Supervisory Board members:

GUIDELINES ON INDEPENDENCE OF THE SUPERVISORY BOARD OF BKS BANK

A Supervisory Board member is not permitted to have been a member of the Management Board or have held a management position at the company or a subsidiary of BKS Bank in the preceding three years. A previous position on a management board does not disqualify a member on the grounds of lacking independence, especially when there is no doubt that the mandate will be exercised independently based on a presentation of all relevant circumstances as defined in § 87 (2) Austrian Stock Corporation Act, AktG.

The Supervisory Board member is not permitted to have, or to have had, a business relationship with BKS Bank or one of its subsidiaries to an extent of relevance for the Supervisory Board member in the past year. This shall also apply to contracts with companies in which a member of the supervisory board has a considerable economic interest. The approval of individual transactions by the Supervisory Board pursuant to L-Rule 48 does not automatically result in disqualification due to lack of independence. The existence or conclusion of new contracts with the company that are common usage in the banking industry does not detract from the status of independence.

The Supervisory Board member is not permitted to have served as an auditor of BKS Bank or have been a shareholder or employee of the auditing firm in the preceding three years.
The Supervisory Board member is not permitted to be on the Management Board of another company that has a member of the Management Board of BKS Bank on its Supervisory Board unless the one company is related to the other within a company group or holds an economic interest in it.

A Supervisory Board member is not permitted to be a close relative (child, spouse, life partner, parent, uncle, aunt, brother or sister, nephew, niece) of a member of the Management Board or of a person who holds one of the positions described above.

Committees of the Supervisory Board and their decision-making powers

As a rule, the Supervisory Board takes care of its business at its plenary meetings, but delegates individual matters to five qualified committees. The rules for establishing these committees and their decision-making powers are laid down in the business rules for the Supervisory Board. Committee members from among the Works Council representatives are nominated in accordance with the provisions of the Austrian Labour Act (Arbeitsverfassungsgesetz). The proposals submitted in the reporting year for appointments to Supervisory Board committees were approved unanimously.

AUDIT COMMITTEE

The Audit Committee has six members and must, under § 63a (4) BWG, meet at least twice in each financial year to exercise its functions. The EU Audit Reform also provides for new auditing and documentation obligations in the countries in which BKS Bank has EU branches. Accordingly, the Audit Committee also deals with accounting processes, internal control systems, internal audit and risk management processes in Slovenia, Croatia and Slovakia.

Including the amendments introduced by the Amendment to the Audit of Financial Statements Act of 2016 (Abschlussprüfungsrechts-Änderungsgesetz, APRÄG), the Audit Committee conducts the following audit activities pursuant to § 63a (4) BWG:

- Monitoring the accounting process and presenting recommendations and proposals for ensuring its reliability
- Monitoring the effectiveness of the company's internal control system (ICS), the internal audit system and the risk management system
- Monitoring the audit of the single-entity and consolidated financial statements taking into account the findings and conclusions in reports published by the supervisory body for the auditing profession
- Reviewing and monitoring the independence of the auditor, especially with respect to any additional services provided to the audited company
- Reporting the findings of the audit of the financial statements to the Supervisory Board and presenting how the audit of the financial statements contributed to the reliability of financial reporting as well as on the role of the Audit Committee
- Examining the financial statements and preparing their approval, examining the proposal for profit distribution, the management report and, if applicable, the Corporate Governance Report, as well as reporting relevant findings to the Supervisory Board
- Examining the consolidated financial statements and the Group management report as well as reporting relevant findings to the Supervisory Board
- Implementing the procedure for the selection of the auditor of the financial statements, taking into consideration the appropriateness of the fee, and making a recommendation for the appointment of the auditor to the Supervisory Board

WORKING COMMITTEE

As laid down in its business rules, the Working Committee generally takes decisions by a circular vote on matters which, due to their urgency, cannot be referred either to the plenary meeting or to the Credit Committee. This body is convened as needed and cooperates closely with the Management Board; therefore, it has a sound basis for monitoring the Company's management. Applications submitted to this committee as well as the outcomes of its votes must be reported afterwards to the full Supervisory Board.

RISK AND CREDIT COMMITTEE

The Risk and Credit Committee has the following tasks pursuant to § 39d BWG:

- Advising the management on the bank's current and future risk appetite and risk strategy
- Monitoring implementation of the risk strategy within the context of the management, monitoring and mitigation of risks pursuant to § 39 (2b) nos. 1 to 14, as well as capital adequacy and liquidity
- Review of the pricing policy for the services and products offered by the credit institution to check if these adequately take the business model and risk strategy of the credit institution into account
- Irrespective of the tasks of the Remuneration Committee, assessing whether the incentives of the internal remuneration system take risk, capital, liquidity as well as likelihood and timing of profits realised into consideration

The Risk and Credit Committee also decides on the granting of new loans and the prolongation of existing loans, leases and guarantees once a certain exposure threshold is exceeded. As a rule, these decisions are reached by circular vote. The Supervisory Board is informed of the decisions reached by the Risk and Credit Committee at the next plenary meeting.

NOMINATIONS COMMITTEE

Based on statutory provisions (§ 29 BWG), this committee makes proposals to the Supervisory Board for filling upcoming vacancies on the Management Board and Supervisory Board, unless this falls under the purview of the Remuneration Committee. The Nominations Committee sets the target ratio for women on the Management Board and on the Supervisory Board, and develops a strategy on how to reach the target. It conducts regular assessments - but in any case when events indicate the necessity of a reassessment - of the structure, size, composition and performance of the managing body and of the supervisory body. Should it be deemed necessary, the Committee makes proposals for changes to the Supervisory Board. At least once a year, it also supports the Supervisory Board in assessing the knowledge, capabilities and experience of the individual members of the Management Board and Supervisory Board, and in assessing the respective body in its entirety.

Furthermore, it evaluates the management's policies for the selection and appointment of persons to top management positions. Like all the other committees, the Nominations Committee reports in detail to the next Supervisory Board plenary meeting following any decision-making on its part.

REMUNERATION COMMITTEE

The Remuneration Committee deals with the content of the employment contracts of the Management Board members and monitors remuneration policy, the practices applied and the remuneration-linked incentives pursuant to § 39b BWG and the related annex. Among other things, it also discusses and proposes changes to the remuneration policy guidelines of BKS Bank and the Group and submits such proposals to the Supervisory Board for approval.

COMMITTEES SET UP BY THE SUPERVISORY BOARD

Name	Audit Committee	Working Committee	Risk and Credit Committee	Nominations Committee	Remuneration Committee
Gerhard Burtscher, Chairman	✓	✓	✓	✓	✓
Franz Gasselsberger	✓	✓	✓		
Reinhard Iro		✓			✓
Heimo Penker		✓	✓	✓	✓
Sabine Urnik	✓				
Klaus Wallner[1)]	✓				
Maximilian Medwed	✓				
Herta Pobaschnig	✓				✓
Hanspeter Traar		✓	✓		
Ulrike Zambelli		✓	✓		

1) from 09 May 2017

Meetings and Main Activities of the Supervisory Board

Four meetings of the Supervisory Board were held in the financial year 2017. At every Supervisory Board meeting, the Management Board members reported on the current development of the financial position, result of operations and assets of the company and on the risk situation of BKS Bank and its subsidiaries. Furthermore, current regulatory requirements and their impact on BKS Bank were discussed at every meeting.
The Management Board submitted all matters requiring its approval to the Supervisory Board in good time.

The first meeting was held on 30 March 2017. The Supervisory Board reviewed the financial statements and management report of BKS Bank AG for 2016, the consolidated financial statements and Group management report for 2016 as well as the Corporate Governance Report for 2016. The audit reports were discussed in detail with the representatives of KPMG Austria GmbH. In accordance with the recommendations of the Audit Committee, the Supervisory Board approved the single-entity financial statements and management report for the year ended on 31 December 2016 and the consolidated financial statements and Group management report for the year ended on 31 December 2016 as well as the proposal for profit distribution for 2016.

The chairperson of the Audit, Nominations and Remuneration Committees reported on the key issues discussed in these Committees. The Supervisory Board agreed to the proposal of the Remuneration Committee with respect to the changes to the Remuneration Guidelines for BKS Bank AG and the Group. Furthermore, reports on developments in the current financial year and lending matters were brought to the attention of the full Supervisory Board. The Supervisory Board also authorized transactions with board members under the conditions applied for. As in previous years, an employee share participation plan was adopted within the scope of the annual bonus payments to the staff.

The Compliance and AML annual report was presented and the Supervisory Board self-evaluation as set out in C-Rule 36 of the ÖCGK was carried out. The Agenda and the documents required to pass the resolutions at the 78th annual general meeting were also prepared. After the meeting, a fit & proper training session was held on the topic of complaints management.

The second meeting of the Supervisory Board was held right after the 78th annual general meeting on 9 May 2017. At this meeting, the plenary board elected the chairperson and vice chairperson and dealt with the appointments to the five committees of the Supervisory Board. The current appointments to the committees of the Supervisory Board are presented on page 29. The chairperson of the Supervisory Board also holds the position of chairperson of all the committees.

After the Supervisory Board and its committees were constituted, reports were presented on the current financial year and the risk situation. This was followed by a discussion of the outcomes of the internal audit reviews of the first quarter of 2017, lending matters, the anti-corruption report for 2016, and the participation of BKS Bank in the capital increase of Bank für Tirol und Vorarlberg Aktiengesellschaft. Further items on the agenda included the increase in outstanding volume of the AT 1 bond, and appointments.

The third meeting took place on 14 September 2017. The Management Board reported on the first six months, presented the outlook for the full year 2017 and the risk report. This was followed by detailed reports from the Audit Committee. The reports dealt with the monitoring of the financial reporting process, the effectiveness of the internal control system, the internal audit system and the risk management system.

In addition, the independence of the auditor was ascertained. Then, explanations were presented on the loans granted by the Risk and Credit Committee. Moreover, the revised financial recovery plan adjusted to comply with supervisory requirements was approved and the proposal for an amendment of the rules of procedure was adopted. Additionally, the shareholder representatives and the staff representatives agreed to waive their right to object to the adding up of the minimum quotas needed to meet the 30% ratio for women and men on the Supervisory Board. This was followed by reports on cyber security management and new tasks of the Supervisory Board as a result of the Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz (NaDiVeG)). The third meeting of the Supervisory Board closed with a fit & proper training session on MiFID II/MiFIR.

At the fourth meeting of the Supervisory Board on 23 November 2017, the Management Board presented the development of the BKS Bank Group for the first three quarters as well as the segment and risk reports. The contents and the results of the preceding meetings of the Risk and Credit Committee were also discussed by the Chairman of the Supervisory Board. The Management Board presented the strategy 2022 to the Supervisory Board, along with the targets and the measures needed to achieve the goals set for the company. Furthermore, the outlook for 2017, the earnings, costs and investment budget for 2018 as well as issues planned for 2018 were presented to the Supervisory Board to resolve on. The full Supervisory Board also discussed the loans granted by the Risk and Credit Committee and the annual report on large exposures pursuant to § 28b BWG. The resolution of the Working Committee on the closing down of branches was reported on, plans for opening new and moving existing branches were approved, and a resolution adopted to go ahead with a capital increase.

Furthermore, the full Supervisory Board confirmed that the members of the Nominations Committee were compliant with the fit & proper test pursuant to § 29 BWG in conjunction with the relevant Financial Market Authority (FMA) circular and also with the Fit & Proper Guidelines of BKS Bank. At the close of the fourth meeting of the Supervisory Board, attention was drawn to the blocking periods that apply to director's dealings under MAR, and a fit & proper training session on IFRS 9 was held.

MEMBERS AND COMMITTEES OF THE SUPERVISORY BOARD

HONORARY PRESIDENT

Hermann Bell

SHAREHOLDER REPRESENTATIVES

Gerhard Burtscher, *Chairman*

Franz Gasselsberger
Vice-Chairman

Christina Fromme-Knoch
Gregor Hofstätter-Pobst
Reinhard Iro
Josef Korak
Heimo Penker
Karl Samstag
Sabine Urnik
Klaus Wallner

STAFF REPRESENTATIVES

Maximilian Medwed
Herta Pobaschnig
Hanspeter Traar
Gertrude Wolf
Ulrike Zambelli

COMMITTEES OF THE SUPERVISORY BOARD

Audit Committee:
Gerhard Burtscher, Chairman
Franz Gasselsberger
Sabine Urnik
Klaus Wallner
Maximilian Medwed
Herta Pobaschnig

Remuneration Committee
Gerhard Burtscher, Chairman
Reinhard Iro
Heimo Penker
Herta Pobaschnig

Nominations Committee
Gerhard Burtscher, Chairman
Heimo Penker

Risk and Credit Committee
Gerhard Burtscher, Chairman
Franz Gasselsberger
Heimo Penker
Hanspeter Traar
Ulrike Zambelli

Working Committee
Gerhard Burtscher, Chairman
Franz Gasselsberger
Reinhard Iro
Heimo Penker
Hanspeter Traar
Ulrike Zambelli

As at 31 December 2017

Meetings and Main Activities of the Committees

AUDIT COMMITTEE

The Audit Committee met twice in the reporting year. At the first meeting on 30 March, the consolidated financial statements including the Group management report for 2016, the single-entity financial statements including the management report for 2016, the report of the Chair of the Supervisory Board and the proposal for profit distribution, the corporate governance report and the risk report were reviewed in detail. Furthermore, the decision was reached to propose to the Supervisory Board and subsequently to the 78th annual general meeting to entrust KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt with the audit of the single-entity financial statements 2018 of BKS Bank AG and the consolidated financial statements for 2018. The report of Internal Audit on the auditing activities conducted in the fourth quarter of 2016 was discussed along with the audit plan for 2017.

At the second meeting on 14 September 2017, the developments in the current financial year, the risk situation and the preparations for the audit of the financial statements 2017 were discussed, and the Internal Audit report for the second quarter was presented. The members of the Audit Committee approved the motion made by Management Board regarding permissible non-audit services by the auditor. Twice a year, a report is submitted to the Audit Committee on the non-audit services actually provided. Pursuant to § 63a (4) (1) and (2) BWG, the Management Board reported in detail on the monitoring of the financial reporting process and the effectiveness of the internal control system, of the internal audit system and risk management activities.

Representatives of the auditing firm KPMG Austria GmbH attended both meetings as experts for the purpose of providing information.

WORKING COMMITTEE

In the reporting year, the Working Committee adopted two resolutions. On 24 April, the Committee approved the Management Board's resolution to participate in the capital increase of Bank für Tirol und Vorarlberg Aktiengesellschaft in an extent of some EUR 12.4 million. In addition, approval was granted to a resolution passed by the Management Board on 27 October to close down two branches of BKS Bank. In both cases, major conversion and refurbishment activities would have been required – one branch was therefore closed for economic reasons.

RISK AND CREDIT COMMITTEE

Because of the need for prompt decisions, the Risk and Credit Committee passed virtually all of its regulations in the year under review by circular vote. It dealt with 51 loan applications and reported in detail on each of them during the next plenary meeting. At the meeting of 23 November 2017, the committee discussed BKS Bank's risk situation as well as the operational and other banking risks set out in § 39 (2b) BWG.

In addition, it reviewed pricing policy for compliance with the bank's business model and risk appetite. A review of BKS Bank's remuneration system showed that incentives took into account the risk, capital, liquidity and earnings situation and did not create any unwanted incentives. Subsequently, the Committee advised the Management Board on the bank's current and future risk strategy and risk appetite. To this end, the members of the Committee carefully scrutinized the risk management activities and the risk strategy developed to in-depth scrutiny. The Committee reached the conclusion that the risk strategy is comprehensive and all the limits defined in it are observed. The bank's risk management processes are effective and appropriate, and changes in risk are is being properly monitored.

NOMINATIONS COMMITTEE
The Nominations Committee met on 29 March 2017. The Committee members verified the knowledge, capabilities and experience of the members of the Management Board and Supervisory Board in the course of the annual fit and proper evaluation. The members of the Nominations Committee themselves had undergone and passed the fit and proper evaluation, by unanimous vote, already at the Supervisory Board's meeting of 24 November 2016.

In the reporting year, no periods of office of members of the Supervisory Board expired. Pursuant to § 11 (2) of BKS Bank's articles of association, each year at the end of the annual general meeting, at least one fifth of the Supervisory Board members elected by the annual general meeting must retire. Two members of the Supervisory Board were selected for retirement by drawing of lots. Christina Fromme-Knoch and Sabine Urnik. Both were proposed for re-election for the maximum period of office allowed under the articles of association.

As Peter Hofbauer withdrew from his function in September 2016, Gregor Hofstätter-Pobst was proposed to succeed him for the remainder of Mr Hofbauer's term. The Nominations Committee assessed the suitability of the candidates proposed for election and re-election. The Nominations Committee also discussed the assessment of the structure, size, composition and performance of the Management Board and of the Supervisory Board, and reviewed the policy of the Management Board with respect to the selection of candidates for senior management positions.

REMUNERATION COMMITTEE
The Remuneration Committee met on 29 March 2017. At the meeting, the committee members discussed the principles of the remuneration policy and its implementation. Based on the Group's internal audit report, the Remuneration Committee ascertained that remuneration practices were in line with statutory requirements and with the guidelines adopted by the Remuneration Committee.

Following a unanimous vote by the Remuneration Committee, the amendment to the Remuneration Guidelines for BKS Bank AG and the banking group were presented for approval to the full Supervisory Board in accordance with EBA/GL/2015/22 (as amended on 27 June 2016). It also discussed the remuneration of senior management members working in risk management and compliance functions as well as the basis for the variable remuneration for members of the Management Board for the financial year 2016. In addition, the Remuneration Committee decided to pay out a fifth each of the variable remuneration for the years 2012 to 2015, for which provisions had been set aside, and to adapt the salaries of the Management Board members.

Self-evaluation in accordance with C-Rule 36

In the reporting year, the Supervisory Board conducted a self-evaluation of its activities in accordance with C-Rule 36 of the ÖCGK. At its meeting of 30 March 2017, it examined the efficiency of its activities, including, in particular, its organisation and work procedures. The resolution was passed to retain the current organisation and efficient work procedures.

Diversity Policy of BKS Bank

CRITERIA FOR SELECTING MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS

Given their responsibility for managing and supervising the bank’s operations, specific requirements in terms of their professional and personal fit and proper status apply to members of the Management Board and the Supervisory Board. When making proposals to the annual general meeting on appointments for positions becoming vacant, the Supervisory Board and the Nominations Committee give due consideration to aspects such as adequate representation of both genders, internationality, age structure, as well as the educational and professional background of potential candidates.

The criteria for selecting members of the Management Board and of the Supervisory Board are laid down in BKS Bank’s Fit & Proper Policy. On the one hand, our aim here is to look for and find suitable candidates for Management Board and Supervisory Board positions early on with a forward looking perspective. On the other hand, we also want to ensure adequate education and continued professional development for board members.

Criteria for the selection of board members include a corresponding theoretical education, hands-on expertise and sufficient experience in a leading position. In addition, someone qualifying as a member of the Management Board or Supervisory Board must show certain personality traits such as honesty and impartiality as well as personal reliability, have a good reputation and meet governance criteria.

All shareholder representatives on the Supervisory Board of BKS Bank are highly qualified banking and economic experts with professional experience in strategic matters and excellent knowledge of accounting and financing.

All members of the Management Board and most members of the Supervisory Board are university graduates and are or have been working in banking and insurance. One member of the Supervisory Board is a university lecturer and researcher. The staff representatives on the Supervisory Board have long been employed and are profoundly familiar with BKS Bank.

All members of the Management Board and the shareholder representatives on the Supervisory Board have extensive leadership experience in internationally operating companies. They are well versed in the particularities arising from different cultural customs or different legal systems. The members of the Management Board and the Supervisory Board all have a good command of foreign languages.

We are specifically interested in attracting qualified women for positions of high responsibility. For this reason, we also strive for a balanced representation of both genders on our boards. In 2014, the Nominations Committee set a target rate of 30% for women in the bank's management and on the Supervisory Board. We have, for several years already, been meeting the statutory 30% ratio that entered into force as of January 2018. The members of the Nominations Committee monitor compliance with the target ratio and check the effectiveness of measures defined to promote women.

Age is of minor importance when it comes to assessing the suitability of potential candidates. We do not want to discriminate anyone on the basis of their age. Quite on the contrary, we think that an adequate educational background along with pertinent professional and management experience constitute the best prerequisites for people being able to determine and shape the economic development of our company for the long term. The members of the Supervisory Board are between 45 and 73 years old.

Changes after the balance sheet date

There were no major changes subject to reporting between the balance sheet date and the date the Corporate Governance Report was compiled.

REMUNERATION REPORT

The Remuneration Report states the criteria applied to determine the remuneration of the members of the Management Board and of the supervisory Board of BKS Bank, and explains the amount and structure of the remuneration paid to said members as well as the audit fees and services of the auditors.

Details on the implementation of the remuneration policy are published in the CRR Disclosure Report, which is available at www.bks.at under » Investor Relations» Berichte und Veröffentlichungen.

Remuneration of Management Board members

The Supervisory Board delegated all matters relating to the remuneration of the Management Board to the Remuneration Committee at its meeting of 25 November 2010. The Committee has since then regulated the relations between the company and the members of the Management Board and monitored remuneration policy, remuneration practices and remuneration-linked incentives pursuant to § 39b BWG including its Annex.

The Remuneration Guidelines of BKS Bank AG and the BKS Group were approved by the Supervisory Board, upon proposal by the Remuneration Committee, and took effect as of 1 January 2017. Apart from remuneration policy principles, the Guidelines also include a detailed complexity analysis documented in writing as well as parameters for the measurement and review of the variable remuneration components. The remuneration policy of BKS Bank is compliant with all the principles set out in the Annex to § 39b BWG. By complying with the detailed regulatory provisions for banks regarding the remuneration policy of credit institutions, the requirements of § 78 (1) AktG were also fully met.

The remuneration paid to the active members of the Management Board of BKS Bank depend on their areas of activity and remits, their contributions to business performance and reasonable standards in the industry for entities of a similar size. This takes into account a balanced ratio of fixed and variable components; the guidance for variable components being 25% of total remuneration. The variable remuneration components are limited to 40% of total annual remuneration.

The fixed remuneration component is based on the respective area of work. The variable components are guided by the sustainable and long-term achievement of the business strategy, the risk strategy and the sustainable, long-term economic development of BKS Bank. A shortfall in meeting these criteria is reflected in the variable annual remuneration. The criteria for the assessment of the variable remuneration components are: consolidated profit after tax, return on equity after tax, cost/income ratio, risk/earnings ratio, staff turnover rate, trend in number of customers as well as the common equity tier 1 capital ratio and the capital ratio as a measure of the overall development of operations and business and of the development of the individual business units. Moreover, the targets defined for risk-bearing capacity, credit, market, liquidity and operational risks as well as the risk of over-indebtedness are used as a measure for granting variable remuneration components.

These include, for example:
– percentage use of economic capital
– measures for concentration risk in the lending business such as the share of large exposures, the share of foreign lending, and the share of foreign currency loans
– the interest rate risk as a percentage of own funds
– loans-to-deposits ratio
– amount of operational risk

Joint as well as the personal performance of the members of the Management Board are taken into account. Non-financial aspects are also considered in the assessment. Should it turn out ex post that the variable remuneration components were paid out on the basis of obviously incorrect data, such amounts may be recalled.

In the reporting year, the remuneration of active members of the Management Board totaled EUR 1,349.0k (preceding year: EUR 1,212.68k), of which some 84% accounted for fixed components and some 16% for variable components. In accordance with the Remuneration Guidelines, one-fifth of the variable remuneration set aside for 2012, 2013, 2014 and 2015 was paid out. No variable remuneration components in the form of instruments were allotted. BKS Bank does not have a stock option programme and therefore it does not make any partial payouts of variable components in the form of BKS Bank shares or options on these shares.

The rules defined for the variable remuneration components are based on the FMA circular on the "Principles of Remuneration Policy and Practices" and did not change in any material respect compared to the preceding year. Therefore, neither the variable components paid out to the members of the Management Board nor the remuneration system for second-level management staff, for employees in control functions or for risk buyers resulted in any incentives to assume unreasonable risks.

The remuneration paid to the Management Board in the reporting year is also presented in the notes to the financial statements on page 208. Provisions for severance payments and post-employment benefits for Management Board members were set aside in an amount of EUR 116.1k.

The business rules for the Management Board provide that any sideline activities of the members of the Management Board require the approval of the Nominations Committee to avoid conflicts of interest and contain unwanted financial incentives. An exception is made for mandates in the subsidiaries of BKS Bank. There is no remuneration for these mandates.

Company pension fund contributions for active members of the Management Board are paid into a pension fund on a monthly basis. Furthermore, Management Board members are entitled to severance payments upon termination of their employment contracts under the terms applicable under the Act on Salaried Employees (Angestelltengesetz, AngG) and under the Collective Agreement for Banks. The rules applicable to the premature termination of a position on the Management Board comply with the provisions of C-Rule 27a of the ÖCGK. Agreements on termination compensation payments take into account the conditions under which the member resigns from the Management Board and the economic situation of the bank. Unless there is a compelling reason for the premature termination of the function on the Management Board, the compensation payment may only cover the remaining time to expiry of the Management Board contract. Should a Management Board member terminate an employment contract prematurely for reasons for which he or she is responsible, such compensation payment, in the maximum amount of the remuneration for two full years, shall become forfeited in full.

Former Management Board members are entitled to old-age pension payments. The amount of the company pension contractually agreed is contingent on the period of employment and the amount of the fixed salary eligible for pension contributions. Surviving relatives are entitled to pension benefits after the death of an entitled member of the Management Board. The post-employment benefits of former Management Board members and their surviving relatives amounted to EUR 940k (preceding year: EUR 940.0).

BKS Bank has taken out and paid for directors and officers liability insurance for the members of the Management Board, the Supervisory Board, the members of second-level management and authorized signatories as well as for the managing directors of subsidiaries.

TOTAL REMUNERATION OF THE MANAGEMENT BOARD

in €k	2016	2017
Total remuneration of active Management Board members in the reporting year	1,213	1,349
– thereof Herta Stockbauer[1)]	551	671
– thereof Dieter Kraßnitzer	354	364
– thereof Wolfgang Mandl	308	314
Post-employment benefits for former Management Board members and their survivors	940	940
Allocation to severance payments and post-employment benefits for Management Board members	113	116

[1)] Including anniversary bonuses

Remuneration of senior management

The managing directors of the fully consolidated companies as well as the heads of subsidiaries of foreign branches are likewise subject to the Remuneration Guidelines and classified as risk buyers. The Remuneration Committee regularly evaluates the variable components of their remuneration. Such management staff is furthermore subject to the fit and proper rules of BKS Bank.

Remuneration of Supervisory Board members

The remuneration paid to Supervisory Board members is regulated in the articles of association of BKS Bank. At the 78th annual general meeting on 9 May 2017, a vote was passed to increase the remuneration for Supervisory Board members.

In the reporting year 2017, the chair of the Supervisory Board received EUR 24,000, the vice chair EUR 20,000 and the other shareholder representatives EUR 18,000 each per year, with retroactive effect as of 1 January 2017. The reimbursement of expenses for each meeting attended was set at EUR 150 per meeting. Supervisory Board members who belong to one or more Committees set up by the Supervisory Board were paid a fee for the additional work performed in the respective committees. The remuneration of members of the Audit, Risk and Credit Committees was raised to EUR 6,000 p.a., and to EUR 3,000 p.a. for the Remuneration Committee. The remuneration paid to members of the Working Committee and the Nominations Committee, EUR 2,000 and EUR 1,000 p.a. respectively, remained unchanged.

The member of the Supervisory Board nominated by UniCredit Bank Austria AG, Gregor Hofstätter-Pobst, does not receive any remuneration. The company asked us to refrain from paying such remuneration due to internal rules for Supervisory Board activities of active managers of the UniCredit Group.

In the reporting period, total remuneration attributed to the shareholder representatives on the Supervisory Board amounted to EUR 233.5k. The payments are made only after the Supervisory Board has been discharged from liability by the annual general meeting for financial year 2017. No member of the Supervisory Board attended fewer than half of its plenary meetings. The attendance rate of the shareholder and staff representatives was therefore 88%.

REMUNERATION OF THE SUPERVISORY BOARD

Name	in EUR	Fixed fees for SB	Committee workt	Attendance fees	Total remuneration 2017
Gerhard Burtscher		24.000	18.000	600	42.600
Franz Gasselsberger, MBA		20.000	14.000	600	34.600
Christina Fromme-Knoch		18.000	-	450	18.450
Gregor Hofstätter-Pobst[1)]		-	-	-	-
Reinhard Iro		18.000	5.000	600	23.600
Josef Korak		18.000	-	450	18.450
Heimo Penker		18.000	12.000	600	30.600
Karl Samstag		18.000	-	300	18.300
Sabine Urnik		18.000	6.000	600	24.600
Klaus Wallner[2)]		18.000	3.896	450	22.346

[1)] This SB member does not receive any fees due to an internal regulation of the UniCredit Group.
[2)] from 9 May 2017 member of the Audit Committee

Directors' dealings

At the close of the last day of trading on the stock market in 2017, the members of the Management Board held a total of 2,556 ordinary shares and 4,665 preference shares on their securities accounts with BKS Bank; Supervisory Board members held 4,830 ordinary shares and 2,951 preference shares. In total, this corresponds to a share of just short of 0.04% of shares issued. Buying and selling by members of the Management Board and the Supervisory Board and by persons closely related to them is reported to the FMA pursuant to the EU Market Abuse Regulation, published through news agencies throughout Europe and disclosed on BKS Bank's website. This is done in cases where the value of the trades for own account reaches or exceeds EUR 5,000 per calendar year. In the past financial year, there was one Directors' Dealings notification.

BKS Bank does not have a stock options scheme for Management Board and Supervisory Board members or for management staff and neither are there any plans to create one. Within the scope of its regular business operations, the bank budgeted loans in 2017 to members of the Supervisory Board in the amount of EUR 367k (preceding year: EUR 386 k). Members of the Management Board were extended loans amounting to EUR 57k (preceding year: EUR 72k).

Remuneration of the Bank Auditor

At the 77th annual general meeting of 19 May 2016, the resolution was taken by unanimous vote to entrust KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt, with the audit of the financial statements and conduct of business of BKS Bank AG and the Group for the financial year 2017. After the appointment and before the signing of the contract for the audit, the auditors informed the Supervisory Board immediately of the estimated scope of the audit. Pursuant to C-Rule 77 of the ÖCGK, the audit must be conducted in accordance with international auditing standards (ISA). The bank auditor also presented a list of all revenues received in the preceding financial year broken down by category of service to the Supervisory Board. KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt, also informed the Supervisory Board of its participation in a quality assurance system and plausibly declared its impartiality, also confirming that there were no grounds that could give rise to reasons for its exclusion.

The 2016 Amendment to the Audit of Financial Statements Act (Abschlussprüfungs-Änderungsgesetz, APRÄG 2016) provides for a strict separation of audit and non-audit services that may be provided by the auditor and its networks. The Audit Committee approved the budget for non-audit services and verified observance of the budget limit. In the reporting period, we spent a total of EUR 0.5 million on fees for mandatory audits. EUR 0.2 million were attributable to other advisory services, and EUR 0.1 million to business and tax advice.

INFORMATION ON FEES PAID TO THE BANK AUDITOR

in €k	2016	2017
Fees for mandatory audits of the single-entity and consolidated financial statements	427	522
Fees for other auditing services	49	159
Fees for advisory services, including tax advice	124	54
Total	**600**	**735**

INDEPENDENT ASSESSMENT OF THE FUNCTIONALITY OF THE RISK MANAGEMENT SYSTEM

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt, conducted an assessment of the functionality of the risk management system of BKS Bank pursuant to C-Rule 83 of the ÖCGK. In doing so, the auditor relied for guidance on the master framework for company-wide risk management published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Among other things, the auditor assessed the risk policy, risk strategy and organisation of risk management, just as the approach used to identify, analyse and assess risks, and the measures taken to control risk. The auditor also performed a detailed analysis of risk monitoring and reporting on risk management. The auditor presented its report on the functionality of the risk management system to the chair of the Supervisory Board.

The result of the audit was examined in depth at the first meeting of the Audit Committee on 30 March 2017. The chair of the Supervisory Board reported to the full Supervisory Board that the audit pursuant to C-rule 83 had not given rise to any objections and that BKS Bank had a well-functioning risk management system. At the second meeting of the Audit Committee, the topic of risk management and its current further development was addressed in detail in line with the requirements set out in § 63a (4) BWG, with a focus on the management of cyber risk. The goals and the implementation of measures set out in the risk strategy were discussed at the meeting of the Risk and Credit Committee on 23 November 2017. Risk management at BKS Bank is described in detail in the Risk Report, which is an integral part of the Group Management Report, starting on page 122.

In conformity with C-Rule 18 of the ÖCGK and § 42 BWG, BKS Bank has set up an internal audit system that follows an audit plan approved by the Management Board and accorded with the Audit Committee and the plenary meeting of the Supervisory Board.
The Internal Audit unit assess the risks of all company activities and operational processes, identifies the potential for improving efficiency and monitors compliance with statutory provisions and internal guidelines.

A further key element of the monitoring system at our bank is the internal control system (ICS). As early as in the 1980s, we started implementing the systematic development of an internal control system that serves primarily to safeguard assets, ensure compliance with the law and increase economic efficiency. Details are provided in the Risk Report starting on page 160.

FINANCIAL REPORTING AND DISCLOSURE

As an exchange-listed company, BKS Bank AG applies L Rule 65 of the ÖCGK and prepares consolidated financial statements and a short interim Group report, which is part of the mid-year financial report pursuant to the International Financial Reporting Standards (IFRS) as adopted by the EU. We publish the annual financial statements at the latest four months after the end of the reporting period, the mid-year financial statements and interim reports at the latest three months after the end of the reporting period.

The reports are available to the public for at least ten years. We use the services of the Issuer Information Centre of Oesterreichische Kontrollbank AG (OeKB), which is the officially appointed system for the central storage of mandatory disclosures. Apart from the statutory disclosure obligations, our bank published interim reports for the periods ending 31 March and 30 September 2017 in the last financial year. The financial reports are published on the website of BKS Bank in German and in English in accordance with C-Rule 68 of the ÖCGK.

The financial reporting of the BKS Bank Group presents a true and fair view of the assets, financial position and result of operations of the company in accordance with L-Rule 69 and C-Rule 70 of the ÖCGK. The company shall present an adequate analysis in the consolidated management report on the development of business and must discuss any material risks and uncertainties the company is exposed to. The company also presents the key features of the internal control system and risk management with respect to the accounting process. The detailed risk report starts on page 122 of this annual report and contains information on how the company deals responsibly with the various types of risks. We publish a separate sustainability report, which covers the requirements for non-financial disclosures. For this reason, the Group management report contains only a brief description in this respect.

The single-entity financial statements of BKS Bank AG are prepared in accordance with the provisions of the UGB. The consolidated and single-entity financial statements are prepared by the company, audited by the auditor elected at the annual general meeting, and then approved and confirmed by the Supervisory Board.

In the annual and interim reports, the management board discusses material changes or departures from the revenue, profit and strategy targets for the current and the subsequent financial year as well as their causes and effects for the current and subsequent financial year and material departures from previously released revenues, earnings and strategy targets.

A calendar of corporate events is published in the financial reports and on the website for the current year and for the subsequent year, in accordance with C-Rule 74 of the ÖCGK. The calendar contains all publication dates of importance for financial communications as well as the date of the next annual general meeting. In accordance with L-Rule 71, we publish insider information immediately on our website, where it can be accessed online for a period of five years. Further details on the relations of BKS Bank with its shareholders and stakeholders are provided in the chapter “Investor Relations Communication”.

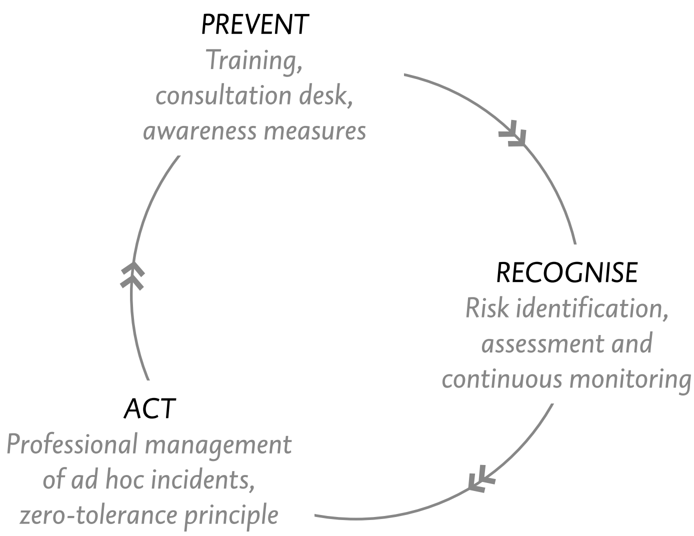
COMPLIANCE MANAGEMENT SYSTEM

In addition to risk management and the internal control system, compliance is the third pillar of monitoring at the bank. The primary goal is to prevent breaches of laws and regulations and to protect the BKS Bank Group, its employees, its management and governing bodies as well as the owners against compliance risks. To this end, a compliance management system has been set up at the BKS Bank Group.

We take our extensive compliance obligations very seriously. We expect our management staff and employees to comply with all laws, regulations and internal guidelines in their daily work and to take guidance from our corporate values. Integrity plays a special role in this context. Integrity safeguards the trust that customers, shareholders, employees and business partners place in our bank and therefore contributes to our long-term success.

To ensure conduct that is in compliance with legal provisions and regulations as well as ethical norms, we have set up a compliance management system based on three elements: Recognise, Prevent and Act. We devote special attention to the theme of prevention through specific communications and training measures.

COMPLIANCE MANAGEMENT SYSTEM OF BKS BANK



All new employees receive training on anti-money laundering and compliance matters as soon as they start work. Subsequently, all employees must attend mandatory compliance seminars at least every three years. Moreover, they must complete e-learning modules on anti-money laundering and compliance themes every year. A further area of focus is strict adherence to the know-your-customer principle. This includes, among other things, clearly determining and documenting the identity of customers, their beneficial owners and the origin of funds used in the business relation or in transactions with the bank. The purpose of transactions is also scrutinised on a risk-related basis.

Compliance matters, the scope of which is very extensive, are dealt with by two expert teams that work independently of each other: Capital Market Compliance and AML/CFT. Organisationally, the two teams belong to “Legal and Compliance”. The head of this group acts as both Compliance Officer and AML Officer and reports directly to the Management Board.

The Compliance Officer has a number of supervisory, control, notification, reporting and information obligations. The Compliance Officer also has extensive powers to issue instructions, request information and carry out investigations.

The Capital Market Compliance team is responsible for the compliance tasks which arise from statutory and regulatory provisions. These include, in particular, the creation of compliance rules and regulations, the development and implementation of communications and training measures, the establishment of systems for preventing and combating inside dealings and market manipulation, as well as the periodical assessment of compliance risks.

The AML Officer and the AML/CFT team deal with measures to prevent money laundering and terrorism financing, and compliance with financial sanctions. The team is also responsible for setting up and developing an effective system for fraud prevention.

The two organisational units are also responsible for independent reporting to the Management Board, the Supervisory Board and the Financial Market Authority as well as other government agencies. A compliance management system is also in place at the foreign branches and subsidiaries.

In the past financial year, we dedicated much time and effort to the new requirements MiFID II (Markets in Financial Instruments Directive II). This European-level set of rules, one of the purposes of which is to strengthen investor trust in capital markets, also entails the need to implement further compliance measures. It is necessary, in particular, to set up test mechanisms and controls as well as risk analyses to show whether the measures taken by BKS Bank to implement the provisions of this European set of rules and the related implementing acts are effective or not.

Other key issues included implementation of the requirements under the new Financial Market Anti-Money Laundering Act, the Beneficial Owners Register Act and the EU Funds Transfer Regulation. These legal provisions, which entered into force in 2017, provide a comprehensive new set of rules for measures to prevent money-laundering and terrorism financing. Under these rules, banks are required to collect even more information about their customers and their business activities, to assess the potential risks arising from these circumstances, and take risk-reducing measures.

COMPLIANCE AND AML INFORMATION ON BKS BANK ON THE INTERNET

	Addresses on the internet
– AML Declaration – Banking License – USA Patriot Act Certification – Wolfsberg Questionnaire of BKS Bank AG – W-8BEN-E – Directors‘ Dealings disclosures	www.bks.at/Compliance

MEASURES FOR PROMOTING WOMEN

BKS Bank's human resources policy is designed to ensure equal opportunities and rights for all employees and to prevent any form of discrimination. In accordance with L-Rule 52, we give due consideration to diversity as well as to the professional and personal qualifications of potential candidates for positions on the Management Board, senior management positions and positions on the Supervisory Board.

The share of women on the Management Board is 33%. On the Supervisory Board of BKS Bank, 20% of shareholder representatives and three-fifths of staff representatives are women. In 2014, the Nominations Committee set a target rate of 30% for the gender being underrepresented on the boards. In the reporting year, the share of female members of the Supervisory Board was 33%.

At BKS Bank, we have 1,099 employees, 623 of whom are women. We are pleased that today 32.4% of management positions at our company are filled by women. In the year under report, eight out of twenty vacant management positions were filled by women – a share of 40%. We are confident that we will reach our target of raising the share of women in management positions to 35% by 2020.

When it comes to filling management positions, all employees have equal career opportunities, regardless of their gender, age or socio-cultural background.

Nonetheless, the share of women in management positions throughout the Group was still lower than that of men in the reporting year. With the women's career promotion programme started in 2012, 'Frauen.Perspektiven.Zukunft' (Women.Perspectives.Future), we have taken action to specifically support career opportunities for women.

We view this as an important step towards bringing women with relevant expertise into management positions. In March 2017, participants completed the third annual round of the qualification programme. Of the 44 graduates from the three training courses, eight women have gone ahead and started a career in management. Six others chose a career path as experts, while eight women in the programme are currently on maternity leave. Another positive aspect is the steadily rising number of highly-motivated younger women.

INFORMATION ON MANAGEMENT POSITIONS FILLED BY WOMEN

As at 31. December 2017	Number	Ratio	Number	Ratio
Management Board	1	33 %	2	67 %
Supervisory Board (shareholder representatives)	2	20 %	8	80 %
Supervisory Board (staff representatives)	3	60 %	2	40 %
Other management positions	55	32 %	115	68 %

BKS Bank offers its employees a range of options to achieve a better work-life balance. Flexible working time models, extensive training and continued professional development opportunities, care services for small children at the “Kinki” day-care centre, help with organising childcare during school holidays, the proactive encouragement of men to take childcare leave or free-of-charge, confidential professional counselling for employees going through difficult life experiences are just a few examples of measures for which adequate funding is also made available. These initiatives earned the bank the certificate of the audit programme ‘berufundfamilie’ (workandfamily) conducted by the Federal Ministry for Economy, Family and Youth in the years 2010, 2013 and 2016. In Slovenia, BKS Bank has held the corresponding Slovenian certificate since 2015. In Croatia, the bank was, for the first time, awarded the MAMFORCE©Standard as a family-friendly company.

In accordance with the principle of “equal pay for equal work”, we make every effort to further reduce the gender wage gap. The wage gap results mainly from the fact that many more women than men work part-time, which causes their professional careers to develop along a flatter curve. What is more, men benefit much more frequently from all-in remunerations for overtime. In 2017, we were able to reduce the income gap from 19.23% to 17.53%, a reduction of 1.7 percentage points. Another aim we have set ourselves for the next few years is to reduce the rate of part-time employment, which currently stands at 23%. Especially in view of the fact that working part-time for many years negatively impacts the amount of future old-age pension benefits, we plan to take measures to enable employees with children to also work full time. We are invested in raising the average retirement age among our female employees to 60. In 2017, it was 59.1 years, slightly down from the previous year’s figure of 59.5 years.

Klagenfurt am Wörthersee, March 2018

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD

DEAR READERS,

2017 proved to be another highly successful year for BKS Bank. While the challenges faced remained significant, BKS Bank once again demonstrated impressively that it is possible to generate excellent earnings even in a difficult market environment.

Close Coordination between Supervisory Board and Management Board

The Supervisory Board monitored the work of the Management Board, providing support for the management of BKS Bank and its affiliated companies At the four regular meetings held in the reporting year, the Supervisory Board and the Management Board deliberated and discussed the economic situation, including the risk situation and risk management, the Bank's strategic development and other events of relevance for the bank. The Supervisory Board received extensive written and oral reports from the Management Board in a timely manner. I also communicated regularly with the Chairwoman of the Management Board in the time between Supervisory Board meetings.

The Supervisory Board was therefore always involved all in key decisions, enabling its members to assure themselves of the lawfulness, effectiveness and orderliness of management activities.

The Supervisory Board bundles its areas of expertise in five committees, all of which I have the honour of chairing. Below, you will find a brief summary of the activities of each of these committees in the reporting year. Starting on page 30, this report provides a detailed description of the main areas of work of these committees.

The Audit Committee held two meetings in the reporting year and fulfilled all of its tasks as stipulated by law. The Working Committee adopted two resolutions by circular vote in 2017. The full Supervisory Board was informed about the transactions approved by the Working Committee at its next meeting. In its function as Risk Committee, the Risk and Credit Committee held a meeting where the head of the risk management function reported on the current risk situation and the types of risks encountered. The Risk and Credit Committee approved 51 loan applications by circular vote, all of which were presented to the Supervisory Board at its next meeting. The Nominations Committee met once in the financial year 2017 and prepared proposals for candidates for upcoming vacancies on the Supervisory Board. The Remuneration Committee also held one meeting in the reporting year, discussing the principles of the remuneration policy and its implementation.

More information on the composition and the independence of the Supervisory Board, the criteria for its independence, its working procedures and decision-making powers is presented in the chapter on the Management Board and the Supervisory Board starting on page 24 of this annual report .

Membership and participation in the work of the governing bodies

At the 78th annual general meeting of 9 May 2017, Gregor Hofstätter-Pobst was newly elected to the Supervisory Board. He succeeded Peter Hofbauer, who resigned from his mandate already on 30 September 2016. Gregor Hofstätter-Pobst is the Chief Financial Officer (CFO) of UniCredit Bank Austria and as such has excellent subject-matter and industry expertise. I am very pleased that we were able to recruit an experienced bank manager for our Supervisory Board.

Christina Fromme-Knoch and Sabine Urnik, who had been selected for retirement by drawing of lots, were re-elected for the maximum period defined in the articles of association. All newly elected and re-elected members of the Supervisory Board declared their independence; the relevant statements have been published on www.bks.at in accordance with § 87 (2) AktG.

At the constitutive meeting of the Supervisory Board, I was elected Chairman by unanimous vote, with Franz Gasselsberger as my deputy. The members of the Committees were appointed as well.

The attendance rate of the shareholder and staff representatives at the four Supervisory Board meetings was about 88 %. Karl Samstag was unable to attend two plenary meetings. Fromme-Knoch, Josef Korak, Klaus Wallner, Gregor Hofstätter-Pobst and Gertrude Wolf were each excused from attending one meeting.

Diversity on the Supervisory Board

Following the election of Gregor Hofstätter-Pobst, the Supervisory Board of BKS Bank now comprises 15 members again, five of whom are women. I am very proud that we succeeded in bringing qualified women onto the Supervisory Board of BKS Bank. While the 30% ratio for women and men on supervisory boards as set out in § 86 (7) AktG does not become applicable to elections and appointments to supervisory boards before January 2018, we already met this requirement in the past financial year. The minimum ratio must be met by the Supervisory Board as a whole, which means that shareholder representatives and staff representatives are added up when calculating the minimum ratios. Such adding up can be objected to, by addressing such objection to the chair of the Supervisory Board, until no later than six weeks prior to the election or appointment. The shareholder representatives and staff representatives on the BKS Bank Supervisory Board have agreed to waive the right to such objection.

When it comes to the composition of the Supervisory Board, the Nominations Committee pays special attention to taking account of all aspects of diversity, such as age, gender, educational and professional background as well as internationality. The shareholder representatives on the Supervisory Board of BKS Bank are all experienced leaders from the industrial, financial and public sectors who help steer the course of BKS Bank with proper care and a forward-looking entrepreneurial outlook.

Audit

The accounting records, the financial statements and management report of BKS Bank AG for 2017 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt branch. The audit was conducted in accordance with statutory provisions and did not give rise to any objections. The auditors confirmed this by issuing an unqualified auditor’s report.

The following were identified as key audit matters in the audit of the financial statements for 2017, and the risk as well as the relevant audit approach were set out in detail in the audit opinion:

- Valuation of receivables from customers
- Classification and valuation of investments in entities accounted by the equity method
- Recognition and valuation of financial instruments (levels 2 and 3)

The Supervisory Board also agreed with the proposal of the Management Board to pay out a dividend of EUR 0.23 per share on the net profit for 2017 and to carry the remaining profit forward to the new account.

The consolidated financial statements for the year ended on 31 December 2017 prepared in accordance with IFRS and the Group management report prepared in accordance with Austrian company law were likewise audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt branch.

All statutory requirements were met, and this audit, too, did not give rise to any objections. In the opinion of the bank auditors, the consolidated financial statements present a true and fair view of the assets and financial position of the BKS Bank Group for the year ended on 31 December 2017 as well as of the result of operations and cash flows for the period from 1 January to 31 December 2017. The auditors confirm that the Group management report is consistent with the consolidated financial statements and that the prerequisites for exemption from the obligation to prepare consolidated financial statements in accordance with Austrian law have been satisfied.

All materials relating to the audit of the financial statements, the proposal for profit distribution and the audit reports of the auditor were discussed in detail by the Audit Committee and presented to the Supervisory Board. The Supervisory Board concurred with the findings of the audit and endorsed the financial statements including the management report presented by the Management Board, thus acknowledging and approving the financial statements 2017 of the company pursuant to § 96 (4) AktG. The consolidated financial statements, the Group management report, the annual risk report and the Corporate Governance Report were also reviewed and acknowledged by the Supervisory Board.

I would like to thank the Management Board, the management staff and all employees on behalf of the Supervisory Board for their immeasurable personal commitment and hard work.

Klagenfurt am Wörthersee, March 2018

Gerhard Burtscher
Preface by the Chairman of the Supervisory Board

INVESTING SUSTAINABLY REAPS RETURNS IN MANY WAYS.

INVESTOR RELATIONS

THE BKS BANK'S SHARES

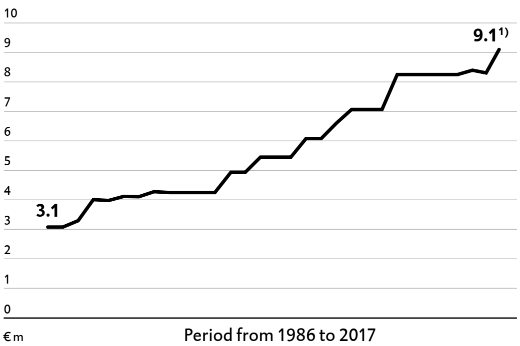
Steady and sustainable appreciation in value

The BKS Bank share has been quoted on the Vienna Stock Exchange for more than 30 years. Year after year, BKS Bank has demonstrated that it is possible, even in the face of challenging market conditions and developments in society, to offer its shareholders a long-term increase in value on invested capital. BKS Bank's shares have proven a solid long-term investment for both private and institutional investors also in economically difficult times.

The ordinary shares of BKS Bank AG have been listed on the Vienna Stock Exchange since 1986 and the preference shares since 1991. Both share classes are traded in the segment 'standard market auction' of the Vienna Stock Exchange. Each share corresponds to an equal portion of the subscribed capital. The calculated nominal value of each share is EUR 2.0. In contrast to ordinary shares, the preference shares do not give shareholders any voting rights, but grant them a minimum dividend of 6.0% on the percentage share capital, payable at a later date. If the minimum dividend for a financial year is not paid out or not paid out in full, the shortfall must be made up from the net profit of subsequent financial years.

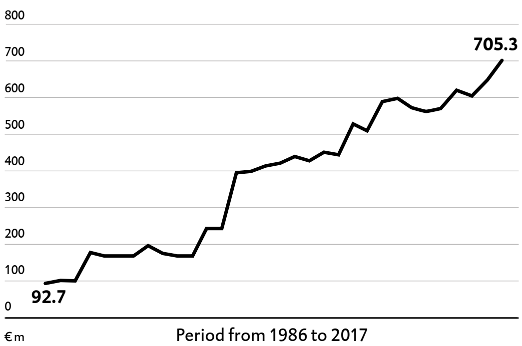
At year-end 2017, the closing price of the ordinary share was EUR 17.8 and the closing price of the preference share was EUR 17.7. A market capitalisation of EUR 705.3 million marks an all-time high for us.

DEVELOPMENT OF DIVIDENDS OF BKS BANK SHARES



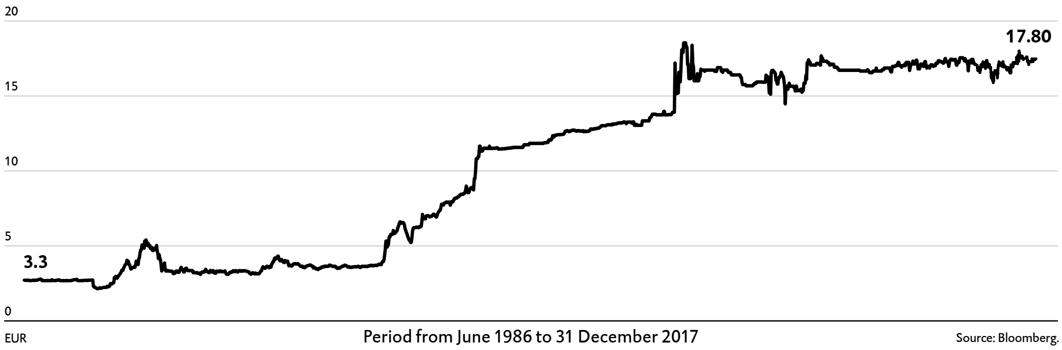
[1)] Proposal to the 79th annual general meeting

MARKET CAPITALISATION OF BKS BANK



The positive effects of the boom experienced worldwide is reflected not only in the development of international financial markets, but also in our bank's relevant figures. 2017 was once again a year that generated a respectable result. With respect to the use of our net profit, BKS Bank's aim is to achieve a balance between strengthening the level of own funds and paying out a reasonable dividend.

PRICE TREND OF THE BKS BANK ORDINARY SHARE SINCE THE IPO



— Price trend of the ordinary share (prices are adjusted for dividends and a stock split)

Another objective is to ensure a long-term value appreciation as well as adequate returns on shares for our shareholders. The Management Board will propose a dividend payout of EUR 9,117,108 for the financial year 2017 at the 79th annual general meeting.

This corresponds to EUR 0.23 per share and a return of 1.29% based on the year-end price of 2017 of the ordinary shares and of 1.30% for preference shares. The dividend payout ratio based on BKS Bank AG's net profit after tax would amount to 35.3%.

In a move to further strengthen our own funds and benefit from the good economic conditions to expand our market shares, the Management Board decided to carry out a capital increase in the first quarter of 2018. At its meeting on 23 November 2017, the Supervisory Board of BKS Bank unanimously approved the Management Board's proposal. The capital increase was carried out at a ratio of 12:1.

Twelve 'old' ordinary shares entitled shareholders to one new ordinary share. In total, 3,303,300 new ordinary shares were floated at an offer price of EUR 16.70 per share. The share capital is to increase by EUR 6,606,600 to EUR 85,885,800. Following the capital increase and given full subscription, 41,142,900 ordinary shares and 1,800,000 preference shares will be quoted on the stock exchange. In 2017, the subscribed capital of BKS Bank AG of EUR 79,279,200 was represented by 37,839,600 ordinary shares and 1,800,000 preference shares.

The solid market position of BKS Bank must also be viewed in the context of the two other autonomous and independent regional banks, Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft, as BKS Bank and its sister banks have a joint market presence under the brand name of 3 Banken Group.

Oberbank AG, Linz, holds 19.4% and Bank für Tirol und Vorarlberg Aktiengesellschaft 19.5% of the voting share capital of BKS Bank AG. Generali 3Banken Holding AG, Vienna, owns 7.8% of ordinary shares. These three core shareholders have entered into a syndicate agreement and jointly own 46.7% of the shares with voting rights. The syndication of the shareholdings reinforces BKS Bank's independence and bundles the interests of the syndicate partners with respect to cooperation and sales partnerships. The agreement essentially contains arrangements on the joint exercise of voting rights at the annual general meeting and on mutual pre-emption rights of the members of the syndicate.

The largest single shareholder of BKS Bank AG is CABO Beteiligungsgesellschaft m.b.H., a company 100%-owned by UniCredit Bank Austria AG with its registered office in Vienna. If one adds the shares held directly by UniCredit Bank Austria AG, the UniCredit Group therefore holds 30.4% of voting rights. The remaining ordinary shares are mostly owned by private and institutional investors. BKS-Belegschaftsbeteiligungsprivatstiftu ng (employee foundation) – which serves exclusively to fully transfer income on shares to the employees of BKS Bank as set out in § 10 (1) Corporation Tax Act (KStG) – owned roughly 0.4% of shares with voting rights at the end of 2017. Apart from this, BKS Bank AG is not aware of any constellation of individuals or a group of shareholders who own a majority and/or controlling interest in the company. Further information on the shareholder structure of BKS Bank is available in the Group management report from page 83 and on the website www.bks.at » Investor Relations » Aktionärsstruktur.

Resolutions passed by the 78th Annual General Meeting

Shareholders of BKS Bank with voting rights exercise their votes at the annual general meeting and are entitled, by law or by the articles of association, to participate in important company decisions. Resolutions are generally passed by a simple majority of the votes cast, or, if the approval of a motion requires the majority of the votes of the capital representatives, by a simple majority of the share capital representatives.

At the 78th annual general meeting of BKS Bank AG on 9 May 2017, some 84% of the voting capital was represented, with the free float presence of shareholders with voting rights being around 4.3%.

The following was presented to the shareholders at the annual general meeting:
- Approved financial statements and management report for the 2016 financial year,
- Consolidated financial statements and Group management report for 2016,
- Corporate Governance Report,
- Explanations of the Chairman of the Supervisory Board on the principles of remuneration of the Management Board of BKS Bank.

The shareholders acknowledged and approved the explanations and reports.
The resolutions on the use of the net profit for the financial year 2016, the discharge of the Management Board and of the Supervisory Board from liability were all reached unanimously. Accordingly, the shareholders agreed with the recommendation to pay out a dividend of EUR 0.23 per share on the net profit for the year ended on 31 December 2016 and to carry the remainder forward to new account in accordance with § 65 (5) AktG. The dividend payout date proposed was 17 May 2017.

The agenda item "Elections to the Supervisory Board" was also passed unanimously. The Supervisory Board members previously retired by the drawing of lots, Christina Fromme-Knoch and Sabine Urnik, were re-elected to the Supervisory Board for the maximum permissible period set out in the articles of association, until the close of the annual general meeting that decides on the discharge of the Supervisory Board from liability for the financial year 2021. Gregor Hofstätter-Pobst was newly elected to the Supervisory Board. He succeeded Peter Hofbauer, who had retired from his function in September 2016. His mandate will continue for the remainder of Peter Hofbauer's term of office, until the close of the annual general meeting that decides on the discharge of the Supervisory Board from liability for the financial year 2019.

The resolutions on the remuneration of the Supervisory Board and the resolution on the selection of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungs-gesellschaft, Klagenfurt, as bank auditor for the financial year 2018 were all reached by a majority of the votes.

The following resolutions were also passed by a majority of the votes:
– to revoke, in the extent not utilised up to this point, the authorisation of the Management Board pursuant to § 169 AktG to increase, until 24 September 2020, the share capital by up to EUR 14,414,400 by issuing up to 7,207,200 no-par value bearer shares,
– to authorise the Management Board at the same time to increase, within five years of the corresponding amendment to the articles of association being registered in the Companies Register und subject to approval by the Supervisory Board, the share capital by up to EUR 16,000,000 by issuing up to 8,000,000 ordinary no-par bearer shares and to determine the issue price and the terms of issue in consultation with the Supervisory Board,
– to authorise the Supervisory Board to resolve on amendments to the articles of association as made necessary by the issuing of shares from the approved capital and make the corresponding amendments to § 4 of the articles of association of BKS Bank.

The last item on the agenda, the motion for a resolution to amend § 4 of the articles of association– the issuing of CET 1 capital instruments pursuant to § 26a BWG (non-voting instruments) – was passed by a majority of the votes cast by the annual general meeting.

INVESTOR RELATIONS COMMUNICATION

We value regular, open and proactive communication with our stakeholders. We inform our shareholders, employees, customers, media representatives and the interested public in a timely manner and extensively on BKS Bank to ensure the best possible level of transparency. The information published is made available to all shareholders simultaneously. Our reporting practices comply with the provisions of the ÖCGK. In our financial communications, we give high priority to best practices in transparency and the fair dissemination of information to all market participants at press conferences and in our reporting.

On our website www.bks.at under Investor Relations, we provide extensive information on the company such as the annual reports and mid-year reports as well as interim reports on the results for the periods ending on 31 March and 30 September, on plans for new bond issues, on changes to key investment thresholds and other corporate actions subject to notification requirements. The notifications on directors' dealings are also published here. We additionally use the Issuer Information Upload Platform of OeKB, the euro adhoc-Service of APA-OTS and the website www.pressetext.com to publish mandatory ad-hoc reports. We publish press releases on the website of BKS Bank under » Newsroom » BKS News.

The EU Directive on the Disclosure of Non-Financial Information entered into force on 6 December 2014. Its purpose is to increase transparency on social and ecological matters and strengthen the confidence of both investors and consumers. Directive 2014/95/EU was implemented in Austrian legislation in December 2016 in the form of the Sustainability and Diversity Improvement Act (NaDiVeG). The effects of the new legislation are of a minor nature only, as we have been publishing an annual sustainability report in accordance with the requirements of the Global Reporting Initiative (GRI) since 2012. In this report, we explain our sustainability strategy in detail and also discuss the numerous activities carried out in areas such as leadership and strategy, people, market, society and environment. A newly introduced rule is that the Supervisory Board now has to review the sustainability report at its first meeting in any given financial year and report to the annual general meeting about it. The auditor also reviews the presentational of the report. We publish our sustainability report for 2017 in early April 2018, along with all previous reports, on our website www.bks.at under » Investor Relations » Berichte und Veröffentlichungen.

FINANCIAL CALENDAR 2018

Date	Content of the notification
4 April 2018	Publication of the annual financial statements and the consolidated financial statements 2017 on the internet and in the Official Gazette of the Republic of Austria "Wiener Zeitung"
9 May 2018	79th annual general meeting
14 May 2018	Dividend ex-day
15 May 2018	Record date
16 May 2018	Dividend payout day
25 May 2018	Interim report for the period ended 31 March 2018
24 August 2018	Half-year Financial Report 2018
30 November 2018	Interim report for the period ended 30 September 2018

INVESTOR RELATIONS CONTACT

Herbert Titze, Head of Investor Relations, E-mail: investor.relations@bks.at

SECURING THE FUTURE THROUGH DIVERSITY.

CORPORATE STRATEGY

COMPANY PROFILE

BKS Bank is a universal regional bank with its headquarters in Carinthia. We have subsidiaries in six countries, employ 1,099 persons and operate 63 branches in Austria and abroad. Since 1922, we have been constantly expanding our business activities. Originally established as a bank for corporate customers only, we started providing services to retail customers in the 1960s. We began our international expansion in the late 1990s. Today, we serve over 152,800 corporate and retail customers in Austria and in our foreign markets. BKS's ordinary shares have been listed on the Vienna Stock Exchange since 1986.

Our Customers

As a universal bank, we offer our corporate and retail customers a wide range of financial services designed to meet their specific needs. In the corporate segment, we focus on industrial, commercial and trade companies as well as property developers and municipalities. Our advisory services and products are mainly focused on finance for working capital, capital goods and exports; advisory services for government subsidy schemes; payment transactions; investment products and leasing. We serve around 19,500 corporate customers. In retail banking, we provide services to private individuals and members of the healthcare professions. In the retail segment, our range of services runs the gamut from classic banking products, housing loans, retirement provisioning, savings and investment products to digital services for daily banking transactions. We serve around 133,300 retail customers.

Detailed information on our retail and corporate business is provided in the Segment Report starting on page 105.

Our Markets

Our outreach has significantly increased since the bank's founding in 1922. Today, BKS Bank does banking and leasing business in Austria, Slovenia, Croatia and Slovakia, and has a representation office each in Italy and in Hungary. Customers in these countries are serviced exclusively cross-border, just like German customers.

Austria is our principal market and includes the regions of Carinthia, Styria, Burgenland, Vienna and Lower Austria. Carinthia, where the bank originated, remains our main market. Some 32.6% of loans and about 44.0% of deposits are granted to or come from Carinthian customers. The majority of our staff is employed in Carinthia. In 1983, we started to expand our market to include the neighbouring region of Styria, establishing a presence mainly in Graz and in Styrian district capitals. Today, the BKS Bank Regional Head Office for Styria operates 12 branches, employs 74.5 staff members (in FTEs) and serves roughly 23,900 customers.

We see the best opportunities for further growth in and around Vienna. Over the past few years, BKS Bank has managed to gain a solid reputation as an alternative to the large established banks in Vienna.

It is in this region that we plan to rapidly move ahead with our expansion and open up operations at new locations. The BKS Bank Regional Head Office Vienna-Lower Austria-Burgenland serves over 25,000 customers at nine branches and employs 96.1 staff members (in FTEs).

INTERNATIONAL MARKETS

Our foreign markets have become dynamic engines of growth. Slovenia, where we started our step-by-step expansion course, has meanwhile become the third-most important

CORE REGIONS OF BKS BANK

● Head Offices, Headquarters of Leasing Companies, Representation Offices

BUSINESS ACTIVITIES OF BKS BANK - OVERVIEW BY REGION

Country	Company	Status, location	Employees
Austria	BKS Bank AG, BKS-Leasing s.r.o.	Banking operations since 1922 50 bank branches	860
Slovenia	BKS-leasing d.o.o.	Banking operations since 2004 7 bank branches	121
Croatia	BKS-leasing Croatia d.o.o. Representation Office Zagreb	Banking operations since 2007 3 bank branches	73
Slovak Republic	BKS-Leasing s.r.o.	Banking operations since 2011 3 bank branches	40
Italy	Representation Office Padua BCS Fiduciaria S.r.l.	Cross-border business	4
Hungary	Representation Office Sopron	Cross-border business	1

As at 31 December 2017

market within the BKS Bank Group. We have been able to continually enhance our market position there since 2004. Today, we have seven branches in Slovenia, which employ about 100 staff members and serve some 16,400 customers.

Apart from banking, we are also active in leasing in Slovenia. BKS-leasing d.o.o. has an excellent reputation on the Slovenian leasing market, a fact which translates into outstanding business results.

We have been engaged in banking in Croatia for the past ten years. Earnings have increased by a factor of four since the acquisition of Croatian bank Kvarner banka d.d. Following the successful merger of BKS Bank d.d. with BKS Bank AG, we are now devoting our full attention to expansion again. In 2017, we opened our third Croatian branch in Split. We also operate a leasing company in Croatia, which has become well established on the market.

In Slovakia, the banking business of BKS Bank is still at the launching stage and concentrates on products with non-cash settlement. Our aim is to gradually expand our market position there as well. Our Slovak leasing company, BKS-Leasing s.r.o., is headquartered in Bratislava and has further branches in Banská Bystrica and Žilina.

Our Partners

We are part of the 3 Banken Group, which consists of Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft, an alliance that gives us the strength of a major bank. Cross holdings secure our independence and joint subsidiaries create synergy effects. Our long-standing partnership with the Wüstenrot building society and Generali insurance company rounds off our range of products.

MISSION STATEMENT

We want to grow step-by-step on our own strength – and this remains our motto for the future. The mission statement of BKS Bank clearly defines the goals we pursue in the interest of our stakeholders and the values that define our identity, our thinking and our actions. Since 1922, today, and in the future.

REGIONALLY ROOTED.
OPEN-MINDED.
EXCELLENT IN OUR WORK.

Our Vision

Our deep regional roots are the starting point of our organic growth in Austria and abroad. We are the first choice for demanding customers. Why? Because we are able to combine advisory excellence with modern technical solutions. This reinforces our position as one of the leading banks in Austria.

Our Mission

Our mission is an expression of how we see ourselves and shows what BKS Bank AG stands for. Our mission is based on our convictions and values as well as on our company's history. Our mission statement expresses what BKS Bank wants to be for its customers, employees, shareholders, partners and society.

OUR MISSION

Our deep regional roots give us stability and permit us to grow nationally and internationally.

We understand ourselves to be an international universal bank, independent and autonomous in its decisions.

Being part of the 3 Banken Group and the equal standing within the alliance gives us the strength of a large bank.

We pursue a self-determined path. We are working on becoming one of the ten most important banks in Austria.

We take risks only when we are able to master them on our own strength. This is how we secure our independence and autonomy.

We understand the individual needs of our customers. We are the first choice for demanding customers and combine advisory excellence with modern technical solutions.

Because we live the principle of sustainability in all respects, trust in our company is high and our capacity for innovation is strong.

Our employees act responsibly and strive to provide good quality. We offer our employees an attractive workplace and challenging prospects. We invest in their further education and promote a good work-life balance.

We offer shareholders long-term value appreciation and reasonable annual returns. This makes us appealing to investors and strengthens our capital base.

Our Values

FOCUS ON THE FUTURE

"The future has many names: For the weak it is the unattainable; for the fearsome, it is the unknown; for the brave it is an opportunity." Victor Hugo. We are courageous.

STABILITY

We are a responsible, predictable and reliable partner for our customers and employees – also in challenging times.

PROFESSIONALISM

We accomplish all tasks assigned to us efficiently and professionally, also under difficult conditions. This is possible due to our high level of expert qualification, our credibility and our reliability towards customers and employees.

ACCOUNTABILITY

We demonstrate accountability in the way we work and act: focused, conscientiously, carefully and always with the big picture in mind.

RESPECT

Respect and appreciation of our colleagues, customers and partners are key values we stand for. We treat others the way we would like to be treated ourselves.
We hold our customers and colleagues in high esteem.

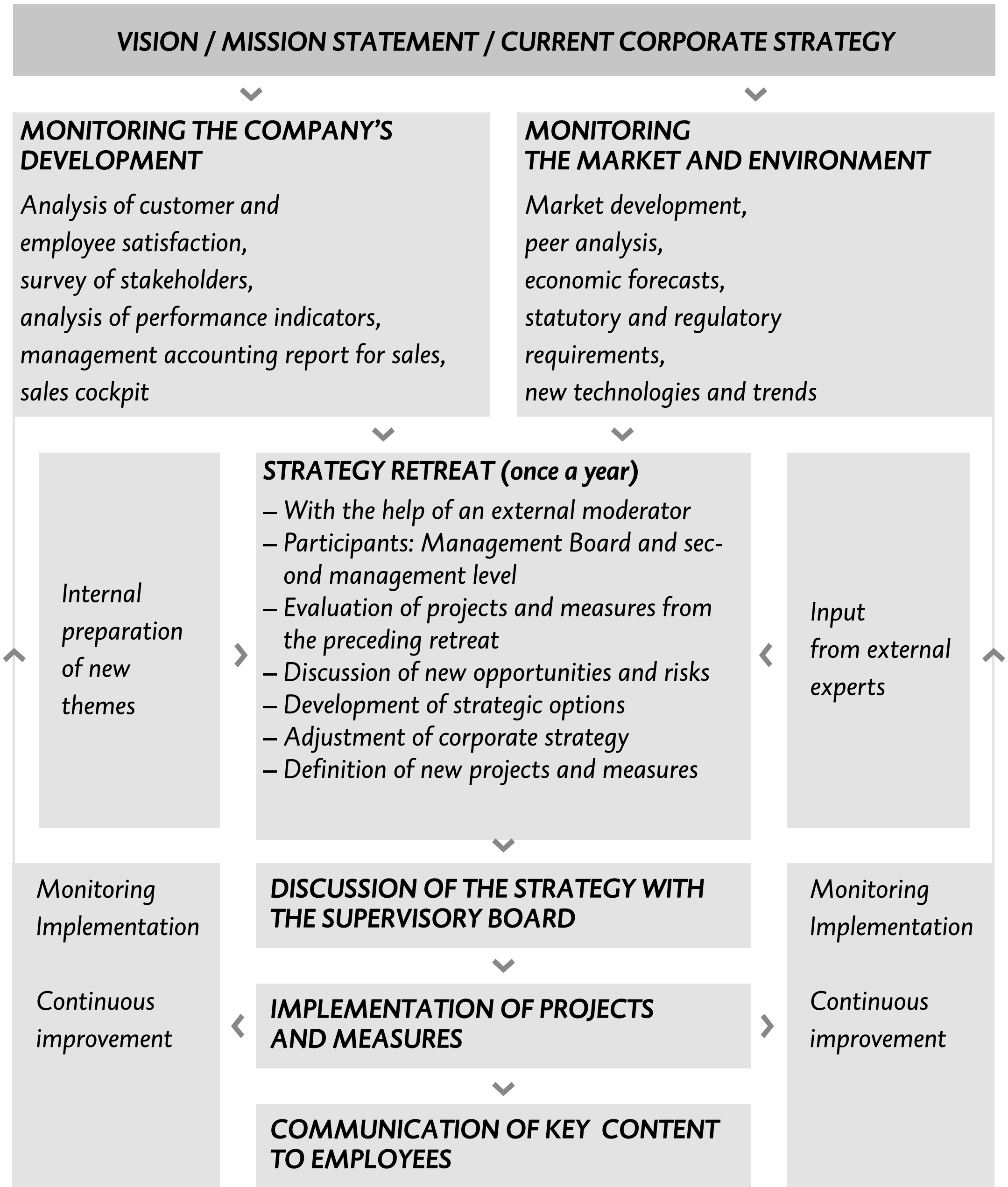
INTEGRITY

Our actions are guided by high ethical principles and we are against any form of discrimination and corruption. We work in compliance with applicable laws and internal guidelines.

STRATEGY PROCESS

BKS Bank has a well-thought-out strategy process. Once a year, the top management meets for a strategy retreat for several days to review and redefine our strategy. The strategy retreat is always the first step of the planning and budgeting process, and is held every year without fail. This ensures that the entire management team has worked on shaping the strategy for the coming years and is well familiar with it.

STRATEGY PROCESS



All key strategic plans are discussed and accorded with the Supervisory Board. The key results of the strategy retreat as well as the progress made in implementing strategically important projects are communicated to the employees at Management Board information talks organised twice a year. During the course of the year, the strategy is monitored at regular meetings of the senior management.

ON THE RIGHT PATH

Our strategy model

With a view to attaining our goals, we have developed a corporate strategy modelled on a Greek temple. The three-pillar model features three groups of measures defined to support our plans to achieve future success. In combination with a professional risk strategy, we aim to shape and sustainably secure the future of our bank. Quality and sustainability provide the reliable foundations.

Our sustainable growth strategy has proved its worth multiple times in the course of the past few years. Our earnings are stable, our own funds ratio is good, and we are able to acquire new customers. We pay out a dividend to our sharesholders every year. When it comes to sustainability, we are among the top players in Austria. A provisional assessment:

EQUITY

SOLID CAPITAL COVER
12.5% CET1 ratio
14.0% total capital ratio
In 2017, the Group’s equity for the first time surpassed the EUR 1 billion mark.

LEVERAGE RATIO

8.0%

The required ratio would be 3%

INCOME AND COSTS

PROFIT FOR THE PERIOD AFTER TAX

68.0

EUR m

COST/INCOME RATIO

51.9 %

Internal benchmark reached

FOREIGN BUSINESS
Profit for the year: EUR 4.9 million

NUMBER OF CUSTOMERS
152,800

BKS BANK-ONLINE
+ 8.6% more users in 2017

ACCOUNTABILITY

EMPLOYEE SATISFACTION
Score 2.0

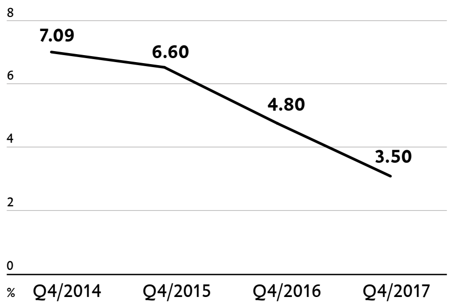
GOAL-ORIENTED MANAGEMENT
Our management staff does not shy away from responsibility and always act independently and professionally.

RISK

LIQUIDITY COVERAGE RATIO
More than the regulatory minimum rate of 80%. BKS Bank AG:

145.2%

NPL RATIO TREND



QUALITY AND SUSTAINABILITY

VIENNA STOCK EXCHANGE

The BKS Bank ordinary share is included in the VÖNIX sustainability index of the Vienna Stock Exchange.

AWARD

We are proud to have received the international distinction “Recognised for Excellence 5 Star”.

STRATEGY 2022

Towards 2022 with confidence

The success of the past few years provides a strong basis on which to further develop our activities. Nevertheless, we are – more than ever before – faced with major challenges in the banking sector. Conditions have become harsher since the financial and economic crisis, and banks are under pressure from different sides. However, this will not dampen our resolve, quite on the contrary, our strategy is to unequivocally focus on providing excellent services to customers, generating earnings and pursing a healthy growth path.

DIGITAL DOES NOT MEAN ANONYMOUS

The growing importance of digital processes and the corresponding change in customer behaviour require us to continuously adapt our business policy. In order to keep up with the swift pace of technological development, we are investing in our IT systems and in enhancing our digital offers, which is a major cost driver. In doing so, we keep looking for suitable pricing models for digital services, as the prevailing climate of digital-for-free constitutes an additional challenge for us. We face the digital transformation by launching a number of projects aimed at transforming our entire organisation for the digital era. In doing so, we focus not only on enhancing digital offerings for customers, but also making our internal processes increasingly digital. Another key aspect is the continued further development of security in digital transactions, against the backdrop of rising cybercrime.

However, moving towards more digital services does not imply that there will be no need for bank branches in the future. Digital offerings and personalised advice are not mutually exclusive. The bank branch is the best place to offer our customers expert advice on complex matters such as housing loans or retirement provisioning. In this context, we will also address the issue of what bank branches of the future should look like. We are not aiming for major streamlining in this area, but devote a lot of time and effort to adapting our branch organisation to the digital age. We remain committed to branch operations with a strong regional backing. Therefore, contrary to general trends in this field, we plan to open further branches in our growth regions.

The excellent advisory quality of our account managers is one of our strengths. They enjoy an excellent reputation in the market and are well known for their in-depth expertise, reliability and trustworthiness. We intend to better leverage these strengths to acquire new customers in the future and step up referral marketing activities. On top of that, we invest in education and training to further strengthen our focus on customer acquisition and deal closing and will keep on enhancing our staff's digital expertise.

INTEREST RATES AND BANKING REGULATION REMAIN CHALLENGING
The prevailing extremely low interest rates are challenging for the banks' profitability. Even though the economy is growing strongly, the European Central Bank (ECB) has not moved away from its quantitative easing policy yet. We expect low interest rates to stay with us for still some time to come. Stringent regulatory requirements, specific banking taxes and the contributions to be made to the deposit guarantee and resolution schemes put additional pressure on banks' earning power. While effective regulation is certainly necessary in the financial sector, too much is currently being expected of the banks. Meeting all the legal requirements imposed on us requires major efforts in terms of both finances and human resources, which is why a reduction of the burdens in this area would be more than welcome. However, there is little reason to expect that regulatory requirements or financial contributions and taxes are likely to decline in the near future.

To make up for loss in earnings in traditional lending business, we have stepped up our sales activities in payment and securities. Nonetheless, we believe there is enormous potential in the expansion of payment services, even though the challenges are formidable - digitisation, Payment Services Directive II, heightened competitive pressure from alternative payment service providers. We have already set the main course for this important business area, including the introduction of sales specialists. Repositioning our payment services business has become one item on our strategic agenda. To this end, we will bundle expertise, expand payment services on our foreign markets, and make the best possible use of the opportunities offered by the new Payment Services Directive. Our strategic approach in the securities business is two-pronged. On the one hand, we plan to strengthen sales services and raise our success rates in customer acquisition and deal closing, and on the other hand we will offer new digital securities services.

It was in the 1990s that we launched our successful expansion drive towards Austria's neighbouring countries. Today, we have branches and leasing offices in Slovenia, Croatia and Slovakia. Our foreign markets have become dynamic engines of growth, with Slovenia and Croatia already accounting for a fifth of all loan and deposit transactions. We plan to further expand our market shares in these countries and open new branches there. Opening up further new markets is currently not on our strategic agenda. In addition to general plans for expansion in our existing markets, we also have specific focal areas in each country: In Slovenia, we plan to strengthen our good market position in the securities business by acquiring further securities service providers. In Croatia, we focus on acquiring new retail and corporate customers, while in Slovakia our efforts continue to be concentrated on building up our banking business. We want to move ahead with the digital transformation also on our foreign markets. Giving due consideration to country-specific particularities, such as different user behaviour, for instance, we are working on digitising our product and service range as well as our internal processes.

Our innovative product policy also contributes to boosting our earnings and has become a key USP. Product innovation is strongly driven by our intention of making sustainability an inherent element of our core business. We are proud to have had excellent success with these efforts in the past few years. Both our social bond and our green bond met with lots of positive attention from our customers and the media. We will continue our efforts to win market shares with innovative products also in the future.

Key Strategic Goals

We aim to improve our position as one of the leading banks in Austria and are working to
– further increase profitability and productivity,
– adequately limit (credit) risks,
– strengthen the tier 1 capital ratio,
– raise the number of customers and grow market shares,
– be profitable in retail banking, and
– grow in business areas with little impact on equity.

We have also set ourselves a number of non-financial targets. First of all, we plan to increase customer and employee satisfaction, strengthen our image as a bank acting responsibly and accountably, and continue to satisfy our own high standards of quality. To achieve all of these goals, we rely on managers who act accountably, professionally and with a focus on outcomes. For more details on our non-financial goals, please refer to the sustainability report, which has been published separately.

Strategic Initiatives 2017

In the reporting year, we again successfully completed a number of important strategic projects. Below, you will find brief summary of all the measures taken. We also report on the strategic initiatives in the corporate and retail business in the Segment Report starting on page 105.

DIGITISATION PROJECTS ON TRACK

2017 was characterised to a large extent by the progress in digitisation. Both in corporate and retail banking business, we launched a number of projects in this context. The range of topics covered includes digital account opening, online loan offerings or the development of a new customer portal for our corporate customers.

Corporate Customer Portal ante portas

We launched three major digitisation projects for our corporate and business banking customers. The first one is a separate customer portal specifically for corporates.

Focusing on making our offer match customer demand, we will offer different types of portals with varying scopes of services. The corporate customer portal is scheduled to go live in the second quarter of 2018. The second project is about integrating relevant payment services functions, such as direct debits or collective payment orders, into the portal. The third project deals with ways to carry out or apply for standard transactions, such as bank guarantees, car leasing or escrow accounts directly in the corporate customer portal.

Retail Banking: Online shop and card features launched successfully
In retail banking, we focus on further enhancing our digital services. E-service functions connected to the Maestro card, such as card applications, card blocking, PIN changes or geo-blocking, have already been implemented. Our online shop went live in the summer of 2017. Savings products such as building and loan association saving and 'Mein Geld-onlinekonto direkt' accounts are now available online for our customers. The BKS MasterCard can also be applied for online. In addition, we are working on speeding up and improving financing and account opening processes through automation. Digitization projects have also been launched in the securities business. Our aim here is to find smart solutions and give securities services more room in the customer portal.

EXPANSION ABROAD ON SCHEDULE

Our goal is to steadily increase our market shares. This approach follows two paths: on the one hand, by increasing the number of customers, and on the other, by opening new branches where we believe that market opportunities are good. In 2017, we opened one new branch each in Slovenia and Croatia.

Uniform sales structure throughout the Group
The aim of our Move project was to re-orient the sales structure based on customer groups, such as retail customers, corporates and large corporates. On our foreign markets, the new structure will be rolled out on a country-by-country basis. After the Move project had been implemented in Slovakia and Slovenia in the preceding year, it was Croatia's turn in 2017. By successfully completing the project in Croatia, we have now streamlined the sales organisations within the whole Group and introduced the sales cockpit for managing sales activities.

Organisational and operational structure optimisation in Slovenia
We entered the Slovenian banking market in 2004, gradually building up our Slovenian Regional Head Office to provide full banking services. Today, we operate seven branches in Slovenia, employ more than 100 staff members (100.8 FTEs) and offer our corporate and retail customers the full range of products of a universal bank. To be able to continue our expansion course, we launched an extensive optimisation and streamlining project in the reporting year. The focus was on organisational and operational structures in Slovenia.

With the help of an external consultant, we analysed where savings could be realised. The new organisational and operational structures were finalised towards the end of 2017, and the reorganisation is scheduled to take place in various sub-projects starting in 2018.

PRODUCT INNOVATION FOR INVESTORS WITH A SUSTAINABILITY FOCUS

In the past financial year, we were able to score with two investment project innovations. At the start of 2017, we were the first Austrian bank ever to issue a social bond[1)]. The proceeds of the issuance are dedicated to financing a competence centre for persons with dementia in Carinthia. The ground-breaking ceremony for the MaVidaVelden project took place in autumn 2017. A green bond[1)] followed suit in the third quarter of 2017. The green bond offers investors an opportunity to invest their capital in environmental projects in our region. With the proceeds of the issue, we are financing the small hydro-powerplant, HASSLACHER Energie GmbH in Spittal an der Drau. As in the case of our social bond, we commissioned an external sustainability audit, which was conducted by rfu – Mag. Reinhard Friesenbichler Unternehmensberatung. The services of rfu – Mag. Reinhard Friesenbichler Unternehmensberatung were retained for providing the Second Party Opinion. We are very proud to have fully placed both bonds on the market.

MODERN LEASING SOFTWARE MAKES CAR DREAMS COME TRUE FASTER

In the course of the re-positioning of our Austrian leasing company, we standardised the car leasing application and approval process, speeding up handling in our branches. For this purpose, we introduced a new IT system (POS tool), which was well received by our staff. Leasing transactions have clearly witnessed a boost since project completion, with the leasing volume rising by 9.8% as compared to year-end 2016.

MIFID II/MIFIR REQUIREMENTS MET ON TIME

The amendment of the EU Markets in Financial Instruments Directive or MiFID II has brought about profound changes in the securities business. In Austria, MiFID II was implemented in the 2018 Securities Supervision Act (WAG 2018), which enters into force on 3 January 2018 along with the directly applicable Markets in Financial Instruments Regulation, MiFIR, and numerous supporting legislative measures.

[1)] The information provided in this text serves only as non-binding information and does not replace in any way advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bond mentioned here, and neither is it a buy or sell recommendation. The exclusive legal basis of the bonds described are the base prospectuses published by BKS Bank AG on 6 April 2017 together with all the documents incorporated by way of reference thereto and all addenda and the final terms and conditions published in each case. These are available free of charge from the issuer's website at www.bks.at under 'Investor Relations > Anleihenemissionen' and from the branches of BKS Bank AG, St. Veiter Ring 43, 9020 Klagenfurt, Austria, during normal business hours.

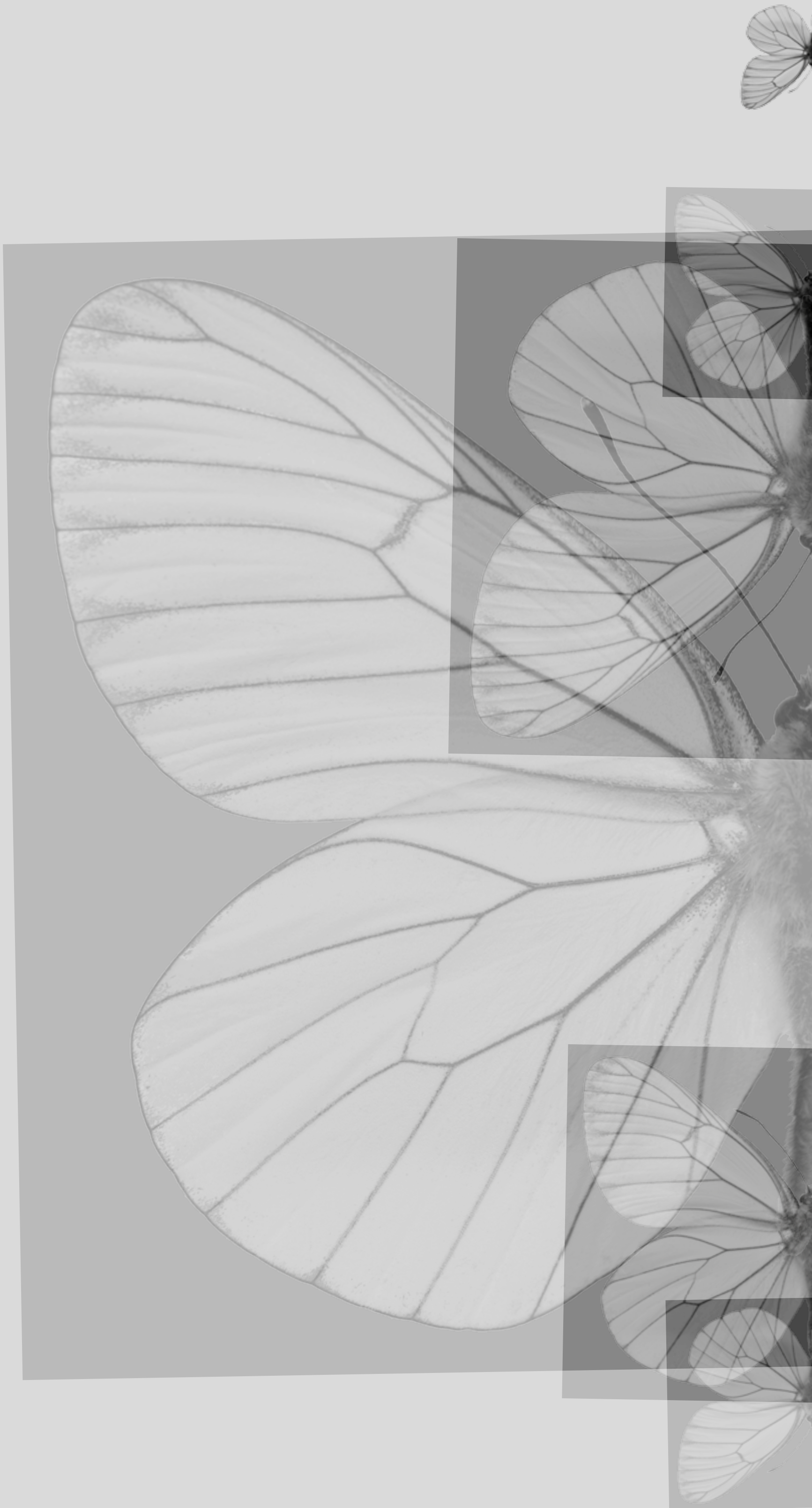
The purpose of the amendments is to achieve improvements in the following areas:
– Make market structures more resilient and efficient
– Improve investor protection
– Increase transparency in terms of advisory services, products and costs
– Provide stricter regulation for financial markets

A highly committed team worked for more than two years on implementing this project. The far-reaching changes concerned product design and pricing, the documentation of all conversations with customers, and the advisory process. By introducing the MiFID II/ MiFIR requirements on schedule, we demonstrated once more that we are able to bring highly complex projects to successful completion thanks to our dedicated and competent staff.

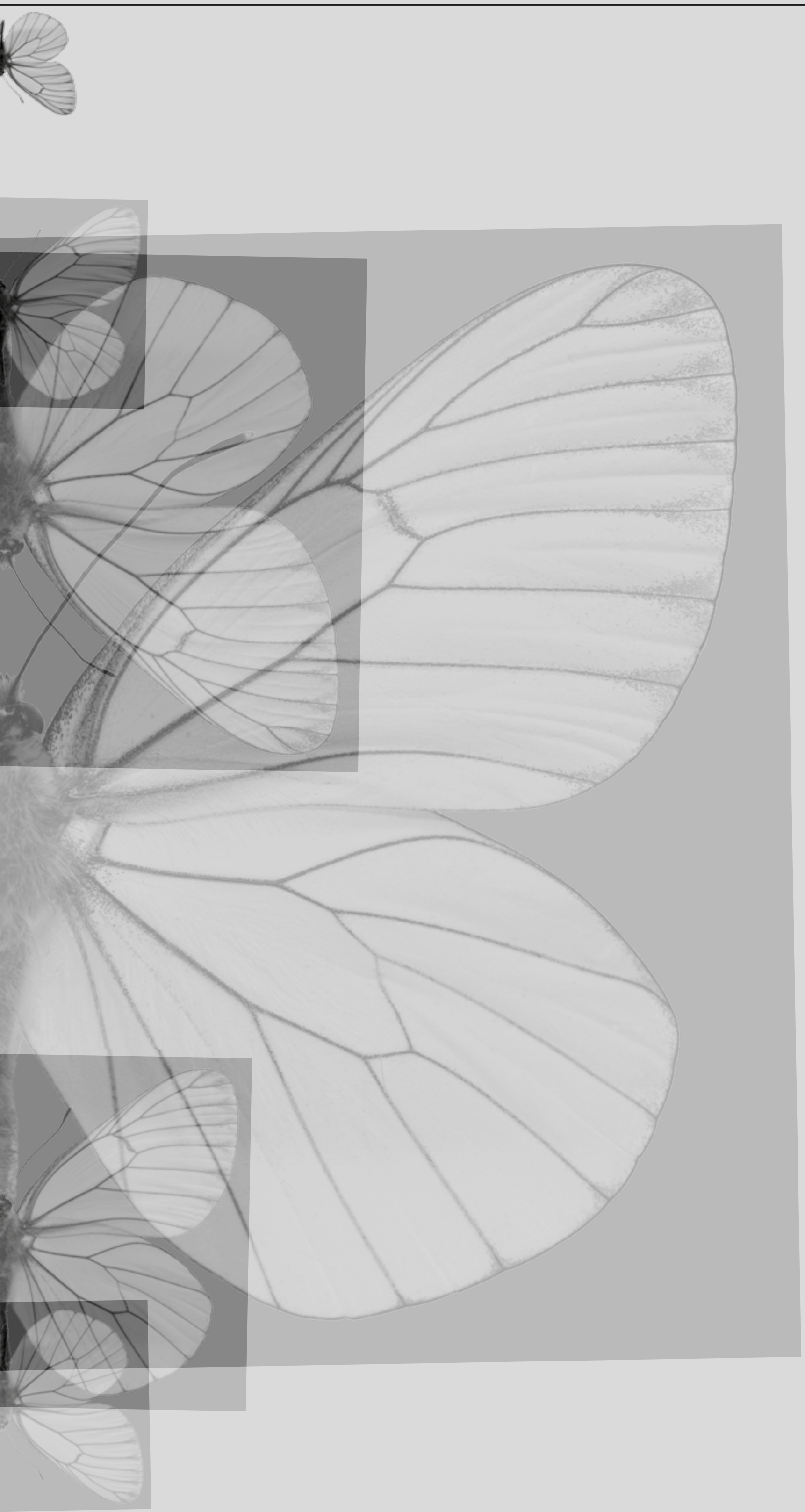
BKS BANK STARTS 2018 WITH IFRS 9

As an internationally operating group, BKS Bank's financial reporting is based on the International Financial Reporting Standards (IFRSs). IFRS 9, which provides for a totally new regime in measuring financial instruments, will enter into force as of January 2018. The new standard covers areas such as classification and measurement, impairment, and hedge accounting, which is currently not being used by BKS Bank. Implementing IFRS 9 involves enormous technical resources, time and costs. The entire financial reporting process had to be restructured, securities had to be re-classified, and products and terms analysed. Foreign business activities as well as contract wording are also affected by the new rules. In addition, IFRS 9 required new IT solutions to be introduced, which had to be subjected to extensive testing within the scope of the project. The consolidated financial statements as at 31 March 2018 will already use the new accounting rules under IFRS 9. Starting on page 180, the consolidated financial statements prepared in accordance with IFRS provide a detailed report on the progress of project implementation.

DIVERSITY OF DEVELOPMENT AT A GLANCE.



GROUP MANAGEMENT REPORT



ECONOMIC ENVIRONMENT

Booming global economy

There is a lot of good news from the global economy. Most economic indicators for the major economies were revised upwards in the course of 2017. Growth was extremely dynamic - considering the post-crisis situation - and achieved a rate of 3.6% according to recent estimates. The past year saw what is referred to as a Goldilocks economy, that is, a year with a very good development and only moderate inflation rates.

3.6%
Global growth

US ECONOMY EXPANDED VIGOROUSLY

In the US, the dynamic pace of the economy accelerated after the disappointing trend of the preceding year. The US economy grew by 2.3% for the whole year 2017. The robust domestic demand, private consumption and lively capital spending added impetus to the upwards trend. The excellent economic situation also propelled the labour market towards a very good development. In October of 2017, the US reported an unemployment rate of 4.1%, which is the lowest level in 15 years. In the light of the sustained upswing, the US Fed stuck to its monetary policy and in 2017 it raised key lending rates three times by 25 basis points each time. Further hikes in lending rates are expected in 2018 as well, although this forecast is not definite. In February 2018, Jerome Powell took over the tasks of former Fed Chief Janet Yellen. Therefore, changes to the Fed’s bias cannot be ruled out.

EUROPEAN ECONOMY DEVELOPING DYNAMICALLY

Economic growth was up in the euro area by around 2.3% in 2017. The German economy advanced by 2.2% in 2017, thus achieving the best growth rate since 2011. This robust upswing was supported by higher consumer spending, higher capital spending by many companies and improved demand for German export products. It is also pleasing that the economy expanded not only in the economic locomotive of Germany, but also in peripheral countries like Spain, Portugal and Greece. Thus, the economy expanded in Spain by 3.1% and in Portugal by 2.6%. The Greek economy – the problem child of the euro area – achieved a positive growth rate of 1.3% after years of negative figures. This was driven mainly by the fact that in all former crisis countries of the south, exports rose faster than in the other countries of the euro zone in 2017. Another success story is France. The country was often referred to as “the sick man of Europe” in past years, because economic development was usually lagging behind the average of the euro area. Economic growth in 2017 advanced sharply and attained 1.8% versus 1.2% in the previous year. The very gratifying economic situation was also reflected in the figures released for the labour market in the euro area: In December 2017, unemployment stood at 8.7%, the lowest rate since 2009 according to Eurostat.

2.3%
GDP rises
in the euro area

Also pleasing is the solid economic development in the countries of relevance to us. Growth in these countries was higher than the average of the euro zone in 2017. In Croatia, economic growth is expected to rise to 2.9%, and in Slovakia GDP will gain 3.3.%. We would like to highlight especially Slovenia which at 4.4% has a growth rate almost twice as high as that of the euro area.

ROBUST GROWTH ALSO IN AUSTRIA

The domestic economy expanded in 2017 vigorously and will attain more than 3% growth for the first time since the two boom years 2006 and 2007. Growth forecasts for 2017 were revised upwards recently to real 3.1%. One of the reasons for the vigorous growth is the revival of the global economy which resulted in an increase in real exports. In 2016 it was the tax reform that fueled private consumption, while the high level of employment in the preceding year and the acceleration of wage growth had a positive impact on consumer spending by private households. A positive effect of the robust growth was moreover the significant improvement on the domestic labour market. At year-end 2017, the unemployment rate was a pleasing 5.3% according to Eurostat calculations.

3.1%
Growth in Austria

Goldilocks year fueled capital markets

The year 2017 will go down in history as a very successful year on capital markets. It was a year in which there were practically no major setbacks. Stocks achieved substantial gains in almost all parts of the world. As the global economy is on an steady upswing and inflation is not yet a theme, the profits of companies have largely surpassed the high expectations. The overall benign market sentiment was supported by the mix of low interest rate policy pursued by the major central banks, the positive economic environment and the rising corporate profits.

Encouraged by the wholesale promises made by the new US president, the optimism on the major US stock markets was felt already early in the year. Skepticism prevailed by contrast in other regions of the world at the start of 2017. In Europe, the threat scenario of populist election victories in the Netherlands and France was perceived as a uncalculated risk. The picture shifted in the course of the year though. It became clear that many of the already priced-in promises of the “Trump Trade” would probably not materialize, while in Europe the political risks evaporated. In Asia, growth was much more dynamic than expected.

The broad US stock index S&P 500 gained 21.8% in USD, while European stocks gained 11.2%. The German stock index DAX posted an increase by 12.5%. Austrian stocks fared especially well.

+34.0%
ATX achieves record performance

The ATX reached record gains of 34% and was among the world's top performers. The Japanese stock index TOPIX rose by 22.2% measured in yen. Due to the substantial depreciation of the Japanese yen versus the euro, development for euro investors at +11.1% was much lower. Chinese equities advanced in euro by 1.8%. Very positive was also the development among Slovenian stocks which posted a gain of 18.1%. Slovak stocks advanced by 4.8% in 2017, while the Croatian stock market – measured in euro – lost 3.6% in value.

The year 2017 was a mixed year for bond markets. Yields on government bonds ended their year-long downtrend in mid-2016 and have risen – amid fluctuations – slightly ever since thus causing bond prices to drop. German government bonds lost on average around 1.0% in the preceding year, while Austrian government bonds 0.5%. By contrast, other European sovereign bonds gained on average 0.6%. There was little reason to celebrate among holders of foreign currency bonds due to the strong euro. US government bonds are an example: even though they gained 2.3% due currency losses, in euro the minus was 10.2%. The trend was better for corporate bonds. These profited from the prolonged buying programme of the European Central Bank (ECB). European corporate bonds with good credit ratings gained 2.4% over the course of the year, while European high-interest bonds advanced by 4.8%. A picture is painted for US high-yield bonds similar to that of US government bonds. In USD the gain was 6.3%, but in euro a minus of 6.7%.

European Central Bank sticks to expansive monetary policy

The ultra-loose monetary policy of the European Central Bank caused key lending rates to stay below zero also in 2017. The bond purchasing programme, which originally was supposed to have expired in 2017, was prolonged to September 2018. The monthly bond purchasing volume was halved from EUR 60 billion to EUR 30 billion starting from January 2018. Even if the ECB ends the bond buying programme as of the end of September 2018, it will probably take longer until it starts raising interest rates again.

9.4%
EUR/CHF

+ 14.0%
EUR/USD

+ 10.0%
EUR/JPY

Strong euro gains ground

The euro prevailed again in the fourth quarter 2017 versus the key trade currencies. The euro appreciated versus the Swiss franc from EUR 1.072 to 1.170, which translates into a plus of 9.4%. The euro appreciated also versus the Japanese yen. The exchange rate EUR/JPY rose from 122.97 to 135.28, an increase of 10.0%. The euro appreciated versus the US dollar from EUR 1.05 to 1.20 per USD, which translates into a plus of 14.0%. Compared to the British pound, the euro appreciated from 0.854 to EUR 0.888 per GBP (+4.0%), and the euro also appreciated versus the Chinese renminbi by 6.3% from 7.338 to 7.802 per CNY. The Croatian kuna, which is important to us as a bank, depreciated versus the euro and was quoted at HRK 7.433 per EUR at the end of December 2017 after HRK 7.557 per EUR at the close of 2016, which is drop of 1.6%.

Commodity markets overcast by USD weakness

In the course of 2017, the price increase continued among commodities that had started in the preceding year. The prices were fueled mainly by the very positive global economic upswing. As commodities are traded mainly in USD, and these decreased significantly in 2017, from the standpoint of euro investors prices decreased. There were sharp price drops in euro in agricultural commodities (-22.7%), precious metals (-1.8%) and energy commodities (-6.7%); only industrial metals became more expensive (+13.3%). In the development of supply and prices for industrial metals, it is becoming apparent that corporate spending in the mining segment dropped by more than 60% from 2012 to 2016. This phenomenon is expected to have a supportive effect on industrial metals for some time.

Oil price per barrel

66.87 $

The oil price (Brent) rose in 2017 in US dollar by some +17.7% and stood at USD 66.87 per barrel at the end of December 2017. In this case as well, the weakness of the US dollar was felt. From a euro perspective, the only thing that remained of the oil price gain was a plus of 3.3.%. Especially commodities such as crude oil are currently in a dilemma. Every time OPEC cuts back extraction resulting in a price hike, the US fracking industry takes advantage of this to widen production and increase margins. This causes the price of oil to drop further. Therefore, the expectation is priced in that energy commodities including crude will continue to show a sideways tendency. Over the medium to long term, it may be expected that commodity prices will go up further due to the positive news of global economic growth.

The price of gold developed less positively in 2017. Although the gold price gained 13.1% over the course of the year, due to the weak USD, gold lost 0.8% in the preceding year from the standpoint of euro investors. At the end of December 2017, once ounce of gold cost USD 1,302.8. The interest rate moves already initiated by the Fed and the outlook of a gradual exit from the ultra-easy monetary policy by the ECB could test the resistance of gold, because rising interest rates mean higher opportunity costs for gold. Therefore, many market participants expect a slight decline in gold prices. As real interest is expected to remain low for some time, this decline should be moderate.

Gold per ounce

1,302.8 $

MANAGEMENT AND ORGANISATIONAL STRUCTURE

BKS Bank's sets great store by a flat hierarchy in its organisational structure. The highest-ranking managing body of the BKS Bank Group is the Management Board. More details on the distribution of areas of responsibility and remits are given in the Corporate Governance Report as of page 19.

Flat organisation

For the ideal management of the company, the organisation of the company is structured as follows:

- Central administrative departments which report directly to the Management Board and include the Office of the Management Board, Controlling and Accounting as well as Human Resources and the Internal Audit that provide assistance for management and support processes.
- Central departments that manage sales and new product development (Corporates, Retail, Private Banking and Securities); analyse and control credit risk (Credit Management) and ensure IT solutions to guarantee stable and secure IT operations. The international branches, subsidiaries and representation offices of BKS Bank are assigned to the department Treasury and International Operations which is also responsible for proprietary trading and treasury tasks. BKS-Leasing GmbH is assigned to the department for Corporates and Business banking.
- Regional Head Offices for Carinthia, Styria, Vienna-Lower Austria-Burgenland, Slovenia, Croatia and Slovakia that are responsible for local sales and the branches assigned to them.
- Service companies to which back office activities (BKS Service GmbH) and construction management, building administration and the vehicle fleet (BKS Immobilien-Service GmbH) have been outsourced.

Personnel changes

The first management level, which heads the so-called staff units, central departments, directorates and service companies, has a low level of staff turnover. There were changes in our management staff of foreign subsidiaries.

In Croatia, General Manager Christian Büttner left BKS Bank in mid-year. He will continue to support us as a consultant. General Manager Goran Rameša retired at year-end 2017. To fill these positions and ensure an orderly transition of the management functions in these markets of importance to our business, Tihomir Zadražil and Juraj Pezelj were appointed as successors as of 1 July 2017. They had been working for BKS Bank in Croatia for a longer time already. Tihomir Zadražil heads our branch in Zagreb, and Juraj Pezelj heads the Controlling and Accounting Department. In Slovakia, Peter Chovanec has been appointed new head of our main office there and of BKS-Leasing s.r.o. L'udovít Oravec has been on the management board of our Slovak leasing subsidiary since the autumn of 2017.

At our Austrian leasing company, BKS-Leasing GmbH, the long-year managing director Heimo Hebein retired at year-end 2017. His position was taken over by Michael Meschnark.

New authorised signatories

On the proposal of the Management Board and with the consent of the Supervisory Board, the following persons were appointed as authorised signatories in 2017:

- DI Gudrun Matitz, Head of Central Department Retail Banking,
- Bernd Berger, Head of Corporate and Business Banking at the Carinthia Main Office,
- Martin Gratzer, Head of Retail Banking at the Vienna-Lower Austria-Burgenland Main Office,
- Dieter Kohl, Head of Group Legal and Compliance at Central Department Office of the Management Board,
- Juraj Pezelj, Co-Head of the Main Office Croatia,
- Tihomir Zadražil, Co-Head of the Main Office Croatia,

These persons were appointed authorised signatories based on their successful work and sustained high performance in their business areas.

Diversity in management positions

All employees of BKS Bank have the same career opportunities regardless of age, gender or socio-cultural background. Nonetheless, only 55 women (2016: 51) held management positions in throughout the Group. The number of male managers was 115 (2016: 108). The goal is to raise the share of women in management positions to 35.0% by 2022. The high constancy of the management means that the majority of managers at the BKS Bank Group are over 50 years old (46%), and therefore, the issue of generation change is one of the areas of focus. When filling management positions in our international markets, BKS Bank relies primarily on persons from the respective region or who know the region well. Thus, in Croatia 100% of the top management is from the country, and in Slovenia and Slovakia the share is 66%.

High management quality

The high level of social and expert competence of the management staff is very important to BKS Bank. Whenever possible, management positions are filled from within the company. There are training and further education options available to all management staff. An annual development conference with the top management has been held for several years now. This event serves to develop participants' management skills, awareness of strategic personal development and organisational development themes as well as to identify potential management staff.

The expert career path plays an important role at BKS Bank. We have defined 15 key positions at headquarters that make it possible for staff members to pursue an externally visible career apart from the classical management positions. The selection criteria for the expert functions include:

- Expertise which is hard-to-find on the labour market
- Employees make a major contribution to creating value
- High level of commitment, project leadership qualifications and networked thinking

Fit & Properness

Furthermore, BKS Bank trains its Management Board, Supervisory Board, management staff and persons in key positions in a comprehensive fit & proper training course. The Bankwissenschaftliche Gesellschaft has created an e-learning tool for Supervisory Board members that can be attended at any time and from anywhere. Moreover, after the end of Supervisory Board meetings, fit & proper training courses are held for the members of the governing bodies.

Markets of BKS Bank

BKS Bank was founded in Klagenfurt in 1922 as Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co. Our market areas have become much larger since then. Today, we engage in the banking and leasing business in Austria, Slovenia, Croatia and Slovakia. Austria is our principal market. The banking business is conducted through branches and the leasing business through separate companies. Support is provided to customers from other countries exclusively cross-border by our Austrian Head Offices.

ORGANISATIONAL STRUCTURE

MANAGEMENT BOARD

Herta Stockbauer
Dieter Kraßnitzer
Wolfgang Mandl

CENTRAL ADMINISTRATIVE DEPARTMENTS

Office of the Management Board
Herbert Titze
Dieter Kohl
(Compliance and AML)

Controlling and Accounting
Hubert Cuder

Personnel Management
Werner Laure

Internal Audit
Robert Raunig

HEAD OFFICE

Corporates and Business Banking
Viktor König

Retail Banking
Gudrun Matitz

Credit Management
Michael Oberwalder

Treasury and International Operations
Josef Morak

Private Banking and Securities Operations
Georg Svetnik

Operations
Klaus Patterer

REGIONAL HEAD OFFICES

Carinthia
Bernd Berger
Sabine Lax
Karl Mertel
Diethmar Wölle

Styria
Nikolaus Juhász
Alfred Kordasch

Vienna-Lower Austria-Burgenland
Martin Gratzer
Anton Seebacher
Diethmar Wölle

Slovenia
Boštjan Dežman
Alexander Novak

Croatia
Tihomir Zadražil
Juraj Pezelj

Slovakia
Harald Brunner
Peter Chovanec

SERVICE COMPANIES IN AUSTRIA

BKS Immobilien-Service GmbH
Manfred Isopp

BKS Service GmbH
Jaroslav Zvolensky
Klaus Patterer

LEASING IN AUSTRIA

BKS-Leasing GmbH
Michael Meschnark
Karl Schabus

ABROAD

Subsidiaries
BKS-Leasing s.r.o. (Bratislava)
BKS-leasing d.o.o. (Ljubljana)
BKS-leasing Croatia d.o.o. (Zagreb)

Representation Offices
Croatia (Zagreb)
Italy (Padua)
Hungary (Sopron)

As at 31 December 2017

SHAREHOLDERS OF BKS BANK

BKS Bank shares are listed on the standard market auction segment of the Vienna Stock Exchange. The subscribed capital of BKS Bank AG of EUR 79,279,200 breaks down into 37,839,600 ordinary bearer shares and 1,800,000 preference bearer shares pursuant to the articles of association. In contrast to ordinary shares, the preference shares do not give shareholders any voting rights, but grant them a minimum dividend of 6.0% on the percentage share capital, payable at a later date. If the minimum dividend is not paid out for a financial year or not paid out in full, this remaining amount must be paid from the net profit of the subsequent financial year. Until full payment, preference shareholders have the same rights as ordinary shareholders (e.g. voting right). The approved capital is EUR 16,000,000 in accordance with the articles of association.

KEY INFORMATION ON THE BKS BANK'S SHARE

	2016	2017
Number of ordinary no-par ordinary shares (ISIN AT0000624705)	37,839,600	37,839,600
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000
High (ordinary/preference share) in €	17.3/15.4	18.5/17.8
Low (ordinary/preference share) in €	15.8/13.9	16.8/15.4
Close (ordinary/preference share) in €	16.8/15.4	17.8/17.7
Market capitalization in €m	662.7	705.3
IFRS result per share outstanding in €	1.23	1.72
Dividend per share	0.23	0.23[1)]
PER ordinary/preference share	13.7/12.5	10.4/10.3
Dividend yield ordinary share	1.37	1.29
Dividend yield preference share	1.49	1.30

[1)] Proposal to the 79th annual general meeting on 9 May 2018

The majority of BKS Bank shares are held by institutional investors, which together hold almost 77% of the capital with voting rights. A share of 38.9% are held by the two sister banks Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft, and 7.8% by Generali 3Banken Holding AG. These three investors are related by a syndicate agreement. The syndicate owned 46.7% of shares with voting rights at the end of the reporting year. The purpose of the syndicate agreement is to guarantee the independence of BKS Bank AG through the joint exercise of voting rights at annual general meetings and mutual pre-emptive rights of the syndicate partners.

The largest individual shareholder in 2017 was UniCredit Bank Austria AG with its subsidiary CABO Beteiligungsgesellschaft m.b.H. These two companies owned 6.1% and 24.3% of ordinary shares. Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H. held 3.1% of the share capital in BKS Bank AG with voting rights. 19.5% of BKS Bank shares are free float. These include the 0.6% ordinary shares owned by employees of BKS Bank. BKS-Be legschaftsbeteiligungsprivatstiftung (employee foundation) – which serves exclusively to fully transfer income on shares to the employees of BKS Bank as set out in § 10 (1) Corporation Tax Act 1988 (KStG) – owned some 0.42% of shares with voting rights.

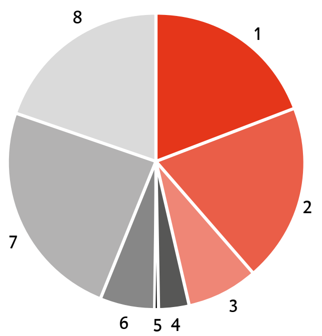
Broken down by shares in the capital, as of 31 December 2017 Oberbank AG held 18.5%, Bank für Tirol und Vorarlberg Aktiengesellschaft 18.9% and Generali 3Banken Holding AG 7.4%. UniCredit Bank Austria AG owned 6.6% of shares in the capital directly, and taking into account the stake of 23.2% owned by CABO Beteiligungsgesellschaft m.b.H., it held a total of 29.8% of the share capital. Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H. holds 3.0% and the free float accounts for 21.7% of ordinary and preference shares.

Apart from this, BKS Bank AG does not know of any constellation of individuals or a group of shareholders who own a majority and/or controlling interest in the company. Therefore, in our view no measures are required to prevent the abuse of a controlling interest.

The portfolio of own shares was 584,675 ordinary shares as at 31 December 2017 and 164,533 preference shares, which corresponds to a ratio of around 1.5% of voting rights or 1.9% of the share capital.

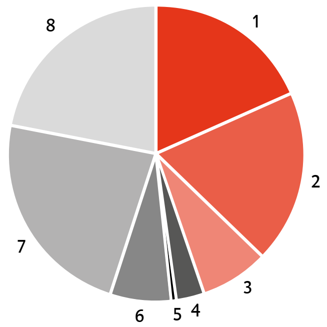
In 2013, our bank acquired around 100,000 shares on the stock exchange and through off-floor in a publicly-announced stock buyback programme. During the period from 3 to 18 April 2017, a number of 12,556 shares were transferred to employees at a market price of EUR 17.60 within the scope of the employee participation scheme and paid out as part of the annual bonus under certain conditions. At the end of 2017, the number of ordinary shares attributable to the employee participation scheme programme was 27,562 or 0.07% of voting shares compared to 40,118 shares in the preceding year.

SHAREHOLDERS OF BKS BANK BY SHARES WITH VOTING RIGHTS



		in %
1	Oberbank AG	19.36
2	Bank für Tirol und Vorarlberg Aktiengesellschaft	19.50
3	Generali 3Banken Holding AG	7.80
4	Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	3.09
5	BKS-Belegschaftsbeteiligungsprivatstiftung	0.42
6	UniCredit Bank Austria AG	6.10
7	CABO Beteiligungsgesellschaft m.b.H.	24.25
8	Free float	19.47

SHAREHOLDERS OF BKS BANK BY EQUITY INTEREST



		in %
1	Oberbank AG	18.52
2	Bank für Tirol und Vorarlberg Aktiengesellschaft	18.89
3	Generali 3Banken Holding AG	7.44
4	Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	2.99
5	BKS-Belegschaftsbeteiligungsprivatstiftung	0.73
6	UniCredit Bank Austria AG	6.63
7	CABO Beteiligungsgesellschaft m.b.H.	23.15
8	Free float	21.65

The shareholders highlighted in red are members of a syndicate agreement.

RESOURCES AND SERVICES

Employees

BKS Bank employed 1,099 persons (+2.6%) in the reporting year. We increased the number of employees to meet the requirements of our branch expansion. We also hired more experts to ensure that we can master challenges such as the advance of the digital transformation. In total, we hired 93 persons of which 38 were women.

Our employees represent diversity:

– They come from 11 different countries.
– 57% of our employees are women.
– 32.4% of our management staff are women.
– 78% of employees work in Austria, 11% in Slovenia, 7% in Croatia and 4% in Slovakia.
– With a share of 56.4%, the majority of our employees are from 30 and 50 years of age.
– The average duration of employment is 14.9 years.
– 74 employees celebrated a service anniversary in 2017, three even celebrated 45 years of work at BKS Bank.

EMPLOYMENT STRUCTURE

Employees by number of persons	2016	2017
Total number of employees	1,071	1,099
– thereof in Austria	844	860
– thereof in Slovenia	115	121
– thereof in Croatia	68	73
– thereof in Slovakia	39	40
– thereof in Italy	4	4
– thereof in Hungary	1	1
– thereof women	619	623
– thereof men	452	476
Full-time employees	822	849
– thereof women	384	389
– thereof men	438	460
Part-time employees	249	250
– thereof women	235	234
– thereof men	14	16
Employees with physical disabilities	21	28

Please note that the employee figures given in the other parts of this annual report are in FTE unless specifically pointed out otherwise. The table also contains the employees of the non-consolidated companies.

EXCELLENT TRAINING AND FURTHER EDUCATION

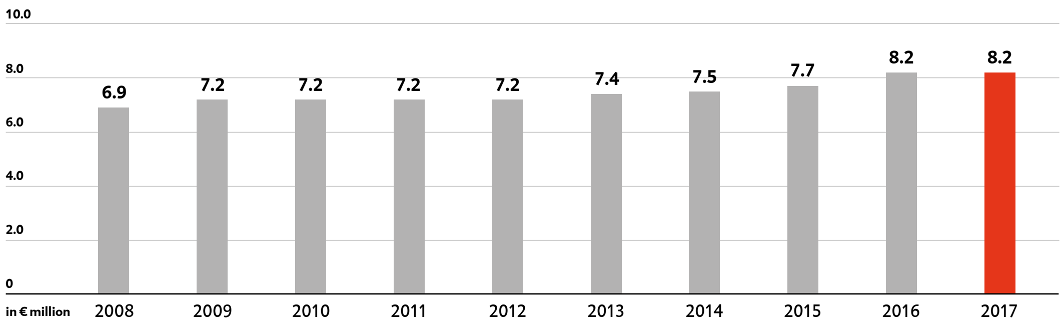
Our key strategic goal is to offer excellent advisory services. We are therefore investing substantially in the further education and training of our employees. Every employee spent an average of 4.2 days in training courses in 2017, which is a total of 33,013 hours. A special focus in the reporting year was on EIP certification for our investment advisors and on the establishment of a digital campus. This makes it possible to offer a combination of courses with physical attendance and e-training courses (“blended learning”).

The participants may continue to benefit from the interaction they are accustomed to, but can also acquire knowledge without being tied to a time or place. Numerous repeats and a breakdown into small learning units ensure the lasting acquisition of knowledge. At the same time, we moved into the newly renovated premises of our new training center in Palace Christalnigg in Klagenfurt. Most of our courses with physical attendance are held there.

HIGH PRODUCTIVITY

The high enthusiasm for learning and regular projects to improve efficiency substantially contribute to higher productivity. While turnover per employee in 2008 had been only EUR 6.9 million, ten years later the figure was EUR 8.2 million. This is an increase of 17.2%.

DEVELOPMENT OF BUSINESS VOLUME PER EMPLOYEE



AN ATTRACTIVE EMPLOYER

The high loyalty of our employees and 2048 job applications received show that BKS Bank is an attractive employer. The findings of the employee survey conducted in 2017 resulted an overall satisfaction score of 2.0 and was therefore 0.2 points better than the employee survey of the preceding year. To achieve this good level, we offer our employees a number of services to help combine family life and career, and to improve the health of our employees. Flexible working hours and modern workplaces also contribute to satisfaction as well as the good working climate and mutual respect. For further details on the services offered to our employees, see the chapter “Employees” in the Sustainability Report 2017.

Information technology

Digitalisation and ICT play a central role at every bank. Because smooth processes and user-friendly customer applications are indispensable for the banking business today. Therefore, the trend towards digital solutions is a key element of BKS Bank’s corporate strategy. Our digitalisation plans are described in the chapter “Corporate Strategy” starting on page 70 and also from page 105 of the Report.

JOINT IT SERVICE PROVIDER WITHIN THE 3-BANKEN ALLIANCE

3 Banken IT GmbH is responsible for implementation of IT projects and IT operations.[1)] 3 Banken IT GmbH is a joint subsidiary of Oberbank AG, Bank für Tirol und Vorarlberg Aktiengesellschaft and BKS Bank, and employs on the annual average 253 persons. The venue of the registered office is Linz, and it also operates competence centres in Klagenfurt and Innsbruck. The interface function to 3 Banks IT GmbH is run by our Operations Department.

In 2017, 134 projects - some of which run for several years - were processed. The great significance of information technology means that BKS Bank invests directly or through 3 Banken IT GmbH large amounts every year in the network infrastructure, in hardware and software. IT costs were EUR 16.9 million in 2017, which is a rise in costs of 6.2% versus 2016. We expect these costs to rise significantly also in 2018.

KEY IT PROJECTS IN 2017

Regulatory requirements were the drivers behind many IT projects also in the reporting year. For example, the implementation of MiFID II, the General Data Protection Regulation of the EU, IFRS 9 and PSD 2.

Additionally, we invest intensely in raising the efficiency of internal processes
The areas of focus in 2017 were
– the introduction of a workflow for changes to accounts,
– the implementation of a simplified loan application for corporate customers, and
– the introduction of a tool that permits leasing contracts to be concluded and processed directly at the point of sale.

FOCUS ON CYBER SECURITY

A special focus for BKS Bank and 3 Banken IT GmbH has been – and still is – cyber security. The media reports almost daily on the potential risks of hacker attacks and of the diverse fraud schemes such as phishing, social engineering and identity theft that target companies. As a bank, BKS Bank has the highest security standards, of course. To maintain this high standard, we also invested massively in the expansion of the security system in 2017.

A special risk factor in many fraud attempts is the human factor. E-mails opened thoughtlessly by clicking on them can permit malicious software to enter the company’s systems. But even CEO fraud only works if gullible employees follow the alleged instructions of a fake boss and execute a funds transfer bypassing all of the usual process steps. To prevent such cases, we have taken many measures to raise awareness. We also organise events for our customers with diverse cyber security experts to inform them of how best to protect themselves against such attacks.

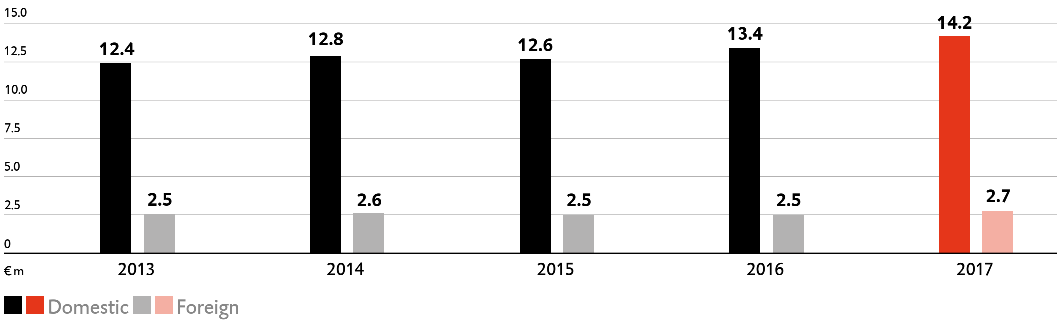
[1)] Formerly DREI-BANKEN-EDV Gesellschaft m.b.H.

The focus in our international market regions was on IT projects to introduce a partner management system and also an early warning system in Slovenia and Croatia. The implementation of "Move" completed in 2017, which is described on page 71, in all international market areas also required a changeover in the ICT systems.

EXCELLENT SYSTEM AVAILABILITY

The quality of the IT infrastructure is measured by the ratio of system availability. The so-called online availability during the prime shift from 8.00 a.m. to 5.00 p.m. was 100%. Also impressive is the fact that 99.7% of transactions have a response time of less than one second. And the multiple backup tests conducted yielded satisfactory results.

DEVELOPMENT OF IT COSTS



Construction, security and vehicle fleet

BKS Immobilien-Service Gesellschaft m.b.H. is responsible for all activities of the BKS Bank Group relating to construction. It is responsible for

– Project development, construction and facility management for our own properties and properties used by others
– Facility management
– Bank and work safety
– Service vehicles, and
– Waste management

The BKS Bank Group manages and services 60 own properties in Austria with a surface area of more than 68,000 m^2. A large part is used by BKS Bank itself and the rest is rented out. Rental income from the rental to third parties was EUR 2.6 million in Austria. Also in Slovenia and Croatia, where six further properties are managed, the occupancy ratio is very pleasing and yielded rental income of EUR 1.3 million. In total, we invested EUR 4.9 million in construction work which was generally carried out by local tradespeople.

OVERVIEW OF PROPERTIES IN AUSTRIA BELONGING TO THE GROUP

	2016	2017
Number of properties	59	60
Total surface area in m²	67,991	68,247
– thereof used for banking operations in m²	36,848	36,737
– thereof rented to third parties in m²	26,059	26,673
Rental occupancy ratio in %	92.0	92.9
Net rental income from third party rentals in EUR million	2.2	2.6

OVERVIEW OF PROPERTIES BELONGING TO THE GROUP IN FOREIGN MARKETS

	Slovenia	Croatia
Number of properties	4	2
Total surface area in m²	14,460	1,724
– thereof used for banking operations in m²	2,653	1,437
– thereof rented to third parties in m²	11,123	287
Rental occupancy ratio in %	95.26	100
Net rental income from third party rentals in EUR million	1.3	0.03

Major work at properties managed by BKS Immobilien-Service GmbH in the reporting year included, for example, work on our new branch in Split. The year-long extensive renovation work of Chistalnigg Palace in Klagenfurt was completed and our training center moved in. The previous training premises in Pörtschach were adapted to be rented as commercial property. We were pleased to find tenants right away. Further adaptation measures concerned the premises of Private Banking in Vienna and two rental properties in Graz.

ENVIRONMENTALLY-COMPATIBLE VEHICLE FLEET MANAGEMENT

The tasks of BKS Immobilien-Service GmbH include the management of the vehicle fleet. When buying new vehicles special attention is given to energy efficiency. Only new vehicles that comply with emissions standards 5 and 6, and electric and hybrid vehicles are acquired. In the course of the year, 76 vehicles were in use throughout the Group and 2,173 kilometres were driven for business travel.

SAFETY IS A HIGH PRIORITY

The safety of our employees has high priority at BKS Bank. We are happy to report that there were no bank robberies at our branches in 2017, and the number of work-related accidents was very low at 4 incidents. We invest regularly in modern safety technology and train our employees in workplace safety, which helps to maintain a high standard.

CONSOLIDATED COMPANIES AND EQUITY INTERESTS

The relevant group of consolidated companies of BKS Bank includes 19 credit and financial institutions as well as companies that supply banking services including domestic and foreign leasing companies. The overview below shows the companies that belong to the BKS Bank Group pursuant to the International Financial Reporting Standards.

The inclusion of affiliated companies in the consolidated financial statements is based on the application of uniform materiality principles for the entire Group as well as quantitative and qualitative parameters. Materiality criteria are, above all, the total assets of the subsidiaries, the pro rata equity in associated companies as well as the number of employees at the respective companies. There were no changes to the group of consolidated companies in 2017.

GROUP OF CONSOLIDATED COMPANIES

Credit institutions and financial institutions

BKS Bank AG, Klagenfurt	*BKS-Leasing Gesellschaft m.b.H., Klagenfurt*	*BKS-leasing d.o.o., Ljubljana*
BKS-leasing Croatia d.o.o., Zagreb	*BKS-Leasing s.r.o., Bratislava*	*Drei Banken Versicherungs-agentur GmbH, Linz*
Oberbank AG, Linz	*Bank für Tirol und Vorarlberg Aktiengesellschaft, Innsbruck*	ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H., Linz

Other consolidated companies

BKS Zentrale-Errichtungs u. Vermietungsgesellschaft m.b.H., Klagenfurt	*Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG, Klagenfurt*	*IEV Immobilien GmbH, Klagenfurt*
VBG-CH Verwaltungs- und Beteiligungs GmbH, Klagenfurt	*LVM Beteiligungs Gesellschaft m.b.H., Vienna*	*BKS Service GmbH, Klagenfurt*
BKS Immobilien-Service Gesellschaft m.b.H., Klagenfurt	*BKS Hybrid alpha GmbH, Klagenfurt*	*BKS Hybrid beta GmbH, Klagenfurt*
BKS 2000 - Beteiligungs-verwaltungsgesellschaft mbH, Klagenfurt		

Full consolidation

Recognized using the equity method

Proportionate consolidation

The group of consolidated companies of the BKS Bank Group includes, apart from BKS Bank AG, 14 credit and financial institutions and companies that supply banking-related services in which BKS Bank AG holds controlling interests. These consolidated financial statements are based on the uniformly prepared single-entity financial statements of all fully consolidated companies.

For the three companies recognized using the equity method in accordance with IAS 28, the carrying amounts of the investments are adjusted for the changes in the net assets of the respective entities. Apart from Drei Banken Versicherungsagentur GmbH, the sister banks Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft are also recognized using the equity method. At year-end 2017, BKS Bank held a share of 15.21%, and 14.78% in these credit institutions, respectively, which is less than 20% of voting rights in each case; however, the voting rights are exercised under a syndicate agreement. This agreement makes it possible to participate in the financial and business policy decisions of these credit institutions of the 3 Banken Group, without exercising a controlling interest.

Die ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H. (ALGAR) is recognized in the consolidated financial statements on a proportionate basis. This investment is classified as a joint operation pursuant to IFRS 11.

The other fully consolidated companies, which are mostly real estate companies, provide mainly banking-related services. All other company shares are recognized as available-for-sale assets.

Credit institutions and financial institutions

BKS BANK AG

Object of business	Credit institution
Head Office	Klagenfurt
Year of foundation	1922
Total assets	EUR 7.15 billion
Number of branches	63
Number of employees in FTE	895.3

BKS-LEASING GESELLSCHAFT M.B.H.

Object of business	Sale and management of vehicle, movables and real estate leasing
Share in the capital	99.75 %
Head Office	Klagenfurt
Share capital	EUR 40k
Year of foundation	1989
Leasing volume	EUR 175.4m
Number of employees in FTE	10.5

BKS-LEASING D.O.O.

Object of business	Sale and management of vehicle, movables and real estate leasing
Share in the capital	100 %
Head Office	Ljubljana
Share capital	EUR 260k
Year of acquisition	1998
Leasing volume	EUR 104.5m
Number of employees in FTE	14.9

BKS-LEASING CROATIA D.O.O.

Object of business	Sale and management of vehicle, movables and real estate leasing
Share in the capital	100 %
Head Office	Zagreb
Share capital	EUR 1.2m
Year of foundation	2002
Leasing volume	EUR 43m
Number of employees in FTE	11.3

BKS-LEASING S.R.O.

Object of business	Sale and management of vehicle, movables and real estate leasing
Share in the capital	100 %
Head Office	Bratislava
Share capital	EUR 15m
Year of acquisition	2007
Leasing volume	EUR 25.6m
Number of employees in FTE	8.8

OBERBANK AG

Object of business	Credit institution
Share in the capital	15.21 %
Head Office	Linz
Year of foundation	1869
Total assets	EUR 20.83 billion
Number of branches	161
Average number of staff	2,050

BANK FÜR TIROL UND VORARLBERG AG

Object of business	Credit institution
Share in the capital	14.78 %
Head Office	Innsbruck
Year of foundation	1904
Total assets	EUR 10.46bn
Number of branches	36
Average number of staff	1,401

ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT M.B.H.

Object of business	Hedging of large credit risks
Share in the capital	25 %
Share capital	EUR 3.0m
Head Office	Linz
Year of foundation	1984

DREI BANKEN VERSICHERUNGSAGENTUR GMBH

Object of business	Management of the remaining assets of 3 Banken Versicherungsgesellschaft
Share in the capital	20 %
Head Office	Linz
Share capital	EUR 7.5m
Year of foundation	2016

Other consolidated companies

BKS ZENTRALE-ERRICHTUNGS- U. VERMIETUNGSGESELLSCHAFT M.B.H.

Object of business	Real estate construction and management
Share in the capital	Indirect 100%
Head Office	Klagenfurt
Share capital	EUR 36.4k
Year of foundation	1990

IMMOBILIEN ERRICHTUNGS- U. VERMIETUNGSGESELLSCHAFT M.B.H. & CO. KG

Object of business	Acquisition, construction, rental and leasing of real estate
Share in the capital	100% limited partner[1)]
Head Office	Klagenfurt
Capital contribution	EUR 750k
Year of foundation	1990

[1)] IEV Immobilien GmbH is the general partner, a 100% subsidiary of BKS Bank AG.

IEV IMMOBILIEN GMBH

Object of business	Management as general partner of IEV GmbH & Co KG
Share in the capital	100 %
Head Office	Klagenfurt
Share capital	EUR 35k
Year of foundation	2007

BKS HYBRID ALPHA GMBH

Object of business	Issuance of a hybrid bond
Share in the capital	100 %
Head Office	Klagenfurt
Share capital	EUR 35k
Year of foundation	2008

BKS HYBRID BETA GMBH

Object of business	Issuance of a hybrid bond
Share in the capital	100 %
Head Office	Klagenfurt
Share capital	EUR 35k
Year of foundation	2009

VBG-CH VERWALTUNGS- UND BETEILIGUNGS GMBH

Object of business	Beteiligungsgesellschaft m.b.H.
Share in the capital	100 %
Head Office	Klagenfurt
Share capital	EUR 35k
Year of foundation	2007

LVM BETEILIGUNGS GESELLSCHAFT M.B.H.

Object of business	Taking over the financing of the foreign subsidiaries of the Group.
Share in the capital	Indirect 100%
Head Office	Klagenfurt
Share capital	EUR 36.3k
Year of foundation	1988

BKS SERVICE GMBH

Object of business	Service company for banking-relating activities
Share in the capital	100 %
Head Office	Klagenfurt
Share capital	EUR 35k
Year of foundation	2011
Number of employees in FTE	50.2

BKS IMMOBILIEN-SERVICE GESELLSCHAFT M.B.H.

Object of business	Acquisition, construction, rental of real estate and building management
Share in the capital	100 %
Head Office	Klagenfurt
Share capital	EUR 40k
Year of foundation	1973
Number of employees in FTE	11.3

BKS 2000 - BETEILIGUNGSVERWALTUNGSGESELLSCHAFT MBH

Object of business	Beteiligungsgesellschaft m.b.H.
Share in the capital	100 %
Head Office	Klagenfurt
Share capital	EUR 40k
Year of foundation	1995

Further investments

INVESTMENTS IN CREDIT AND FINANCIAL INSTITUTIONS

	Share in the capital in %
3 Banken-Generali Investment-Gesellschaft m.b.H.	15.43
Oesterreichische Kontrollbank Aktiengesellschaft	3.06
BWA Beteiligungs- und Verwaltungs-Aktiengesellschaft	0.89
3-Banken Wohnbaubank AG	10.00
3 Banken Kfz-Leasing GmbH	10.00

OTHER SHARES IN AFFILIATED COMPANIES

	Share in the capital in %
VBG Verwaltungs- und Beteiligungs GmbH	100.00
E 2000 Liegenschaftsverwertungs GmbH	99.00

OTHER INVESTMENTS IN NON-BANKS

	Share in the capital in %
3 Banken IT GmbH	30.00
3 Banken Versicherungsmakler Gesellschaft m.b.H.	30.00
Einlagensicherung der Banken und Bankiers GmbH (bank deposit protection organisation)	3.10
Einlagensicherung AUSTRIA Ges.m.b.H.	1.00
CEESEG Aktiengesellschaft	0.38
PSA Payment Services Austria GmbH	1.46

ASSETS AND FINANCIAL POSITION

Total assets the BKS Bank Group were EUR 7.58 billion on 31 December 2017 thus the same as in the preceding year. The positive economic development revived demand for loans and substantially reduced the need for risk provisions for loan losses. On the equity and liabilities side on the balance sheet, we increased the already very good figures of the preceding year for primary deposits.

Assets

ECONOMIC UPSWING BOOSTS DEMAND FOR LOANS

In the past financial year, demand for loans picked up significantly. The economic upswing had a positive effect on the investment propensity of our corporate customers and also among retail customers we recorded rising demand for loans. The volume of new loans was a substantial EUR 1.5 billion in the reporting year. Above all in our growth markets – Vienna-Lower Austria-Burgenland, Slovenia and Croatia – we acquired new customers in the retail and corporates segments with our excellent advisory know-how in financing matters. Some 40% of new business was accounted for by these markets.

Many corporate customers also took advantage of the good liquidity situation to repay loans prematurely. Credit growth was a gratifying 2.2% versus the year-end figure for 2016, and loans and advances to customers amounted to EUR 5.45 billion as at 31 December 2017. Receivables from customers include the lending volume of the parent company BKS Bank AG as well lending by domestic and foreign leasing companies. Our foreign markets account for around one fourth (25.7%) of loans granted.

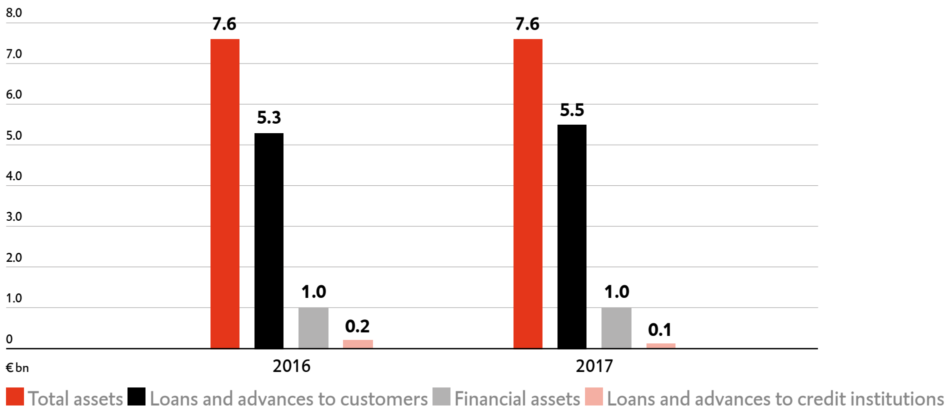
Impairment charges on receivables from customers developed very well in the reporting year due to the much improved portfolio structure and on account of the good economic situation. As of year-end 2017, charges for losses on loans and advances was EUR 137.0 million. Compared to the level at the end of December 2016 this is an increase by 11.7%. The sound portfolio structure is also reflected in the ratio of non-performing loans that improved from 4.8% to 3.5% over the course of the year.

The foreign currency share in loans decreased again sharply in the reporting period. The foreign currency ratio (FX ratio) was only 3.2% on 31 December 2017, a decline by 1.3%-points.

UPSWING IN LEASING BUSINESS

The business of our domestic and foreign leasing companies developed very positively in the past business year. We carried out extensive measures to give our Austrian leasing company new impetus in the financial years 2016 and 2017 that included the expansion of direct sales, speeding up the application and approval procedures as well as the set up of a new IT solution for the closing of leasing contracts at the point of sale.

DEVELOPMENT OF ASSETS



We are very pleased to report that the project was successful and is already bearing fruit: The leasing volume increased from EUR 159.7 million to EUR 175.4 million, which is a gain of 9.8%. The Slovenian leasing company continued the excellent development of the year 2016. The leasing volume attained EUR 104.5 million thus rising by a notable 14.7%. This sustained positive development confirms our belief that we should continue to work on enhancing our good reputation as a reliable leasing partner on the Slovene market also in 2018. In Croatia, the leasing business was also satisfactory. From the beginning of January until the end of December 2017, EUR 14.1 million in new business was acquired.
In Slovakia changes to the management in the last quarter of 2017 also led to a jump in the leasing business.

FINANCIAL ASSETS DEVELOPED POSITIVELY

Investments in fixed interest securities are an important steering factor for complying with statutory liquidity requirements. In times of historically low interest rates, it is – and remains – a challenge to make the right investments. Although the yields on ten-year German government bonds went up in the course of the year 2017 from 0.21% to 0.43%, these terms are still hardly appealing to investors.

There were changes in the way financial assets are recognized in the reporting year. Investments in entities accounted for using the equity method are now reported as separate items on the balance sheet. The value was adjusted for the financial year 2016.

As at 31 December 2017, financial assets attained a level of EUR 1.04 billion, which is an increase of 3.0%. Financial assets measured at fair value through profit or loss increased by 3.6% to EUR 78.3 billion. The slight increase was the result of newly granted fixed-interest loans which were hedged by interest rate swaps with matching maturities. By contrast, AfS assets decreased from EUR 189.3 million to EUR 182.1 million. The decline is due mainly to redemptions of fixed interest securities.

The equity instruments in the available-for-sale portfolio increased by EUR 12.4 million due to the first-time measurement at fair value for major investments. The change in measurement was carried out with the first-time availability of a reliable measurement.

The held-to-maturity portfolio widened due to additions by 4.7% to EUR 782.8 million. We have high quality liquid assets in this position in order to achieve a comfortable liquidity buffer and to meet the statutory liquidity standards.

The shares of companies measured by the equity method increased in the reporting year by 10.5% to EUR 520.4 million year-on-year. The rise was due to the addition of the net profits for the period from companies recognized using the equity method, above all, our sister banks Oberbank AG and Bank für Tirol and Vorarlberg Aktiengesellschaft.

At year end 2017, we held EUR 476.6 million in cash reserves. This item breaks down into cash and cash equivalents and the credit balance with central banks. Employment decreased vs. the previous year by 12.3%. The remaining asset items such as property, plant and equipment, investment property, intangible assets as well as other assets did not undergo any changes of mention in the reporting year. Deferred tax assets declined to EUR 7.9 million (-54.5%).

Equity and liabilities

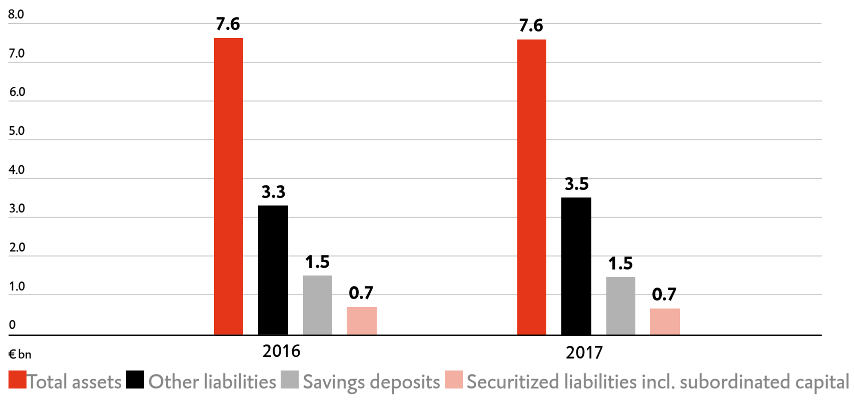
PRIMARY DEPOSITS BREAK NEW RECORD

Primary deposit balances were again higher than in the excellent year 2016. At EUR 5.67 billion, primary deposits broke a new record with an increase of 1.8%. Primary deposits are an important source of refinancing for us. We are very pleased that our customers highly appreciate BKS Bank as a reliable partner. At the same time, this development has a slight bitter aftertaste, because we have to pay negative interest of 0.4% for short term deposits with central banks, even though we cannot charge any negative interest to retail customers.

The largest items in loans and advances to customers were once again sight and term deposits, which increased by EUR 185.6 million to EUR 3.48 billion. The substantial rise was driven by the good liquidity situation of our corporate customers. Deposits by corporate customers widened by 7.5%.

By contrast, savings deposits decreased by 3.5% to EUR 1.48 billion due to the difficult interest rate environment. Nonetheless, we are satisfied with the status of savings deposits, as classical savings products are losing appeal due to the year-long low interest policy. This is a trend we hope to stop in 2018 by offering attractive products.

DEVELOPMENT OF EQUITY AND LIABILITIES



Securitized liabilities developed very positively considering the challenging market environment and reached EUR 554.0 million, a gain of 1.7%. In the year just completed, we tread new ground in new issues: In the first quarter of 2017, we were the first credit institution in Austria to issue a social bond[1]. The proceeds of the issuance are dedicated to financing a competence centre for persons with dementia diseases in Carinthia; the cornerstone has been laid. In the autumn, the issuance of a green bond followed.[1] The proceeds of the issuance of these bonds are used to finance a small hydro-power plant of Hasslacher Energie GmbH in Spittal an der Drau. Apart from this, we issued a BKS Bank Obligation[1] in 2017 with a maturity of 8 years and a coupon of 1.375% in the retail segment and with EUR 73 million as a private placement with institutional investors.

To strengthen our subordinate capital, in 2017 we issued a 3% Nachrangobligation (junior bond)[1] with a maturity of 10 years. Subordinated capital decreased by 20.1% to EUR 158.6 million as a result of repayments. Since the end of May 2017, an Additional Tier 1 bond has been in issue of which we had placed EUR 12.8 million by year-end 2017.

The Group's equity - this includes subscribed capital, capital reserves, profit and other reserves - rose in the reporting year to EUR 1.05 million (+9.2%) and surpassed the one million euro threshold for the first time. The increase in equity is documented in detail in the report on changes in equity and was driven, above all, by the good earnings and the related changes to retained earnings and other reserves. The additional equity instruments contributed EUR 12.8 million to the increase.

[1] The information provided in this text serves only as non-binding information and does not replace in any way advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bond mentioned here, and neither is it a buy or sell recommendation. The legal basis for the bonds described is exclusively the published base prospectus of BKS Bank AG dated 6 April 2017 including all documents included in the form of a reference and all supplementary information as well as the respective final terms, which are available free of charge on the website of the issuer at Investor Relations > Bond Issues and also at the offices of BKS Bank AG, 9020 Klagenfurt, St. Veiter Ring 43 during usual office hours.

RESULT OF OPERATIONS

We closed the financial year 2017, with a significant increase in the result of operations. Although the challenges for banks were enormous also in the past year, we again impressively illustrated that focusing on customers, earnings and growth is the best way to achieve our strategic goals.

Record earnings made possible by solid business development

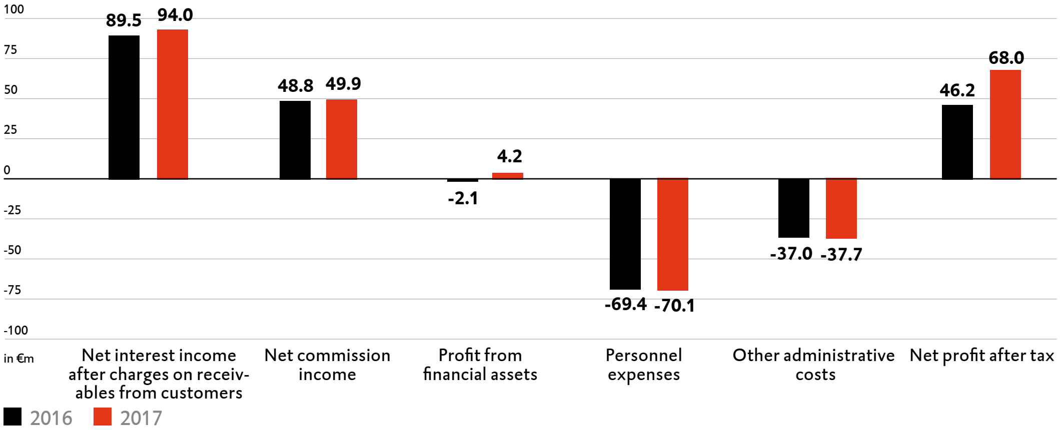
BKS Bank attained a consolidated net profit after tax of EUR 68.0 million as at 31 December 2017 which is the best result in our history. This outstanding achievement is based on several factors: The positive development on capital markets and measurement gains on assets and liabilities through the fair value option yielded much higher income on financial assets. The good risk situation lowered the loan loss provisions needed and in the commission business we recorded slightly higher increases in earnings. Furthermore, the one-off burdens of the preceding year created by payments on the stability tax 2017 no longer applied. The lending business remained challenging also in 2017 due to the continued low-interest policy.

Net interest income before impairment charges was EUR 120.7 million, which is practically unchanged versus the level of 31 December 2016. Interest income decreased by 4.2% to EUR 154.3 million, while interest expenses were down by 17.0% to EUR 33.6 million. At a financing margin of 1.97% after 1.86% in the preceding year, we even improved it slightly. Margins on deposits burdened by market interest rate levels flattened year-on-year to -0.07%. In the segment deposits by institutionals, negative interest rates are being charged more and more frequently.

KEY COMPONENTS OF THE INCOME STATEMENT

in € m	2016	2017	± in %
Net interest income	120.5	120.7	0.2
Impairment charges on receivables from customers	-31.0	-26.7	-13.8
Net fee and commission income	48.8	49.9	2.2
Profit/loss from investments recognised by the equity method	33.7	39.1	15.9
Net trading income	1.7	1.5	-10.0
Profit/loss from financial assets	-2.1	4.2	>100
General administrative expenses	-106.4	-107.8	1.2
Profit for the year before tax	49.8	77.2	55.0
Income tax expense	-3.6	-9.1	>100
Profit/loss for the year	46.2	68.0	47.3

COMPONENTS OF THE INCOME STATEMENT



Net interest income after impairment charges on receivables from customers increased by 5.0% to EUR 94.0 million after EUR 89.5 million year on year.

The economic upswing has perceptibly eased the burden on the risk situation. The net balance of additions to impairment charges on receivables from customers stood at only EUR 26.7 million at 31 December 2017, which is 13.8% lower than in the preceding year.

In the reporting year, we allocated EUR 42.5 million as new risk provisions. The volume in the rating grades 5a to 5c ("at risk of default") has decreased further and reached EUR 292.0 million at year-end a minus of EUR 93.0 million. Moreover, in the reporting year we reversed a volume of EUR 17.0 million in credit risk provisions. The level of credit risk provisions in percentage of the average outstanding liabilities including contingent liabilities was 2.4% (2016: 2.7%).

In the last year we developed new methods of measurement for loan loss provisions. While we continued to use the DCF method to determine impairment for significant receivables, we introduced a new risk-sensitive measurement method based on general criteria for receivables smaller than EUR 1.5 million.

DEVELOPMENT OF IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €m	2016	2017	± in %
Direct write-offs	1.0	2.1	>100
Impairment additions	42.4	42.5	0.3
Impairment reversals	-11.3	-17.0	49.8
Subsequent recoveries	-1.0	-0.9	10.1
Impairment charges on receivables from customers	31.0	26.7	-13.8

We allocated provisions of EUR 70.4k for the credit risk of our foreign leasing companies. Of this amount, EUR 166.3k and EUR 168.6k, respectively, were allocated for the Slovenian and Slovak leasing companies, while the Croatian BKS-leasing Croatia d.o.o. released provisions of EUR 264.0k on balance.

Net fee and commission income slightly higher

Net fee and commission income rose from EUR 48.8 million to EUR 49.9 million, which is a gain of 2.2%. The situation was highly pleasing that the securities business improved in the course of the year 2017. The excellent development of stock markets encouraged our customers to invest and resulted in higher revenues in the securities business. Especially in our growth regions of Slovenia, Vienna-Lower Austria-Burgenland and Styria, the increase in the securities business was significant and thus also the related net fee and commission income (+27.5%, +20.4% and +18.5%, respectively). Net fee and commission income from securities rose by 5.2% to EUR 13.7 million.

Payment services is the strongest segment in the services business. 40% of total net fee and commission income comes from this line of business. On 31 December 2017, net fee and commission income from payment services amounted to EUR 19.7 million, an increase by 1.7%. We are satisfied with this result, but in the coming months we will continue to work on the reorganisation of the business area of payment services and make it fit for the future. This business area is confronted with enormous changes. On the one hand, the rapidly changing technology scenario, which is encouraging many fintechs and providers from other industries to enter this market. On the other hand, new regulations such as the Payment Services Directive II (PSD 2) offer great opportunities for strengthening our own position on the market for payment services. And we plan to take advantage of these.

By contrast, commissions from the financing business decreased. At the end of 2017, we achieved a result of EUR 12.2 million (-6.1%) in fees and commissions on loans. The decline was caused, among other things, by the distribution of the up-front fees across the entire credit period. However, the foreign exchange business increased by 29.3% to EUR 2.9 million.

Results from entities recognised using the equity method developed very positively again and at year-end 2017 they were EUR 39.1 million after EUR 33.7 million in the preceding year. The increase shows the excellent business development of our sister banks.

Financial assets with major contributions to results

The result from financial assets reached an excellent level on 31 December 2017 and was far above the negative level of the preceding year. One of the reasons for the steep rise was, among other things, the positive trend on stock markets where we seized opportunities to take profits.

As as 31 December 2017, the situation was as follows: Financial assets and liabilities designated as at fair value through profit or loss increased to EUR 1.3 million. This rise was due primarily to a measurement gain in the assets or liabilities measured on the basis of the fair value option. Also the income from financial assets in the available-for-sale portfolio improved year on year significantly and was EUR 2.9 million. Only the result of the held-to-maturity portfolio moved slightly into negative territory and stood at EUR 4k at year-end.

Net trading income decreased in the reporting period to EUR 1.5 million. The key driver of the decline was the drop in earnings from foreign exchange trading.

Administrative expenses stable

Thanks to our strict cost discipline and cautious investment policy, we have a good grip on costs. In the past financial year, we once again succeeded in containing our administrative expenses, which were EUR 107.8 million and thus an increase of merely 1.2%. A major portion of administrative expenses is attributable to personnel expenses, which rose only slightly at EUR 70.1 million (+0.9%). The collective agreements to increase wages by an average of 1.28% is included in this development. When filling vacancies, we strive to recruit. The average headcount increased versus 2016 by only 2 to 928 employees in full-time equivalents, although we expanded our branch network.

General administrative expenses increased only slightly from 1.6% to EUR 31.0 million. The rise was due mainly to the higher IT costs and is a result of the enormous digitalisation work under way at our bank. Write-downs accounted for a volume of EUR 6.7 million versus EUR 6.5 million in the preceding year.

Other operating income improves

Other operating income was not as negative compared to the preceding year and amounted to EUR -3.8 million on 31 December 2017. In the preceding year, the one-time payment of EUR 7.8 million for the stability tax burdened this item heavily. The result for 2017 includes the contributions to the resolution and deposit protection fund of EUR 4.3 million (pr.yr.: EUR 4.1 million) and the stability tax of EUR 1 million.

Profit for the year

In the financial year 2017, BKS Bank earned a consolidated net profit before tax of EUR 77.2 million following EUR 49.8 million in the preceding year. After deducting taxes of EUR 9.1 million, the net profit after tax for the Group was EUR 68.0 million or a gain of 47.3%.

Profit distribution proposal

The distributable profit is based on the financial statements of the parent company BKS Bank AG. BKS Bank AG earned an net profit of EUR 25.9 million from 1 January to 31 December 2017 after EUR 29.4 million in the preceding year. Reserves of EUR 17.0 million were set aside from the net profit. Taking into account the profit carried forward of EUR 0.4 million from the preceding year, BKS Bank AG reports a net profit of EUR 9,372,979.71. At the 79th annual general meeting on 9 May 2018, the proposal was made to pay out a dividend of EUR 0.23 per share, which is EUR 9,117,108 and to carry the remainder of EUR 0.3 million to the new account.

Company ratios on course

Taking into account the excellent result for the year, the company's performance ratios as at 31 December 2017 present the following picture: return on equity (RoE) after tax increased from 5.1% to 6.8% and return on assets (RoA) after tax rose from 0.6% to 0.9%.

The cost/income ratio was a pleasing 51.9% and was clearly below the internal benchmark of <55.0%. Likewise, the risk/earnings ratio developed well and attained an excellent level at 16.7%. Compared to the preceding year, this is an improvement of 3.4%-points year on year. The NPL ratio also moved in the right direction and stood at a gratifying 3.5% after 4.8% in the preceding year.

The leverage ratio was 8.0% as at 31 December 2017, while the liquidity coverage ratio attained 145.2%. Both the leverage ratio and the liquidity coverage ratio had comfortable levels compared to the regulatory requirements. The two figures surpassed the statutory requirements of 3.0% and 100% by far.

BKS Bank has a common equity tier 1 capital ratio of 12.5% and an own funds ratio of 14.0% and thus a solid equity base, considering that the ratios are burdened by large shares in banks to be deducted. IFRS earnings per share was EUR 1.72 as at 31 December 2017.

KEY PERFORMANCE INDICATORS

in %	2016	2017	± in %-points
ROE after tax	5.1	6.8	1.7
ROA after tax (net profit/loss / Ø equity)	0.6	0.9	0.3
Cost/income ratio	56.2	51.9	-4.3
Risk/earnings ratio	20.1	16.7	-3.4
LCR	155.6	145.2	-10.4
Leverage ratio	8.5	8.0	-0.5
Tier 1 capital ratio	12.6	12.5	-0.1
Own funds ratio	13.5	14.0	0.5
IFRS result per share in issue in €	1.23	1.72	0.49

SEGMENT REPORT

The segment corporate and business banking is BKS Bank's most successful business area. A large share of our net profit is earned in the segment corporate and business banking. The financial markets segment is a source of stable earnings, in spite of market volatility. Retail banking is still a difficult business and it is very hard to return to the profit zone. With the successful implementation of the measures defined and the end of the low interest environment, we plan to achieve a trend reversal by 2020.

Corporate and Business Banking

We served some 19,500 customers in the segment corporate and business banking in 2017, which is a gain of 4.8%. This customer segment includes many firms from the industrial sector, commerce and trade, as well as from the free professions, farming and forestry and also municipalities and the public sector.

Corporate and business banking has a long tradition at our bank. Already at the time of its founding in 1922, the object of our business was primarily supplying banking services to business customers. Today, this segment is still the most important operational business unit. A large share of the loans we grant go to corporate and business customers.

EXCELLENT SEGMENT RESULTS

Net interest income developed very positively again in the reporting year and was EUR 90.0 million compared to EUR 85.5 million in the preceding year. The excellent level of net income interest is attributable to two success factors: First, we widened margins by five basis points to 2.21%. Second, the higher credit volume had a positive effect on net interest income. Net fee and commission income increased by 2.4% to EUR 27.4 million. The increase was driven by higher commissions on loans and additional earnings from payment services. Credit risk developed very positively bolstered by the good development of the economy. We have been spared any major cases of insolvency in the past business year. Compared to the same period of the preceding year, risk provisions decreased by a very gratifying EUR 6.3 million to EUR 23.4 million.

CORPORATE AND BUSINESS BANKING

in € m	2016	2017
Net interest income	85.5	90.0
Impairment charges on receivables from customers	-29.7	-23.4
Net fee and commission income	26.8	27.4
General administrative expenses	-45.9	-48.2
Net of other operating expenses	1.7	1.2
Profit for the year before tax	**38.4**	**47.0**
ROE before tax	15.4 %	15.7 %
Cost/income ratio	40.2 %	40.6 %
Risk/earnings ratio	34.7 %	26.1 %

Administrative expenses increased by 5.1% to EUR 48.2 million. The reason for the increase was the further expansion of branches and a more granular breakdown of cost segmentation. Other operating income decreased compared to previous year by EUR 0.5 million to EUR 1.2 million. In total, profit before tax for the financial year 2017 was EUR 47.0 million, which is a significant increase by 22.2% or EUR 8.5 million.

The solid development of business is reflected in the improved management benchmarks. Return on equity based on the net profit and allocated equity of EUR 299.0 million increased to 15.7%, which is a rise of 30 basis points. At a cost/income ratio of 40.6% as at 31 December 2017, the level remained the same as in the preceding year. The excellent risk situation lifted the risk/earnings ratio by 8.6%-points to 26.1%.

FINANCE BUSINESS DEVELOPING SATISFACTORILY

We offer our corporate and business banking customers a broad range of financing products. In personal talks, we arrange working funds and project finance, lease and export finance, guarantees and loans under subsidized finance schemes for our customers that are specifically designed to meet their needs. As a group, we granted a total volume of new loans of EUR 1.27 billion to corporate and business customers in the last financial year. As at 31 December 2017, outstanding receivables from corporate and business customers was EUR 4.24 billion, which is an increase in lending by 2.2%. A solid 75% of the total lending volume of the Group is accounted for by the corporates and business banking segment.

New leasing business expanded to EUR 127.6 million. The excellent development of business was driven by the much higher revenues from the Austrian leasing subsidiary and also by the very good business trend at the Slovenian leasing company. Both in Austria and in Slovenia, leasing is appreciated by our corporate and business customers as a form of finance that does not burden liquidity and is neutral on the balance sheet. We are especially proud that the new positioning of the Austrian subsidiary, BKS-Leasing GmbH, has turned into positive earnings so quickly. In the reporting year, Austrian corporate and business customers entered into 975 new leasing contracts with a volume of EUR 67.7 million. The picture is similar in Slovenia: In the past business year, new leasing contracts with corporate and business customers were closed for around EUR 37.2 million.

In Slovenia, we also expanded our market share in finance for local government bodies. In 2017, the lending volume to Slovenian municipalities widened from EUR 68.6 million to EUR 85.1 million.

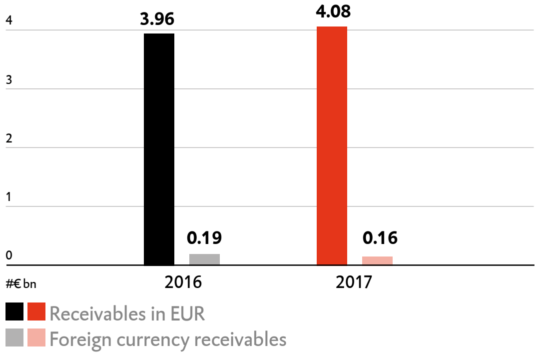
Another key business line is export finance and the related advisory services regarding financial assistance schemes. Our many years of experience and the excellent expert knowledge of our corporate customer relationship managers are highly appreciated by our exporting customers. We are also very pleased that in 2017 we ranked 8th in the volume of subsidised export loans granted. We also strengthened our market position in the area of finance services for subsidized loan schemes for investments in capital goods. There were a number of amendments to the guidelines for subsidized lending in the reporting year 2017 such as the introduction of a bonus on higher capital spending, the expansion of the AWS guarantees, the increase in the threshold amounts for small ERP loans, etc. In many one-on-one advisory talks, we supported our customers in coping with the "jungle" of subsidized loan schemes and were able to offer solutions with the right mix of finance, subsidies and hedging for their specific purposes. We granted a volume of EUR 45.1 million in subsidized loans in the past year.

In corporate banking we provide support to large corporates with sales revenues of over EUR 75.0 million as well as to institutional customers. At the end of the year 2017, we processed a finance volume of EUR 528 million of which EUR 304.8 million were extended within the scope of syndicated loans.

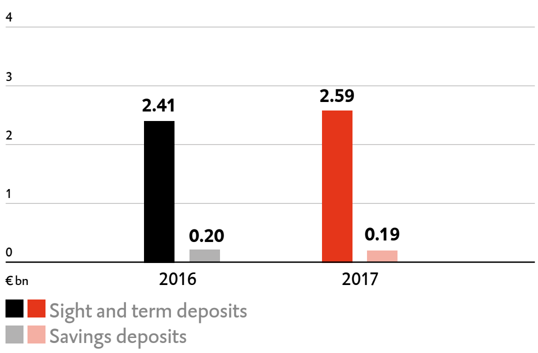
We have hardly granted any foreign currency loans to corporate and business customers in the past. The FX ratio was thus accordingly very low. In the reporting year, it flattened further and stood at a mere 1.7% on 31 December 2017.

Over the medium term, we plan to establish our finance business on a more sustainable basis and shift the focus of lending especially to sustainable projects by our customers. In the reporting year, we provided finance for two social and ecological outstanding projects with the funds being raised through the issuance of a social bond and a green bond (see page 72).

RECEIVABLES FROM CORPORATE AND BUSINESS BANKING CUSTOMERS



PAYABLES TO CORPORATE AND BUSINESS BANKING CUSTOMERS



STEEP RISE IN PRIMARY DEPOSITS

The volume of sight and term deposits received from our corporate and business customers increased once again robustly by 7.5% to EUR 2.59 billion. The excellent liquidity situation of our corporate and business customers is reflected in this high level. Also in the financial year 2017, we recorded more deposits in the corporate and business segment than in the traditionally much stronger retail segment.

The issuance business with institutional investors developed very well. In the reporting year, the volume of issues placed was EUR 73.0 million which is twice as high year on year.

EXPANDING SERVICE BUSINESS

Our strategic goal is to concentrate on lines of business that do not burden equity. We plan to expand in the coming years, above all, in the payment services business. The financial year completed has brought us one step closer to this goal: With respect to fee and commission income from payment services, we gained 4.2% in the area of corporate and business banking.

This gain makes us very happy because payment services is a hotly contested business. It is not only among banks that price competition is fierce in this business area, but there is also increasing competition from non-bank service providers and fintechs. The rapidly changing technologies are creating many new innovative solutions on the market. To help our customers who are faced with so many different offers, we offer them an analysis of their payment transactions. We advise customers on the new payment methods, modern cash register options, contactless payment and payment options for online sales. The focus of our analysis is on the identification of potentials for savings that are possible through the use of digital options.

In the reporting year, we also worked intensely on the new rules and regulations that result from the EU Payment Services Directive (PSD 2). This EU Directive opens the European area for payment services to non-banks and tightens the requirements for risk management and regarding the security of payment transactions. We analysed the opportunities and risks resulting from PSD 2 and defined a set of measures. The measures defined will be consistently implemented in several subprojects, with a few important preparatory measures having already been completed such as the decision on the new procedure for customer identification or the deployment of the Fraud Detection Center.

Additionally, in 2017 we also defined the development for the new portal for corporate and business customers that will be launched in a few months. We will offer our corporate and business customers a modern customer portal with several types of portals with different ranges of services, different identification procedures and individually managed limits.

Fees and commissions from the securities business developed slightly negative in the reporting year. Net commission income as EUR 4.3 million at year-end (EUR -0.4 million). Our goal is to continue to grow in this segment and to encourage corporate and business customers to move more into securities. In May 2017, we issued an AT 1 bond that was mainly bought by institutional investors. At the end of December, we placed a volume of EUR 12.8 million.

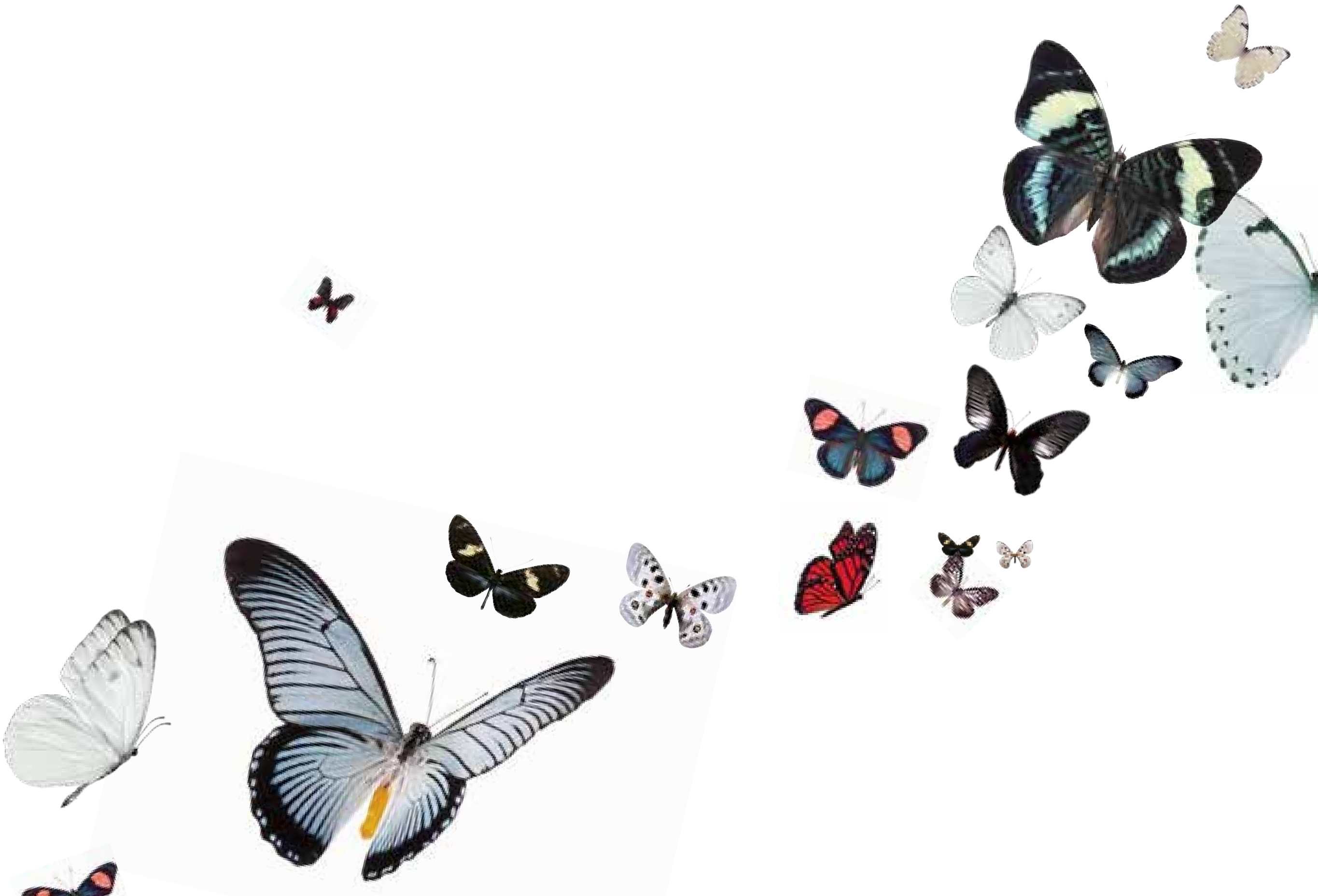
The insurance business is also increasingly developing into a stable source of revenues. In collaboration with 3 Banken Versicherungsmakler Gesellschaft m.b.H., we placed the focus on company retirement schemes also in 2017. Total premiums increased year on year by 9.0%. In the past year we also started organising regular advisory days with a focus on insurance themes which were very well received by our customers.

OUTLOOK FOR CORPORATE AND BUSINESS BANKING

Our strength in the corporate and business banking segment is the excellent quality of our advisory services that we guarantee by the personal support offered and the continuous further education of our customer relationship managers. Although we achieve satisfactory growth rates in the acquisition of new corporate and business customers, we still believe there is growth potential in our growth markets of Vienna and surroundings and also on the foreign markets. We plan to open new locations in these regions in the coming years. Furthermore, we are also concentrating on deepening our long-year relationships with customers and plan to expand our cross-selling activities. In this context, the sales specialists we use for complex themes such as export finance and payment services will be involved more closely in sales and campaign management.

The uncompromising orientation on customers, growth and earnings is also expected to result in an improved management of sales output. In the past few years, we have already implemented important improvements such as the introduction of a sales cockpit, just to name one example. The success of these measures is motivating us to continue to focus on sales and to expand direct sales channels for leasing, for example, or to increase the use of data and analytics.

Additionally, we want to enlarge our range of offers for winegrowers and farmers as well as for municipalities. As already mentioned in a different context, we will devote our efforts in the upcoming months to the innovations in payment services. At the top of the list is the passive and proactive implementation of PDS 2. Moreover, the future organisational structure, the development of innovative payment services solutions and the issue of security will have high priority on the project agenda. And naturally, we will also invest again in the coming years in the digitalisation of our products and processes, with the current focus being on the development of our portal for corporate and business customers that will also permit them to carry out standard transactions in corporate and business banking.



MEETING THE DIVERSITY OF CUSTOMER DESIRES.

Wolfgang Mandl
Member of the Management Board

RETAIL BANKING

In retail banking, we provide services to private individuals and members of the healthcare professions. In last financial year, we served around 133,300 customers in this segment.

We have been confronted with lacking profitability for some time now in the retail banking segment. The tense earnings situation is aggravated by the extremely low interest rates, however, there are other factors that are also negatively affecting retail banking. Above all, technological change is moving banking transactions increasingly to the internet. This factor and also the declining use of cash is reducing the frequency of visits to bank tellers and to the self-service areas of the banks. Nonetheless, we view the branches as the suitable place for obtaining personalised and competent advice.

RETAIL BANKING

in € m	2016	2017
Net interest income	26.2	25.0
Impairment charges on receivables from customers	-1.3	-1.6
Net fee and commission income	21.7	21.8
General administrative expenses	-51.9	-51.8
Net of other operating expenses	1.9	1.2
Profit for the year before tax	**-3.5**	**-5.5**
ROE before tax	-8.8 %	-11.3 %
Cost/income ratio	104.4 %	108.0 %
Risk/earnings ratio	5.1 %	6.5 %

Segment results still depressed

The development of business in retail banking was not very satisfying in the reporting year. A trend reversal was not achieved despite intensive cross-selling activities. Net profit/loss for the year before taxes was EUR -5.5 million at the end of December, which is a deterioration by EUR 2.0 million year on year. Net interest income dropped by 4.4% to EUR 25.0 million. Nonetheless, considering that interest rates had dropped close to zero since the start of the year and the fierce competition, it is still a respectable level. The net fee and commission business was also below our expectations. At EUR 21.7 million, net fee and commission income remained nearly unchanged at the level of 2016.

The reason for the stagnating net fee and commission income was the declining revenues from the lending business and from payment services. The expenses that can be allocated to this segment came to EUR 51.8 million and were just marginally lower than in 2016. Other operating income was EUR 1.2 million down from EUR 1.9 million in the preceding year.

The segment loss also triggered a negative tendency in management benchmarks. The cost/income ratio worsened by 3.6%-points to 108.0%. Return on equity dropped from -8.8% to -11.3% due to the earnings trend.

However, outstanding among the indicators is the good risk/earnings ratio with 6.5%. Compared to the preceding year it went up slightly, but the risk situation of our retail customers is relatively relaxed due to our stringent lending policy.

SLIGHT INCREASE IN PRIVATE LOANS

The credit business developed positively in the course of 2017. Demand for loans for residential housing and real estate as well as for consumer spending rose year on year, lifting credit volume by 2.3% to EUR 1.21 billion.

We give high priority to establishing our numerous sustainability activities also in our core business and to offering sustainable products. Two years ago we started offering a new loan product designed specifically to the needs of senior citizens. Many older people had only limited access to the market for loans up to then. The so-called 'BKS Silberkredit' was met with great interest from the very start, because the desire to invest in goods also exists among the older population. We are very pleased to have widened the credit volume to EUR 13.8 million. We also offer sustanainable credit products to our Slovenian customers: The 'Green Loan' is offered to customers to finance energy-saving construction or renovation work. This type of loan was also well received by our Slovenian customers. Credit volume increased in the past financial year to EUR 19.1 million.

The risk situation in private lending continued to be relaxed also in the reporting year. Net commission income was EUR 1.6 million at year-end. The reduction in the volume of CHF foreign currency loans progressed in the right direction also in 2017. The volume of loans in CHF decreased by a very pleasing EUR 36.0 million to EUR 100.6 million. The FX ratio as of 31 December 2017 was 9.7% versus 12.4% in 2016. Despite the positive tendency, we will continue to provide our customers with extensive information on the risks of loans in foreign currencies.

HIGH LEVEL OF SAVINGS DEPOSITS DESPITE LOW INTEREST ENVIRONMENT

In the retail business we have been working hard on profitability for years. But despite the setbacks and massive drops, it is nonetheless an indispensable business area for us. A large part of our savings deposits – namely a substantial share of 87% – comes from our loyal savings accounts customers. In the reporting year, outflows from savings deposits were 3.3%, but we are nonetheless satisfied with the level of EUR 1.29 billion. We recorded a gain of 0.6% in term and sight deposits which stood at EUR 0.9 billion at year-end.

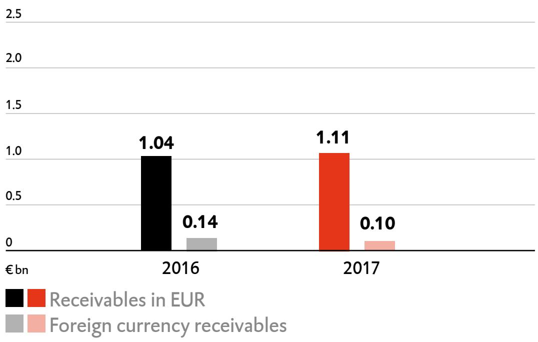
SUCCESS WITH INNOVATIVE PRODUCTS

In retail banking, our strategic goal is to concentrate on lines of business that do not burden equity. In the reporting year, we achieved success with a number of innovative products and services in the areas of payment services and investments for customers and in the public media.

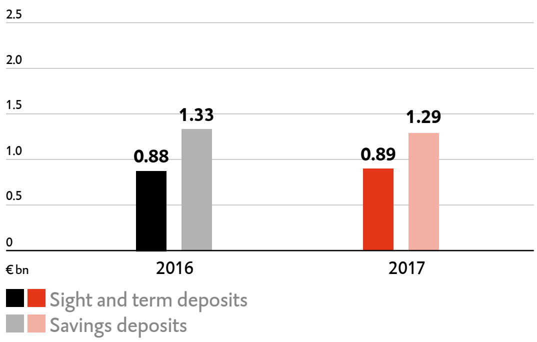
Under the motto "simple, innovative and transparent" we created a new type of offer for our retail customers in April 2017 with the product 'BKS Bank-Komplett'. BKS Bank-Komplett includes the entire range of offerings of a bank at an inexpensive flat rate. Apart from the BKS Bank customer portal it offers a salary/wage giro account with an overdraft facility at no interest, a second account, a VISA Gold Card and an online savings account. Thus, the entire range of standard banking services that a retail customer needs is covered.

Our digitisation projects are also making excellent progress with new offers: In mid-year 2017, we launched the eShop. The e-Shop offers customers the option of acquiring savings products such as building and loan association savings accounts and the 'Mein Geld-Onlinekonto direkt' account directly online through the customer portal as well as the BKS MasterCard. We also expanded the eService functions for the Maestro cards. It is possible to select the geoblocking settings and also order pins and cards quickly and uncomplicated online.

RECEIVABLES FROM
RETAIL CUSTOMERS



PAYABLES TO
RETAIL CUSTOMERS



We are very pleased that our modern customer portal is so popular among customers. The good reception is also confirmed in the higher number of portal users. In the reporting year, we already had 3,100 new users, which corresponds to a robust increase of 8.6%. Also impressive is the number of documents that we delivered to the eBox last year: some 800,000 documents which is double the volume within one year.

The BKS app recorded an increase of 23.3% in 2017 to 12,741 customers. The customers are counted that used our BKS app at least once a year. Since the autumn of 2017, we have also been offering - in cooperation with Payments Services Austria - the BKS wallet which is a fee-based app. This payment service permits users to send money directly in real time from smartphone to smartphone. The recipient is able to use the money received directly after executing “ZOIN”.

The Maestro card – also known as the bank card – is by far the most frequently-used means of payment second only to cash. While the number of cash transactions has decreased noticeably, non-cash transactions are rising at record rates. As expected, the contact-less payment function has turned out to be a new success story. The number of such transactions has more than doubled versus the preceding year and every third transaction with the Maestro Card is done ‘contact-less’.

The credit card business also developed very well in the past financial year. The number of BKS MasterCard holders increased by 44% to 13,900 customers, while card revenues generated using the BKS MasterCard even gained a solid 28.6%.

SECURITIES BUSINESS PICKED UP

The financial year 2017 was a good one for stock investors who, motivated by the bullish sentiment, invested heavily on stock markets . Customers with stock holdings were rewarded with price gains, while customers with large bond holdings attained only a slight appreciation. Net fee and commission income from the securities business in retail banking increased solidly by 6.7% to EUR 8.7 million on account of the higher securities turnover and higher price gains.

With our asset management strategies and brokerage activities, we are able to offer our retail customers attractive products and services apart from our own bond issues. A healthy mix of stocks and bonds was one of the key success factors for the excellent development on custody accounts also in the reporting year.

The development of brokerage activities was highly satisfactory in the past financial year. Our experts - with many years of experience on the capital markets - are at the service of our customers as “sparring partners” to support them in reaching the right decisions. The talks focus on generally optimising the structure of the portfolios with respect to individual stocks and index funds. The assets under management gained a solid 20% to EUR 82.4 million.

In the area of asset management, we offer two models: The ‘active asset management (AVM)’, which combines investment funds on the custody account, and the ‘individual asset management (iVV)’ model, which also permits individual stock holdings. The two asset management products developed very satisfactorily in the reporting year and the combined assets under management amounted to around EUR 202 million.

In 2013, we established the segment of Private Banking at BKS Bank. Ever since, Private Banking has developed very well. We support around 2,100 private banking customers with a volume of assets on custody accounts of almost EUR 737 million. This development confirms our assessment that we are on the right path with our professional and customer-oriented support with exclusive, made-to-measure services. Nonetheless, in the reporting year we reached the decision to launch a Private Banking campaign to acquire new customers, as we believe that there is further potential in this area.

As already mentioned in this report, we embarked on new paths in the investment business in the year 2017. As the first Austrian credit institution, we issued a social bond at the start of 2017 and in the autumn we followed with a greed bond. The volume of sustainably-invested customer assets also increased. At year-end 2017, the number of customers placing their trust in us rose to 350 with a volume of EUR 19.7 million in our sustainable asset management model ‘AVM nachhaltig’, which won the Austrian award for sustainable financial products (Österreichische Umweltzeichen für nachhaltige Finanzprodukte[1)]).

In the insurance business we act as sales partners for our long-year insurance partner, Generali Versicherung AG. In this context, we broker mainly endowment insurance policies with ongoing premium payments, and risk and accident insurance. The insurance business developed very well in the reporting year, with the highest gains being made in risk and accident insurance. In Slovenia as well, we are satisfied with the course of business in the area of insurance. We act only as brokers for insurance products on the Slovene market as well.

[1)] The Ministry of Agriculture, Forestry, Environment and Water Management awarded the Austrian environmental label “AVM nachhaltig”, because ecological and social criteria are considered when selecting investment funds in addition to the economic aspects. This environmental label guarantees that the criteria and their implementation are suitable for selecting the relevant investment funds. This has been audited by an independent body. The fact that the Austrian environmental label was awarded does not permit any conclusions to be drawn regarding the future development of an asset value.

Outlook for the retail segment

Our corporate strategy defines that we must return to profitability in the retail segment. We have developed a set of measures to this end that we will start rigorously implementing in the coming months and years. We have three approaches in this context: First we want to enlarge our digital range of services and take advantage of the opportunities that arise from the progress of digitisation to develop new products and services. We have projects in the pipeline, among others, “digital retail loans”, which we hope to finalize in the coming financial year. Second we are also looking very carefully at the issue of what our branches will look like in the future. Our commitment to branches is not being questioned, but we are looking closely at the organisation of the branches and what is offered at the branches and the resources required to operate the branches. A further set of measures comprises initiatives that aim to strengthen acquisition of new customers and boost sales. This refers mainly to training for our customer account managers on how to use our own digital products and services.

Financial Markets

Apart from income earned on the management of the term structures, the main sources of earnings in financial markets are returns on securities in the own portfolio and the contributions of entities consolidated using the equity method. Proprietary trading is not a focus of our business activities.

The still very flat interest rate curve is a barrier to earning returns on maturity transformation. Therefore, we are all the more pleased that the result in this segment showed a significant gain. The consolidated profit for the year before tax increased in the reporting year by EUR 7.0 million to EUR 40.7 million.

SATISFYING SEGMENT RESULT

The net income from maturity transformation decreased by EUR 2.8 million or 23.7% to EUR 9.0 million under the influence of the flat yield curve. This includes the results from interbank transactions, own securities transactions, derivatives in the banking book and the netting of internal reference interest rate settlements. All investments and divestments were examined for the risk/earnings ratios and the expected market scenarios. The low level of returns on maturity transformation had a direct effect on net interest income. Thus, these were down by EUR 3.5 million to EUR 3.1 million. By contrast, income from entities consolidated using the equity method developed satisfactorily. These increased in the course of the year by EUR 5.4 million to EUR 39.1 million. It is a good sign of the strong performance of the entire 3 Banken Group.

The past financial year 2017 developed very well with respect to exposure in interbank transactions. Our banking partners all have first-class ratings of AA to A3. In the reporting year, there was no need to recognize impairments on receivables from credit institutions, just as in the previous years. In the financial year 2017, we used the option of procuring liquidity in an amount of EUR 300 million through the long-standing OeNB/ESCB tender just as in 2016.

FINANCIAL MARKETS

in € m	2016	2017
Net interest income	6.6	3.1
Profit/loss from entities accounted for using the equity method	33.7	39.1
Impairment charges on receivables from customers	0.04	-1.7
Net fee and commission income	0.2	0.3
Net trading income	1.7	1.5
General administrative expenses	-6.4	-5.9
Net of other operating expenses	-0.06	-0.06
Profit/loss from financial assets	-2.1	4.2
Profit for the year before tax	**33.7**	**40.7**
ROE before tax	5.5 %	6.3 %
Cost/income ratio	15.2 %	13.4 %
Risk/earnings ratio	-	3.9 %

The administrative expenses decreased compared to the preceding year and stood at a very satisfactory EUR 5.9 million, which is a decline by 7.7%. This decline was made possible by the strict cost discipline exercised. Profit from financial assets attained EUR 4.2 million, which was significantly higher than the prior-year figure of EUR -2.1 million. We took advantage of the highly volatile development on stock markets to specifically earn profits on our own investments.

The cost/income ratio declined by 1.8%-points to 13.4%. Return on equity based on the segment result improved by 0.8%-points to 6.3% as at 31 December 2017.

Long-term refinancing funds were raised through the issuance of own bonds placed in 14 tranches. The issuance of 10 tranches in the form of private placements, including two covered bonds that are backed by our mortgage cover pool. The mortgage-backed cover pool developed very dynamically in the course of the year. It expanded by EUR 29.3 million to EUR 234.3 million.

OUTLOOK FOR THE FINANCIAL MARKETS SEGMENT

In 2017, we also hope to act as a solid and reliable issuer of securities and plan to float own issues in the current year as well. The goal is to offer our customers a good investment option and it is also a means of meeting the net stable funding ratio (NSFR) permanently. On the cut-off date 31 December 2017, the NSFR stood at 105.0% at a planned regulatory target of 100.0%. Our investment activities in 2017 will continue to be guided by the avoidance of market risks. We will stand by our conservative investment strategy and invest mainly in high quality liquid assets. Furthermore, we will, of course, also continue our collaboration with our strategic partners, Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft, to strengthen our joint capacities.

BKS BANK DEBT SECURITIES IN 2017

ISIN	Designation	Nominal amount in €
AT0000A1QCM5	0.625% BKS Bank Obligation Social Bond 2017-2022/1	5,000,000
AT0000A1VGB9	1.375% BKS Bank bond 2017-2025/2	14,700,000
AT0000A1Y6S4	0.85% BKS Bank Green Bond 2017-2023/3	3,000,000
AT0000A1Z0R8	3% BKS Bank subordinated bond 2017-2027/4	2,678,000
AT0000A1TS43	0.40% BKS Bank bond 2017-2020/1/PP	5,000,000
AT0000A1U1H2	1.76% BKS Bank bond 2017-2025/2/PP	5,000,000
AT0000A1U800	variable BKS Bank bond 2017-2027/3/PP	10,000,000
AT0000A1UBX6	0.45% BKS Bank bond 2017-2020/4/PP	10,000,000
AT0000A1VHE1	0.965% covered BKS Bank bond 2017-2027/5/PP	10,000,000
AT0000A1X325	1% BKS Bank bond 2017-2022/6/PP	5,000,000
AT0000A1X333	variable BKS Bank bond 2017-2024/7/PP	5,000,000
AT0000A1YQ63	1.18% covered BKS Bank bond 2017-2027/8/PP	10,000,000
AT0000A1YYT8	0.40% BKS Bank bond 2017-2020/9/PP	5,000,000
AT0000A1Z2X2	0.40% BKS Bank bond 2017-2020/10/PP	8,000,000

CONSOLIDATED OWN FUNDS

BKS Bank calculates the own funds ratios and assessment basis according to the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). We compute the capital requirements for credit risk based on the standardized approach.

CRR defines three categories of own funds:
– Common equity tier 1 (Art. 26 CRR
– Additional tier 1 capital (Art. 51 CRR
– Tier 2 capital (Art. 62 CRR)

The Supervisory Review and Evaluation Process (SREP) conducted by the Austrian Financial Market Authority (FMA) in the preceding year came to the conclusion that, as at 31 December 2017, BKS Bank must meet the following minimum requirements without capital conservation buffer, as a percentage of the total risk exposure amount: 5.66% for common equity tier 1 capital, and 10.1% for the total capital ratio. The capital ratios recorded as at the end of December 2017 were cleary above these requirements.

BKS BANK GROUP OF CREDIT INSTITUTIONS: OWN FUNDS PURSUANT TO CRR

in €m	31.12.2016	31.12.2017
Share capital	77.8	77.5
Reserves net of intangible assets	831.4	909.3
Deductions	-283.3	-372.3
Common equity tier 1 capital (CET1)[1]	625.9	614.5
Common equity tier 1 ratio	12.6 %	12.3 %
Hybrid capital	24.0	20.0
AT1 note	23.4	36.2
Deductions	-47.4	-42.9
Additional tier 1 capital	-	13.3 %
Tier 1 capital (CET1 + AT1)	625.9	627.8
Tier 1 ratio (incl. additional tier 1 capital)	12.6 %	12.5 %
Tier 2 capital items and instruments	120.6	116.5
Deductions	-76.5	-42.7
Tier 2 capital	44.1	73.8
Total own funds	670.0	701.6
Total capital ratio	13.5 %	14.0 %
Total risk exposure amount	4,974.1	5,016.7

[1] Includes profit for the year 2017. Formal adoption is still outstanding.

In addition to the minimum requirements for own funds, a capital buffer must be created as a reserve for times of crisis. By the year 2019, 2.5% of risk-weighted assets are to be held as a capital conservation buffer.

Another requirement of relevance for the banking industry concerns the anti-cyclical buffer pursuant to § 23a BWG of a maximum of 2.5% of the risk-weighted assets. This buffer is set by the FMA step by step depending on the economic situation when lending is excessive. In the reporting year, the FMA did not define any anticyclical buffer for Austria, but for the risk exposures in Slovakia, Sweden, Norway, Czech Republic and Iceland anti-cyclical buffers for own funds must be created. Due to our engagement in Slovakia, the own funds required to be held by the bank as an anticyclical buffer for Slovakia are calculated at 0.5%. This has an effect on the required own funds in an amount of EUR 0.5 million.

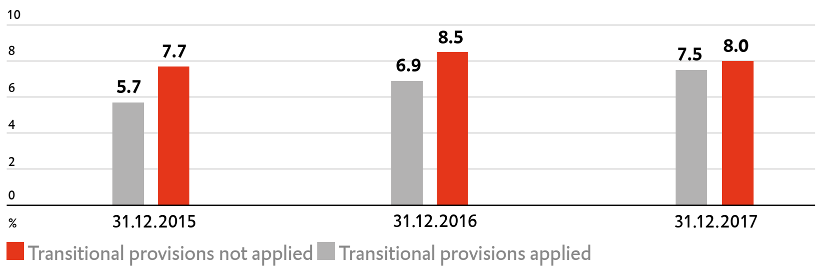
Solid capital cover

The tier 1 capital increased in the past financial year from EUR 625.9 million to EUR 627.8 million. A slight increase resulted from the higher retained earnings and from the strengthening of the additional tier 1 capital with the issuance of an AT 1 bond. The common equity tier 1 capital ratio decreased slightly to 12.5%, because the deduction items went up due to the expiry of the transitional provisions. Tier 2 capital in an amount of EUR 73.8 million included, the bank's own funds came to EUR 701.6 million as at 31 December 2017. The total capital ratio improved to a pleasing 14.0%.

Excellent leverage ratio

The leverage ratio is the ratio of common equity tier 1 capital to the unweighted exposure of BKS Bank including off-balance sheet risk positions. The leverage ratio was 8.0% as at 31 December 2017. Therefore, we clearly meet the regulatory minimum ratio, which will probably be defined at 3.0%, and the internal benchmark of > 5%.

LEVERAGE RATIO OF THE BKS BANK GROUP OF CREDIT INSTITIONS



RISK REPORT

Our business policy motto is to secure autonomy and independence by increasing profits within the scope of a sustainable growth strategy. A key element of our business is to specifically assume risks based on the premise of recognizing all relevant risks early on that may result from the banking business and banking operations, and to pro-actively manage and mitigate risk through effective risk management. All individual risks are recorded, evaluated and analysed. The capital available is used as efficiently as possible taking into account the medium to long-term strategic goals, with the risk/profit ratio being constantly optimized. As a general principle of our risk strategy, we only assume such risks that we can bear on our own strength in order to avoid risking the autonomy and independence of the bank. The risk strategy of BKS Bank is updated every year and is discussed and accorded with the Supervisory Board.

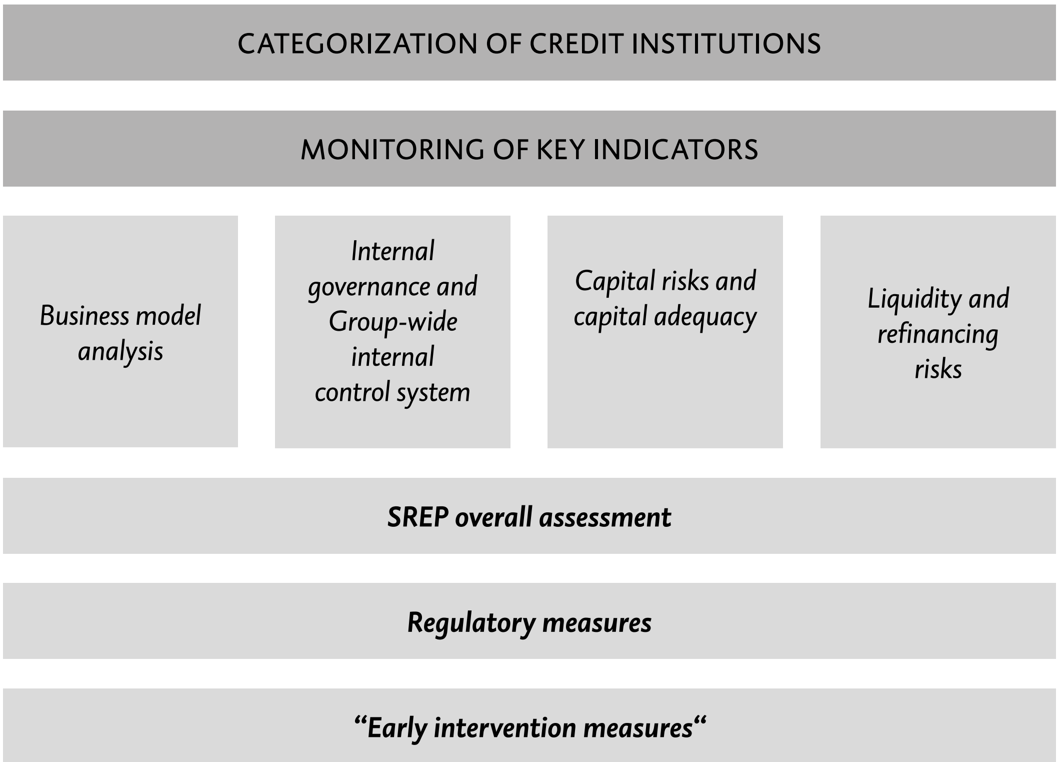
BKS Bank makes every effort to pro-actively meet the new risk management requirements. The focus in the reporting year was on
– the implementation of the EBA Guidelines on Information and Communication Technology (ICT) Risks,
– the implementation of the Payment Services Directive (PSD 2),
– amendments derived from the International Financial Reporting Standards, especially from IFRS 9,
– supervisory review and evaluation process (SREP),
– recovery and resolution planning, and
– the calculation of the MREL ratio.

The European Banking Authority published its final Guidelines on the Assessment of Information and Communication Technology (ICT) Risks in May. These Guidelines address the following risks:
– ICT availability and continuity risks
– ICT security risks
– ICT change risks
– ICT data integrity risks
– ICT outsourcing risks

Banks are required to deploy suitable strategies, governance and control systems to prevent ICT risks.

For the implementation of the Payment Services Directive (PSD 2), we started a project in the autumn of 2017. In this context, we pursue the following objectives in accordance with the Directive:
– The further improvement of the management of operational and security-sensitive risks relating to the payment services we offer
– Establishing the conditions needed to record and report serious operational and security incidents as well as fraud in payment services

OVERVIEW OF THE SREP FRAMEWORK



Source: EBA/GL/2014/13

In accordance with the provisions of §39a BWG, banks must have effective plans and procedures in place to determine the amount, the composition and the distribution of the capital available for the quantitative and qualitative hedging of all material risks relating to the banking business and banking operations.
Based on these factors, banks must maintain capital in the required volumes. These processes are summarized in ICAAP and presented by BKS Bank under the risk-bearing capacity calculation.

ILAAP is the process that must be established by BKS Bank pursuant to § 39 (3) BWG for the purpose of identifying, measuring, managing and monitoring liquidity. The process comprises a description of the systems and methods to be used to measure and manage liquidity and finance risks. BKS Bank measures and monitors compliance with its liquidity goals by producing timely and extensive risk reports. The quantitative information in the reports pursuant to IFRS 7.31 to 7.42 is based on the internal reporting for overall bank risk management.

One of the areas of focus of risk management in 2017 was the supervisory review and evaluation process (SREP). Apart from an analysis of the business model, the internal governance and the internal control system in place throughout the Group (ICS) integrates SREP also into the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). There were some major further developments in the ILAAP. The corresponding questionnaire was carefully processed and sent to the supervisory authority.

The outcome of the Supervisory Review and Evaluation Process (SREP) was the definition of a minimum capital ratio for common equity tier 1 capital (CET1) of 5.66%, for tier 1 capital of 7.58% and for the total capital ratio of 10.1% by the Financial Market Authority. The capital ratios attained at the end of December 2017 were substantially above these requirements.

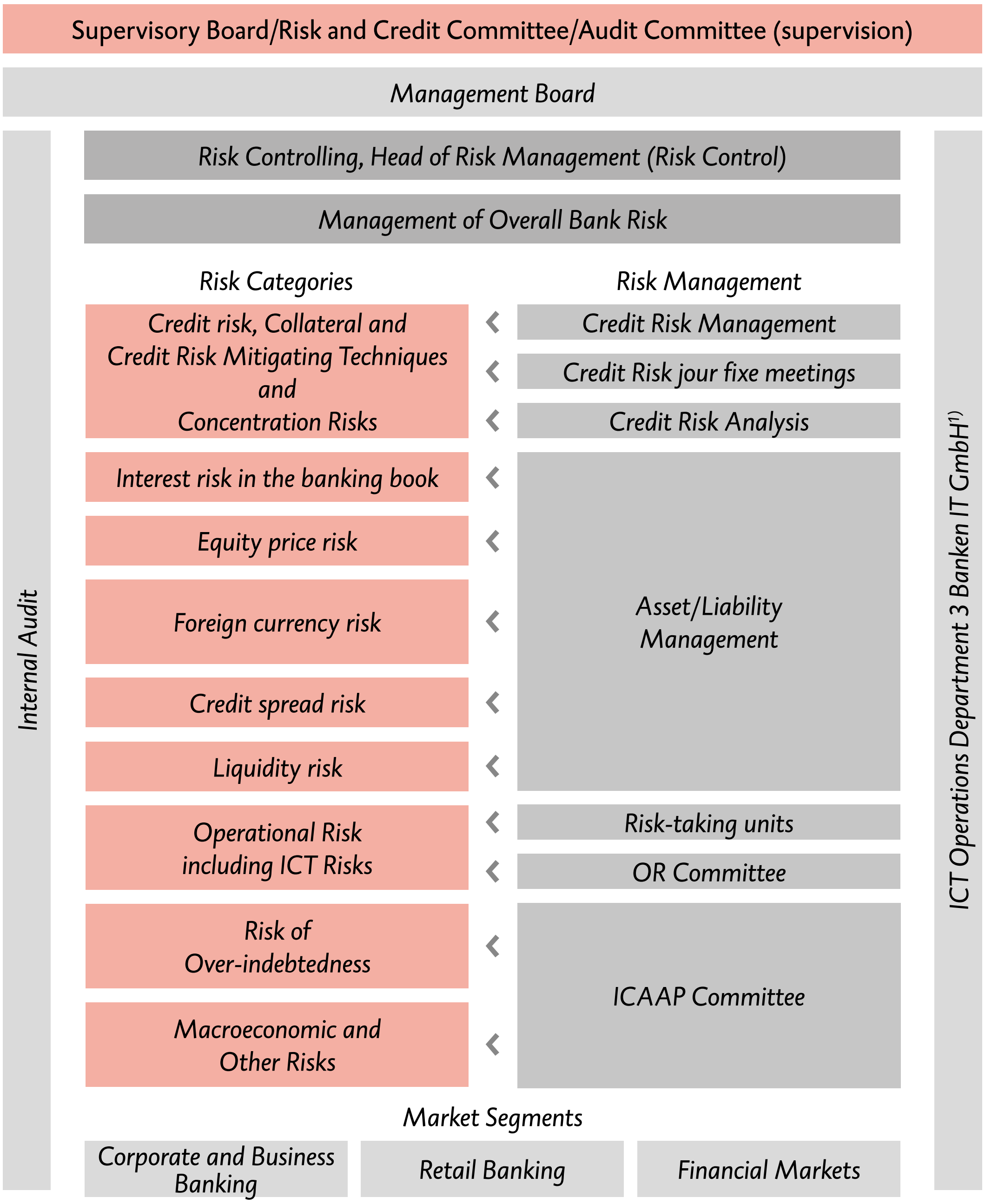
BKS Bank must prepare a resolution plan for the Group pursuant to § 15 Austrian Bank Recovery and Resolution Act (BaSAG, Bundesgesetz zur Sanierung und Abwicklung von Banken) that must be updated annually. This plan must ensure that BKS Bank will be able to master a crisis on its own strength and also serves as a measure for crisis avoidance by measuring and monitoring early warning signals, which should in turn trigger countermeasures. Our early warning indicators comprise capital adequacy ratios, the liquidity situation, profitability and the quality of assets. These are monitored in a so-called BaSAG Dashboard and are reported regularly to the Supervisory Board. A key element of resolution planning is the MREL ratio (minimum requirement for own funds and eligible liabilities). No MREL ratio has been defined to date for BKS Bank.

Structure and Organisation of Risk Management

The BKS Bank’s strategy is characterized by a conservative treatment of the risks involved in the banking business and in banking operations. A comprehensive system of risk principles, risk measurement and monitoring procedures as well as an appropriate organisational structure is in place for risk monitoring and management.
Our principles include the constant review of the appropriateness and reliability of the monitoring procedures in order to be able to adjust these to changing market conditions as needed.

Central responsibility for risk management lies with a member of the Management Board who is independent of the market. The risk strategy is revised within the scope of the annual budgeting and planning process, approved by the Management Board and discussed and evaluated by the members of the Risk and Credit Committee of the Supervisory Board. Special attention is paid to the issue of risk concentration. The Management Board decides on the risk management principles, the limits for all relevant risks, and the procedures for monitoring and managing risks.

THE ORGANISATIONAL FOUNDATION OF RISK MANAGEMENT



In accordance with § 39 (5) BWG, risk controlling is a central unit independent of operations at BKS Bank that is responsible for identifying and measuring risks. This unit reports regularly to the Management Board and to the operational units responsible for risk, and evaluates the current risk situation taking into account the corresponding risk limits and risk-bearing capacity. As an independent unit, it measures if the risks remain within the limits defined by the Management Board.

[1] Formerly DREI-BANKEN-EDV Gesellschaft m.b.H.

DIVERSITY AS SUCCESS FACTOR IN RISK MANAGEMENT.

Dieter Kraßnitzer
Member of the Management Board

All of the information is sent to the Supervisory Board, the Risk and Credit Committee as well as the Audit Committee so as to enable them to carry out their oversight responsibility. Once a year, a representative of this unit reports to the Risk and Credit Committee of the Supervisory Board on the types of risk and on the risk situation, and to the Remuneration Committee on the conformity of the risk strategy with the remuneration system.

Additionally, the risk controlling unit is responsible for the development and implementation of the risk measurement methods, for the ongoing development and improvement of the management instruments as well as for the further development and maintenance of the risk strategy and other rules and regulations.

At the annual review of the risk strategy, BKS Bank takes an inventory of all risks. The identification of risks and the assessment of their threat is based on a risk analysis by the risk controlling unit in the form of a risk matrix created by the ICAAP Committee. All of the findings from the risk identification process and assessment of the risk threat are taken into consideration in the annual definition of the risk strategy. The limits and targets defined in the risk strategy are adapted once a year commensurate with the risk assessment and business strategy or, if necessary, amended. As an independent internal unit, the internal audit department of BKS Bank reviews all operating and business procedures, the appropriateness and efficacy of the measures taken by the risk management and risk controlling as well as of the internal control systems.

A number of bodies have been established for the management of the overall banking risks. The broad knowledge the individual members of the bodies contribute to the management process guarantees a comprehensive treatment of each risk type.

ICAAP COMMITTEE

The ICAAP Committee meets four times a year and discusses the risk-bearing capacity by analysing the economic capital requirement and the assets available to cover risks.

The following topics were addressed in detail and, if necessary, the relevant measures were taken:

- Discussion of the allocation of the risk cover amount and definition of the limits in line with the risk strategy
- Current risk situation and, if applicable, any measures required
- Degree of utilization of the overall bank limit and of the limits for individual risks
- Monitoring of key indicators
- Monitoring of the indicators of the BaSAG Dashboard

THE ASSET/LIABILITY MANAGEMENT COMMITTEE

The Asset/Liability Management Committee meets monthly and analyses and manages the structure of the balance sheet with respect to interest rate risk in the banking book, market risk and liquidity risk. In this context, it also is responsible for the important tasks of funding planning, funds transfer pricing and the management of concentration risks.

THE OPERATIONAL RISK COMMITTEE

The Operational Risk Committee also meets four times a year. The Operation Risk Committee does the following:

- Monitors the development of risk and analyses historic data of past damage incidents, in particular with a focus on information and communications technology risks (ICT risks) and security-related incidents in payment services;
- Supports the RTUs (risk-taking units) and the Management with the active management of operational risk;
- Tracks the measures taken by the RTUs;
- Works on the further development of the operational risk management system.

CREDIT RISK JOUR FIXE MEETINGS

Credit risk is by far the most important risk category as defined in the risk strategy. Therefore, effective credit risk management is a condition for our bank to achieve lasting success and to ensure the precise identification of the risks, optimize the bank's risk/earnings profile, and guarantee consistency with BKS Bank's risk-bearing capacity.

The main topics of discussion at the weekly jour fixe meetings on credit risk are issues relating to daily operations in connection with loan approvals and prolongations as well as other current topics relating to corporate and business banking and to retail banking.

Apart from these weekly meetings, an extended Credit Risk Committee meets on a quarterly basis. This Committee manages credit risk at the portfolio level, works on the continuous further development of the credit risk management process, and facilitates the swift deployment of steering instruments. The involvement of the responsible decision-makers from various organisational units is important for effective credit risk management in addition to a holistic view of credit risk. The key tasks of the meetings of the extended Credit Risk Committee include

- Discussion of the credit risk strategy
- Assessing the credit risk situation
- Managing the credit portfolio at the Group level
- Managing the sub-portfolios
- Discussion of measures to improve the risk position
- Deciding measures for compliance with credit risk limits and their management

Overall risk management

An analysis of the risk-bearing capacity based on the internal capital adequacy assessment process (ICAAP) is an essential component of overall bank risk management at BKS Bank. We assess our internal capital adequacy on a quarterly basis by looking at the risks identified using internal models. The aim is to ensure that BKS Bank always had sufficient assets available to cover its risks, enabling it to absorb the risks it had assumed even if unexpected events were to occur. All identified and quantified unexpected risks are aggregated to an overall bank risk.

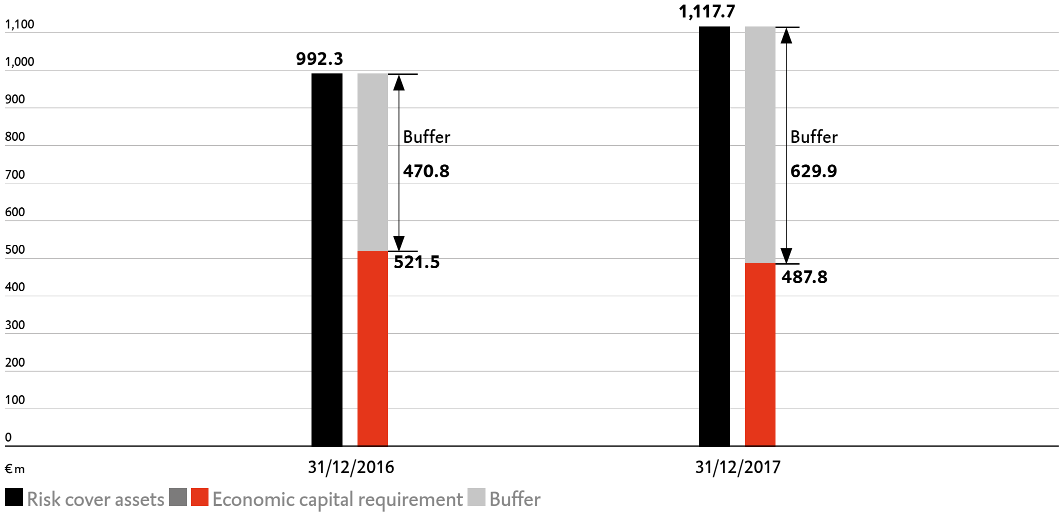
The overall bank risk is the equivalent of our economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit and liquidity risk are accounted for in the prices charged to customers as risk premiums (standard risk costs, liquidity premiums). The aggregated total loss potential is compared with the assets available to cover such potential loss in order to ascertain whether the bank is in a position to bear unexpected losses without experiencing any severe negative effects on its business activities.

The individual components of the assets available to cover risks were ranked according to their realization capacity, while taking account, above all, of their liquidity and publicity effects. When a capital adequacy target is set on a going concern basis, the potential risk and risk-bearing capacity and the limits derived therefrom were balanced in such a way so as to put the bank in a position to absorb an adverse event and continue to conduct business in an orderly manner. The capital adequacy target defined on a liquidation basis is a regulatory requirement. It serves to protect creditors.

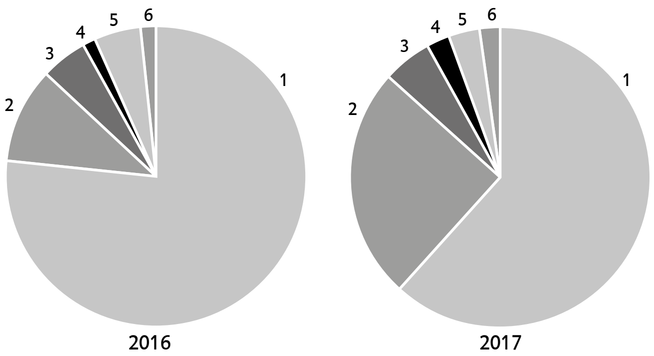
Based on the liquidation approach, the economic capital requirement was determined at EUR 487.8 million as at 31 December 2017 compared with EUR 521.5 million in the preceding year. The corresponding cover assets were EUR 1,117.7 million compared with EUR 992.3 million at year-end 2016. The increase in the risk cover assets was due mainly to the net profit earned.

At BKS Bank, unexpected losses in the liquidation approach are calculated for a period of observation of one year with a confidence level of 99.9%. As in the preceding year, the economic capital requirement for credit risk was the largest risk capital requirement within group of credit institutions. Credit risks account for about 61.8% of the total loss potential (2016: 76.8%). Market and interest rate risk accounts for a share of 25.0% (2016: 10.3%) and has risen noticeably compared to the very low level at year-end 2016.

RISK-BEARING CAPACITY BY LIQUIDATION APPROACH



BREAKDOWN OF OVERALL BANK RISK BY CATEGORY (LIQUIDATION APPROACH)



in %	2016	2017
1 Credit risk	76.8	61.8
2 Market and interest rate risk	10.3	25.0
3 Operational risk	5.0	5.4
4 Liquidity risk	1.5	2.5
5 Macroeconomic risk	4.9	3.3
6 Other risks	1.5	2.1

Stress tests in overall bank risk management

We conduct stress tests to evaluate the risk-bearing capacity of the banking Group in the event of potential adverse events. The results are analysed to determine the quantitative impact on our risk-bearing capacity. Stress tests provide supplementary information to the value-at-risk analysis and reveal additional loss potentials. The results of the various scenarios are reported to the Management Board and the risk management units on a quarterly basis.

Our stress tests used scenarios to capture adverse changes in the macroeconomic environment. In 2017, our risk-bearing capacity was adequate in all scenarios and at all points in time in the analysis. In addition, we conducted an inverse stress test to specifically analyse the bank's risk-sensitive areas. The results of this stress test provide the Management with important information on the maximum losses the bank would be able to bear. This test stresses the risk-sensitive areas until all the assets available as risk cover are exhausted.

Apart from the overall bank risk stress test within the ICAAP process, further specific test are conducted
– in the reorganisation plan
– in liquidity management
– in interest rate risk management
– in the management of FX-induced credit risks and repayment vehicle risks.

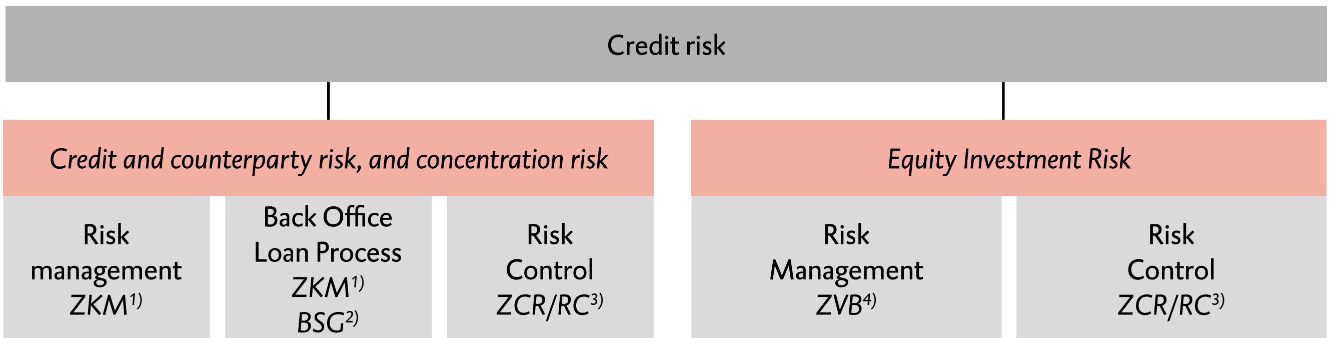
Credit risk

We define credit risk as the risk of a partial or complete default on contractually-agreed repayments on loans. This risk may be grounded in a counterparty's creditworthiness or indirectly in the country risk of the place where a counterparty has its registered office. Credit risk is by far BKS Bank's most important risk category. Monitoring and analysis is done at the product and individual customer level, at the level of groups of related customers and on a portfolio basis.

MANAGING CREDIT RISK

The management of credit risk is based on the principle of granting loans only a know-your-customer basis. Thus, loans are granted only after a thorough check of the person and creditworthiness and – if relevant – in compliance with the dual control principle (front office and back office). Collateral requirements are derived from the rating class and the product. Fair value valuations of collateral take their bearings from average proceeds from liquidation achieved in the past. Lending in markets outside of Austria is governed by special guidelines that are specific to the features of the country concerned, in particular, the economic environment and the higher realization risk of the collateral.

CREDIT RISK MANAGEMENT



[1] *Credit Risk Management*
[2] *BKS Service GmbH*
[3] *Controlling and Accounting/Risk Controlling*
[4] *Office of the Management Board*

The Credit Management Department is responsible for risk analysis and risk management for individual customers. Independent risk control at the portfolio level is done by the Controlling and Accounting, Risk Controlling Group. The main goals when assuming new risk positions concern the rating structure, which means that new business is acquired only if certain rating classes are met and the collateral provided is sufficient.

CREDIT RISK PURSUANT TO ICAAP

in €m	Risk position at 31/12/2016	Risk position at 31/12/2017
Receivables from customers	5,913	5,990
Contingent liabilities[1)]	236	167
Receivables from banks	263	110
Securities and funds	815	817
Equity investments	529	600
Credit Risk	**7,756**	**7,684**

[1] Promised credit lines based on internally calculated withdrawal patterns

Pursuant to IFRS 7.31 to 7.42, receivables pursuant to IFRS are reconciled with the credit risk positions pursuant to the internal risk management rules as follows:

RECONCILIATION OF IFRS POSITIONS TO INTERNAL CREDIT RISK POSITIONS

in €m	Receivables as at 31.12.2016	Receivables as at 31.12.2017
Consolidated receivables from customers pursuant to note 14	5,330	5,450
+ Loans measured at fair value pursuant to note 17	53	56
+ Contingent liabilities pursuant to note 45	391	388
+ Corporate bonds	84	90
+ Value of risk position from derivative contracts with customers/Other	55	6
Receivables from customers according to internal risk management	**5,913**	**5,990**
Other exposures as per note 45	1,244	1,353
Contingent liabilities based on internally calculated withdrawal patterns	**236**	**167**
Receivables from other banks pursuant to note 13	242	98
+ Exposure of risk position from derivative contracts with other banks	21	12
Receivables from other banks according to internal risk management	**263**	**110**
Held-to-maturity financial assets pursuant to note 19	748	783
+ Bonds and other fixed-interest securities measured to fair value pursuant to note 17	23	22
+ Bonds and other and fixed-interest securities classified as available for sale pursuant to note 18	83	57
+ Shares and other non-interest bearing securities pursuant to note 18	48	45
- Corporate bonds/other (reclassification to other customer receivables)	-87	-90
Securities and funds according to internal risk management	**815**	**817**
Other equity investments pursuant to note 18	58	80
+ Investments in entities accounted for by the equity method pursuant to note 20	471	520
Equity investments according to internal risk management	**529**	**600**
Credit risk pursuant to ICAAP	**7,756**	**7,684**

CREDIT RATINGS IN CREDIT RISK

A mainstay of the risk assessment process is our comprehensive rating system that serves as the basis for decision-making processes and for risk management within the BKS Bank Group. In total, 13 different rating procedures are used. The bank's internal rating models are subject to annual quantitative and qualitative validation reviews. In this case, the concerned rating model is assessed to check whether it accurately identifies the risks measured.

RATING CLASSES

AA	First-class (best) credit standing	A1	First-class (excellent) credit standing
1a	First-class credit standing	1b	Very good credit standing
2a	Good credit standing	2b	Still good credit standing
3a	Acceptable credit standing	3b	Still acceptable credit standing
4a	Inadequate credit standing	4b	Poor credit standing
5a	In default – performing	5b	In default – non-performing
5c	In default – irrecoverable		

BKS Bank uses a rating scale with 13 rating classes. Around 66.1% (2016: 62.9%) of the loan portfolio were assigned AA to 2b ratings. The increase in receivables from customers in these rating classes from EUR 3.16 to EUR 3.45 billion is a positive development. Borrowers in these rating classes exhibit a very good to good capacity to repay their loans. The focus of new business was on customers in the rating classes AA to 3a. The volume of loans in the rating classes 4a to 5c was reduced by EUR 201 million.

LOAN QUALITY BY CLASS OF RECEIVABLE

Risk position by rating in €m for **2017**	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating
Receivables from customers	44	1,550	1,858	1,816	433	288	1
Contingent liabilities	2	52	66	39	4	4	-
Receivables from banks	47	26	30	7	-	-	-
Securities and funds	709	62	37	-	-	-	9
Equity investments	581	10	7	1	-	-	2
Total	**1,383**	**1,699**	**1,998**	**1,863**	**437**	**292**	**12**

Risk position by rating in €m for **2016**	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating
Receivables from customers	40	1,316	1,799	1,823	538	385	12
Contingent liabilities	2	60	105	57	9	3	-
Receivables from banks	133	94	27	8	-	1	-
Securities and funds	685	76	16	-	-	-	38
Equity investments	512	9	5	1	-	-	2
Total	**1,372**	**1,555**	**1,952**	**1,889**	**547**	**389**	**52**

BKS Bank's default definition corresponds to the definition given in CRR Article 178. Receivables were therefore deemed to be in default when they were more than 90 days overdue and the overdue amount was at least 2.5% of the agreed credit line and at least EUR 250. Furthermore, BKS Bank also classified receivables as in default if it assumed that the debtor would not be able to repay the full amount of the loan to the bank. This is assumed when one of the following applies:

– New specific loan loss provision
– Restructuring of the credit exposure combined with a deterioration in the quality of the receivable
– Initiation of collection procedures because of inability or unwillingness to pay or fraud or for other reasons
– Receivables only collectable at a loss for BKS Bank
– Sale of the receivable at a significant loss for BKS Bank due to the credit rating
– Debtor's insolvency
– Loan irrecoverable for other reasons

Our intense efforts to lastingly improve the quality of the portfolio is seen in the decline in exposures in the rating classes 4a to 4b and in the non-performing classes 5a to 5c.

At year-end 2017, the non-performing loan ratio was 3.5% (2016: 4.8%). The calculation is based on non-performing loans in the rating classes 5a to 5c of the BKS Bank rating system (default classes), which are compared to gross receivables from loans to customers, contingent liabilities, loans to banks and fixed-interest securities. The loss potential of non-performing loans is represented by the coverage ratio. The coverage ratio I is the relation between risk provisions to the total risk position and was 34.7% on 31 December 2017. Additionally, we use coverage ratio III as the internal management measure in which also internal collateral is included in the calculation. The cover ratio was 79.9% at year-end.

The concept of 'forbearance' plays an important role in the management of problematic exposures. This concept covers all agreements that must be redrafted, because a borrower has fallen into financial difficulties. Financial difficulties were deemed given if repayment from cash flows could no longer be assured within a realistic period or due to the outcome of an assessment of creditworthiness. Pursuant to CRR, these business cases must be specifically tagged. Such forbearance may, for instance, involve

– Extending the term of the loan
– Concessions compared with the loan instalments originally agreed
– Concessions regarding the terms and conditions of the loan
– Complete reconfiguring of the loan (restructuring)

EXPOSURES CLASSIFIED AS FORBORNE

in €m for 2017	Corporate and business banking customers	Retail banking customers	Total
Performing exposures	**40.4**	**0.9**	**41.3**
– of which with concessions regarding instalments	37.8	0.7	38.5
– of which rescheduled	2.5	0.2	2.7
Non-performing exposures	**68.3**	**3.8**	**72.1**
– of which with concessions regarding instalments	67.2	3.3	70.4
– of which rescheduled	1.1	0.5	1.7
Total	**108.6**	**4.7**	**113.4**

in €m for 2016	Corporate and business banking customers	Retail banking customers	Total
Performing exposures	**24.1**	**0.9**	**25.0**
– of which with concessions regarding instalments	19.1	0.7	19.8
– of which rescheduled	5.0	0.2	5.2
Non-performing exposures	**74.1**	**4.1**	**78.2**
– of which with concessions regarding instalments	71.0	3.6	74.5
– of which rescheduled	3.2	0.5	3.7
Total	**98.3**	**5.0**	**103.3**

ASSESSMENT OF CREDIT RISKS

The risks identifiable at the time the financial statements were prepared were taken into account by recognizing specific loan loss provisions, recognizing specific loan loss provisions applying class-specific criteria, and by recognizing appropriate provisions in accordance with IAS 37. An objective indication of an incidence of impairment on a receivable is given if the Basel III default criteria apply, i.e., a material amount payable by the debtor to the credit institution is more than 90 days overdue or one of the other default criteria apply. Pursuant to the International Financial Reporting Standards, portfolio loan loss provisions are also recognized based on IAS 39.64 for receivables in the performing rating classes.

Impairment losses are recognized pursuant to Group-wide guidelines and a standardized process according to which charges are recognized on impaired receivables in respect of the non-collateralized portion of the debt. Impairment losses on significant receivables were calculated using the discounted cash flow method (DCF method).

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying value/max. default risk per class in EUR m	Financial instruments that were neither past due nor impaired 2016	2017	Past due financial instruments 2016	2017
Receivables from customers	5,490	5,702	385	288
– of which, measured at fair value	52	56	-	-
Contingent liabilities	233	163	3	4
Receivables from banks	262	110	1	-
Securities and funds	815	817	-	-
– of which, measured at fair value	149	107	-	-
Equity investments	521	600	-	-
Total	**7,321**	**7,392**	**389**	**292**

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying value/max. default risk per class in EUR m	Impaired financial instruments 2016	2017	Past due but not yet impaired financial instruments 2016	2017
Receivables from customers	318	238	105	50
– of which, measured at fair value	-	-	-	-
Contingent liabilities	-	-	3	4
Receivables from banks	1	-	-	-
Securities and funds	-	-	-	-
– of which, measured at fair value	-	-	-	-
Equity investments	8	10	-	-
Total	**327**	**248**	**108**	**54**

BKS Bank does not use credit derivatives to hedge default risks.

OVERDUE, NOT YET IMPAIRED RECEIVABLES FROM CUSTOMERS BY DEFAULT DATE

Rating class	< 1 month		1 to 6 months		6 months to 1 year		1 year to 5 years		>5 years	
in €m	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
5a	0.7	0.5	15.9	0.6	10.7	0.8	41.8	23.8	2.6	9.0
5b	0.6	0.0	2.1	1.9	2.1	2.2	20.5	6.1	7.3	5.6
5c	-	-	-	-	-	-	-	-	-	-
Total	**2.0**	**0.5**	**18.1**	**2.5**	**12.8**	**3.0**	**62.3**	**29.9**	**9.9**	**14.6**

The impairment charges on receivables from customers are reported on the consolidated balance sheet of BKS Bank. The balance was EUR 137.0 million (2016: EUR 155.1 million) at year-end 2017. The annual addition to impairment charges on receivables from customers recognized in the income statement is the balance of additions and reversals to the impairment charges on receivables from customers, subsequent recoveries of written-off receivables, direct write-offs, impairment charges resulting from the recognition of our portion of the payments to ALGAR – the 3 Banken Group joint operation set up to mitigate large loan risks – and portfolio loan loss provisions pursuant to IAS 39.64. In the year under review, direct write-offs came to EUR 2.1 million (2016: EUR 1.0 million).

DEVELOPMENT OF IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €m	Specific loan loss provisions	Portfolio loan loss provisions under IAS 39	Impairment charge on receivables from customers
As at 01/01/2017	116.7	38.4	155.1
Additions	38.3	1.3	39.6
Reversals	-16.5	-2.9	-19.3
Exchange rate differences	-	-	-
Used	-38.5	-	-38.5
As at 31/12/2017	**100.1**	**36.9**	**137.0**

SPECIFIC LOAN LOSS PROVISIONS BY CUSTOMER GROUP

	2016			2017		
in €m	Carrying amount Default[1]	Specific loan loss provisions	Collateral	Carrying amount Default	Specific loan loss provisions	Collateral
Corporate and business banking customers	297.8	105.7	135.9	265.3	89.6	126.5
Retail banking customers	19.7	10.6	7.7	23.0	10.5	11.6
Total	**317.5**	**116.3**	**143.6**	**288.3**	**100.1**	**138.1**

[1] Carrying amount of impaired receivables

Impairment charges on receivables from customers in 2017 totalled EUR 39.6 million (2016: €43.1 million), while impairment charges on receivables from customers of EUR 19.3 million were reversed (2016: EUR 16.6 million).

In addition, BKS Bank Group's Other provisions included 25% of ALGAR's general provisions on a proportionate basis, namely EUR 33.9 million. (2016: EUR 30.2 million). General provisions of ALGAR are potential charges for potential large exposures.

The impairment charges on receivables from customers for foreign subsidiaries were minor in comparison at EUR 0.1 million (2016: EUR 0.4 million). 23.4 million of the additions to impairment charges on receivables from customers in 2017 (2016: EUR 29.7 million) were allocated to the corporate and business banking.

The risk/earnings ratio in the 2017 financial year was EUR 16.8% (2016: 20.1%). In the retail banking segment, the ratio of risk costs to net interest income rose slightly from 5.1% to 6.5%, but the ratio in the corporate and business banking segment, where volumes were much larger, improved from 34.7% to a gratifying 26.1%.

LOAN COLLATERAL

A further key component of risk management is collateral management. Eligible collateral and the measurement methods for determining the value are defined in comprehensive internal valuation guidelines. Collateral valuation is defined uniformly for the Group, although it takes local market conditions into account and is generally oriented on past average liquidation proceeds as well as on the expected development of market prices. Real estate collateral is appraised and regularly reviewed by an independent expert from Credit Management.

LOAN COLLATERAL 2017

in €m	Credit exposure /max. default risk	collateral Total	of which financial collateral	of which personal collateral	of which real estate collateral	of which other	Risk position[1]
Receivables from customers	5,990	3,622	158	123	2,648	693	2,369
Contingent liabilities	167	-	-	-	-	-	167
Receivables from banks	110	-	-	-	-	-	110
Securities and funds	817	77	-	45	-	32[2]	740
Equity investments	600	-	-	-	-	-	600
Total	**7,684**	**3,699**	**158**	**168**	**2,648**	**725**	**3,986**

[1] Exposure minus collateral; [2] Covered bonds covered by risk cover assets

LOAN COLLATERAL 2016

in €m	Credit exposure /max. default risk	collateral Total	of which financial collateral	of which personal collateral	of which real estate collateral	of which other	Risk position[1]
Receivables from customers	5,913	3,422	165	141	2,443	673	2,491
Contingent liabilities	236	-	-	-	-	-	236
Receivables from banks	263	-	-	-	-	-	263
Securities and funds	815	60	-	45	-	15[2]	755
Equity investments	529	-	-	-	-	-	529
Total	**7,756**	**3,482**	**165**	**186**	**2,443**	**688**	**4,274**

[1] Exposure minus collateral; [2] Covered bonds covered by risk cover assets

CREDIT RISK CONCENTRATIONS

Concentrations of credit risk were managed at the portfolio level. We aimed for a balanced distribution of credit exposures by size, and limits were set for individual geographical regions, sectors and industries and the foreign currency portion of the loan portfolio. Industry developments are closely monitored and regularly appraised, and a clear strategic focus defined. The large loan risks incurred by BKS Bank were covered by a cover pool in ALGAR. As a subsidiary of the 3 Banken Group, ALGAR serves to provide security for the large loans of the three credit institutions by assuming guarantees, sureties and other liabilities for credit lines, loans and lease receivables.

– Loan size concentrations

Loan size concentration risk is separately quantified in the risk-bearing capacity calculation. Loan size concentration risk measures the granularity of the credit portfolio especially in large loans extended to groups of related borrowers. Such customers are legally or financially interconnected in such a way that if one borrower in the group falls into financial difficulties, the other customers in the group might also have difficulty making repayments.The risk-bearing capacity calculations make an allowance for the risk and unexpected losses resulting from loan size concentrations by an 'add-on' for the granularity adjustment (GA). The Herfindahl Hirschman Index calculated in this context was 0.00162 at the year-end and showed a well-balanced spread of loan sizes within the customer loan portfolio. Loan size concentration risk is managed by setting limits on the distribution for customer receivables, with the distribution being continuously monitored by the management committees.

SIZE DISTRIBUTION OF RECEIVABLES FROM CUSTOMERS

Receivables from customers by size Basis: IFRS values, €m	2016 Exposure	Proportion, %	2017 Exposure	Proportion, %
<EUR 0.15 million	839.2	14.2	861.0	14.4
EUR 0.15 m to EUR 0.5m	811.1	13.7	845.7	14.1
EUR 0.5 m to EUR 1.0 m	337.0	5.7	368.6	6.2
EUR 1.0 m to EUR 3.0 m	669.2	11.3	695.3	11.6
EUR 3.0 m to EUR 14.0 m	1,852.7	31.3	1,850.3	30.9
EUR 14 m to EUR 20 m	452.5	7.7	508.8	8.5
> EUR 20 m	951.3	16.1	860.6	14.4
Total	**5,913.1**	**100.0**	**5,990.4**	**100.0**

– Concentration by industry

BKS Bank presents the distribution of industries in accordance with the ÖNACE list of economic activities. The main areas are the categories of retail customers (18.5%), properties and residences (16.3%), construction (13.9%), goods manufacturing (12.0%) and trade (7.6%). The customer loan portfolio of BKS Bank is broadly diversified with respect to loan size and also with respect to industry diversification. The corporate and business banking segment accounted for over three quarters of the loan portfolio managed.

RECEIVABLES FROM CUSTOMERS, BY ECONOMIC ACTIVITY

Economic Activity Classification in Conformity with ÖNACE (Statistik Austria)	2016 in €m	2016 in %	2017 in €m	2017 in %
Private households	1,085	18.3	1,107	18.5
Real estate activities	857	14.5	978	16.3
Construction	869	14.7	834	13.9
Manufacturing	739	12.5	717	12.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	468	7.9	456	7.6
Financial and insurance activities	365	6.2	317	5.3
Professional, scientific and technical activities	260	4.4	289	4.8
Transport and storage	229	3.9	230	3.8
Accommodation and food service activities	185	3.1	195	3.3
Human health and social work activities	158	2.7	176	2.9
Administrative and support service activities	169	2.9	159	2.7
Public administration and defence; compulsory social security	132	2.2	148	2.5
electricity, gas, steam and air conditioning supply	91	1.5	86	1.4
Agriculture and forestry, fishing	60	1.0	69	1.1
Mining and quarrying	60	1.0	59	1.0
Other service activities	68	1.1	57	1.0
Information and communication	46	0.8	45	0.7
Water supply; sewerage, waste management and remediation activities	36	0.6	34	0.6
Arts, entertainment and recreation	23	0.4	25	0.4
Education	13	0.2	10	0.2
Total	**5,913**	**100.0**	**5,990**	**100.0**

– **Foreign exchange-induced credit risk**

Foreign exchange-induced credit risk is another form of credit risk concentration. The foreign exchange risk borne by the borrower may, if exchange rates change unfavourably, seriously affect the ability of the borrower to repay a debt. FX-induced credit risk was calculated for the foreign currency debts of customers in corporate and business banking and in retail banking. We calculate the risk for BKS Bank AG's main currencies (CHF/JPY/USD) and for EUR loans to customers without a currency congruent income, and also for all other currencies. In this context, the risk potential is calculated using a random walk simulation based on movements in exchange rates in the preceding 1,000 days with a confidence interval of 95% and 99.9%.

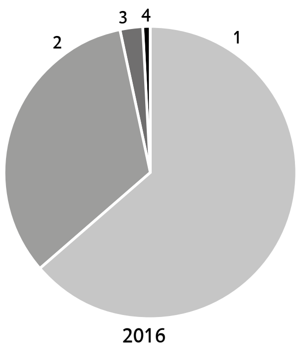
A breakdown by country of the foreign currency loan portfolio shows that the foreign exchange risk was limited primarily to the Austrian and Croatian markets. The foreign currency volume in Croatia consists almost exclusively of loans extended in euro to borrowers with incomes in kuna.

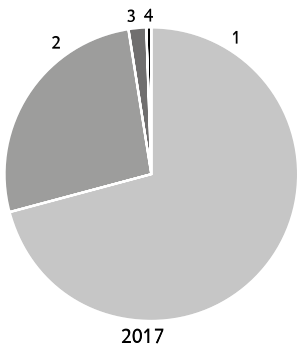
RECEIVABLES FROM CUSTOMERS IN FOREIGN CURRENCIES BY COUNTRY AND CURRENCY

	EUR*		CHF		USD		JPY		Total	
in €m	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Austria	-	-	210.7	147.7	15.6	12.2	4.2	1.9	230.5	161.8
Slovenia	-	-	7.9	6.0	-	-	-	-	7.9	6.0
Croatia	359.6	367.0	0.4	0.3	-	-	-	-	360.0	367.3
Hungary	25.8	20.6	-	-	-	-	1.1	0.9	26.9	21.5
Switzerland	30.6	26.8	1.3	1.6	-	-	-	-	32.0	28.4
Other	13.0	12.5	3.8	3.1	-	-	-	-	16.8	15.5
Total	**429.1**	**426.9**	**224.1**	**158.6**	**15.6**	**12.2**	**5.3**	**2.8**	**674.0**	**600.5**

* EUR loans to customers from non-euro states

FOREIGN CURRENCY LOANS BY CURRENCY

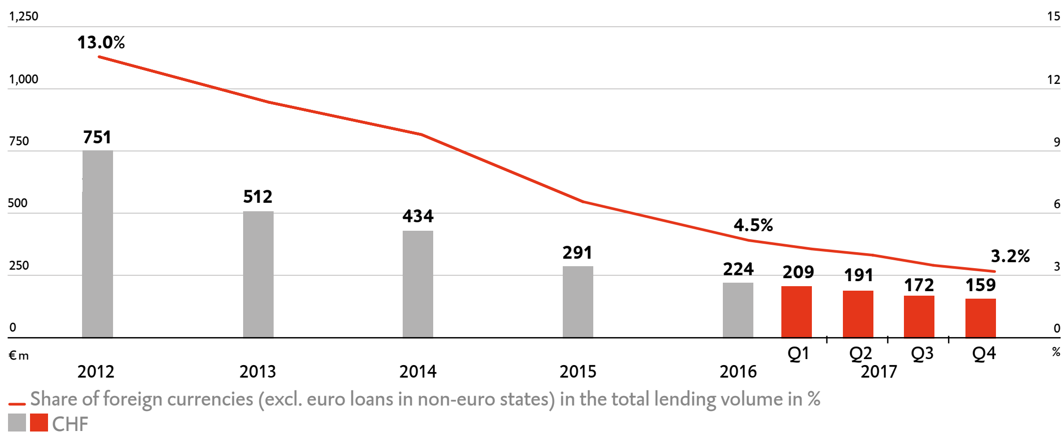




	2016 in %	2017 in %
1 EUR	63.7	71.1
2 CHF	33.2	26.4
3 USD	2.3	2.0
4 JPY	0.8	0.5

For years, BKS Bank has been pursuing a strategy to steadily reduce the volumes of foreign currency loans and loans with repayment vehicles. We regularly discuss this with our customers and, if possible, develop customized risk limitation solutions together with them. The foreign currency volume in CHF decreased in 2017 by EUR 65.5 million to EUR 158.6 million (2016: EUR 224.1 million). The share of loans in CHF, USD and JPY in the total loan portfolio dropped to 3.2% by year-end (2016: 4.5%).

RECEIVABLES FROM CUSTOMERS IN FOREIGN CURRENCY



The volume of euro loans granted to borrowers with incomes in a different currency decreased slightly, reaching a level of EUR 426.9. On the Croatian market, a large share of the new volume of loans granted are still tied to the euro, with the HRK being considered a currency with close ties to the euro. The foreign exchange-induced credit risk was managed by defining limits at the profit centre and the overall bank levels, and continuously monitoring the risk.

– Country risk

The country or transfer risk is the risk of a counterparty failing to meet its obligations because the central bank of that counterparty's domicile fails to supply the necessary foreign currency. Besides transfer risk, the borrower's creditworthiness may also be directly affected by the economic or political developments in a country. The countries of material significance for BKS Bank with respect to concentration risk are the sales markets of Slovenia, Croatia, Slovakia and Germany. Country risk exposure is also limited in the risk strategy. For loans to non-banks abroad, we defined a bank-wide cap of EUR 1.85 billion for 2017 (2016: EUR 1.6 billion). This limit was complied with throughout the entire year. For risk management and control purposes, we applied different rating measurements to domestic and foreign loans, with a stricter lending policy applying to loans abroad designed to the specific features of the country.

RECEIVABLES FROM CUSTOMERS BY COUNTRY 2017

in €m	Receivables[1]	Past due[2]	Risk provisions	Collateral for past due receivables
Austria	4,453.1	178.1	55.1	81.6
Slovenia	741.2	58.3	18.3	31.5
Croatia	412.7	24.4	11.6	14.7
Hungary	21.4	6.6	4.5	1.8
Slovak Republic	104.5	13.1	5.2	6.1
Italy	17.2	6.3	4.7	1.1
Germany	190.1	1.3	0.2	1.1
Other	50.2	0.2	0.6	0.2
Total 2017	**5,990.4**	**288.3**	**100.1**	**138.1**

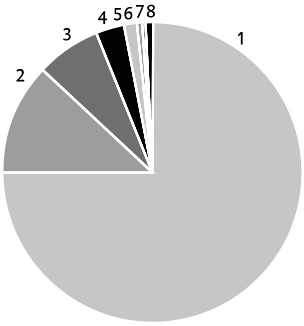
[1] Risk volume pursuant to ICAAP
[2] Past due pursuant to the definition of BKS Bank

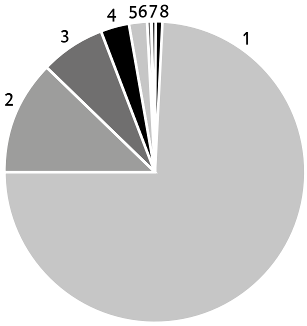
RECEIVABLES FROM CUSTOMERS BY COUNTRY 2016

in €m	Receivables[1]	Past due[2]	Risk provisions	Collateral for past due receivables
Austria	4,424.7	241.0	66.3	121.8
Slovenia	722.1	68.6	18.1	35.1
Croatia	407.2	45.6	19.1	23.2
Hungary	27.0	9.1	4.0	3.6
Slovak Republic	92.1	14.0	4.3	7.4
Italy	14.2	6.3	3.7	2.6
Germany	171.1	0.3	0.1	0.1
Other	54.6	0.2	-	0.2
Total 2016	**5,913.1**	**385.0**	**116.2**	**194.0**

[1] Risk volume pursuant to ICAAP
[2] Past due pursuant to the definition of BKS Bank

RECEIVABLES FROM CUSTOMERS BY COUNTRY





	2016		2017	
	€ m	in %	€ m	in %
1 Austria	4,425	74.8	4,453	74.3
2 Slovenia	722	12.2	741	12.4
3 Croatia	407	6.9	413	6.9
4 Germany	171	2.9	190	3.2
5 Slovakia	92	1.6	105	1.8
6 Hungary	27	0.5	21	0.4
7 Italy	14	0.2	17	0.3
8 Other	55	0.9	50	0.8
Total	**5,913**	**100**	**5,990**	**100**

SECURITIES AND FUNDS BY PLACE OF REGISTERED OFFICE OF ISSUER

in €m	Acquisition costs		Carrying amount purs. to IFRS[1)]	
Regions	2016	2017	2016	2017
Austria	452.7	380.3	457.7	384.9
Germany	63.2	82.9	63.3	82.9
Belgium	15.7	25.7	15.9	26.0
Finland	10.2	15.1	10.2	15.2
France	42.4	42.3	42.4	42.4
Ireland	26.1	26.1	26.4	26.4
Italy	15.1	15.1	15.3	15.3
Croatia	9.9	5.1	9.9	5.2
Lithuania	3.1	3.1	3.1	3.1
Luxembourg	92.2	109.4	96.4	113.6
Netherlands	10.0	14.9	10.0	15.0
Norway	-	5.0	-	5.0
Poland	5.0	5.0	5.1	5.1
Portugal	5.1	10.1	5.1	10.2
Slovak Republic	20.0	24.8	20.6	25.3
Slovenia	-	9.8	-	9.9
Spain	13.8	19.8	13.9	20.0
Sweden	-	11.6	-	11.6
U.S.	18.9	-	19.0	-
Total	**803.1**	**806.2**	**814.4**	**817.1**

[1)] Including accrued interest

There were no impairments on positions in the securities and fund portfolio of BKS Bank in the years 2016 and 2017.

INVESTMENT RISK

Equity investment risk encompasses the risk of lost dividends, impairments and realized losses and the risk of a decline in the value of hidden reserves caused by poor financial performance on the part of entities in which BKS Bank holds equity investments. The acquisition of equity investments is not a focus of our strategy and is done only to support our banking operations.

EQUITY INVESTMENTS

in €m	31/12/2016	31/12/2017
Listed banks	468.3	518.6
Unlisted banks	7.6	18.3
Other unlisted equity investments	53.4	63.5
Total	**529.3**	**600.4**

In the case of affiliated companies, our focus is on strategic partners from the banking and financial sector as well as from the banking-related service industries. We do not acquire investments in countries whose legal, political or economic situations are assessed as risky and neither do we trade on a regular basis in such investments.

BKS Bank has a strategic and an operational management for equity investments. The strategic orientation of investments is the responsibility of the Management Board, and operational equity investment management is the responsibility of the Office of the Management Board. Risk control is the remit of the Risk Controlling Group.

The carrying amount of BKS Bank's equity investments calculated pursuant to IFRS was EUR 600.4 million at 31 December 2017, compared with EUR 529.3 million in the preceding year. This total included our interests in Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft with a carrying amount of EUR 518.6 million (2016: EUR 468.3 million).

To manage and control individual financial risks, we prepare annual budgets for subsidiaries as well as budgets and adjusted projections for the returns on investees. Monthly reports on operating subsidiaries are part of our Group reporting system.

Macroeconomic risk

Macroeconomic risk describes the risk of adverse negative macroeconomic changes and the resulting risks that may arise for BKS Bank. At BKS Bank, we quantify the effects of adverse macroeconomic developments in the credit risk. The effects on the bank's portfolio are determined on the basis of changes in selected macroeconomic indicators such as GDP growth, the unemployment rate, the inflation rate and the current account deficit. The correlations used, which have an effect on the probability of default (PD), are based on BKS Bank's historic data and are regularly validated. The greatest impact on credit risk comes from inflation, followed by gross domestic product. Macroeconomic risk in ICAAP was quantified in the going concern and liquidation approaches.

Interest rate risk

Interest rate risk refers to the risk of a negative development in positions sensitive to interest rate fluctuations or in net interest income. We differentiate between:

– Basis risk
– Interest rate adjustment risk
– Yield curve risk
– Option risk

Divergent maturities and interest adjustment periods may create the risk of changes to interest rates for both the assets and liabilities sides of the balance sheet. These risks may be generally hedged by a combination of on-balance sheet and off-balance sheet transactions BKS Bank does not engage in excessive maturity transformation transactions. Therefore, we do not focus on maturity arbitrage with significant volumes of open positions to generate income by applying the“riding the yield curve”method.

Additionally, the credit spread risk, which is part of the interest rate risk, is also computed. The credit spread risk shows the effects of changes in market prices induced by changes to credit ratings and/or risk premiums on the portfolio of interest-bearing securities. The quotient, which is reported to OeNB, derived from interest rate risk and eligible own funds based on an interest rate shift of 200 base points was 4.41% at the year-end versus 0.71% in the preceding year. The increase resulted from investments in long-term capital market bonds. We point out that the supervisory authorities classify a bank as an ‘outlier bank’ as of a ratio of 20%. Our bank is not anywhere near this figure. The biggest interest rate gaps are in the maturity bands from 1 through 3 months and from 6 through 12 months.

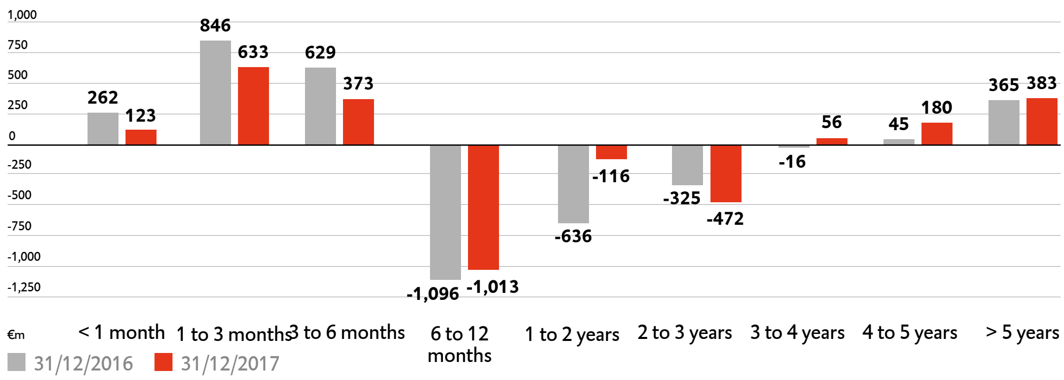
REGULATORY INTEREST RATE RISK IN % OF OWN FUNDS

Currency	31/12/2016	31/12/2017
EUR	0.20	4.34
CHF	0.10	0.00
USD	0.39	0.06
JPY	0.00	0.00
Other	0.02	0.01
Total	**0.71**	**4.41**

CHANGES IN PRESENT VALUE DUE TO AN INTEREST RATE SHIFT OF 200 BASIS POINTS

in €m	31/12/2016	31/12/2017
EUR	1.3	28.7
CHF	0.6	0.01
USD	2.5	0.4
JPY	0.0	0.0
Other	0.04	0.09
Total	**4.5**	**29.2**

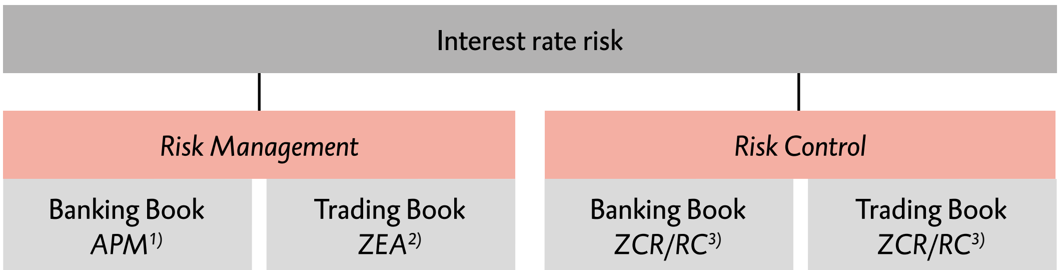
INTEREST RATE GAPS (EUR AND FX)



The management of market risks and the setting of the relevant limits is based on a combination of indicators and methods such as value-at-risk (VAR), modified duration, volume analysis and stress tests of the economic capital. The limit for market risk in ICAAP is defined once a year when the risk strategy is reviewed by the Management Board with the involvement of Risk Controlling. Risk Controlling determines the VAR for the interest rate risk, foreign currency risk and equity price risk. Taking into account the diversification effects, the entire VAR is compared to the defined limit and reported to the ALM Committee.

Managing interest rate risk in the banking book, which is the important risk category within market risk, is the responsibility of the Asset/Liability Management Committee. The Management Board and the heads of the relevant banking departments are on this Committee. The ALM Committee analyses the results of present value and duration analyses, value-at-risk analyses, and simulations of changes in interest rates on a monthly basis. The interest rate change risk is the remit of Treasury and International Operations.

MANAGEMENT OF INTEREST RATE RISK



1) Asset/Liability Management Committee
2) Treasury and International Operations
3) Controlling and Accounting/Risk Controlling

At the end of 2017, BKS Bank reported the interest rate change risk (incl. credit spread risk) at EUR 28.0 million as measured by the value-at-risk method. The value-at-risk denotes a risk measure that indicates the potential loss of a position that will not be exceeded with a given probability (confidence level) within a specified time period.

BKS Bank measures VaR based on a historical simulation of the changes in market prices observed in the previous 1,000 days. We apply VAR with a holding period of 90 days (preceding year: 180 days) and a confidence interval of 95% for ongoing risk management and to calculate the risk-bearing capacity in the going concern approach. The ICAAP liquidation view is based on a holding period of 250 days and a probability of occurrence of 99.9%.

VALUE-AT-RISK FIGURES INTEREST RATE RISK[1]

in €M	2016	2017
Minimum values	6.6	6.8
Maximum values	12.3	28.0
Average values	8.6	15.9
Values at year-end	6.7	28.0

1) incl. credit spread risks

BKS Bank pursues a conservative strategy regarding interest rates risk and as a general rule does not engage in any significant speculative derivative transactions. BKS Bank engages in derivative transactions almost exclusively to hedge against market risks, using only instruments whose characteristics and related risks are known and for which experience-based data is available. Interest rate swaps are BKS Bank's key interest rate management instrument. Depending on the interest rate and yield structures, the ALM Committee decides on hedging transactions are decided for individual transactions and also for portfolios. Where applicable in interest rate hedges, the underlying transactions and the corresponding interest rate derivative are recognized using the fair value option pursuant to IAS/IFRS.

EQUITY PRICE RISK

Equity price risk is the risk of changes in stock market prices that result from the interaction of supply and demand. Investments in equities in our Treasury portfolio are mainly in highly liquid German and Austrian listed securities. The bank complied with all internal limits for shares and funds of shares. Once a month, equity price risk is quantified using a historical simulation as value-at-risk and reported to the ALM Committee. As at 31 December 2017, the value at risk arising from this risk position based on a holding period of 90 days (preceding year: 180 days) and a confidence interval of 95% was EUR 1.2 million (2016: EUR 1.2 million)

VALUE-AT-RISK FIGURES EQUITY PRICE RISK

in €M	2016	2017
Minimum values	1.2	1.0
Maximum values	2.2	1.2
Average values	1.8	1.1
Values at year-end	1.2	1.2

The management of the equity price risk in the banking book is done by the ALM Committee. There was no proprietary trading in shares in the reporting year. Long-term investments in shares and assets in the banking book are done through investment funds in general; we invest in individual stocks only to a minor extent. Equity price risk is limited with respect to volume and value-at-risk, and is monitored by Risk Controlling.

MANAGEMENT OF INTEREST RATE RISK

1) Asset/Liability Management Committee
2) Controlling and Accounting/Risk Controlling

FOREIGN CURRENCY RISK

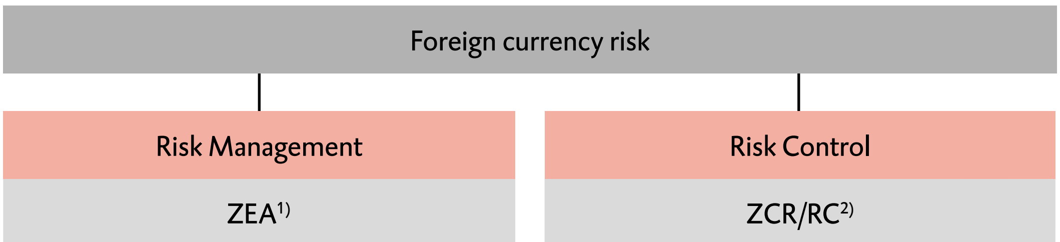
These risks result from entering into foreign currency positions on the assets and liabilities side that are not closed out by a matching opposite position or a derivatives transaction. Therefore, an adverse movement in exchange rates may result in losses. To assess the foreign exchange risk, open currency positions are evaluated daily and compared with the corresponding limits. The value at risk from the foreign exchange position is computed with a confidence interval of 95% and a holding period of 90 days (preceding year: 180 days) and stood at EUR 0.6 million at year-end (2016: EUR 0.9 million).

VALUE-AT-RISK FIGURES EQUITY PRICE RISK

in €M	2016	2017
Minimum values	0.7	0.6
Maximum values	0.9	0.7
Average values	0.8	0.6
Values at year-end	0.9	0.6

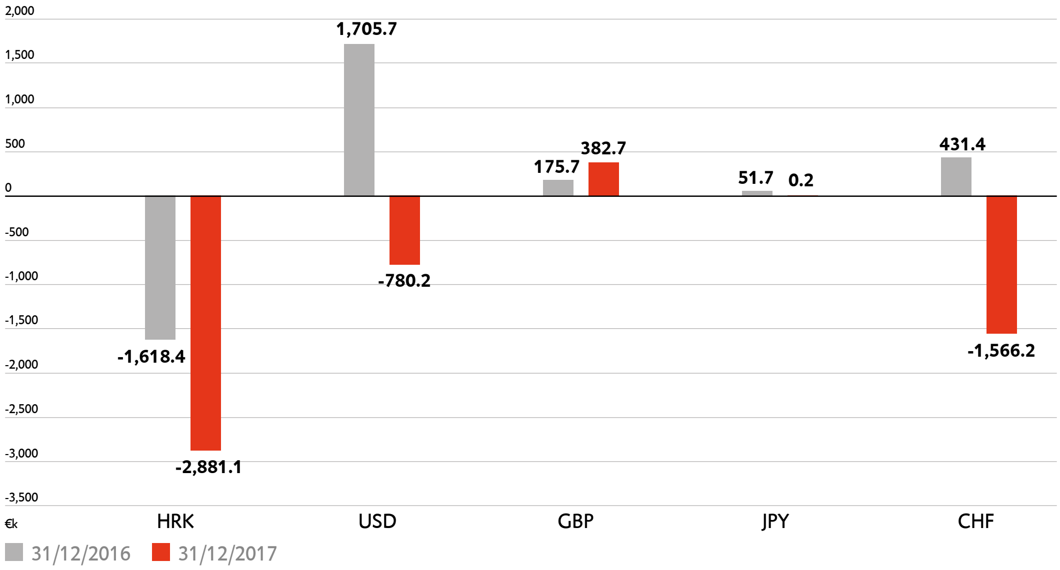
Traditionally, exposure to currency risks is kept low at BKS Bank, because making profits on open foreign exchange positions is not the focus of our business policy. Therefore, open foreign exchange positions are held only short term and in low volumes. Foreign currency loans and deposits in foreign currencies are generally refinanced or invested in the same currency. To hedge foreign exchange risks, BKS Bank in some cases enters into derivative transactions such as cross currency swaps, foreign currency forwards and foreign currency swaps. The management of foreign currency positions is the responsibility of Treasury and International Operations, Group Money Market and FX Trade. Foreign exchange positions are monitored by Risk Controlling.

FOREIGN CURRENCY RISK MANAGEMENT



1) Treasury and International Operations
2) Controlling and Accounting/Risk Controlling

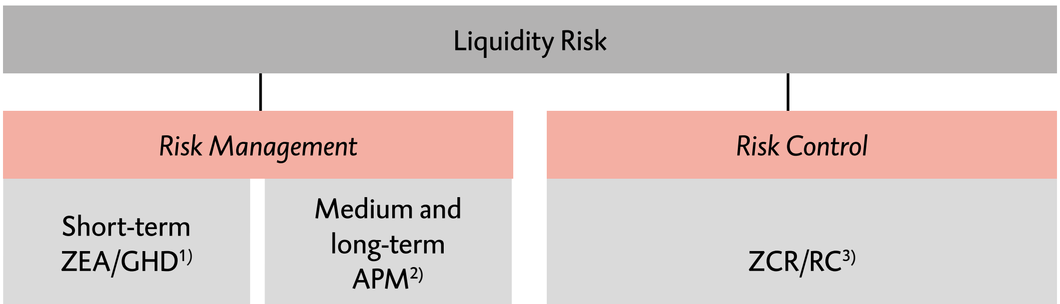
EXCHANGE RATE RISK (OPEN FX POSITIONS)



Liquidity Risk

Liquidity risk is the risk of not being able to meet present or future financial obligations in full or in time. This also includes the risk of only being able to raise funds at higher-than-usual market rates (refinancing risk) or that assets have to be liquidated at lower-than-usual market prices (market liquidity risk).

LIQUIDITY RISK MANAGEMENT



1) Treasury and International Operations/Money Market and FX Group
2) Asset/Liability Management Committee
3) Controlling and Accounting Dept./Risk Controlling Group

PRINCIPLES OF LIQUIDITY MANAGEMENT/ILAAP

ILAAP is a fundamental component of the supervisory review and evaluation process (SREP) and has the purpose of ensuring adequate liquidity and effective liquidity risk management. BKS Bank has clearly defined principles for the management of liquidity risk that are set out in the risk strategy and in the ILAAP framework. A key component for long-term liquidity planning is the funding plan of BKS Bank.

Essential for liquidity management is a diversification of the refinancing profile by investor category, product and maturity. Loan terms and conditions policy was managed on the basis of the Austrian risk management decree (Risikomanagementverordnung) and the EBA guidance on which it is based. The costs of refinancing financial products are determined within the scope of a sophisticated funds transfer pricing model. These costs are allocated in the product and profit centre calculations.

Intraday liquidity management is done by managing daily deposits and withdrawals. This is based on information on transactions with an impact on liquidity. Such transactions include dispositions regarding payment transfers, advance information from Sales on pending customer transactions, information on cash flows resulting from the bank's own issues supplied by the securities back office, and information on securities and money market transactions from Treasury. Possible liquidity peaks are balanced out by borrowing or investing money with the Austrian central bank, OeNB, or on the interbank market. Intraday liquidity management is done within the limits defined and utilization is reported daily to Risk Controlling and the Chief Risk Officer

Medium-term and longer-term liquidity and the liquidity buffer are managed by the ALM Committee. The internal liquidity buffer was EUR 1.32 billion at year-end (2016: EUR 1.17 billion) and was made up of receivables from customers that are eligible for refinancing by OeNB (credit claims) and fixed-interest securities. The counterbalancing capacity additionally includes shares and funds, and reached approximately EUR 1.37 billion at year-end (2016: EUR 1.38 billion). Thus, the bank had comfortable liquidity buffer for the event of disruptions on the money or capital markets. Furthermore, the Asset/Liability Management Committee monitors BKS Bank's liquidity position on a monthly basis based on predefined early warning indicators. The ALM Committee is required to meet should the early warning indicators surpass the defined thresholds and must take action. Apart from this, BKS Bank's Risk Management Manual contains contingency plans that define responsibilities, measures and procedures in the event of disruptions on the money and capital markets.

COUNTERBALANCING CAPACITY

in €m	31/12/2016	31/12/2017
Securities deposited with OeNB	584.3	688.1
Securities deposited with Clearstream	66.1	63.4
Securities deposited with Euroclear	-	60.7
Credit claims ceded to OeNB	365.1	384.7
Credit claims ceded to the Slovenian National Bank	24.7	9.6
Total collateral eligible with the ECB	**1,040.2**	**1,206.4**
Minus OeNB tender block	-300.0	-300.0
Minus EUREX repo	-28.3	-3.1
Total available ESCB-eligible collateral	**711.9**	**903.3**
Cash and cash equivalents	34.1	84.9
Credit balance with OeNB	424.9	333.6
Liquidity buffer	**1,170.9**	**1,321.8**
Other securities	213.7	47.0
Counterbalancing capacity	**1,384.6**	**1,368.8**

The Risk Controlling Group is responsible for liquidity risk control in order to ensure compliance with the defined principles, procedures and limits. Reporting is done on a daily, weekly, monthly and quarterly basis. In the event of extraordinary developments or when certain early warning stages or limits are reached, an ad hoc report is sent to the Management Board.

LIQUIDITY GAPS AND FUNDING

Our daily liquidity flow analysis allocates all assets and liabilities of relevance for our funding profile into maturity bands. These analyses showed a liquidity surplus or shortfall for each maturity band, permitting the management of open liquid positions very close to real time. Moreover, a comprehensive system of limits (limits per maturity band, time-to-wall limits) is in place that gives the Management Board and the responsible risk management units a quick overview of the current situation. The analyses are supplemented by indicative stress tests, which we categorize depending on the nature of the stress trigger, as general macroeconomic scenarios, bank-specific scenarios or combined stress scenarios.

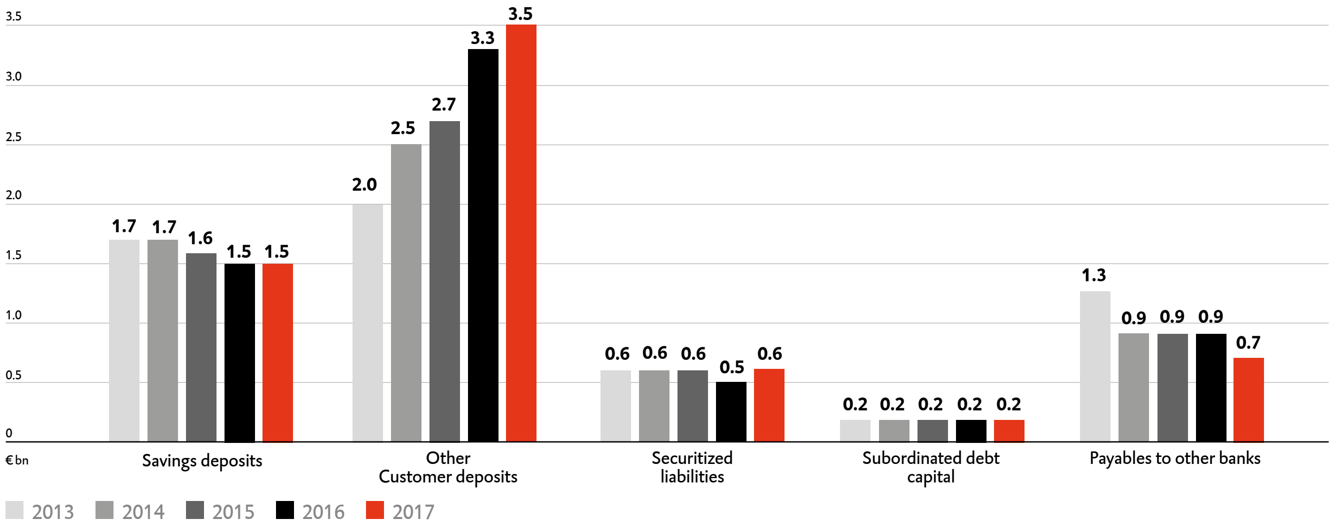
The measurement of liquidity risk in the going concern approach and in the liquidity approach for the risk-bearing capacity calculation is done using the value-at-risk method. The risk is determined on the basis of the net gap in an assumed increase in funding costs after a hypothetical deterioration of the credit rating of the bank. The confidence interval was 95% in the going concern approach and 99.9% in the liquidation approach.

Refinancing is mostly in euro. As regards foreign currencies, our main focus is on securing funding for Swiss franc loans through medium-term to long-term capital market swaps.

BKS Bank is a member of the General Collateral (GC) Pooling Market of EUREX Clearing AG. In the GC Pooling system, liquid assets can be borrowed or invested in euro, US dollar and Swiss franc with terms ranging from overnight (EUR and USD) to 12 months. BKS Bank is one of many participants in a steadily growing market segment for standardized and collateralized funding transactions using the services of a clearing agent.

The chart below shows BKS Bank's funding structure by product category.

DEVELOPMENT OF FUNDING STRUCTURES



The chart below presents derivative and non-derivative liabilities by contractually-agreed cash flows.

DERIVATIVE AND NON-DERIVATIVE LIABILITIES 2017 (CASH FLOW BASIS)

in €m	Carrying amounts	Contractual cash flows[1]	< 1 month	1 month to 1 year	1-5 years	> 5 years
Non-derivative liabilities	**6,364**	**6,663**	**751**	**2,812**	**684**	**2,416**
– Deposits from banks	695	692	111	565	10	6
– Deposits from customers	4,956	5,166	638	2,155	319	2,054
– Liabilities evidenced by paper	554	619	2	64	265	288
– Subordinated liabilities	159	186	-	28	90	68
Derivative liabilities	**15**	**8**	**-**	**8**	**-**	**-**
– Derivatives in the banking book	15	8	-	8	-	-
Total	**6,379**	**6,671**	**751**	**2,820**	**684**	**2,416**

[1] Not discounted

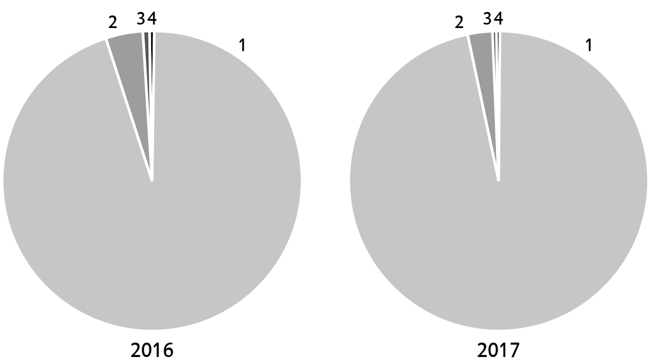
DERIVATIVE AND NON-DERIVATIVE LIABILITIES 2016 (CASH FLOW BASIS)

in €m	Carrying amounts	Contractual cash flows[1]	< 1 month	1 month to 1 year	1-5 years	> 5 years
Non-derivative liabilities	**6,436**	**6,986**	**804**	**2,670**	**1,470**	**2,042**
– Deposits from banks	867	1,182	187	369	621	5
– Deposits from customers	4,825	4,944	595	2,146	497	1,706
– Liabilities evidenced by paper	545	628	22	96	238	272
– Subordinated liabilities	199	232	-	59	114	59
Derivative liabilities	**31**	**23**	**-**	**1**	**22**	**-**
– Derivatives in the banking book	31	23	-	1	22	-
Total	**6,467**	**7,009**	**804**	**2,671**	**1,492**	**2,042**

[1] Not discounted

On account of the decreasing volume of Swiss franc loans, our Swiss franc funding requirement also declined to EUR 158.6 million (2016: EUR 224.1 million) and is now only 2.9% of the entire funding requirement.

FUNDING REQUIREMENTS BY CURRENCY

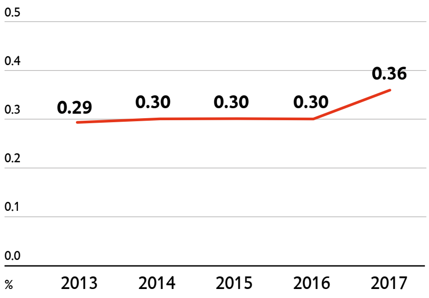


in %	2016	2017
1 EUR	95.4	96.8
2 CHF	4.2	2.9
3 USD	0.3	0.2
4 JPY	0.1	0.1

DEPOSIT CONCENTRATION

The chart below shows the deposit concentration, which reached a level of 0.36 in the first quarter of the year. This value is an estimate of the withdrawal risk associated with a run on deposits and indicates, above all, the risk of being dependent on large deposits. All customer deposits are broken down into defined size bands and measured at their respective share and with a weighting factor from 0 to 1.

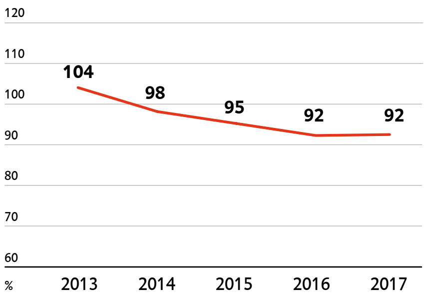
DEPOSIT CONCENTRATION



LOAN-TO-DEPOSIT RATIO

The loan/deposit ratio is a further key indicator for liquidity management and shows the relation between loans and primary deposits. At a ratio of 92.3%, we are clearly below the benchmark and thus in an excellent position. We have defined as benchmark a balanced ratio of 100%. We interpret this development as a sign of the trust placed in our bank and the yields of the hard work we invested to acquire primary deposits.

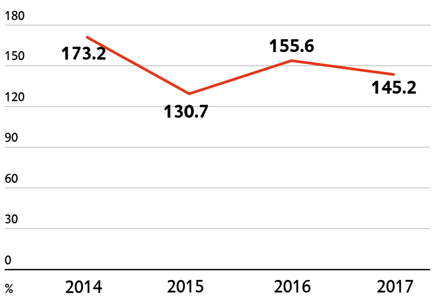
LOAN-TO-DEPOSIT RATIO



LIQUIDITY COVERAGE RATIO

The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain liquid for the next 30 days in the event of simultaneous market and bank-specific stress situations. It compares highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. This regulatory liquidity ratio was 145.2% at 31 December 2017, and therefore, far above the minimum ratio of 100% which had to attained by 2018 phase-wise starting from October 2015.

LCR



ENCUMBERED ASSETS

Pursuant to Article 100 CRR in conjunction with the Commission Implementing Regulation (EU) No 2015/79, banks are obliged to report encumbered assets to the supervisory authorities on a quarterly basis. In these reports, an asset is deemed encumbered if it has been pledged or used to secure on-balance sheet or off-balance sheet transactions. At 31 December 2017, the share of encumbered assets was 8.1% (2016: 7.8%) within the banking group. This ratio is relatively low and is below the regulatory threshold of 15.0%, which means that we are subject only to the reduced reporting requirements.

NET STABLE FUNDING RATIO

The net stable funding ratio (NSFR) is a structural liquidity ratio that intended to secure a stable funding profile for a bank for a period of over one year. In this context, available stable funding is compared to the required stable funding. This additional liquidity ratio will become mandatory as of 2019 and will be at least 100%. In the ILAAP report of BKS Bank, we are already monitoring NSFR on an ongoing basis. As of year-end 2017, NSFR was 105.0%.

Operational Risk including ICT Risks

As set out in the CRR, we define operational risk as the risk of losses arising primarily in BKS Bank's operations that might result from inadequate or failed internal processes, human or systems errors or from external factors.

At BKS Bank AG and at all Austrian and foreign subsidiaries, operational risks are limited by means of an appropriate control system that is continually being developed. The system features a number of organisational measures that include the separation of functions within business processes (separation of front office from back office activities, dual-control principle) as well as extensive internal rules and regulations, regular checks and contingency plans and also self-auditing systems.

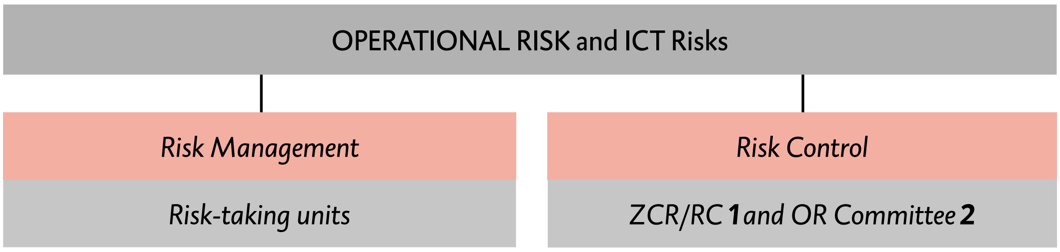
We deal with information and communications technology risks (ICT risks) by means of professional IT security management run by 3 Banken IT GmbH[1)], a company held jointly with our sister banks, and by extensive data protection and security measures and professional business continuity management. These measures are reviewed regularly by Internal Audit for adequacy. Any weaknesses in the system discovered by Internal Audit are immediately fixed.

[1)] Formerly DREI-BANKEN-EDV Gesellschaft m.b.H.

All enterprise processes are related to information and communication technology, and therefore, IT governance is of enormous importance. IT governance is understood to be all principles, procedures and measures in place to ensure that business targets are attained, resources are responsibly used and risks are adequately monitored with the aid of the hardware and software in use at the bank.

An OR Committee has been established for the overall management of operational risk throughout the bank that meets once every quarter. An operational risk report is sent every quarter to the relevant decision-makers.

OPERATIONAL RISK AND ICT RISKS



[1] Controlling and Accounting/Risk Controlling
[2] Operational Risk Committee

Risk Controlling is responsible for operational risk measurements and for defining the operational risk framework. The implementation of risk mitigating measures is the responsibility of the risk-taking units. The management of ICT risks is based on the ICT Governance Policy prepared by the Operations Department and adopted by the full management board.

We employ a variety of techniques to ensure the effective management of operational risk, such as
- Carrying out Group-wide self-assessments on a bottom-up basis; these may be used to derive the risk profile specific to each business area
- Documenting operational risk losses in a Group-wide database of loss incidents
- Developing risk-mitigating measures on the basis of the threat analysis carried out within the scope of the self-assessment process and the analysis of actual losses

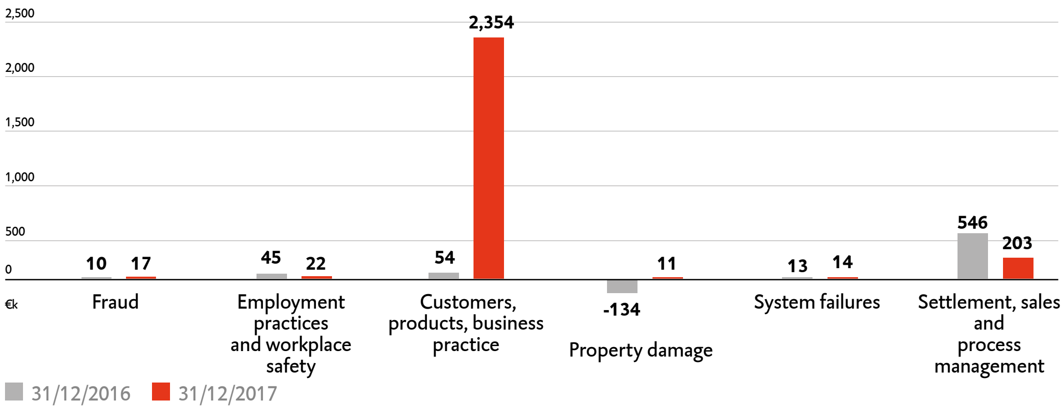
Operational risks were assigned to one of the following categories:
- Fraud
- Customers, products, business practices
- Property damage
- System errors
- Settlement, sales and process management
- Employment Practices and Workplace Safety

In 2017, there were 216 loss events at BKS Bank excluding those resulting from credit operations (2016: 240 loss events). The average loss amount was EUR 12,135 (2016: EUR 2,224) after deducting recovered amounts. Most loss events occurred in the categories customers, products and business practice.

As in past years, we applied the standardized approach to measure regulatory capital requirement for operational risk. In the year under review, the regulatory own funds requirement was EUR 26.1 million (2016: EUR 26.2 million). This contrasted with actual operational risk losses net of amounts recovered of EUR 2.6 million (2016: EUR 0.5 million). The total loss was only 10% of the regulatory own funds requirement for operational risk.

A re-audit takes place every three years. In this process, more than 100 persons throughout the Group were interviewed about their risk assessment for operational risk. The last self-risk assessment took place in 2016. The results of the risk assessment were dealt with in the OR Committee and the themes of relevance for further analysis were defined and measures derived.

OPERATIONAL RISKS BY RISK TYPE



Further types of risks closely related to operational risk are reputational risks, conduct risks, model risks and information and communications technology risks (ICT risks).

Reputational risk is understood to mean the negative effects in general public awareness (customers, employees, shareholders, media, business partners, participants of the interbank market, etc.). A key component for the management of reputational risk is complaints management.

Conduct risks are covered by the extensive provisions in the Code of Conduct, the Compliance Code, the Compliance Charter and in the manuals on anti-corruption and anti-money laundering.

Model risks comprise the risks that may arise from the calculation models used at BKS Bank and models for decision-making processes. These models are considered in credit risk and also in market risk with buffers in the risk-bearing capacity calculation.

As regards ICT risk, BKS Bank has a stringent concept for the authorisation system as well as clear guidelines for data protection management. Ongoing training and further education of employees raises awareness and regular checks are also conducted within the scope of ICT. Extensive technical and organisational measures as well as regular backup tests are conducted to ensure the availability of the system and data in a loss event. We defend our systems against cyber risks through a professional risk management set up at both 3 Banken IT GmbH and within BKS Bank. The sum of these numerous measures aim to protect the confidentiality, integrity and availability of the information being processed and ensure its use in compliance with the law.

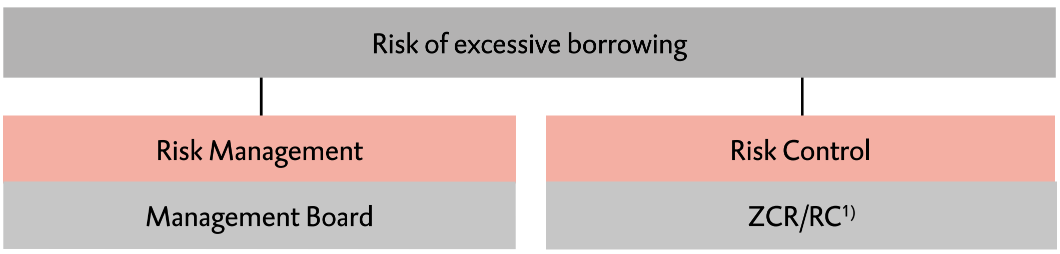
A risk catalogue is used to identify critical systems that is regularly updated by the security manager of 3 Banken IT GmbH. The catalogue classifies risks by level of threat (criticality) and lists the risks of all systems and applications. The assessment criteria for risk analysis includes maximum tolerable downtimes, possible damage scenarios in the event of downtimes exceeding the tolerance limit, and contingency procedures. Furthermore, a detailed analysis is prepared for protection requirements for existing applications and systems. The security concept, the contingency plans and the emergency manual are regularly updated. Pursuant to the provisions of PSD 2 (Payment Services Directive 2), apart from the management of operational risks, special attention is given to fraud and security risks in payment services.

Risk of excessive borrowing

The risk of excessive borrowing indicates the threat of a high level of indebtedness that could have a negative impact on BKS Bank's business operations. Apart from a change that may be required to the business plan, refinancing bottlenecks may occur that could make it necessary to sell assets in an emergency situation and, therefore, cause losses or the impairment of the remaining assets.

The risk of excessive borrowing is measured by the leverage ratio. The leverage ratio is the quotient of the unit of capital measured (tier 1 capital) and overall risk (balance sheet total plus off-balance sheet items); it was 8.0% at year-end (2016: 8.5%). Therefore, the leverage ratio is much better than the minimum ratio of 3% currently being discussed

RISK OF EXCESSIVE BORROWING



[1] Controlling and Accounting/Risk Controlling

Other Risks

Further risk types that BKS Bank does not currently assess as material are subsumed under in the category Other risks. These include:

– Risks from new types of business
– Reputational risks
– Risks associated with residual values in leasing operations
– Risks of money laundering and terrorism financing
– Risks from the bank's business model
– Systemic risks and risks from the financing of shadow banks
– Equity risks
– Conduct risks
– Model errors from interest risk, foreign currency risk and equity price risk

In both the going concern and liquidation approaches, risk buffers have been recognized for other risks for calculation of the risk-bearing capacity that are evaluated annually and adjusted as necessary. The ICAAP Committee is responsible for the management of these risks.

Features of the internal control and risk management system

This section discusses the material disclosures required pursuant to § 243a (2) UGB regarding the internal control and risk management system (ICS) in connection with BKS Bank's financial reporting process. We point out that the characteristics of the risk management system have already been commented in detail in earlier chapters.

INTERNAL CONTROL SYSTEM

The internal control system (ICS) is a system monitoring activities that has evolved over the years for the purpose of safeguarding assets and increasing economic efficiency. Moreover, the ICS ensure compliance with the law and the internal rules and regulations as well as the preciseness and reliability of operational documentation. Already in the 1980s, our bank started working on the systematic development of an internal control system. Ever since, the ICS has been improved and adapted to meet national and international standards. The internationally-recognized framework "COSO Internal Control – Integrated Framework" was used as a reference model.

The ICS framework of BKS Bank describes the objectives, mode of procedure and design principles of the overall ICS system. Apart from giving a concise overview of all ICS measures, the organisational features of the ICS and the annual reporting process are described.

In addition to the legal requirements applicable in Austria, Slovenia, Croatia and Slovakia, the Code of Conduct defined by BKS Bank also applies. In addition, we have implemented a compliance management system in line with the "tone of the top" principle and have drafted a Code of Conduct. We also follow the principles of corporate governance and set great store by strict adherence with the internal guidelines.

The regular legally required controls carried out within the ICS were audited by the Internal Audit Department on the basis of an audit plan approved by the Management Board and a Group-wide risk assessment of all the enterprise's activities. The Supervisory Board's Audit Committee is responsible for monitoring the effectiveness of the ICS.

PROCESS-BASED DOCUMENTATION OF ICS

We are constantly working on the improvement of the internal control system. The core of the most recent further development was the implementation of a risk control matrix. This matrix evaluates and links the existing controls with the risks identified by the business process and the support process. The process-based risk assessment and detailed description of the controls support efficient and correct modes of work, and significantly improves enterprise management. Furthermore, it also ensures that the bank can respond quickly to changed risk conditions. Additionally, the quality of established controls is evaluated based on a maturity level model. The model consists of five progressive maturity grades (from "1 - not very reliable" to "5 - optimized"), with the maturity grade "3 – standardized" being the lower limit for us.

ICS IN THE FINANCIAL REPORTING PROCESS

ICS ensure that the corporate reporting processes, in particular, financial reporting is carried out correctly, reliably and is complete. We meet these requirements through a documented and transparent organisational structure, suitable risk orientation and risk analysis, and control activities. All ICS measures relating to reporting processes are covered in a separate Group manual as well as in internal guidelines for risk provisions.

The Management Board is responsible for setting up and designing a control and risk management system that meets the needs of the Group's financial reporting process. Accounting, the associated processes and related risk management procedures are the remit of Controlling and Accounting. There are job descriptions for every position that precisely define the competence required and areas of responsibility. All areas of responsibility are also defined in a task matrix. The foreign subsidiaries are subject to permanent monitoring and the centrally responsible employees are usually on site on a quarterly basis to check the data and information needed for the consolidated reporting. Internal and external seminars are organised to ensure that employees are appropriately trained.

CONTROL ACTIVITIES

The risks and control in the areas of financial accounting, plant and equipment management, financial statements preparation, taxes and budgeting were systematically recorded, evaluated and linked to each other in a risk-control matrix. Controls that cover high risks are at the core of the ICS reporting and are allocated to the category "main controls". The quality of the main controls are classified according to the maturity grade model.

Depending on the category assigned in the risk-control matrix, the individual work activities and positions are allocated to specific control activities. In this case, several different control procedures are applied. Recurring systemic controls were implemented together with IT users and external auditors to monitor the IT systems employed (SAP, GEOS, etc.). Accuracy, completeness and precision of the data were audited. In addition, plausibility checks were carried out, checklists were used and the dual-control principle was consistently applied.

In financial accounting, checks were carried out to ensure that outgoing payments had also been authorised by the responsible parties and that no boundaries of authority had been overstepped. Payments are authorised for execution only after dual control. Coordination processes are in place for synchronizing the data between the organisational units Accounts (Balance Sheet Accounting) and Controlling. This ensures data consistency for internal reporting, notifications to authorities and external reporting. One important control procedure concerns the restrictive granting and monitoring of IT authorisations in SAP systems. Authorizations were documented and granted by Internal Audit within the scope of a separate authorisation administration system.

These extensive control procedures were regulated by internal manuals, guides, checklists and process descriptions.

INFORMATION AND COMMUNICATION

The Management Board of BKS Bank is informed regularly and promptly in monthly reports about every aspect of the financial reporting process and the financial results. Each quarter, the Supervisory Board and Audit Committee as well as the shareholders of BKS Bank received an interim report containing notes on budget deviations, material changes and changes over time. Shareholders receive quarterly interim reports that are published at www.bks.at under » Investor Relations » Berichte und Veröffentlichungen.

MONITORING EFFECTIVENESS OF THE MEASURES

Monitoring the financial reporting process is done in several stages. On the one hand, we conduct a self-assessment every year, and on the other, a critical review of the ICS with a reference to the financial reporting process is conducted within the scope of the process management. Moreover, an independent review is conducted by Internal Audit of BKS Bank that reports directly to the Management Board. The department heads and the responsible group heads performed the primary monitoring and supervisory tasks within the financial reporting process in accordance with their role descriptions. To ensure the reliability and propriety of the financial reporting process and the relevant reports, additional monitoring procedures were carried out by the statutory auditors of the consolidated financial statements and by Audit Committee as mandated by law.

SUSTAINABILITY AND NON-FINANCIAL PERFORMANCE INDICATORS

Quality and sustainability form the foundation of our corporate strategy. BKS has been pursuing a holistic sustainability strategy for many years and does not just take isolated CSR measures. It is very gratifying that we have received external awards time and again for our sustainability activities. We are especially proud to have been awarded prime status again by oekom research AG for our CSR activities at the start of 2018. We improved our rating class from C to C+. The rating scale runs from A+ to D-. When it comes to sustainability, we are among the top players in Austria. BKS Bank ordinary shares are included in the sustainability index, VÖNIX, of the Vienna Stock Exchange again in 2017.

A detailed presentation of the non-financial performance indicators pursuant to the Austrian Sustainability Report and Diversity Improvement Act is available in our Sustainability Report available at www.bks.at/Nachhaltigkeit. The Report has been prepared in accordance with the GRI standards, Core Option. The indicators on the following pages present an overview of our non-financial performance indicators and their trends.

Further development of sustainability strategy

In the reporting year, BKS Bank overhauled its sustainability strategy taking the Sustainable Development Goals (SDGs) into account and the Principles of the UN Global Compact. A multi-tiered stakeholder dialogue process forms the foundation for the materiality matrix. Part of the stakeholder dialogue is an online survey of stakeholders with 265 participants. Our newly defined sustainability strategy defines goals until 2022 that we plan to attain using mostly quantitative indicators as measurement. A detailed presentation of the strategy process and the goals defined are presented in the Sustainability Report 2017 from page 37.

In the past business year, we were successful in the attainment of CSR measures. The highlights include

- BKS Bank was the first Austrian bank to issue a social bond[1)]. In the autumn, the issuance of a green bond followed.[1)] The two bonds were fully placed on the market within a short time.
- Our sustainable asset management AVM was again conferred the environmental label for sustainable financial products[2)].

[1)] The information provided in this text serves only as non-binding information and does in any way not replace advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bonds mentioned here, and neither is it a buy or sell recommendation. The exclusive legal basis of the bonds described are the base prospectuses published by BKS Bank AG on 6 April 2017 together with all the documents incorporated by way of reference thereto and all addenda and the final terms and conditions published in each case. These are available free of charge from the issuer's website at www.bks.at under 'Investor Relations > Anleihenemissionen' and from the branches of BKS Bank AG, St. Veiter Ring 43, 9020 Klagenfurt, Austria, during normal business hours.

[2)] The Ministry of Agriculture, Forestry, Environment and Water Management awarded the Austrian environmental label "AVM nachhaltig", because ecological and social criteria are considered when selecting investment funds in addition to the economic aspects. This environmental label guarantees that the criteria and their implementation are suitable for selecting the relevant investment funds. This has been audited by an independent body. The Austrian environmental label received does not permit any conclusions to be drawn regarding the future developments in the value of the investment.

– In Croatia, we were certified as the first family-friendly company for the first time. In Austria and Slovenia, BKS Bank has held the corresponding certificate for a longer time.
– Our new training and further education centre opened. It is located in Christalnigg Palace, which we extensively renovated in 2016 and 2017. Our employees spent 33,013 hours in training during the reporting year.
– The carbon footprint for the year 2016 was 2,320 t CO_2equivalents. In this manner, we reduced our CO_2emissions by 3.7% vs. the preceding year.
– Complaints management was reorganised and a separate Office of the Ombudsperson was created.
– We supported 405 sponsoring projects with EUR 254.0k in 2017.

NON-FINANCIAL PERFORMANCE INDICATORS (STRATEGY AND GOVERNANCE)

	Indicators 2016	Indicators 2017
Sustainability rating by oekom research AG (grading from A+ to D-)	C "Prime"	C "Prime"[1]
Company quality rating	R4E 5*[2]	R4E 5*[2]
Number of complaints	403	584

[1] BKS Bank was rated again by oekom at the end of 2017. The result was made available to us only in February 2018: an improvement by one rating notch to C+ –
[2] EFQM Recognised for Excellence 5 Star

NON-FINANCIAL PERFORMANCE INDICATORS (EMPLOYEES)

	Indicators 2016	Indicators 2017
Number of employees, Group	1,071	1,099
Share of women on the Management Board in %	33.3	33.3
Share of women on the Supervisory Board in %	35.7	33.3
Share of women in total management staff in %	32.1	32.4
Average days of training per employee	5.0	4.2
Fluctuation rate in %	5.2	5.2
Participants in the yearly project workplace health promotion	281	266
Sick leave in %	2.9	3.1
Average parenthood leave in years	1.8	2.3
Return rate from parenthood leave in %	-	92[3]
Awards for staff-related activities and memberships in staff-related networks:	✓	✓
– Audit Certificate "berufundfamilie"	✓	✓
– Certificate "Family-friendly Company" in Slovenia	✓	✓
– MAMFORCE©-Standard in Croatia		✓
– Quality label for workplace health promotion	✓	
– 'Unternehmen für Familien' (Companies for Families)	✓	✓
– Carinthian International Club	✓	✓
– Diversity Charta	✓	✓

[3] In 2017, the calculation was adjusted to the methods defined in the GRI standards. For this reason, we are only reporting figures for the current financial year.

NON-FINANCIAL PERFORMANCE INDICATORS (PRODUCTS AND INNOVATION)

	Indicators 2016	Indicators 2017
Number of customers	152,000	152,800
Number branches	60	63
Investment volume in 'AVM nachhaltig' in € m	18.6	19.7
Share of assets invested in 'AVM nachhaltig' to AVM total in %	20	20
Volume of green and social bonds issues in € m	-	8.0
Sustainable assets of 3 Banken KAG in public investment funds in € m	191.6	142.7
Sustainable assets of 3 Banken KAG in special funds in € m	148.0	450.0
Deposits on eco-savings accounts in € m	7.9	8.2
Share of suppliers which have agreed to the Code of Conduct for Suppliers	100	100

NON-FINANCIAL PERFORMANCE INDICATORS (SOCIETY)

	Indicators 2016	Indicators 2017
Number of sponsored projects	445	405
Sponsoring in €k	267	254
Participants in corporate volunteering projects	112	108
Hours worked in corporate volunteering projects	312	658
Entries for TRIGOS Styria (2015, 2017) and Carinthia (2016)	25	24
Memberships in CSR networks:		
– UN Global Compact	✓	✓
– respACT	✓	✓
– Verantwortung zeigen!	✓	✓
– Unternehmen für Familien	✓	✓
– Green Tech Cluster	✓	✓

NON-FINANCIAL PERFORMANCE INDICATORS (ENVIRONMENT AND CLIMATE)

	Indicators 2015[1]	Indicators 2016[1]
Carbon footprint, total in t CO_2equivalents	2,410	2,320
Carbon footprint per employee in t CO_2equivalents	2.3	2.2
Electricity consumption in GWh	3.2	3.6
Share of electricity from renewable sources in %	100[2]	100[2]
Natural gas consumption in GWh	0.20	0.30
Diesel in 1,000 l	137	124

[1] The calculation of the carbon footprint is based on the respective year-on-year figures.
[2] only in Austria

	Indicators 2016	Indicators 2017
Reduction in kilometres of travel through video conferences	256,890	274,440
Kilometres travelled by rail	81,258	106,748
Paper consumption in t	45.1	46.3
Units of hardware recycled by AfB	205	661

OUTLOOK

Global economy still expanding

The outlook for the global economy remains very bright for 2018. The global economy and global trade are forecast to continue expanding unmitigated. The US economy will also achieve robust growth in the coming years; no cooling off is expected at present. The US central bank (Fed) revised the growth forecasts for the year 2018 upwards from 2.1% to now 2.5%. Especially US consumers are looking expectantly towards the future and believe they will see further economic improvement in the coming months. Consumers are the backbone of the US economy - around 70% of the US economy is driven by consumption spending. The positive sentiment is also due to the good situation on the US labour market which boasts low unemployment rates and new records in employment.

In China, the signs are also pointing to an upswing. Although the forecasts in the past year for the Chinese economy were subdued, China's economy recorded the highest level of growth since 2010 (+7.0%). This trend is expected to be continued in 2018 even though growth is being driven, above all, by higher government spending and new lending. The International Monetary Fund (IMF) expressed its concern that important reforms in China were still outstanding and instead new debt was being accepted in exchange for high growth rates.

Economic upswing in Europe continues

The estimates for Europe's economy are exuberant for 2018.
Economic growth was stronger than expected in the last financial year in the EU and also in the euro zone. The European Commission, therefore, raised its estimates for economic growth in the EU and for the euro area in its recently released interim forecast from 1.9% to 2.0% and from 2.1% to 2.3%, respectively. Robust growth is being supported by several factors. Unemployment and budgets are decreasing and due to the vigorous demands and the good capacity utilization, investment activity is on the rise. Sentiment continues to be very positive among businesses and consumer confidence. The economy in our foreign markets is also developing lively. The GDP is forecast to be robust for Slovenia, Croatia and Slovakia: 3.3% for Slovenia, 2.8% for Croatia and for Slovakia, GDP is expected to expand by 3.6%.

Forecasts on inflation trends are currently hard to make. The European Central Bank (ECB) has its doubts about the sustainability of the price inflation seen in 2017. For the year 2018, the ECB estimates an inflation rate of 1.4% for the euro area.

Growth in Austria stays robust

All experts agree: Austria's economy is set to expand robustly also in 2018. The Austrian central bank (OeNB) raised its growth outlook for 2018 to 2.8%, while the Austrian Economic Research Institute (WIFO) even expects GDP to rise by 3.0%. Domestic manufacturing is being bolstered by the dynamic international economy and the high utilisation of production capacities is driving up investment activity.

Private consumption will afford important support for the economic upswing again in 2018. The encouraging economic prospects are also expected to boost the labour market, but the unemployment rate is nonetheless relatively high. Despite the good employment situation, it will remain hard for certain groups of job-seekers to find a job.

Shares still more attractive than bonds in 2018

The environment for shares continues to be good in 2018, even though developments might get bumpy in the course of the year. The combination of stable growth and low inflation is creating excellent conditions for business activities. However, up to now investors have been ignoring risk factors such as the geopolitical tension between the US and North Korea, the hike in US key lending rates and the contradictory statements of the US president. This situation is raising the risk for bouts of price corrections.

The bond market must be viewed in the light of the ECB's announcement to prolong its bond purchasing programme until September 2018. This might lead to a further slight rise in yields on government bonds. But we do not expect any major rises in 2018. Corporate bonds with good credit ratings continue to profit from the ECB's purchasing programme. High yield bonds lost appeal recently in our opinion. By contrast, the bond market for emerging markets is expected to improve due to the solid macroeconomic data.

Rising cost pressure due to digitisation

The challenges for banks are still enormous, also in the coming business year. The low interest rates mean that the tense earnings situation in the lending business will remain an important topic also in 2018. We expect interest rates to normalize only in the year 2019, with a potential hike in key lending rates being only gradual. As regards costs, we are confronted with higher IT investment costs due to the advance of digitisation. The rapidly advancing technological developments are pushing us to shorten implementation cycles and develop services and products to market readiness faster. This in turn is driving up costs. A key success factor in this context is the digital competence of our employees that we are developing to prepare for the new technological challenges. Another key issue are the far-reaching effects of the constantly increasing regulatory requirements. The requirements under PSD 2, IFRS 9 and similar will keep us very busy also in the new business year.

Even though the overall environment seems unfriendly due to low interest rates, regulatory burdens and cost pressure, there are a few positive indicators that should be taken into account. The excellent economic situation leads us to expect a further rise in demand for loans this year even though demand has already risen significantly. Moreover, the relaxed risk situation is expected to continue for some time. With respect to fees and commissions, we expect the solid development of business of the past few months to continue in the new business year.

Additionally, we worked on our corporate strategy at our last strategy retreat and defined the course for a bank fit for the future. We will continue our tenacity in pursuing the goals defined so that we can continue to grow and strengthen our position among the leading banks in Austria. At the same time, we will stick to our strict cost management policy to improve our earnings capacity. Therefore, the agenda for 2018 also includes optimisation and cost-cutting projects. For example, we have resolved to overhaul certain business areas and make some changes to our branch network. The objective is to keep the cost/income ratio below the internal benchmark of 55.0%.

A strong capital adequacy is therefore the key to future growth. On 31 December 2017, we attained a total capital ratio of 14.0% and a common equity tier 1 ratio of 12.3%. The two ratios were clearly higher than the regulatory capital requirements, but still do not meet our internal targets. In the first quarter of 2018, we completed a capital increase at a ratio of 12:1 to raise funds for our growth strategy and to meet the requirements of digitization. In total, BKS Bank issued 3,303,300 new ordinary shares at an offer price of EUR 16.70 per new share. The proceeds from the issue were EUR 55.2 million.

Naturally, we are aware that the implementation of our strategy goals could be disrupted by market turmoil, economic downturns, regulatory changes or heightened competition. Nonetheless, we are cautiously optimistic and believe that due to our proven business model, stable capital adequacy and good market position we will be able to continue on the path we have chosen. As in previous years, we will make every effort to keep BKS Bank on the path to success also in 2018. We plan to pay out a dividend that adequately reflects our profits and own funds also in the new financial year.

At this point we would like point out that in the period from the end of the financial year and the preparation the financial statements and their approval by the auditor, no material events have occurred of relevance for the report with the exception of the capital increase mentioned.

Klagenfurt am Wörthersee, 9 March 2018

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

INFORMATION ON THE INTERNET ON CORPORATE GOVERNANCE AND ON BKS BANK

	Address on the internet
Austrian Code of Corporate Governance	www.corporate-governance.at
The BKS Bank's shares	www.bks.at/Aktie
Shareholder structure	www.bks.at/Aktionaersstruktur
Financial calendar	www.bks.at/Unternehmenskalender
Annual General Meeting	www.bks.at/Hauptversammlung
Corporate Governance - Conformity Declaration of BKS Bank AG – Guidelines on Independence – BKS Bank's Code of Corporate Governance Report 2017 – Disclosures pursuant to § 65a Austrian Banking Act, BWG regarding corporate governance & remuneration – Articles of Association of BKS Bank	www.bks.at/Corporate_Governance
Business, financial and sustainability reports of BKS Bank	www.bks.at/Berichte
Disclosures pursuant to CRR	www.bks.at/Berichte
Press releases of BKS Bank	www.bks.at/Pressemitteilungen

COMPLIANCE AND AML INFORMATION ON BKS BANK ON THE INTERNET

	Addresses on the internet
AML Declaration Banking License USA Patriot Act Certification Wolfsberg Questionnaire of BKS Bank AG – W-8BEN-E Directors' Dealings Reports	www.bks.at/Compliance

THE RESULTS OF DIVERSITY.

CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO IFRS

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STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 31 DECEMBER 2017

INCOME STATEMENT (FULL YEAR)

in €k	Notes	2016	2017	± in %
Interest income		160,967	154,273	-4.2
Interest expenses		-40,476	-33,587	-17.0
Net interest income	**(1)**	**120,491**	**120,686**	**0.2**
Impairment charges on receivables from customers	(2)	-31,007	-26,724	-13.8
Net interest income after impairment charges		**89,484**	**93,962**	**5.0**
Fee and commission income		52,586	53,721	2.2
Fee and commission expenses		-3,756	-3,825	1.8
Net fee and commission income	**(3)**	**48,830**	**49,896**	**2.2**
Profit/loss from investments accounted for using the equity method	(4)	33,696	39,068	15.9
Net trading income	(5)	1,717	1,544	-10.1
General administrative expenses	(6)	-106,428	-107,754	1.2
Other operating income	(7)	6,590	4,624	-29.8
Other operating expenses	(7)	-22,012	-8,376	-61.8
Profit/loss from financial assets/liabilities		**-2,076**	**4,211**	**>100**
– Profit/loss from financial assets designated as at fair value through profit or loss (FV)	(8)	-1,863	1,300	>100
– Profit/loss from available-for-sale financial assets (AFS)	(9)	-366	2,915	>100
– Profit/loss from held-to-maturity financial assets (HtM)	(10)	153	-4	>-100
Profit for the year before tax		**49,801**	**77,175**	**55.0**
Income tax expense	(11)	-3,617	-9,138	>100
Profit for the year		**46,184**	**68,038**	**47.3**
Non-controlling interests		-4	-3	-34.8
Profit for the year after non-controlling interests		**46,180**	**68,035**	**47.3**

OTHER PROFIT OR LOSS

in €k	2016	2017	± in %
Profit for the year	**46,184**	**68,038**	**47.3**
Other profit or loss	**3,679**	**17,537**	**>100**
Items not reclassified to profit for the year	**2,649**	**2,405**	**-9.2**
± Actuarial gains/losses in conformity with IAS 19	815	510	-37.4
± Deferred taxes	-204	-129	-36.7
± Share of income and expenses of associates accounted for using the equity method taken directly to equity in accordance with IAS 19	2,038	2,024	-0.7
Items reclassified to profit for the year	**1,030**	**15,132**	**>100**
± Exchange differences	971	57	-94.2
± Available-for-sale reserve	940	18,798	>100
± Net change in fair value	1,254	19,775	>100
± Reclassified to profit or loss	-314	-977	>100
± Deferred taxes taken to AfS reserve items	-238	-4,699	>100
± Share of income and expenses of associates accounted for using the equity method taken directly to equity	-643	976	>100
Comprehensive income before non-controlling interests	**49,863**	**85,575**	**71.6**
Non-controlling interests	-4	-3	-25.0
Profit for the year after non-controlling interests	**49,859**	**85,572**	**71.6**

EARNINGS AND DIVIDEND PER SHARE

	2016	2017
Average number of shares in issue (ordinary and preference shares)	36,667,864	38,955,556
Dividend per share (ordinary and preference share)	0.23	0.23
Earnings per ordinary and preference share in EUR (diluted and undiluted)	1.23	1.72

Earnings per share compares consolidated profit for the year with the average number of no-par shares in issue. In the period under review, earnings per share and diluted earnings per share were the same because no financial instruments with a dilution effect on the shares were outstanding. To determine earnings per share, the 2017 coupon payment on additional equity instruments was deducted from the profit for the year with due consideration of the tax effect.

QUARTERLY REVIEW 2017

in €k	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Interest income	37,780	39,766	38,145	38,582
Interest expenses	-8,887	-8,711	-8,619	-7,370
Net interest income	**28,893**	**31,055**	**29,526**	**31,213**
Impairment charges on receivables from customers	-8,345	-5,859	-2,885	-9,634
Net interest income after impairment charges	**20,548**	**25,196**	**26,640**	**21,579**
Fee and commission income	13,930	13,640	13,216	12,934
Fee and commission expenses	-674	-970	-1,163	-1,018
Net fee and commission income	**13,256**	**12,670**	**12,054**	**11,916**
Profit/loss from investments accounted for using the equity method	8,132	10,499	10,407	10,029
Net trading income	383	591	10	561
General administrative expenses	-26,594	-26,029	-26,670	-28,461
Other operating income	1,952	282	934	1,457
Other operating expenses	-5,837	-995	-2,539	995
Profit/loss from financial assets/liabilities	**1,600**	**1,015**	**97**	**1,499**
– Profit/loss from financial assets designated as at fair value through profit or loss (FV)	1,143	154	15	-12
– Profit/loss from available-for-sale financial assets (AFS)	460	861	82	1,511
– Profit/loss from held-to-maturity financial assets (HtM)	-4	0	0	0
Profit for the period before tax	**13,440**	**23,229**	**20,933**	**19,574**
Income tax expense	-2,183	-1,358	-2,425	-3,170
Profit for the period after tax	**11,256**	**21,870**	**18,507**	**16,404**
Non-controlling interests	-1	0	-1	-1
Profit for the period after non-controlling interests	**11,256**	**21,870**	**18,506**	**16,403**

QUARTERLY REVIEW 2016

in €k	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Interest income	42,319	40,300	40,108	38,240
Interest expenses	-10,644	-10,617	-9,969	-9,246
Net interest income	**31,675**	**29,683**	**30,139**	**28,994**
Impairment charges on receivables from customers	-8,793	-3,608	-13,361	-5,245
Net interest income after impairment charges	**22,882**	**26,075**	**16,778**	**23,749**
Fee and commission income	13,864	13,301	12,176	13,245
Fee and commission expenses	-974	-828	-908	-1,046
Net fee and commission income	**12,890**	**12,473**	**11,268**	**12,199**
Profit/loss from investments accounted for using the equity method	5,726	10,211	9,728	8,031
Net trading income	199	779	-61	800
General administrative expenses	-26,898	-27,400	-26,100	-26,030
Other operating income	1,239	953	1,583	2,816
Other operating expenses	-5,039	-3,424	-1,512	-12,037
Profit/loss from financial assets/liabilities	**-61**	**-120**	**-1,297**	**-598**
– Profit/loss from financial assets designated as at fair value through profit or loss (FV)	-195	-414	-1,553	299
– Profit/loss from available-for-sale financial assets (AFS)	134	294	103	-897
– Profit/loss from held-to-maturity financial assets (HtM)	-	-	153	-
Profit for the period before tax	**10,938**	**19,547**	**10,387**	**8,929**
Income tax expense	-2,414	-3,362	1,778	381
Profit for the period after tax	**8,524**	**16,185**	**12,165**	**9,310**
Non-controlling interests	-1	-1	-	-2
Profit for the period after non-controlling interests	**8,523**	**16,184**	**12,165**	**9,308**

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017

ASSETS

in €k	Notes	31/12/2016	31/12/2017	± in %
Cash and balances with the central bank	(12)	543,542	476,589	-12.3
Receivables from other banks	(13)	242,347	97,711	-59.7
Receivables from customers	(14)	5,330,395	5,450,150	2.2
- Impairment charges on receivables from customers	(15)	-155,136	-136,992	-11.7
Trading assets	(16)	10	7	-32.6
Financial assets		1,012,676	1,043,134	3.0
- Financial assets designated as at fair value through profit or loss	(17)	75,568	78,300	3.6
- Available-for-sale financial assets	(18)	189,335	182,069	-3.8
- Held-to-maturity financial assets	(19)	747,773	782,765	4.7
Investments in entities accounted for using the equity method	(20)	470,907	520,354	10.5
Intangible assets	(21)	1,735	1,638	-5.6
Property and equipment	(22)	56,274	55,174	-2.0
Investment property	(23)	30,720	30,868	0.5
Deferred tax assets	(24)	17,288	7,873	-54.5
Other assets	(25)	30,298	32,991	8.9
Total assets		**7,581,056**	**7,579,497**	**0.0**

EQUITY AND LIABILITIES

in €k	Notes	31/12/2016	31/12/2017	± in %
Payables to other banks	(26)	867,494	694,986	-19.9
Payables to customers	(27)	4,824,760	4,956,489	2.7
– of which savings deposits		1,528,994	1,475,137	-3.5
– of which other payables		3,295,766	3,481,352	5.6
Liabilities evidenced by paper	(28)	544,656	553,952	1.7
– of which at fair value through profit or loss		85,130	84,688	-0.5
Trading liabilities	(29)	10	7	-31.9
Provisions	(30)	126,902	123,631	-2.6
Deferred tax liabilities	(24)	261	127	-51.2
Other items	(31)	59,602	45,143	-24.3
Subordinated debt capital	(32)	198,585	158,622	-20.1
Equity	(33)	958,786	1,046,540	9.2
Group equity		958,767	1,046,518	9.2
– of which non-controlling interests		19	22	13.6
Total equity and liabilities		**7,581,056**	**7,579,497**	**0.0**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2017

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained earnings	Profit for the year	Additional equity instruments[1]	Equity
As at 01/01/2017	**79,279**	**193,032**	**-361**	**17,017**	**600,220**	**46,180**	**23,400**	**958,767**
Distribution						-8,965		-8,965
Coupon payments on additional equity instruments						-1,463		-1,463
Taken to retained earnings					35,752	-35,752		-
Profit for the year						68,035		68,035
Other profit or loss			193	14,939	2,405			17,537
Effect of the equity method					2,525			2,525
Change in treasury shares					-2,699			-2,699
Issuance of additional equity instruments							12,800	12,800
Other changes					-19			-19
As at 31/12/2017	**79,279**	**193,032**	**-168**	**31,956**	**638,184**	**68,035**	**36,200**	**1,046,518**

Available-for-sale reserve (not including reserve of associates accounted for using the equity method)	22,918
Deferred tax reserve	-5,729

[1] The proceeds from the issue of the Additional Tier 1 notes in 2015 and 2017 are classified as equity in conformity with IAS 32.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2016

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained reserves	Profit for the year	Additional equity instruments[2]	Equity
As at 01/01/2016	**72,072**	**143,056**	**-1,151**	**16,777**	**552,460**	**53,613**	**23,400**	**860,227**
Distribution						-8,124		-8,124
Coupon payments on additional equity instruments						-1,462		-1,462
Taken to retained earnings					44,027	-44,027		-
Profit for the year						46,180		46,180
Other profit or loss			790	240	2,649			3,679
Increase in share capital	7,207	49,976						57,183
Effect of the equity method					780			780
Change in treasury shares					1,758			1,758
Other changes					-1,454			-1,454
As at 31/12/2016	**79,279**	**193,032**	**-361**	**17,017**	**600,220**	**46,180**	**23,400**	**958,767**

Available-for-sale reserve (not including reserve of associates accounted for using the equity method)	4,120
Deferred tax reserve	-1,031

[2] The additional Tier 1 note issued in 2015 was classified as equity in conformity with IAS 32.

For further disclosures, please refer to Note (33) Shareholders' equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOWS

in €k	2016	2017
Profit for the year after tax	**46,184**	**68,038**
Non-cash items in profit for the year and reconciliation to cash flow from operating activities		
– Depreciation, amortisation and impairment charge on receivables and property and equipment	33,076	26,973
– Changes in provisions	10,265	11,420
– Gains and losses on disposals	-1,222	-2,625
– Change in other non-cash items	625	3,475
– Profit/loss shares in entities accounted for using the equity method	-26,931	-33,786
– Net interest income	-120,490	-120,686
– Tax expenses	3,617	9,138
Subtotal	**-54,876**	**-38,053**
Change in assets and liabilities arising from operating business activities after correction for non-cash items:		
– Receivables from customers and other banks, effect of using the fair value option	-137,407	-20,228
– Trading assets	36	3
– Other assets	-1,732	4,125
– Payables to customers and other banks	437,931	-40,207
– Liabilities evidenced by paper	-31,251	10,176
– Trading liabilities	-36	-3
– Provisions and other liabilities	2,662	-30,403
– Interest received	159,975	151,430
– Interest paid	-46,156	-35,980
– Dividends received	3,272	3,906
– Income tax paid	-9,808	-9,261
Cash flow from operating activities	**322,611**	**-4,495**
Cash inflow from disposal of		
– Financial assets and property and equipment	160,964	175,353
Cash outflow from purchase of:		
– Financial assets and property and equipment	-196,898	-198,545
Cash flow from investing activities	**-35,934**	**-23,192**
Increase in share capital	57,297	-
Dividend distributions	-8,124	-8,965
Issuance of additional equity components	-	12,800
Coupon payments on additional capital instruments	-1,462	-1,463
Cash inflow/outflow from treasury shares	1,758	-2,699
Cash inflow from subordinated liabilities	24,515	9,651
Cash outflow from subordinated liabilities	-7,700	-48,600
Cash flow from financing activities	**66,284**	**-39,276**
Cash and cash equivalents at end of preceding year	**190,310**	**543,542**
Cash flow from operating activities	322,611	-4,495
Cash flow from investing activities	-35,934	-23,192
Cash flow from financing activities	66,284	-39,276
Effect of exchange rate changes on cash and cash equivalents	271	10
Cash and cash equivalents at end of year under review	**543,542**	**476,589**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BKS BANK

MATERIAL ACCOUNTING POLICIES

I. GENERAL INFORMATION

BKS Bank AG is headquartered at St. Veiter Ring 43, 9020 Klagenfurt, Austria. As the parent of the BKS Bank Group, it prepared its Consolidated Financial Statements in accordance with the principles of the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board (IASB) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU for the 2017 financial year as exempting consolidated financial statements within the meaning of § 59a BWG. In addition, the requirements of § 245a (1) UGB are met.

BKS Bank was founded in Klagenfurt in 1922 as Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co. Years of effort to transform the limited partnership (Kommandite) into a stock corporation (Aktiengesellschaft) led to the establishment of Bank für Kärnten in 1928. It entered the Styrian market in 1983. The ordinary shares of BKS Bank AG have been listed on the Vienna Stock Exchange since 1986 and the preference shares since 1991. Both share classes are traded in the standard market auction segment. BKS Bank has had a presence in Vienna since 1990. In 2003, it began developing the Burgenland and Lower Austrian markets. Abroad, it also operates in Slovenia, Croatia, Slovakia, northern Italy and western Hungary. BKS Bank AG together with Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft (BTV AG) constitute the 3 Banken Group. Together, the alliance in the 3 Banken Group gives the banks the strength of a major bank combined with the flexibility and market presence of a regional bank.

The Management Board of BKS Bank AG signed the consolidated financial statements on 9 March 2018 and approved them for submission to the Supervisory Board. The Supervisory Board had the responsibility of examining the consolidated financial statements and stating whether it approves these. Up to the time of signature, there were no reasons to doubt that the entity would continue as a going concern.

II. EFFECTS OF NEW AND AMENDED STANDARDS

With the exception of the revised standards and interpretations that were effective for the financial year under review, the financial reporting policies applied in the 2016 financial year were retained in 2017. The comparative figures for the previous year were also based on the same requirements. Standards announced but not yet effective for the financial year under review were not applied.

STANDARDS/AMENDMENTS APPLICABLE FROM 01/01/2017

Standard or Amendment	Effective in the EU for financial years beginning on or after this date	Endorsement by the EU
IAS 7 – Cash-flow statements (amendment): Disclosure initiative	01/01/2017	November 2017
IAS 12 – Income Taxes (amendment): Recognition of deferred tax assets for unrealized losses	01/01/2017	November 2017
Annual improvements to IFRS Standards 2014-2016 cycle: IFRS 12 – Disclosure of Interests in Other Entities	01/01/2017	February 2018

IAS 7: The IASB published amendments to IAS 7 in January 2016. The purpose of the amendments to IAS 7 is to improve information about changes in an entity's liabilities. Accordingly, information on inflows and outflows of financial liabilities and financial liabilities shown under cash flow from financing activities is to be disclosed in more detail. The BKS Bank Group meets this requirement by providing a reconciliation of financial liabilities shown under cash flow from financing activities.

IAS 12 (amendment): The amendment to IAS 12 was published in January 2016. It clarifies how to account for deferred tax assets for unrealised losses related to debt instruments measured at fair value, since different approaches had been used in practice. However, this amendment to IAS 12 has no effect on the BKS Bank Group as it has no realised losses.

IFRS 12: The amendment to IFRS 12 as part of the annual improvements to IFRS Standards, 2014-2016 cycle, clarifies that the disclosure requirements in IFRS 12, except for those in paragraphs B10–B16, also apply to an entity's interests within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. As the BKS Bank Group does not have any assets classified under IFRS 5, this amendment will remain without effect.

STANDARDS/AMENDMENTS APPLICABLE FROM 01/01/2018

Standard or Amendment	Effective in the EU for financial years beginning on or after	Endorsement by the EU
IFRS 2 Share-Based Payment (amendment)	01/01/2018	February 2018
IFRS 9 Financial Instruments	01/01/2018	November 2016
IFRS 15 – Revenue from Contracts with Customers (incl. amendments to IFRS 15)	01/01/2018	September 2016
IFRS 15 – Revenue from Contracts with Customers - clarifications	01/01/2018	October 2017
IFRS 4 Insurance Contracts (amendment)	01/01/2018	November 2017
Annual improvements to IFRS Standards, 2014-2016 cycle: IFRS 1 – First-time Adoption of International Financial Reporting Standards, IAS 28 Investments in Associates and Joint Ventures	01/01/2018	February 2018

IFRS 9: On 24 July 2014, the IASB released the final version of IFRS 9, which replaces IAS 39: Financial Instruments: Recognition and Measurement. EU endorsement was given on 22 November 2016. IFRS 9 must be applied for the first time in the first reporting period of a financial year starting on or after 1 January 2018, with early application being permitted. The BKS Bank Group applies IFRS 9 for the first time as of 1 January 2018.

The transition to IFRS 9 has impacts on the balance sheet and the income statement, on financial reporting and risk management processes, internal controls and reporting.

It was necessary to implement new software to apply IFRS 9. The IFRS 9 application project was launched in 2015, with the main focus being initially placed on developing the relevant concepts in 2016. In 2017, configuration and implementation of the new software took top priority. The project requirements were further developed during implementation as issues became clearer based on market practice and IASB guidance.

The effects noted in this publication may deviate from the effects experienced upon transition to IFRS 9 as at 1 January 2018. Such deviations may result from market developments, purchases and sales of financial instruments, but also from improved data quality. To this extent, the information provided represents estimates.

The standard can be divided into three main areas, namely classification and measurement, impairment, and hedge accounting. The BKS Bank Group does not engage in hedge accounting.

Classification and Measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are held as well as the characteristics of the cash flows resulting from the instruments. The new approach to the classification and measurement of financial instruments provides for two totally new criteria for classification, namely classification driven by business models and classification driven by SPPI (solely payment of principal and interest). SPPI-compliant instruments are instruments with cash flows that consist solely of payments of principal and interest.

At the BKS Bank Group, Receivables from other banks and Receivables from customers are allocated to the "Hold to collect" business model. Extensive analysis has shown that most of the receivables from customers and other banks pass the SPPI test. For this reason, the major part of receivables from other banks and receivables from customers will be measured at amortized cost also under IFRS 9. A retrospective benchmark test based on the latest project results found receivables in an estimated amount of some EUR 55 million being likely to have to be reclassified as at fair value through profit or loss (FVPL), as they will most probably not meet the SPPI test. Further analyses and data quality checks are being performed regularly.

The current portfolio of financial assets classified as held to maturity under IAS 39 will likewise be classified under the 'hold to collect' business model. As these financial assets meet the SPPI test, they will most likely be continued to be measured at amortized cost.

Those bonds which under IAS 39 are classified as available-for-sale will largely be assigned to the business model 'hold to collect and sell' and pass the SPPI test, according to the latest analyses. They will be measured at fair value through other comprehensive income (FVOCI) with recycling under IFRS 9, with changes in fair value having to be recognized in other comprehensive income.

For instruments for which the fair value option was used in the past, this approach will be applied unchanged also under IFRS 9.

At the BKS Bank Group, equity instruments covered by IFRS 9 are usually unlisted minority interests. The BKS Bank Group applies different methods to determine fair value (discounted cash flow method, multiplier method, and net asset value method). Each equity investment is analysed separately before the most suitable valuation method is selected; where applicable, discounts for lack of marketability are taken into account. All significant investments are measured at fair value, so no major transitional effect is expected to arise from the application of IFRS 9.

Under IFRS 9, equity instruments must, as a rule, be recognized at fair value through profit or loss (FVPL). However, upon initial recognition, an entity may irrevocably elect to recognize changes in the fair value of equity instruments not designated as held for trading in other comprehensive income (fair value OCI option). The BKS Bank Group avails itself of this option and designates equity instruments as at fair value through other comprehensive income (FVOCI) without recycling. The changes in fair value occurring in the course of the life of the asset must be recognized in other comprehensive income; the accumulated gain or loss upon the disposal of the equity instrument must not be reclassified in profit or loss (no recycling). Reclassification as another equity item is admissible.

Derivatives will be continued to be recognized at fair value.

As regards the classification of financial liabilities, there are generally no changes as compared to IAS 39. Special disclosure rules for changes in value apply to financial liabilities designated as fair value through profit or loss (FVPL) because of the use of the fair value option. In the case of measurement at fair value, the changes in fair value arising from own credit risk have to be reported in other comprehensive income. The remaining changes in fair value have to be taken to profit or loss in accordance with the general measurement and disclosure principles.

Impairment

IFRS 9 also comes with fundamental changes to the impairment model used under IAS 39. While the impairment model under IAS 39 was an incurred loss model, the model now applied under IFRS 9 is an expected loss model. A new rule under IFRS 9 is thus that impairment charges on receivables from customers must now also be recognized for expected future credit losses. The amount of impairment charges on receivables from customers to recognize depends on the change in a financial instrument's risk of default after its acquisition. On the basis of this approach, IFRS 9 distinguishes three different stages, with the amount of impairment charges on receivables from customers depending on which of these stages the financial instrument in question is assigned to.

– Stage 1: For financial instruments classified in stage 1, an impairment charge on receivables from customers equivalent to 12-months expected credit loss (ECL) is recognized. 12-months expected credit loss corresponds to the credit loss a financial instrument might incur during the 12 months following the balance sheet date. Upon acquisition, all financial instruments must be assigned to stage 1; this assignment must then be reviewed at every balance sheet date.
– Stage 2: For financial instruments classified in stage 2, it is required to recognize a lifetime expected credit loss (ECL), which corresponds to the losses expected over the instrument's remaining time to maturity.
– Stage 3: For financial instruments classified in stage 3, it is likewise required to recognize a lifetime expected credit loss corresponding to the losses expected over the instrument's remaining term to maturity. An instrument will

be classified in stage 3 if it is credit impaired. Where there is objective evidence at the balance sheet date that a financial instrument is impaired, it will be classified in stage 3.

Instruments will be reclassified from stage 1 to stage 2 where default risk has increased significantly since initial recognition. A variety of factors can lead to an instrument being classified in stage 2. these factors may be of a strategic, operating, geographical or macroeconomic nature. The BKS Bank Group relies on both quantitative (lower ratings) and qualitative criteria (30 days overdue, warnings) in deciding on reclassification from one stage to another.

The portfolio of impairment charges on receivables from customers under IAS 39.64 for incurred but not reported losses will be reversed upon transition to IFRS 9. At present, we see no greater need for impairment charges on receivables from customers under IFRS 9 than under IAS 39.64. Based on our most recent calculations, the value is EUR 10 to 15 million less than before, as a result of the currently highly positive macroeconomic input factors which reflect the positive prospects on the markets targeted by the BKS Bank Group. The Group's equity increases as a result.

The figures disclosed here are estimates, as data quality is still subject to ongoing evaluations. As a consequence, these estimates are subject to uncertainties.

IFRS 15 and clarification on IFRS 15: The IASB and the FASB (Financial Accounting Standards Board) issued IFRS 15 jointly on 28 May 2014. It regulates the accounting for revenues from contracts with customers. The purpose of this standard is to combine into one standard the many regulations on the subject that existed beforehand. This standard replaces IAS 11: Construction Contracts; IAS 18: Revenue; IFRIC 13: Customer Loyalty Programmes; IFRIC 15: Agreements for the Construction of Real Estate; IFRIC 18: Transfer of Assets from Customers; and SIC 31: Revenue-Barter Transactions Involving Advertising Services. The introduction of this standard will not affect the BKS Bank Group. The same holds for the remaining amendments and improvements listed above.

STANDARDS/AMENDMENTS APPLICABLE FROM 1 JANUARY 2019 AND LATER

Standard or Amendment	Effective in the EU for financial years beginning on or after	Endorsement by the EU
IFRS 16 – Leasing	01/01/2019	October 2017
IFRS 17 – Insurance Contracts	01/01/2021*	Outstanding
IFRS 9 – Financial Instruments (amendment)	01/01/2019*	Outstanding
IAS 40 – Classification of Property Under Construction (amendment)	01/01/2018*	Outstanding
IAS 28 – Investments in Associates and Joint Ventures (amendment)	01/01/2019*	Outstanding
IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration	01/01/2018*	Outstanding
IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments	01/01/2019*	Outstanding
Annual improvements to IFRS standards 2015-2017 cycle	01/01/2019*	Outstanding

* Provided there is an EU endorsement

IFRS 16: The IASB published IFRS 16 Leasing on 13 January 2016. IFRS 16 specifies rules for lessors and lessees for recognition, measurement and disclosures in the notes and fully replaces the currently valid IAS 17. The central idea behind the new IFRS 16 is that lessees must in future account for all leases and the associated rights and obligations on their balance sheets, including those previously classified as operating leases. For lessees in particular, IFRS 16 will result in material changes. The provisions in IAS 17 affecting lessors have largely been retained. As the BKS Bank Group is solely a lessor, we do not expect any significant changes to accounting, but rather only additional disclosures in the notes. However, the standard is being analysed with respect to ongoing leases. We do not plan to apply said standards, amendments and interpretations ahead of time.

IFRS 9: In October 2017, the IASB published an amendment to IFRS 9 Financial Instruments called Prepayment Features with Negative Compensation in a bid to eliminate uncertainties that may exist with respect to the classification of certain financial instruments that come with a prepayment feature. This amendment becomes applicable as of 1 January 2019, but has not been endorsed yet.

IAS 40: This amendment defines as of what time and for how long a property under construction or under development must be classified as an 'investment property'. The classification of property under construction had not been clearly defined up to now. This amendment will have an effect on the financial reporting of the BKS Bank Group, because the subsidiaries of BKS Bank AG also construct and develop properties for third-party use.

The remaining standards or amendments mentioned above do not result in any material changes.

III. RECOGNITION AND MEASUREMENT

General notes

The financial statements were prepared in euro (the functional currency). All figures in the following consolidated financial statements are rounded to thousand euro unless otherwise specified. The balance sheet is arranged in descending order of liquidity. A going concern was assumed in the preparation of the financial statements.

Group of consolidated companies

Besides BKS Bank AG, the consolidated financial statements accounted for a total of 18 entities (14 consolidated, three accounted for using the equity method and one accounted for on a proportionate basis). No changes in the group of consolidated companies were recorded year on year. Consolidation applies to all entities which, pursuant to IFRS 10 Consolidated Financial Statements, are controlled by BKS Bank AG, unless the influence on that entity's assets, financial position and profit and loss is not significant. Control is deemed to exist where BKS Bank AG is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Materiality is judged based on, for instance, total assets and number of employees, and with associated companies based on pro rata equity. Pursuant to IFRS 3 Business Combinations, initial consolidation was based on the purchase method.

Consolidated entities

The following entities all conformed to the control concept set out in IFRS 10. BKS Bank AG as the parent company has the decision-making power to affect the variable returns. Besides BKS Bank AG, the following entities were consolidated members of the Group:

CONSOLIDATED ENTITIES

Company	Head office	Direct equity interest	Indirect equity interest	Date of financial statements
BKS-Leasing Gesellschaft m.b.H.	Klagenfurt	99.75%	0.25%	31/12/2017
BKS-leasing d.o.o.	Ljubljana	100.00%	-	31/12/2017
BKS-leasing Croatia d.o.o.	Zagreb	100.00%	-	31/12/2017
BKS-Leasing s.r.o.	Bratislava	100.00%	-	31/12/2017
IEV Immobilien GmbH	Klagenfurt	100.00%	-	31/12/2017
Immobilien Errichtungs- und Vermietungs GmbH & Co KG	Klagenfurt	100.00%	-	31/12/2017
BKS 2000-Beteiligungs- und Verwaltungs GmbH	Klagenfurt	100.00%		31/12/2017
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	-	100.00%	31/12/2017
BKS Hybrid alpha Gmbh	Klagenfurt	100.00%	-	31/12/2017
BKS Hybrid beta GmbH	Klagenfurt	100.00%	-	31/12/2017
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	-	31/12/2017
LVM Beteiligungs Gesellschaft m.b.H.	Klagenfurt	-	100.00%	31/12/2017
BKS Immobilien-Service GmbH	Klagenfurt	100.00%	-	31/12/2017
BKS Service GmbH	Klagenfurt	100.00%	-	31/12/2017

Entities accounted for using the equity method

The following entities were classified as associates within the meaning of IAS 28, because BKS Bank AG was able to exercise a significant influence on those entities' financial and business policy decisions:

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Company	Head office	Direct equity interest	Date of financial statements
Oberbank AG	Linz	14.21%	30/09/2017
BTV AG	Innsbruck	13.59%	30/09/2017
Drei Banken Versicherungsagentur GmbH	Linz	20.00%	31/12/2017

Regarding Oberbank AG and BTV AG, we point out that although BKS Bank had voting interests of less than 20% in those banks, namely 15.21% and 14.78%, respectively, and equity interests of less than 20%, namely 14.21% and 13.59%, respectively, the exercise of voting rights was governed by syndicate agreements. These allowed participation in those two banks' financial and business policy decisions within the scope of the 3 Banken Group without having a controlling interest in them. Because of the circular shareholdings that exist between BKS Bank AG, Oberbank AG and BTV AG and also considering that the consolidated financial statements of the sister banks are prepared simultaneously, the most recently available quarterly financial statements of these credit institutions were used when preparing the consolidated financial statements of BKS Bank. The financial statements of the associates are adjusted for the effects of major transactions or events after the reporting date of the associates, which is 30 September, and the reporting date for the Group, which is 31 December.

Entities accounted for on a proportionate basis

ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

Company	Head office	Direct equity interest	Date of financial statements
ALGAR	Linz	25.00%	31/12/2017

Other entities not included in consolidation

OTHER ENTITIES NOT INCLUDED IN CONSOLIDATION

Company	Head office	Direct equity interest	Indirect equity interest	Date of financial statements
3 Banken IT GmbH[1)]	Linz	30.00%	-	31/12/2017
VBG Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	-	31/12/2017
E 2000 Liegenschaftsverwaltungs GmbH	Klagenfurt	100.00%	-	31/12/2017
PEKRA Holding GmbH	Klagenfurt	100.00%	-	31/12/2017
3 Banken Versicherungsmakler Gesellschaft m.b.H.	Innsbruck	30.00%	-	31/12/2017

[1)] Formerly DREI-BANKEN-EDV Gesellschaft m.b.H.

Performance of foreign subsidiaries and branches

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 DECEMBER 2017

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit/loss for the year before tax	Income tax expense	Profit/loss for the year after tax
Branches abroad						
Slovenia Branch (banking branch)	10,748	13,542	100.8	3,586	-683	2,903
Croatia Branch (banking branch)	7,386	8,677	58.5	2,603	-325	2,278
Slovakia Branch (banking branch)	1,449	1,757	25.0	-1,929	-	-1,929
Subsidiaries						
BKS-leasing d.o.o., Ljubljana	2,427	2,774	14.9	1,231	-152	1,079
BKS-leasing Croatia d.o.o., Zagreb	1,357	1,424	11.3	749	-139	610
BKS-Leasing s.r.o., Bratislava	744	1,289	8.8	-28	-27	-55

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 DECEMBER 2016

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit/loss for the year before tax	Income tax expense	Profit/loss for the year after tax
Branches abroad						
Slovenia Branch (banking branch)	10,763	13,129	101.6	3,888	-666	3,221
Croatia Branch (banking branch)	6,808	7,881	55.2	3,915	-526	3,389
Slovakia Branch (banking branch)	1,280	1,536	23.5	-1,646	-	-1,646
Subsidiaries						
BKS-leasing d.o.o., Ljubljana	2,283	2,668	13.4	1,057	-95	962
BKS-leasing Croatia d.o.o., Zagreb	1,521	1,737	11.8	839	-212	627
BKS-Leasing s.r.o., Bratislava	831	1,482	9.3	122	-1	121

Foreign currency translation

Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates valid at the balance sheet date. The financial statements of subsidiaries that were not prepared in euro were translated using the closing rate method. Within the Group, there is just one Croatian company that did not prepare its financial statements in euro, but in Croatian kuna (HRK). The assets and liabilities were translated at the exchange rates applicable at the balance sheet date, while expenses and income were translated applying the average rate of exchange for the respective period. The resulting exchange differences were recognized in Other comprehensive income and currency translation differences were recognized as a component of equity.

NOTES ON INDIVIDUAL ITEMS OF THE BALANCE SHEET

Cash and balances with the central bank

These items consist of cash and balances with the central bank. These were recognized at nominal values.

Financial instruments

A financial instrument is a contract, which for the one contractual partner gives rise to a financial asset, and for the other contractual partner, a financial liability or equity. Financial assets and liabilities are initially measured at their fair value, which is, as a rule, at cost. They are subsequently measured in conformity with the provisions of IAS 39 and according to their category:

- Financial assets requiring measurement at fair value, subdivided into
  - trading assets and trading liabilities: these are financial instrument held for trading, inclusive of all derivatives with the exception of those used for economic hedges for other instruments.
  - financial assets and liabilities designated as at fair value through profit or loss (fair value option)
- available-for-sale financial assets (AfS)
- held-to-maturity financial assets (HtM)
- loans and receivables (LAR)
- financial liabilities (other liabilities)

Spot transactions are recognized and derecognized at their settlement dates.

On each reporting date, financial assets are tested to determine whether there is objective evidence of impairment. Such objective evidence includes, for instance, a borrower in financial difficulties, default or delay in interest payments or repayments and concessions granted by BKS Bank AG or the consolidated subsidiaries to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, that the lender would not otherwise consider. Subsequent measurement of financial instruments is either at fair value or at amortized cost. BKS Bank classified and measured financial instruments in conformity with IAS 39 and IFRS 7 as follows:

CLASSIFICATION AND MEASUREMENT BY CATEGORIES[1)]

ASSETS	At Fair Value	At (Amortized) Cost	Other, Note	IAS 39 Category
Cash and balances with the central bank			Nominal	Not assignable
Receivables from other banks		✓	-	Loans and receivables
Receivables from customers		✓	-	Loans and receivables
Trading assets	✓		-	Held for trading
Financial assets at FV through profit or loss	✓		-	Fair value option
Available-for-sale financial assets	✓	✓	-	Available for sale
Held-to-maturity financial assets		✓	-	Held to maturity
Investments in entities accounted for using the quity method			Equity method	Not assignable
Investment property		✓	-	Not assignable
Other assets				
– Of which derivatives	✓		-	Held for trading
– Of which other items			Nominal	Not assignable

[1)] As in the preceding year, no reclassifications were carried out pursuant to IFRS 7.12 in the reporting period.

LIABILITIES	At Fair Value	At Amortized Cost	Other, Note	IAS 39 Category
Payables to other banks		✓	-	Other liabilities
Payables to customers		✓	-	Other liabilities
Liabilities evidenced by paper				
– Of which at fair value through profit or loss	✓		-	Fair value option
– Of which other liabilities evidenced by paper		✓	-	Other liabilities
Trading liabilities	✓		-	Held for trading
Other items				
– Of which derivatives	✓		-	Held for trading
– Of which other items			Nominal	Not assignable
Subordinated debt capital		✓	-	Other liabilities

Financial assets and liabilities designated as at fair value through profit or loss

Applying the fair value option, selected positions are summarized under asset or liabilities in the item At fair value through profit or loss (FV).The designation is done by the ALM Committee. These items are taken to profit or loss at their fair value (asset or liability and related derivative). Revaluation gains net of revaluation losses are recognized in the subitem in the income statement 'Profit/loss from financial instruments (FI) designated as at fair value through profit or loss'.

Available-for-sale financial assets

Available-for-sale (AFS) securities are a separate category of financial instrument. They are what remains when a financial asset is accounted for neither as held-to-maturity nor as designated as at fair value through profit or loss. They are generally measured by applying stock exchange prices. If these are not available, interest rate products are measured using the present value method. Different methods are applied to determine fair value (discounted cash flow method, multiplier method, and net asset value method). Market value fluctuations resulting from the measurement are recognized in the AFS reserve and not through profit or loss. When such securities are sold, the corresponding part of the AFS reserve is released through profit or loss. In the event of impairment (e.g. a debtor in severe financial difficulties or a measurable decline in the expected future cash flows), a charge is recognized in the income statement. If the reason for such a charge no longer exists, a write-back is recognized. In the case of equity instruments, it is taken to equity through the AFS reserve and in the case of debt instruments, to income. Investments in entities to which IFRS 10, IFRS 11 and IFRS 28 do not apply are deemed to be part of the AfS portfolio. Where market prices are unavailable or cannot be reasonably determined, equity investments are measured at amortized cost.

Held-to-maturity financial assets

In this line item, we account for financial instruments that are to be held to maturity (HtM). Premiums and discounts are spread over their term using the effective interest rate method. Impairment is recognized in the income statement.

Investments in entities accounted for using the equity method
Entities in which BKS Bank holds a stake of over 20%, but which are not under the control of BKS Bank, are accounted for in the consolidated financial statements using the equity method. In addition, Oberbank AG and BTV AG are also accounted for in the consolidated financial statements using the equity method, although our stakes in Oberbank AG and BTV AG are below 20%. Syndicate agreements are in place that allow participation in those banks' financial and business policy decisions within the 3 Banken Group alliance without requiring a controlling interest in these entities. If there is objective evidence (triggering events) for impairment of an investment accounted for using the equity method, a value in use is calculated on the basis of the estimated future cash flows that are to be expected from the associate. The present value (value in use) is calculated on the basis of the equity method/dividend discount model. There were no impairment losses in this category in the period under review.

Receivables and payables
This category includes all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At BKS Bank, this category corresponds to the line items Receivables from other banks and Receivables from customers. These are measured at amortized cost. Impairments are recognized as impairment charges on receivables from customers. Premiums and discounts, if any, are distributed over the life of the asset and recognized in profit or loss. Payables to customers and other banks are recognized in the amounts payable.

Impairment charges on receivables from customers
Account is taken of the risks identifiable at the time of balance sheet preparation by recognizing specific loan loss provisions (in the case of material exposures, calculated on the basis of the discounted cash flow method), by recognizing loan loss provisions applying group-specific criteria and by collective impairment assessments carried out in accordance with IAS 39.64. The latter includes incurred but not yet identifiable losses. These losses are calculated using the formula Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) x Loss Identification Period (LIP). Provisions are recognized for risks arising from contingent liabilities in accordance with IAS 37. The total impairment charges on receivables from customers are disclosed as a deduction on the assets side of the balance sheet (impairment account). The criteria for derecognizing or writing off receivables deemed irrecoverable is when these are completely uncollectable and when all the collateral for the receivables has been finally realized.

Investment property
This line item encompasses property intended for letting to third parties. It is measured at amortized cost (cost method). The fair value of investment property is disclosed in the Notes. It is mainly based on estimates (by certified appraisers). Depreciation rates were between 1.5% and 2.5%. Depreciation is linear.

Trading assets/liabilities
Within Trading assets, primary financial instruments are measured at fair value. Derivative financial instruments are measured at market value. Financial instruments with negative fair values are recognized on the balance sheet in Trading liabilities. Revaluation gains and losses on this line item are recognized in the income statement in Net trading income. Interest expenses incurred in the financing of trading assets are reported in Net interest income.

Derivatives
Derivative financial instruments are measured at fair value. Changes in value are generally recognized through profit or loss in the income statement.

Property and equipment
Property and equipment consists of land, buildings and other equipment comprising primarily office furniture and business equipment. Property and equipment is recognized at amortized cost. Depreciation is linear based on an asset's usual useful life and lies within the following bands:
– Immovable assets 1.5% to 2.5% (i.e. 66.7 to 40 years)
– Office furniture and business equipment: 10% to 20% (i.e. from 10 to 5 years).

Impairment losses are recognized as write-downs/write-offs in the income statement under General administrative expenses. If an impairment ceases to exist, a reversal is written up to the asset's amortized cost. No impairments or reversals were recognized during the period under review.

Intangible assets
Other intangible assets have been all purchased and have limited useful lives; they consist primarily of software. Amortisation is linear based on an asset's usual useful life. The amortisation rate for software is 25% (i.e. four years).

Leasing
Leased assets within the Group are recognized as assets leased under finance leases (the risks and rewards being with the lessee for the purposes of IAS 17). Leased assets are recognized as receivables in the amount of the present values of the agreed payments taking into account any residual values.

Other assets and other liabilities
Besides deferred items, the Other assets and Other liabilities comprise 'other' assets and liabilities and the fair values of derivative instruments. They are recognized at amortized cost or measured at fair value.

Liabilities evidenced by paper
Liabilities evidenced by paper comprise bonds in circulation, debt securities and other liabilities evidenced by paper (own issues). As a rule, liabilities evidenced by paper are recognized at amortized cost. In exceptional cases and based on decisions by the ALM Committee, the fair value option is used.

Subordinated debt capital
Subordinated debt capital and subordinated obligations are liabilities that, by contractual arrangement, will, in the event of BKS Bank's liquidation or bankruptcy, be settled only after the claims of other creditors. As a rule, subordinated debt capital is recognized at amortized cost.

Deferred tax assets and deferred tax liabilities
Income tax is reported and calculated in accordance with IAS 12. The calculation for each taxed entity is carried out applying the tax rates that, under the applicable legislation, are to be applied in the tax period in which a temporary difference is going to reverse. Deferred taxes are computed on the basis of differences between the tax base and the carrying amounts of assets or liabilities for the purposes of IFRSs. These will probably give rise to additional tax burdens or reduce tax burdens in the future.

Provisions
In accordance with IAS 37, provisions are recognized if there is a reliably determinable current obligation to a third party arising from an event in the past likely to cause an outflow of resources. BKS Bank mainly recognizes provisions for post-employment benefits and similar employee benefit obligations (IAS 19), for taxes and for interest on stepped coupon products. The provision for death benefits is also calculated in accordance with the IFRS principles contained in IAS 19. As of 31 December 2000, the retirement pension entitlements of all active employees were transferred to VBV-Pensionskasse AG as the legal successor to BVP-Pensionskasse AG.

Equity
Equity consists of paid-in and earned capital (capital reserves, retained earnings, revaluation reserve, foreign exchange differences and profit for the period). BKS Bank strives to strengthen its capital base on a sustainable basis by reinvesting its profits. An additional Tier 1 note was issued in 2015 and 2017 respectively. Under IAS 32, such notes have to be classified as equity.

NOTES TO INDIVIDUAL LINE ITEMS IN THE INCOME STATEMENT

Net interest income

Net interest income contains interest income from credit operations, from securities in the treasury portfolio, from equity investments (in the form of dividend payments), from lease receivables and from investment property less interest expenses on deposits from other banks and from customers, liabilities evidenced by paper and investment property. Interest income and interest expenses are accounted for on an accrual basis. The historically low interest rates led to negative interest earnings. According to the IFRIC Interpretations Committee (IC), these should not be presented as income within the meaning of IAS 18. Instead, they must be presented in an 'appropriate expense classification'. As a result, negative interest income is presented as interest expense. Likewise, positive interest expenses are presented as interest income.

Impairment charges on receivables from customers

This line item recognizes impairment additions, impairment reversals and provisions. Recoveries on receivables previously written off are also accounted for in this line item. See also Note (2) for details.

Net fee and commission income

Net fee and commission income comprises income from services rendered to third parties net of the expenses attributed to such services. Fees and commissions connected with newly granted loans with original maturities of more than one year are recognized in the income statement pro rata temporis.

General administrative expenses

General administrative expenses include staff costs, other administrative costs and depreciation and amortisation. They are accounted for on an accrual basis.

Net trading income

This line item comprises income and expenses arising from our proprietary trading activities. Positions in the trading book were marked to market. Net trading income also includes revaluation gains and losses.

Other operating expenses / income

This item includes fees, charges, damage, damage compensation, proceeds from the sale of properties and similar items and is accounted for on an accrual basis.

IV. DISCRETIONARY DECISIONS AND ESTIMATES

Estimates and assumptions are required to account for some of the items on the balance sheet in conformity with the International Financial Reporting Standards. Such estimates and assumptions are based on historical experience, plans, expectations and forecasts regarding future events that are likely from a current perspective. The assumptions upon which the estimates are based are regularly reviewed. Possible uncertainties in the estimates mean that adjustments to the carrying amounts of assets and liabilities may be necessary in future periods.

BKS Bank has subsidiaries and representation offices in Austria, Croatia, Slovenia, northern Italy, western Hungary and Slovakia. In a number of areas in which discretionary decisions, assumptions and estimates are made, the economic environments in the aforementioned markets are analysed in detail and the results considered in the decision-making process.
Material discretionary decisions, assumptions and estimates are made in the following areas:

Impairment of financial assets: impairment charges

Financial assets recognized at cost are tested for objective evidence of impairment at each balance sheet date. This requires estimates of the amounts and times of future cash flows. The identification of an impairment trigger and the determination of the individual impairment adjustments include substantial estimation uncertainties and room for discretion which result from the economic situation and development of the borrower and which may impact the amounts and times of expected future cash flows. The impairment charges for portfolio loan loss provisions are calculated based on statistical methods for cases in which no impairment has been identified yet using models and statistical parameters such as probability of default and loss given default, and therefore also leave room for discretion and estimating uncertainties. See the Risk Report for further details.

Measuring the fair value of financial assets and liabilities
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 regulates, with effect for all standards, the measurement of the fair value of financial assets and liabilities that must or may be measured at fair value as well as the disclosures that are required regarding fair value measurements. IFRS 13 assigns the fair values of financial assets and liabilities to one of three categories.
- Level 1: If there is an active market, the fair value can best be determined on the basis of prices quoted in the principal market or, if there is no principal market, in the most advantageous market.
- Level 2: If a financial instrument is not listed on an exchange, its fair value is ascertained using the input factors available in the market. BKS Bank uses mainly yield curves and foreign exchange rates as input factors.
- Level 3: Financial instruments in this category lack indirectly or directly observable input factors. Here, generally accepted valuation methods are used depending on the specific financial instrument.

Generally, reclassifications take place at the end of a reporting period.

Using the fair value option
The ALM Committee decides when to use the fair value option (i.e. designate a financial instrument as at fair value). See the Risk Report for further details.

Provisions for social capital
Estimates regarding the discount rate, salary growth, career trend and retirement age were required to calculate provisions for post-employment, termination, jubilee and death benefits. The discount rate is particularly important because any change in the interest rate materially affects the amount of the provision. See note 30 for further details.

Other provisions
The amounts of other provisions are calculated on the basis of experience and expert assessments.

DETAILS ON THE CONSOLIDATED STATEMENT OF CASH FLOWS

The cash and cash equivalents shown in the Consolidated Statement of Cash Flows equal cash and balances with the central bank.

The financial liabilities under cash flow from financing activities showed the following changes:

RECONCILIATION OF FINANCIAL LIABILITIES SHOWN UNDER FINANCING ACTIVITIES 2017

	Consolidated balance sheet as at 1 January	Cash outflow	Cash inflow	Non-cash accrued interest and other changes	Consolidated balance sheet as at 31 December
Subordinated liabilities	198,585	-48,600	9,651	-1,014	158,622

RECONCILIATION OF FINANCIAL LIABILITIES SHOWN UNDER FINANCING ACTIVITIES 2016

	Consolidated balance sheet 01/01	Cash outflow	Cash inflow	Non-cash accrued interest and other changes	Consolidated balance sheet as at 31 December
Subordinated liabilities	181,752	-7,700	24,515	18	198,585

DETAILS OF THE INCOME STATEMENT

(1) NET INTEREST INCOME

in €k	2016	2017	± in %
Interest income from:			
Lending transactions	119,778	114,832	-4.1
Fixed-income securities designated at fair value through profit or loss	1,017	451	-55.7
Fixed-income securities classified as available for sale	849	836	-1.5
Fixed-income securities classified as held-to-maturity	19,068	16,558	-13.2
Leasing receivables	8,219	8,279	0.7
Shares	1,536	1,518	-1.2
Positive interest expenses[1]	5,720	6,148	7.5
Investment property	3,044	3,263	7.2
Other investments	1,736	2,388	37.6
Total net interest income	**160,967**	**154,273**	**-4.2**
Interest expenses for:			
Deposits from customers and other banks	12,842	7,223	-43.8
Liabilities evidenced by paper	22,984	20,432	-11.1
Negative interest income[1]	4,014	5,419	35.0
Investment property	636	513	-19.4
Total interest expenses	**40,476**	**33,587**	**-17.0**
Net interest income	**120,491**	**120,686**	**0.2**

[1] This consists of interest expenses that are positive or interest income that is negative as a result of the historically low interest rates.

Interest income includes recoveries on defaulted receivables in the amount of EUR 4.4 million (previous year: EUR 4.9 million) and income from unwinding (i.e. from changes in the present values of cash flows) in the amount of EUR 2.4 million (previous year: EUR 2.5 million).

(2) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €k	2016	2017	± in %
Impairment additions	42,374	42,514	0.3
Impairment reversals	-11,318	-16,951	49.8
Direct write-offs	993	2,097	>100
Recoveries in respect of receivables previously written off	-1,042	-936	-10.1
Impairment charges on receivables from customers	**31,007**	**26,724**	**-13.8**

This line item contains risk provisions for lease receivables in the amount of EUR 0.2 million (preceding year: EUR -0.7 million).

(3) NET FEE AND COMMISSION INCOME

in €k	2016	2017	± in %
Fee and commission income:			
Payment services	21,138	21,905	3.6
Securities operations	13,918	14,726	5.8
Credit operations	13,587	12,582	-7.4
Foreign exchange operations	2,734	3,107	13.6
Other services	1,209	1,400	15.8
Total fee and commission income	**52,586**	**53,721**	**2.2**
Fee and commission expenses:			
Payment services	1,727	2,168	25.6
Securities operations	870	1,000	14.9
Credit operations	582	374	-35.7
Foreign exchange operations	510	230	-55.0
Other services	66	53	-20.1
Total fee and commission expenses	**3,756**	**3,825**	**1.8**
Net fee and commission income	**48,830**	**49,896**	**2.2**

(4) PROFIT/LOSS FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

in €k	2016	2017	± in %
Profit/loss from investments accounted for using the equity method [1]	33,696	39,068	15.9
Profit/loss from investments accounted for using the equity method	**33,696**	**39,068**	**15.9**

[1] Income from investments in 2016 in entities accounted for using the equity method took account of a dilution effect of EUR 2.4 million.

(5) NET TRADING INCOME

in €k	2016	2017	± in %
Price-based transactions	-10	-14	36.4
Interest rate and currency contracts	1,727	1,558	-9.8
Net trading income	**1,717**	**1,544**	**-10.1**

(6) GENERAL ADMINISTRATIVE EXPENSES

in €k	2016	2017	± in %
Staff costs	69,401	70,060	0.9
– Wages and salaries	51,310	52,394	2.1
– Social security costs	13,806	13,901	0.7
– Costs of retirement benefits	4,285	3,765	-12.1
Other administrative costs	30,547	31,038	1.6
Depresiation/amortisation	6,480	6,656	2.7
General administrative expenses	**106,428**	**107,754**	**1.2**

The expenses for post-retirement benefits are defined contributions to a pension fund of EUR 1.3 million (preceding year: EUR 1.5 million).

(7) OTHER OPERATING INCOME AND EXPENSES

in €k	2016	2017	± in %
Other operating income	6,590	4,624	-29.8
Other operating expenses	-22,012	-8,376	-61.9
Other operating income net of other operating expenses	**-15,422**	**-3,752**	**-75.7**

The most important items in Other operating income were non-interest leasing income of EUR 1.1 million (previous year: EUR 0.8 million); commission income from insurance business of EUR 1.0 million (previous year: 1.0 million) as well as rental income of EUR 0.1 million (previous year: EUR 0.1 million).

Further significant expenses were, among others, the stability tax of EUR 1.0 million (previous year: EUR 3.9 million), the contributions to the resolution fund of EUR 2.3 million (previous year: EUR 2.2 million) and the contributions for the deposit protection fund of EUR 2.0 million (previous year: EUR 1.9 million). In the preceding year, the one-time payment of EUR 7.8 million stability tax raised Other operating expenses.

(8) PROFIT/LOSS FROM FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

in €k	2016	2017	± in %
Revaluation gains and losses on and gains and losses on disposals of derivatives	11	-73	>100
Gains/losses as a result of using the fair value option	-1,874	1,373	>100
Profit/loss from financial instruments designated as at fair value through profit or loss	**-1,863**	**1,300**	**>100**

Fixed-interest loans to customers in the amount of EUR 55.8 million (previous year: EUR 52.7 million), bonds in the asset portfolio of EUR 22.5 million (previous year: EUR 22.9 million) and own issues of EUR 84.7 million (previous year: EUR 85.1 million) were hedged by interest rate swaps within the fair value option. The effect of the fair value option essentially reflects the amount that can be attributed to counterparty risk and creditworthiness risk rather than to changes in market risk.

(9) PROFIT/LOSS FROM AVAILABLE FOR SALE FINANCIAL ASSETS

in €k	2016	2017	± in %
Revaluation gains and losses	-1,752	190	>100
Gains and losses on disposal	1,386	2,725	96.6
Profit/loss from available-for-sale financial assets	**-366**	**2,915**	**>100**

(10) PROFIT/LOSS FROM HELD-TO-MATURITY FINANCIAL ASSETS

in €k	2016	2017	± in %
Revaluation gains and losses	-	-	0.0
Gains and losses on disposal	153	-4	>-100
Profit/loss from held-to-maturity financial assets	**153**	**-4**	**>-100**

(11) INCOME TAX EXPENSE

in €k	2016	2017	± in %
Current taxes	-6,723	-4,680	-30.4
Deferred taxes	3,106	-4,458	>-100
Income Tax Expenses	**-3,617**	**-9,138**	**>100**

RECONCILIATION

in €k	2016	2017
Profit for the year before tax	49,801	77,175
Applicable tax rate	25%	25%
Computed tax expense	12,450	19,294
Effect of differing tax rates	-624	-443
Tax savings		
– Arising from tax-exempt profit from equity investments	-499	-720
– Arising from equity investments accounted for using the equity method	-8,424	-9,767
– Arising from other tax-exempt income	-669	-146
– Arising from other valuation adjustments	35	-329
Additional tax incurred		
– As a result of non-deductible expenses	111	302
– Arising from other tax effects	237	475
Aperiodic tax expenses/tax income	1,000	472
Income tax expense in period	**3,617**	**9,138**
Effective tax rate	7.3%	11.8%

DETAILS OF THE BALANCE SHEET

(12) CASH AND BALANCES WITH THE CENTRAL BANK

in €k	31/12/2016	31/12/2017	± in %
Cash in hand	35,727	85,095	>100
Credit balances with central banks	507,815	391,494	-22.9
Cash and balances with the central bank	**543,542**	**476,589**	**-12.3**

(13) RECEIVABLES FROM OTHER BANKS

in €k	31/12/2016	31/12/2017	± in %
Receivables from Austrian banks	93,766	75,741	-19.2
Receivables from foreign banks	148,581	21,970	-85.2
Receivables from other banks	**242,347**	**97,711**	**-59.7**

RECEIVABLES FROM OTHER BANKS, BY REMAINING TIME TO MATURITY

in €k	31/12/2016	31/12/2017	± in %
Due on demand	81,109	40,751	-49.8
Up to 3 months	160,141	36,371	-77.3
From 3 months to 1 year	414	589	42.3
From 1 year to 5 years	537	20,000	>100
From 5 years and over	146	-	-100.0
Receivables from other banks, by remaining time to maturity	**242,347**	**97,711**	**-59.7**

(14) RECEIVABLES FROM CUSTOMERS

in €k	31/12/2016	31/12/2017	± in %
Corporate and business banking customers	4,148,430	4,241,104	2.2
Retail banking customers	1,181,965	1,209,047	2.3
Receivables from customers, by customer group	**5,330,395**	**5,450,151**	**2.2**

Loans and advances to customers includes receivables from lease transactions of EUR 316.5 million (previous year: EUR 302.9 million) In the reporting year there were no sale-and-lease-back transactions of material significance.

RECEIVABLES FROM CUSTOMERS, BY REMAINING TIME TO MATURITY

in €k	31/12/2016	31/12/2017	± in %
Due on demand	252,359	121,498	-51.9
Up to 3 months	842,656	938,299	11.4
From 3 months to 1 year	815,192	663,983	-18.5
From 1 year to 5 years	1,514,625	1,830,053	20.8
From 5 years and over	1,905,563	1,896,318	-0.5
Receivables from customers, by remaining time to maturity	**5,330,395**	**5,450,151**	**2.2**

FINANCE LEASE RECEIVABLES, BY REMAINING TIME TO MATURITY

in €k	2016	< 1 year	1-5 years	> 5 years	2017	± in %
Gross investment value	325,303	90,927	187,644	60,507	339,078	4.2
Unrealised financial income	22,362	6,837	12,095	3,691	22,623	1.2
Net investment value	**302,941**	**84,090**	**175,549**	**56,816**	**316,455**	**4.5**

Receivables under leases are essentially contained in maturity bands >1 year.

(15) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €k	31/12/2016	Specific loan loss provision	Portfolio loan loss provisions IAS 39	31/12/2017	± in %
At the start of the reporting period	193,748	116,746	38,390	155,136	-19.9
Additions	43,113	38,272	1,341	39,613	-8.1
Reversals	-16,574	-16,450	-2,862	-19,312	16.5
Exchange rate differences	57	16	-	16	-71.9
Use	-65,208	-38,461	-	-38,461	-41.0
At the end of the reporting period	**155,136**	**100,123**	**36,869**	**136,992**	**-11.7**

Impairment charges on receivables from customers includes loan loss provisions for lease receivables of EUR 8.7 million (previous year: EUR 7.2 million). Further explanations on risk provisions are given in the Risk Report.

16) TRADING ASSETS

in €k	31/12/2016	31/12/2017	± in %
Positive fair values of derivative financial instruments	10	7	-32.6
– Of which currency contracts	-	-	0.0
– Of which interest rate contracts	10	7	-32.6
Trading assets	**10**	**7**	**-32.6**

(17) FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

in €k	31/12/2016	31/12/2017	± in %
Bonds and other fixed interest securities	22,893	22,495	-1.7
Loans	52,675	55,805	5.9
Financial assets designated as at fair value through profit or loss	**75,568**	**78,300**	**3.6**

FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS, BY REMAINING TIME TO MATURITY

in €k	31/12/2016	31/12/2017	± in %
Up to 3 months	1,904	95	-95.0
From 3 months to 1 year	9,224	563	-93.9
From 1 year to 5 years	17,168	7,644	-55.5
From 5 years and over	47,272	69,998	48.1
Financial assets at FV through profit or loss, by remaining time to maturity	**75,568**	**78,300**	**3.6**

(18) AVAILABLE-FOR-SALE FINANCIAL ASSETS

in €k	31/12/2016	31/12/2017	± in %
Bonds and other fixed interest securities	83,093	56,799	-31.6
Shares and other non-interest bearing securities	47,882	45,268	-5.5
Other equity investments	58,360	80,003	37.1
Available-for-sale financial assets	**189,335**	**182,069**	**-3.8**

AVAILABLE-FOR-SALE FINANCIAL ASSETS, BY REMAINING TIME TO MATURITY

in €k	31/12/2016	31/12/2017	± in %
Bonds and other fixed interest securities			
– Up to 3 months	358	905	>100
– From 3 months to 1 year	52,478	2,060	-96.1
– From 1 year to 5 years	14,869	12,166	-18.2
– From 5 years and over	15,388	41,668	>100
Available-for-sale financial assets, by remaining time to maturity	**83,093**	**56,799**	**-31.6**

(19) HELD-TO-MATURITY FINANCIAL ASSETS

in €k	31/12/2016	31/12/2017	± in %
Bonds and other fixed interest securities	747,773	782,765	4.7
Held-to-maturity financial assets	**747,773**	**782,765**	**4.7**

HELD-TO-MATURITY FINANCIAL ASSETS, BY REMAINING TIME TO MATURITY

in €k	31/12/2016	31/12/2017	± in %
Bonds and other fixed interest securities			
– Up to 3 months	55,059	33,781	-38.6
– From 3 months to 1 year	29,992	21,005	-30.0
– From 1 year to 5 years	192,134	262,336	36.5
– From 5 years and over	470,588	465,643	-1.1
Held-to-maturity financial assets, by remaining time to maturity	**747,773**	**782,765**	**4.7**

(20) INVESTMENTS IN ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

in €k	31/12/2016	31/12/2017	± in %
Oberbank AG	308,778	338,141	9.5
Bank für Tirol und Vorarlberg Aktiengesellschaft	159,514	180,492	13.2
Drei Banken Versicherungsagentur GmbH	2,615	1,721	-34.2
Investments in entities accounted for using the equity method	**470,907**	**520,354**	**10.5**

(21) INTANGIBLE ASSETS AND GOODWILL

in €k	31/12/2016	31/12/2017	± in %
Other intangible assets	1,735	1,638	-5.6
Intangible assets	**1,735**	**1,638**	**-5.6**

(22) PROPERTY AND EQUIPMENT

in €k	31/12/2016	31/12/2017	± in %
Land	8,072	8,368	3.7
Buildings	40,238	38,912	-3.3
Other	7,964	7,894	-0.9
Property and equipment	**56,274**	**55,174**	**-2.0**

(23) INVESTMENT PROPERTY

in €k	31/12/2016	31/12/2017	± in %
Land	8,643	8,407	-2.7
Buildings	22,077	22,461	1.7
Investment property	**30,720**	**30,868**	**0.5**

At 31 December 2017, the fair values of our investment properties totalled EUR 51.8 million (previous year: EUR 45.4 million). Rental income during the year under review was EUR 3.3 million (previous year: EUR 3.0 million). Expenses associated with achieving this rental income came to EUR 0.5 million (previous year: EUR 0.6 million).

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY 2017

in €k	Property and equipment	Assets[1]	Property[2]	Total
Cost at 1 January 2017	**127,627**	**11,044**	**52,452**	**191,123**
Additions	5,303	930	628	6,861
Disposals	763	0	1,137	1,900
Exchange differences	2	2	-	4
Reclassification	-2,049	-	2,049	-
Cost at 31 December 2017	**130,120**	**11,976**	**53,992**	**196,088**
Accumulated depreciation/amortisation	74,946	10,338	23,124	108,408
Carrying amount at 31/12/2017	**55,174**	**1,638**	**30,868**	**87,680**
Carrying amount at 31/12/2016	56,274	1,735	30,720	88,729
Depreciation/amortisation in 2017	4,581	1,027	1,048	6,656

[1] Other intangible assets; [2] Investment property

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY 2016

in €k	Property and equipment	Assets[1)]	Property[2)]	Total
Cost at 1 January 2016	126,731	11,630	50,817	189,178
Additions	3,813	855	4,449	9,117
Disposals	4,113	1,442	1,620	7,175
Exchange differences	2	1	-	3
Reclassification	1,194	-	-1,194	-
Cost at 31/12/2016	**127,627**	**11,044**	**52,452**	**191,123**
Accumulated depreciation/amortization	71,353	9,309	21,732	102,394
Carrying amount at 31/12/2016	**56,274**	**1,735**	**30,720**	**88,729**
Carrying amount at 31/12/2015	58,437	1,868	29,690	89,995
Depreciation/amortisation in 2016	4,508	975	997	6,480

[1)] Other intangible assets; [2)] Investment property

(24) DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES 2017

in €k	01/01/2017	31/12/2017	Deferred tax assets	Deferred tax liabilities
Receivables from customers	4,220	5,191	5,191	-
Impairment charges on receivables from customers	10,172	5,425	5,425	-
Trading assets and trading liabilities	-6	-4	12	16
Available-for-sale financial assets	-4,682	-9,064	80	9,144
Held-to-maturity financial assets	-168	-228	623	851
Financial assets designated as at fair value through profit or loss	-2,232	-1,798	-	1,798
Property and equipment	-681	-662	620	1,283
Other assets and liabilities	612	254	1,936	1,682
Liabilities evidenced by paper	3,024	2,408	2,408	-
Provisions/Social capital	6,768	6,417	6,417	-
Equity - Issue	-	-192	-	192
Tax assets (liabilities) before netting	**17,027**	**7,747**	**22,712**	**14,966**
Netting of taxes			-14,839	-14,839
Net deferred tax assets/liabilities			**7,873**	**127**

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES 2016

in €k	01/01/2016	31/12/2016	Deferred tax assets	Deferred tax liabilities
Receivables from customers	3,857	4,220	4,246	26
Impairment charges on receivables from customers	8,057	10,172	10,667	495
Trading assets and trading liabilities	-7	-6	18	24
Available-for-sale financial assets	-4,146	-4,682	206	4,888
Held-to-maturity financial assets	-204	-168	631	799
Financial assets designated as at fair value through profit or loss	-2,515	-2,232	-	2,232
Property and equipment	609	-681	639	1,320
Other assets and liabilities	1,027	612	2,589	1,977
Liabilities evidenced by paper	2,410	3,024	3,024	-
Provisions/Social capital	7,040	6,768	6,768	-
Tax assets (liabilities) before netting	**16,128**	**17,027**	**28,788**	**11,761**
Netting of taxes			-11,500	-11,500
Net deferred tax assets/liabilities			**17,288**	**261**

Deferred tax assets and liabilities were netted pursuant to IAS 12.71.

The deferred tax assets were mainly the result of impairment charges on receivables from customers recognized in accordance with IAS 39, derivatives in the banking book with negative fair values, use of the fair value option for debt securities, deferrals of the upfront fees contained in receivables from customers and valuations of 'social capital' in accordance with IAS 19 that differed from the tax base. Deferred taxes taken directly to equity in conformity with IAS 19 came to EUR 0.1 million (previous year: EUR 0.2 million).

The projections for the coming three years shows that there will be sufficient taxable income to utilize the deferred tax assets. There are no losses carried forward that will be subject to deferred tax assets.

The deferred tax liabilities were mainly attributable to the measurement of financial investments at fair value and the derivatives in the banking book whose fair value was positive.

(25) OTHER ASSETS

in €k	31/12/2016	31/12/2017	± in %
Positive fair values of derivative financial instruments	12,950	9,830	-24.1
Other items	14,801	20,826	40.7
Deferred items	2,547	2,334	-8.3
Other assets	**30,298**	**32,991**	**8.9**

Other assets contain, above all, corporate tax advance payments of EUR 10.0 million.

(26) PAYABLES TO OTHER BANKS

in €k	31/12/2016	31/12/2017	± in %
Payables to Austrian banks	733,479	571,672	-22.1
Payables to foreign banks	134,015	123,314	-8.0
Payables to other banks	**867,494**	**694,986**	**-19.9**

PAYABLES TO OTHER BANKS, BY REMAINING TIME TO MATURITY

in €k	31/12/2016	31/12/2017	± in %
Due on demand	81,879	129,437	58.1
Up to 3 months	347,246	56,793	-83.6
From 3 months to 1 year	356,035	193,985	-45.5
From 1 year to 5 years	73,384	309,002	>100
From 5 years and over	8,950	5,769	-35.5
Payables to other banks, by remaining time to maturity	**867,494**	**694,986**	**-19.9**

(27) PAYABLES TO CUSTOMERS

in €k	31/12/2016	31/12/2017	± in %
Savings deposit balances	**1,528,994**	**1,475,137**	**-3.5**
Corporate and business banking customers	199,001	189,578	-4.7
Retail banking customers	1,329,993	1,285,559	-3.3
Other payables	**3,295,766**	**3,481,352**	**5.6**
Corporate and business banking customers	2,414,114	2,594,792	7.5
Retail banking customers	881,652	886,560	0.6
Payables to customers	**4,824,760**	**4,956,489**	**2.7**

PAYABLES TO CUSTOMERS BY REMAINING, TIME TO MATURITY

in €k	31/12/2016	31/12/2017	± in %
Due on demand	2,936,116	3,051,479	3.9
Up to 3 months	398,061	538,818	35.4
From 3 months to 1 year	1,055,196	1,044,294	-1.0
From 1 year to 5 years	430,092	304,557	-29.2
From 5 years and over	5,295	17,342	>100
Payables to customers, by remaining time to maturity	**4,824,760**	**4,956,489**	**2.7**

(28) LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2016	31/12/2017	± in %
Issued bonds	475,842	477,899	0.4
Other liabilities evidenced by paper	68,814	76,053	10.5
Liabilities evidenced by paper	**544,656**	**553,952**	**1.7**

Liabilities evidenced by paper include bonds issued in the amount of EUR 80.0 million (previous year: EUR 81.2 million) and other liabilities evidenced by paper in the amount of EUR 4.7 million (previous year: EUR 3.9 million) which were measured at fair value (use of the fair value option). The carrying amount of the liabilities evidenced by paper measured at fair value is EUR 10.6 million (preceding year: EUR 13.0 million) above the redemption amount.

LIABILITIES EVIDENCED BY PAPER, BY REMAINING TIME TO MATURITY

in €k	31/12/2016	31/12/2017	± in %
Up to 3 months	44,468	32,293	-27.4
From 3 months to 1 year	56,737	26,479	-53.3
From 1 year to 5 years	199,085	231,836	16.5
From 5 years and over	244,366	263,345	7.8
Liabilities evidenced by paper, by remaining time to maturity	**544,656**	**553,952**	**1.7**

(29) TRADING LIABILITIES

in €k	31/12/2016	31/12/2017	± in %
Interest rate contracts	10	7	-31.9
Trading liabilities	**10**	**7**	**-31.9**

(30) PROVISIONS

in €k	31/12/2016	31/12/2017	± in %
Provisions for post-employment benefits and similar obligations	72,480	69,693	-3.8
Provisions for taxes (current taxes)	2,238	4,475	>100
Other provisions	52,184	49,463	-5.2
Provisions	**126,902**	**123,631**	**-2.6**

Provisions for post-employment benefits and similar obligations contain provisions for termination benefits in the amount of EUR 23.0 million (previous year: EUR 22.8 million), provisions for post-employment benefits in the amount of EUR 41.6 million (previous year: EUR 44.4 million) and provisions for jubilee benefits in the amount of EUR 5.1 million (previous year: EUR 5.3 million). Other provisions contains provisions of EUR 33.9 million (previous year: EUR 30.2 million) resulting from the proportionate consolidation of ALGAR. The other material provisions included provisions for death benefits in the amount of EUR 3.4 million (previous year: EUR 3.7 million) and provisions for remunerations in the amount of EUR 1.6 million (previous year: EUR 1.5 million).

Provisions for termination benefits

According to the requirements of the Austrian Salaried Employees Act and the Austrian Termination Benefits Act, Austrian employees of BKS Bank whose employment began before 1 January 2003 are entitled to a termination benefit provided applicable grounds for the termination are given. Moreover, the collective agreement for employees of banks and bankers generally gives people who have been in service for more than 5 years the entitlement to two additional months' salary if the employer gives notice.

Provisions for post-employment benefits

Post-employment benefit obligations existed on the basis of the collective agreement revising post-employment benefit law as amended on 23 December 1996. Essentially, the post-employment benefit promises embraced old-age pensions, occupational disability pensions and widow(er)s' and orphans' pensions. In the 2000 financial year, the existing benefit promises were transferred to VBV-Pensionkassen AG as the legal successor to BVP-Pensionskassen AG. BKS Bank's benefit obligations were the result of post-employment benefits that were already being paid to former employees or their surviving dependents.

ACTUARIAL ASSUMPTIONS

in %	2016	2017
Financial assumptions		
Interest rate	1.77%	1.82%
Salary trend	1.24%	1.28%
Career dynamic	0.25%	0.25%
Demographic assumptions		
Retirement age	65 years	65 years
Mortality table	AVÖ 2008	AVÖ 2008

The interest rate was determined pursuant to IAS 19.83 on the basis of yields for first-ranking fixed interest industrial bonds. As in the preceding year, the table published by Mercer (Austria) GmbH was used .

DEVELOPMENT OF PROVISIONS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

in €k	31/12/2016	31/12/2017	± in %
Provisions as of 1 January	74,498	72,480	-2.7
+ Interest expense	1,668	1,182	-29.1
+ Expense for service time	1,336	1,259	-5.8
- Payments during the reporting year	-4,207	-4,717	12.1
± Actuarial profit/loss[1]	-815	-511	-37.3
Provisions as of 31 December	**72,480**	**69,693**	**-3.8**

[1] based on changed financial assumptions

DEVELOPMENT OF PROVISIONS

in €k	Total 2016	Provisions for post-employment benefits and similar obligations	Taxes and other	Total 2017	± in %
Provisions as at 1 January	125,973	72,480	54,422	126,902	0.7
± Currency change	-	9	6	15	100
± Transfer	-	-	-	-	-
+ Additions	14,474	2,455	13,883	16,338	12.9
- Use	-8,725	-1,047	-13,135	-14,182	62.5
- Reversal	-4,820	-4,204	-1,238	-5,442	12.9
Provisions as of 31 December	**126,902**	**69,693**	**53,938**	**123,631**	**-2.6**

SENSITIVITY ANALYSIS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

Sensitivity analysis of DBO/present value of obligations in €k	Termination benefits 31/12/2016	Post-retirement benefits 31/12/2016	Termination benefits 31/12/2017	Post-retirement benefits 31/12/2017
Discount rate +1.0%	-2,575	-4,563	-2,434	-4,148
Discount rate -1.0%	1,094	5,608	1,016	5,076
Wage increase +0.5%	79	401	65	348
Wage increase -0.5%	-1,754	-382	-1,660	-331
Pension increase +0.5%	-	2,022	-	1,841
Pension increase -0.5%	-	-1,881	-	-1,715
Increase in life expectations by around 1 year	-	2,041	-	2,058

Since 1 January 2013, a sensitivity analysis pursuant to IAS 19.145a has been mandatory. This sensitivity analysis shows the influence a change in a parameter for the major actuarial assumptions would have on the provisions for termination benefits and post-employment benefits as at 31 December 2017.

MATURITY ANALYSIS

Cash flows in €k	Termination benefits 31/12/2017	Post-retirement benefits 31/12/2017
Expected payments in 2018	983	3,154
Expected payments 2019	1,541	2,937
Expected payments in 2020	2,930	2,719
Expected payments 2021	2,697	2,513
Expected payments 2022	2,653	2,315
Total expected payments 2018 to 2022	**10,804**	**13,638**
Weighted average maturity	7.96	11.51

The maturity analysis shows the expected termination benefit and post-employment benefit payments in the coming five financial years as calculated by an actuary. Payments in the financial year 2017 amounted to EUR 4.7 million (previous year: EUR 4.2 million).

(31) OTHER LIABILITIES

in €k	31/12/2016	31/12/2017	± in %
Negative fair values of derivative financial instruments	30,821	14,602	-52.6
Other items	23,566	25,798	9.5
Deferred items	5,215	4,743	-9.0
Other liabilities	**59,602**	**45,143**	**-24.3**

Other liabilities include, among other things, liabilities towards the tax office.

(32) SUBORDINATED DEBT CAPITAL

in €k	31/12/2016	31/12/2017	± in %
Tier 2 capital	158,585	118,622	-25.2
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**198,585**	**158,622**	**-20.1**

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 156.0 million (previous year: EUR 195.0 million).

SUBORDINATED DEBT CAPITAL, BY REMAINING TIME TO MATURITY

in €k	31/12/2016	31/12/2017	± in %
Up to 3 months	23,560	2,618	-88.9
From 3 months to 1 year	28,598	20,000	-30.1
From 1 year to 5 years	93,352	73,351	-21.4
From 5 years and over	53,075	62,653	18.0
Subordinated debt capital, by remaining time to maturity	**198,585**	**158,622**	**-20.1**

In 2018, no tier 2 capital will mature (preceding year: EUR 48.6 million). In conformity with CRR Article 484, EUR 40.0 million of hybrid capital was counted towards consolidated own funds (preceding year: EUR 40.0 million). It does not constitute a component of consolidated equity.

DETAILS ON SUBORDINATED DEBT CAPITAL (NOMINAL VALUES)

in €k	31/12/2016	31/12/2017	Full term
Variable Ergänzungskapital-Obligation 2006-2021/PP	2,350	2,350	15 years
5% Ergänzungskapital-Obligation 2007-2017/3	9,100	-	10 years
Stufenzins-Ergänzungskapital-Obligation 2008-2020/4	15,000	15,000	12 years
5% Ergänzungskapital-Obligation 2009-2017/3	20,000	-	8 years
4¾% Ergänzungskapital-Obligation 2009-2017/8	19,500	-	8 years
Stufenzins-Ergänzungskapital-Obligation 2010-2020/2	16,000	16,000	10 years
4 ¾% Ergänzungskapital-Obligation 2011-2019/3	20,000	20,000	8 years
7.35% hybrid bond of BKS Hybrid alpha GmbH 2008	20,000	20,000	Unlimited
6% hybrid bond of BKS Hybrid beta GmbH 2010	20,000	20,000	Unlimited
5% Nachrangige Obligation 2014-2023/2	20,000	20,000	9 years
4% Nachrangige Obligation 2015-2025/2	20,000	20,000	10 years
2 ¾% Nachrangige Obligation 2016-2024/2	13,027	20,000	8 years
3% Nachrangige Obligation 2017-2027/4	-	2,678	10 years
Total subordinated debt capital	**194,977**	**156,028**	

Expenditure on subordinated obligations during the financial year came to EUR 8.9 million (previous year: EUR 9.7 million).

(33) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

in €k	31/12/2016	31/12/2017	± in %
Subscribed capital	79,279	79,279	0.0
– Share capital	79,279	79,279	0.0
Capital reserves	193,032	193,032	0.0
Retained earnings and other reserves	663,075	738,029	11.3
Additional equity instruments (AT1 note)	23,400	36,200	54.7
Shareholders' equity before minority interests	**958,786**	**1,046,540**	**9.2**
Non-controlling interests	-19	-22	13.6
Shareholders' equity after minority interests	**958,767**	**1,046,518**	**9.2**

The share capital was represented by 37,839,600 ordinary no-par voting shares (previous year: 37,839,600) and 1,800,000 non-voting no-par preference shares (previous year: 1,800,000). Each share had a nominal value of EUR 2.0. Capital reserves contain premiums from the issuance of shares. Retained earnings and other reserves consist essentially of reinvested profits.

Additional equity instruments consist of the additional tier 1 notes issued in 2015 (nominal amount EUR 23.4 million) and 2017 (nominal amount EUR 12.8 million), which have to be classified as equity under IAS 32. The liability reserve required under section 57 (5) Banking Act (BWG) in the amount of EUR 80.8 million is contained in Retained earnings.

Non-controlling interests were of secondary importance in the BKS Bank Group's Statement of Changes in Equity (2017: EUR 21.6 thousand; pr. yr: EUR 19.0 thousand).

SHARES IN ISSUE 2017

Number of shares	Ordinary no-par shares	Preference no-par shares
As at 01/01/2017	**37,401,538**	**1,643,277**
Regular capital increase	-	-
Change in treasury shares	-146,613	-7,810
As at 31/12/2017	**37,254,925**	**1,635,467**
Treasury shares held in the Group's portfolio	**584,675**	**164,533**
Shares issued	**37,839,600**	**1,800,000**

SHARES IN ISSUE IN 2016

Number of shares	Ordinary no-par shares	Preference no-par shares
As at 01/01/2016	**33,678,716**	**1,661,333**
Regular capital increase	3,603,600	-
Change in treasury shares	119,222	-18,056
As at 31/12/2016	**37,401,538**	**1,643,277**
Treasury shares held in the Group's portfolio	**438,062**	**156,723**
Shares issued	**37,839,600**	**1,800,000**

(34) CAPITAL MANAGEMENT

Capital management at BKS Bank consists of two elements of equal importance, namely management within the scope of the regulatory minimum capital ratio requirements and internal management within the scope of ICAAP (the Internal Capital Adequacy Assessment Process).

The aim is to maintain the regulatory minimum capital ratios required by CRR at all times and to hold sufficient assets to cover risks within the scope of ICAAP. The main focus of our capital management activities is on limiting and controlling the risks assumed by the bank as part of the overall bank risk management process.

To achieve these goals, the degree of utilisation of all risk limits is checked and reported within the management information process. The core variables used for analysis and management purposes in the capital management process are the own funds ratio, the tier 1 ratio, the degree of utilisation of the assets available to cover risks and, additionally, the leverage ratio.

The way we calculate our own funds and capital ratios changed significantly when Basel III was implemented by CRD IV and CRR at the beginning of 2014 together with the amended BWG. In accordance with the transitional provisions of CRR and CRD IV, capital instruments that are no longer eligible are gradually being eliminated, while the new rules for the regulatory adjustments are successively being introduced. At the reporting date, the regulatory group of consolidated companies was the same as the IFRS group of consolidated companies.

BKS BANK GROUP OF CREDIT INSTITUTIONS: OWN FUNDS PURSUANT TO CRR

in €m	31/12/2016	31/12/2017
Share capital	77.8	77.5
Reserves net of intangible assets	831.4	909.3
Deductions	-283.3	-372.2
Common equity tier 1 capital[1)]	**625.9**	**614.5**
Common equity tier 1 ratio	12.6%	12.3%
Hybrid capital	24.0	20.0
AT1 note	23.4	36.2
Deductions	-47.4	-42.9
Tier 1 capital	**625.9**	**627.8**
Tier 1 ratio (including additional tier 1 capital)	12.6%	12.5%
Tier 2 capital items and instruments	120.6	116.5
Deductions	-76.5	-42.7
Tier 2 capital	**44.1**	**73.8**
Total own funds	**670.0**	**701.6**
Total capital ratio	13.5%	14.0%
Total risk exposure amount	4,974.1	5,016.7

[1)] Includes profit for the year 2017. Formal adoption is still outstanding.

The Supervisory Review and Evaluation Process (SREP) conducted by the Austrian Financial Market Authority (FMA) came to the conclusion that, as at 31 December 2017, BKS Bank had to meet the following minimum requirements without a capital conservation buffer, as a percentage of the total risk exposure amount: 5.66% for common equity tier 1 capital, and 10.1% for total capital ratio. The capital ratios recorded as per end of December 2017 were much higher than these requirements.

(35) FAIR VALUES

Financial assets and liabilities measured at fair value

31/12/2017 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value
Assets				
Trading assets	-	7	-	7
FA[1] at fair value through profit or loss	22,495	-	55,805	78,300
Available-for-sale financial assets	148,930	3,477	29,662	182,069
Other assets (derivatives)	-	9,830	-	9,830
Equity and liabilities				
Liabilities evidenced by paper	-	-	84,688	84,688
Trading liabilities	-	7	-	7
Other liabilities (derivatives)	-	14,602	-	14,602

[1] FA = financial assets

Of the values shown as available for sale in level 3, EUR 22.0 million were equity investments measured at fair value. These equity investments had still been measured at amortized cost in the previous year as no reliable valuation for their fair value had been available yet at the time. In addition, this item includes other entities not included in the scope of consolidation, with a carrying amount of EUR 7.2 million, EUR 5.7 million of which are measured at fair value. No fair value measurement was applied to non-material minority investments.

31/12/2016 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value
Assets				
Trading assets	-	10	-	10
FA[1] at fair value through profit or loss	22,893	-	52,675	75,568
Available-for-sale financial assets	169,215	-	20,120	189,335
Other assets (derivatives)	-	12,950	-	12,950
Equity and liabilities				
Liabilities evidenced by paper	-	-	85,130	85,130
Trading liabilities	-	10	-	10
Other liabilities (derivatives)	-	30,821	-	30,821

[1] FA = financial assets

LEVEL 3: MOVEMENTS IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

in €k	Financial assets designated as at fair value through profit or loss	Liabilities evidenced by paper Of which at fair value through profit or loss	Available-for-sale financial assets[2]
As at 01/01/2017	52,675	85,130	12,992
Income statement[1]	-1,439	-442	-
Other profit or loss	-	-	12,518
Reclassified in level 2	-	-	-3,477
Purchased/added	16,700	-	-
Sold/redeemed	-12,131	-	-
At as 31/12/2017	**55,805**	**84,688**	**22,033**

[1] Valuation changes in profit/loss; reported in item Profit/loss from FA at fair value through profit or loss
[2]) As at 1 January of the reporting year, all equity investments had still been measured at amortized cost.

LEVEL 3: MOVEMENTS 01/01/ TO 31/12/2016

in €k	Financial assets designated as at fair value through profit or loss	Liabilities evidenced by paper Of which at fair value through profit or loss
As at 01/01/2016	73,627	103,512
Reclassified	-	-
Income statement[1]	-1,047	1,618
Other profit or loss	-	-
Purchased	-	-
Sold/redeemed	-19,905	-20,000
As at 31/12/2016	**52,675**	**85,130**

[1] Valuation changes in profit/loss; reported in item Profit/loss from FA at fair value through profit or loss

Valuation policies and classification
The fair values shown in Level 1 'Market values' were determined using prices quoted on active markets (stock exchange).

If market values were unavailable, fair value was ascertained using customary valuation models based on observable input factors and market data and presented in the category Level 2 'Based on market data' (e.g. by discounting future cash flows from financial instruments). In general, fair values shown in this category were ascertained on the basis of market data that were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). In general, items in Level 2 were measured using the present value method.

In Level 3 'Internal measurement method', the values of individual financial instruments were measured on the basis of special generally accepted valuation methods. Different methods were applied to measure the fair value of most of the equity investments designated as available for sale. The method used most frequently was the discounted cash flow method, which relies on external yield curves, beta factors and budgeted values to determine the fair value. In general, liabilities evidenced by paper in Level 3 were measured on the basis of market data that were observable for these liabilities (e.g. yield curves, foreign exchange rates). The factors affecting the values of positions in Level 3 that were not observable in the market were adjustments on the basis of internal rating procedures to the credit ratings of customers and of BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in Level 3 were measured using the present value method.

Reclassification
Reclassifications between the individual categories were carried out if market values (Level 1) or reliable input factors (Level 2) were no longer available or if market values (Level 1) became newly available for individual financial instruments (e.g. because of an IPO).

Changes in the ratings of assets and liabilities measured at fair value
Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of those financial instruments and their remaining term to maturity. The change in the default risk associated with liabilities measured at fair value in the period under review was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining term to maturity. In 2017, the changes in the ratings of receivables from customers measured at fair value had an effect on their fair value in the amount of EUR 0.0 million (previous year: EUR 0.0 million). In the reporting period 2017, the changes in the ratings of liabilities evidenced by paper had an effect on their fair value in the amount of EUR 0.3 million (previous year: EUR +0.7 million).

Sensitivity analysis
The sensitivity analysis of receivables from customers measured at fair value results in an accumulated change in value of EUR 0.2 million (previous year: EUR 0.2 million), assuming an improvement or deterioration in credit rating of 10 basis points in the credit spread. An analysis assuming an improvement or deterioration in BKS Bank's rating of 10 basis points in the credit spread would result in an accumulated change in the value of the liabilities evidenced by paper designated at fair value of EUR 0.8 million (previous year: EUR 0.6 million).

For equity instruments measured at fair value, an interest rate increase by 50 basis points results in a EUR 1.4 million reduction in fair value, while an interest rate decrease by 50 basis points results in a EUR 1.7 million rise in fair value.

31/12/2017 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value	Carrying amount 31/12/2017
Assets					
Receivables from other banks	-	-	117,300	117,300	117,227
Receivables from customers	-	-	5,515,865	5,515,865	5,451,120
(FA[1]) held-to-maturity	837,465	-	-	837,465	782,765
Equity and liabilities					
Payables to other banks	-	-	695,447	695,447	694,986
Payables to customers	-	-	4,983,585	4,983,585	4,975,840
Liabilities evidenced by paper	226,207	178,019	82,342	486,568	469,264
Subordinated debt capital	161,333	-	2,355	163,688	158,622

[1] FA = financial assets

31/12/2016 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value	Carrying amount 31/12/2016
Assets					
Receivables from other banks	-	-	242,392	242,392	242,347
Receivables from customers	-	-	5,397,186	5,397,186	5,330,395
(FA[1]) held-to-maturity	816,054	-	-	816,054	747,773
Equity and liabilities					
Payables to other banks	-	-	870,217	870,217	867,494
Payables to customers	-	-	4,835,759	4,835,759	4,824,760
Liabilities evidenced by paper[2]	265,985	132,825	77,811	476,621	459,526
Subordinated debt capital[2]	200,510	-	2,355	202,865	198,585

[1] FA = financial assets
[2] Prior-year values were adjusted.

(36) INCOME STATEMENT BY VALUATION CATEGORY

in €k	31/12/2016	31/12/2017
Net interest income in the held-for-trading portfolio	29	17
Gains/losses in the held-for-trading portfolio	1,688	1,527
Net income in the held-for-trading portfolio	**1,717**	**1,544**
Interest income FA[1] at fair value through profit or loss	4,324	3,440
Interest expenses FI[2] at fair value through profit or loss	-2,130	-2,012
Gains/losses on financial assets designated as at fair value through profit or loss	-1,862	1,300
Net income from financial assets designated as at fair value through profit or loss[3]	**332**	**2,728**
Net interest income available-for-sale financial assets	4,120	4,742
Gains/losses in the portfolio of available-for-sale financial assets	1,386	2,725
Net valuation of portfolio of available-for-sale financial assets	-1,752	190
Net income in the portfolio of available-for-sale FAs	**3,754**	**7,656**
Net interest income from loans and receivables	131,405	127,529
Impairment charges on receivables from customers	-31,007	-26,724
Net fee and commission income on loans and receivables	34,640	34,821
Net income from loans and receivables	**135,038**	**135,627**
Interest income in the portfolio of held-to-maturity FAs	19,068	16,558
Gains/losses in the portfolio of held-to-maturity FAs	153	-4
Net income in the portfolio of held-to-maturity FAs	**19,221**	**16,555**
Interest expenses on financial liabilities measured at amortized cost	-38,720	-32,422
Net income on financial liabilities measured at amortized cost	**-38,720**	**-32,422**
Other operating income and expenses[4]	**-71,541**	**-54,513**
Profit for the year before tax	**49,801**	**77,175**

[1] FA = financial assets
[2] FI = financial instrument
[3] Fair value option and revaluation gains and losses on Other assets and Other liabilities
[4] Includes remaining net interest and commission income, administrative expenses, other operating expenses and income

(37) INFORMATION ON SHARES IN OTHER ENTITIES

Of the entities accounted for using the equity method, Oberbank AG and BTV AG were included in the consolidated financial statements for the following reasons, even though they fall short of the 20% threshold: A syndicate agreement is in place between BKS Bank, BTV AG and Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H. for the investment in Oberbank AG, and another one between BKS Bank AG, Oberbank AG, Generali 3Banken Holding AG and Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H. for the investment in BTV AG.

Oberbank AG and BTV AG were included in the consolidated financial statements as of 30 September 2017, because the figures in the IFRS consolidated financial statements were not available at year end due to the tight schedule. The carrying amount of the equity investment in Drei Banken Versicherungsagentur GmbH, which was accounted for using the equity method, was EUR 1.7 million as at 31 December 2017 (previous year: EUR 2.6 million). Profit for the year after tax was EUR 0.0 million (previous year: EUR 3.8 million).

ASSOCIATED COMPANIES

Values as at 31/12	Type of relationship with the company	Head office	Voting rights in % 2016	Voting rights in % 2017	Equity interests in % 2016	Equity interests in % 2017	Fair value of the share 2016	Fair value of the share 2017
Oberbank AG	Strategic investment to secure autonomy	Linz	15.21	15.21	14.21	14.21	301,717	410,051
BTV AG	Strategic investment to secure autonomy	Innsbruck	14.95	14.78	13.59	13.59	78,478	96,065
3 Banken Versicherungs-agentur GmbH	Equity investment, operations discontinued Liquidation planned for 2018	Linz	20.00	20.00	20.00	20.00	2,615[1]	1,721[1]

[1] This equity investment is recognized at cost, because it is not possible to determine a reliable fair value.

FINANCIAL INFORMATION ABOUT MATERIAL ASSOCIATES

in €m	Oberbank AG 31/12/2016	Oberbank AG 31/12/2017	BTV AG 31/12/2016	BTV AG 31/12/2017
Net interest income	359.6	387.5	144.8	165.8
Net fee and commission income	130.9	140.6	47.5	50.9
Consolidated profit for the year after tax	181.3	200.5	63.8	76.0
Total assets	19,158.5	20,830.6	10,013.8	10,462.6
Receivables from customers after impairment charges	13,328.2	14,367.6	6,754.2	7,141.9
Equity	2,282.8	2,466.8	1,219.4	1,367.3
Primary funds	13,008.9	13,394.7	7,323.4	7,605.7
– of which savings deposits	2,794.2	2,719.0	1,248.2	1,265.7
– of which securitized debt incl. subordinated debt capital	2,064.5	1,997.4	1,392.8	1,318.1
Dividends received (in €k)	2,713	3,261	1,121	1,121

Joint arrangement, joint operation

Pursuant to the provisions of IFRS 11, the investment in ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H. (ALGAR) required classification as a joint operation and was, therefore, accounted for on a proportionate basis. ALGAR is run jointly by Oberbank AG, BTV AG and BKS Bank AG and serves to provide security for the large exposures of the partner banks. Each bank delegates one managing director; two directors together represent the company. The decisions of its general meeting are always unanimous. Financial information regarding ALGAR is of minor importance.

Non-controlling interests

Non-controlling interests played a minimal role in the BKS Bank Group, so disclosures thereof have not been provided on the grounds of immateriality.

(38) RELATED PARTY DISCLOSURES

The following tables contain the mandatory disclosures of BKS Bank's relations with related parties as required by the UGB § 245a and IAS 24. Entities or persons are deemed to be related parties if they are able to exercise a controlling or significant influence over the enterprise.

IAS 24.9 defines key management personnel as those persons having authority and responsibility for planning, directing and supervising the activities of the entity, whether directly or indirectly, including any directors (whether executive or otherwise) of the entity.

RELATED PARTY DISCLOSURES

	Outstanding balances		Guarantees received		Guarantees provided	
in €k	At 31/12/2016	At 31/12/2017	At 31/12/2016	At 31/12/2017	At 31/12/2016	At 31/12/2017
Non-consolidated subsidiaries			-	-	-	-
Receivables	3,213	2,914				
Payables	1,379	1,234				
Associates and joint arrangements			-	-	-	-
Receivables	17,799	2,494				
Payables	67,767	65,464				
Key management personnel			-	-	-	-
Receivables	458	424				
Payables	859	1,151				
Other related parties			-	-	-	-
Receivables	124	166				
Payables	753	726				

Transactions with related parties were on arm's length terms. During the financial year, no provisions for doubtful receivables and no expenses on irrecoverable or doubtful receivables were recognized in connection with related parties.

RELATED PARTY DISCLOSURES

in €k	2016	2017
Average number of staff	**998**	**996**
– Of which wage earners	56	55
– Of which salary earners	942	941
Average number of people employed by entities accounted for on a proportionate basis	**3,400**	**3,452**
Remuneration paid to the Management Board		
– Remunerations paid to active members of the Management Board	1,213	1,349
– Remunerations paid to former members of the Management Board and their surviving dependents	940	940
Remunerations paid to the Supervisory Board		
– Remunerations paid to active members of the Supervisory Board	183	234
– Remunerations paid to former members of the Supervisory Board and their surviving dependents	-	-
Management compensation pursuant to IAS 24	**1,407**	**1,583**
– Short-term employee benefits	1,277	1,336
– Post-employment benefits	130	156
– Other long-term benefits	-	91
– Termination benefits	-	-
– Share-based payment benefits	-	-
Loans and advances granted		
– Loans and advances granted to members of the Management Board	72	57
– Loans and advances granted to members of the Supervisory Board	386	367
Expenditure on termination and post-employment benefits		
– Expenditure on termination and post-employment benefits for members of the Management Board	113	116
– Expenditure on termination and post-employment benefits for other employees	5,721	6,204

All loans and advances to and deposits from members of the Management Board and Supervisory Board were granted or taken on arm's length terms.

(39) SEGMENT REPORTING

Segment reporting is based on the organisational structure of the Group that underlies its internal management reporting system.

SEGMENT RESULTS

	Retail banking		Corporate and business banking		Financial markets	
in €k	2016	2017	2016	2017	2016	2017
Net interest income	26,172	25,012	85,499	89,978	6,605	3,129
Profit/loss from investments accounted for using the equity method	-	-	-	-	33,696	39,068
Impairment charges on receivables from customers	-1,339	-1,622	-29,703	-23,444	35	-1,658
Net fee and commission income	21,668	21,737	26,776	27,415	173	326
Net trading income	-	-	-	-	1,717	1,545
General administrative expenses	-51,893	-51,782	-45,877	-48,201	-6,388	-5,900
Other operating income net of other operating expenses	1,872	1,192	1,742	1,223	-62	-60
Profit/loss from financial assets/liabilities	-	-	-	-	-2,076	4,211
Profit for the year before tax	**-3,520**	**-5,464**	**38,437**	**46,970**	**33,700**	**40,662**
Average risk-weighted assets	499,294	496,525	3,119,765	3,100,220	898,800	955,081
Average allocated equity	39,944	48,236	249,581	299,023	609,187	644,008
Segment liabilities	2,777,915	2,679,816	3,031,078	3,345,919	1,573,821	1,373,547
ROE based on profit for the year	**-8.8%**	**-11.3%**	**15.4%**	**15.7%**	**5.5%**	**6.3%**
Cost/income ratio	**104.4%**	**108.0%**	**40.2%**	**40.6%**	**15.2%**	**13.4%**
Risk/earnings ratio	**5.1%**	**6.5%**	**34.7%**	**26.1%**	**-**	**3.9%**

	Other		Total	
in €k	2016	2017	2016	2017
Net interest income	2,215	2,568	120,491	120,686
Profit/loss from investments accounted for using the equity method	-	-	33,696	39,068
Impairment charges on receivables from customers	-	-	-31,007	-26,724
Net fee and commission income	213	418	48,830	49,896
Net trading income	-	-	1,717	1,545
General administrative expenses	-2,270	-1,872	-106,428	-107,755
Other operating income net of other operating expenses	-18,974	-6,107	-15,422	-3,752
Profit/loss from financial assets/liabilities	-	-	-2,076	4,211
Profit for the year before tax	**-18,816**	**-4,993**	**49,801**	**77,175**
Average risk-weighted assets	54,280	52,452	4,572,139	4,604,277
Average allocated equity	10,802	11,395	909,514	1,002,663
Segment liabilities	198,241	180,215	7,581,055	7,579,497
ROE based on profit for the year			**5.5%**	**7.70%**
Cost/income ratio			**56.2%**	**51.94%**
Risk/earnings ratio			**20.1%**	**16.73%**

Method: Net interest income is broken down using the market interest rate method. The costs incurred are allocated to the business areas in which these costs originate. Returns on maturity transformation are allocated to the Financial Markets segment. Capital is allocated based on regulatory parameters.

The average allocated equity carries 5% interest and is recognized as return on equity invested in net interest income. The profit for the respective segment is measured based on the profit before tax earned in the segment. Apart from the cost/income ratio, return on equity is one of the principal benchmarks for managing the business segments. Segment reporting is based on our internal management processes. The Management Board as a whole is responsible for the enterprise's management.

In detail, the reports used for internal management purposes comprise the following:
–Monthly reporting of results at the profit centre level
– Quarterly reports for all relevant risk types
– Ad-hoc reports of exceptional events

Corporate and business banking segment
As at 31 December 2017, 19,500 corporate and business banking customers were serviced in this segment. BKS Bank having originally been conceived as a corporate and business bank, this business segment is still the enterprise's most important pillar. Corporate and business banking customers still account for the larger part of the loan portfolio and make an essential contribution to profit for the period. Besides all the income and expenses of BKS Bank AG that arose from business with corporate and business banking customers, the income and expenses of the leasing companies were also allocated to this segment, provided they arose from business done with corporate customers.

Retail banking segment
All income and expense components of BKS Bank AG, BKS-Leasing Gesellschaft m.b.H., BKS-leasing d.o.o., BKS-leasing Croatia d.o.o. and BKS-Leasing s.r.o. from business with retail customers and wage and salary earners are reported summarized in the retail banking segment. Some 133,300 customers were assigned to this segment at the end of December 2017.

Financial markets segment
The financial markets segment includes the profits from BKS Bank AG's proprietary trading activities, from securities held in its own portfolios, from equity investments, from derivatives in the banking book and from interbank transactions as well as from income from interest-rate term structure management.

The '**Other segment**' encompasses everything not directly connected with business segments, items of income and expenses that cannot be allocated to the other segments and those contributions to profit that cannot be attributed to any one segment.

(40) NON-INTEREST ASSETS

in €k	31/12/2016	31/12/2017	± in %
Non-interest assets	**197,273**	**194,229**	**-1.5**

Non-interest receivables from customers adjusted for impairment came to EUR 59.2 million (previous year: EUR 107.1 million).

(41) TOTAL RETURN ON EQUITY

The total return on equity as at 31 December 2017 was 0.90% (previous year: 0.61%).

(42) SUBORDINATED ASSETS

in €k	31/12/2016	31/12/2017	± in %
Receivables from customers	40	40	0.0
Bonds and other fixed interest securities	-	-	-
Shares and othervariable-yieldsecurities	-	-	-

43) FOREIGN CURRENCY BALANCES

in €k	31/12/2016	31/12/2017	± in %
Assets	387,512	287,556	-25.8
Liabilities	277,824	215,367	-22.5

For more details on currency risks, refer to the Risk Report starting on page 122.

(44) ADMINISTRATION AND AGENCY SERVICES

in €k	31/12/2016	31/12/2017	± in %
Administration and agency services	**1,538**	**1,769**	**15.0**

(45) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2016	31/12/2017	± in %
Guarantees	387,962	383,312	-1.2
Letters of credit	2,583	4,032	56.1
Contingent liabilities	**390,545**	**387,344**	**-0.8**
Other commitments	1,243,552	1,377,699	10.8
Commitments	**1,243,552**	**1,377,699**	**10.8**

Other commitments consists mainly of credit lines already promised but not yet used. The likelihood of these credit lines being used is continuously monitored, with the probability of draw-down being analysed on a regular basis.

(46) EVENTS AFTER THE BALANCE SHEET DATE

We carried out a 12:1 capital increase in the first quarter of 2018. In total, 3,303,300 new ordinary shares were floated at an offer price of EUR 16.70 per share. The share capital will thus increase by EUR 6,606,600 to EUR 85,885,800. No further material or reportable business transactions took place between the end of the financial year 2017 and the preparation of the financial statements and their certification by the auditor.

(47) ASSETS SERVING AS COLLATERAL FOR LIABILITIES

Liabilities	Assets	31/12/2016	31/12/2017
Money held in trust pursuant to § 230a ABGB	Securities	12,994	12,999
Clearing system deposit for stock exchange trading in Vienna	Securities	1,583	1,585
Deposit for trading through EUREX	Securities	550	788
Collateral for trading through Xetra	Securities	1,484	1,486
Euroclear pledge	Securities	15,019	25,107
EUREX Repo (GC Pooling)	Securities	21,858	3,036
Margin for futures contracts	Receivables from other banks	25,270	8,463
Collateral for OeNB funding	Loans	300,000	300,000
Cover pool of mortgage loans for covered bonds Bonds	Loans	205,072	234,348
Cover pool of public sector debt for covered bonds	Loans	12,485	11,232
Pledge for OeKB CCPA clearing fund	Receivables from other banks	25	50

Trust money savings deposits are secured in conformity with the legal requirements set out in § 68 Banking Act. The cover pool for covered bonds is governed by the Austrian Covered Bonds Act (FBSchVG). In addition, the Group pledges assets as collateral for liabilities arising from derivative transactions.

(48) FEES PAID TO THE BANK AUDITOR

in €k	2016	2017	± in %
Fees for mandatory audits of the single-entity and consolidated financial statements	427	522	22.2
Fees for other auditing services	49	159	>100
Fees for advisory services, including tax advice	124	54	-56.5
Total fees	**600**	**735**	**22.5**

(49) RISK REPORT

Regarding the Risk Report disclosures required by IFRS 7.31 to 7.42, we have made use of the option provided for in the provisions contained in IFRS 7.B6 under which a separate risk report that is a part of the Management Report is permitted to replace disclosures in the notes. The Risk Report is published together with the annual report and financial report, and made accessible to the addressees of the financial statements on the same terms and at the same time as the financial statements.

(50) DERIVATIVES TRANSACTION VOLUME (BANKING BOOK)

	Nominal amount, by time to maturity		
in €k	< 1 year	1-5 years	> 5 years
Interest rate contracts	**-**	**133,788**	**156,000**
OTC products	-	133,788	156,000
Interest rate swaps	-	133,788	156,000
– Calls	-	66,894	78,000
– Puts	-	66,894	78,000
Interest rate options	-	-	-
– Calls	-	-	-
– Puts	-	-	-
Currency contracts	**1,277,527**	**-**	**-**
OTC products	1,277,527	-	-
Currency forwards	538,228	-	-
– Calls	267,980	-	-
– Puts	270,248	-	-
Capital market swaps	335,557	-	-
– Calls	164,646	-	-
– Puts	170,911	-	-
Money market swaps (currency swaps)	403,742	-	-
– Calls	202,715	-	-
– Puts	201,027	-	-
Securities contracts	**-**	**-**	**-**
Exchange-traded products	-	-	-
Stock options	-	-	-
– Calls	-	-	-
– Puts	-	-	-

DERIVATIVES TRANSACTION VOLUME (TRADING BOOK)

	Nominal amount, by time to maturity		
in €k	< 1 year	1-5 years	> 5 years
Interest rate contracts	**332**	**13,448**	**1,138**
OTC products	332	13,448	1,138
Interest rate swaps	120	-	-
– Calls	60	-	-
– Puts	60	-	-
Interest rate options	212	13,448	1,138
– Calls	106	6,724	569
– Puts	106	6,724	569
Currency contracts	**-**	**-**	**-**
OTC products	-	-	-
Currency options	-	-	-
– Calls	-	-	-
– Puts	-	-	-

FINANCIAL INSTRUMENTS (TRADING BOOK)

in €k	31/12/2016	31/12/2017
Interest-bearing securities	-	-
Treasury shares	-	-

Nominal amount		Fair value (positive)		Fair value (negative)	
31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017
284,142	**289,788**	**7,870**	**6,687**	**6,821**	**4,991**
284,142	289,788	7,870	6,687	6,821	4,991
284,142	289,788	7,870	6,687	6,821	4,991
142,071	144,894	-	71	6,821	4,991
142,071	144,894	7,870	6,616	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,672,477	**1,277,527**	**4,494**	**2,542**	**23,629**	**9,274**
1,672,477	1,277,527	4,494	2,542	23,629	9,274
714,549	538,228	2,786	85	858	3,176
358,513	267,980	2,750	12	827	3,176
356,036	270,248	36	73	31	-
350,883	335,557	-	129	21,048	6,089
164,646	164,646	-	-	-	-
186,237	170,911	-	129	21,048	6,089
607,045	403,742	1,708	2,328	1,723	9
303,314	202,715	886	68	5	-
303,731	201,027	822	2,260	1,718	9
-	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Nominal amount		Fair value (positive)		Fair value (negative)	
31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017
17,684	**14,918**	**10**	**6**	**10**	**6**
17,684	14,918	10	6	10	6
600	120	5	-	5	-
300	60	-	-	5	-
300	60	5	-	-	-
17,084	14,798	5	6	5	6
8,542	7,399	5	6	-	-
8,542	7,399	-	-	5	6
-	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Positions (securities and derivatives) entered into by our Money, Foreign Exchange and Securities Trading organisational unit to make market gains or take advantage of interest rate fluctuations were assigned to the trading book. Market value is the amount that can be obtained on the sale of a financial instrument in an active market or would need to be paid to purchase it. If a market price was available, it was taken to be a position's fair value. Where market prices were unavailable, we used internal valuation models, including the present value method.

THE COMPANY'S BOARDS AND OFFICERS

Management Board
Herta Stockbauer, Chairwoman of the Management Board
Dieter Kraßnitzer, member of the Management Board
Wolfgang Mandl, member of the Management Board

Shareholder representatives on the Supervisory Board
Gerhard Burtscher, Chairman
Franz Gasselsberger, Vice Chairman
Christina Fromme-Knoch
Reinhard Iro
Josef Korak
Heimo Penker
Karl Samstag
Sabine Urnik
Gregor Hofstätter-Pobst, from 9 May 2017
Klaus Wallner

Staff Representatives on the Supervisory Board
Maximilian Medwed
Herta Pobaschnig
Hanspeter Traar
Gertrude Wolf
Ulrike Zambelli

Klagenfurt am Wörthersee, 9 March 2018

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

CLOSING REMARKS BY THE MANAGEMENT BOARD

MANAGEMENT BOARD'S STATEMENT PURSUANT TO § 82 (4) BÖRSEGESETZ

The Management Board of BKS Bank AG declares that these annual financial statements were prepared in conformity with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as effective and as adopted by the EU including the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and that they present a true and fair view of the assets, financial position and result of operations of the BKS Bank Group. The Management Board furthermore declares that the management report presents the development of business, profit or loss, and situation of the BKS Bank Group in such a way so as to present a true and fair view of the assets, financial position and result of operations as well as of the material risks and uncertainties to which the Group is exposed.

Klagenfurt am Wörthersee, 9 March 2018

The Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Member of the Management Board with responsibility for Risk Management, Risk Controlling, Credit Back Office, Treasury Back Office, Business Organisation, IT and Technical Services and 3 Banken IT GmbH; also responsible for Back Office, Risk Management and IT outside of Austria

Chairwoman of the Management Board with responsibility for Corporate and Business Banking, Accounts and Sales Controlling, Human Resources, Treasury and International Operations, Public Relations, Marketing, Social Media and Investor Relations, Property, Subsidiaries and Equity Investments; also responsible for Slovenia, Croatia, Hungary and Slovakia.

Member of the Management Board with responsibility for Retail Banking, Private Banking and Securities Operations, Custodian Operations and collaboration with sales partners; also responsible for Italy

PROFIT DISTRIBUTION PROPOSAL

The financial year 2017 of BKS Bank AG closed with a net profit of EUR 9,372,979.71. We propose that a dividend of EUR 0.23 per share be distributed out of the reported net profit as at 31 December 2017. The resulting distribution on 39,639,600 shares would be EUR 9,117,108. Subject to § 65 (5) Akt G, we propose the remainder to be carried forward to new account.

Klagenfurt am Wörthersee, 9 March 2018

The Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

AUDITOR'S REPORT

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit opinion

We have audited the consolidated financial statements of

BKS Bank AG,
Klagenfurt am Wörthersee,

and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) and Section 59a BWG (Austrian Banking Act).

BASIS FOR OUR OPINION

We conducted our audit in accordance with the EU Regulation 537/2014 ("EU Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian commercial and banking law as well as professional regulations, and we 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

During the course of the audit, the following key audit matters were identified:

– Valuation of receivables from customers
– Classification and valuation of companies recorded at equity method
– Recognition and valuation of financial instruments (Level 2 and Level 3).

Valuation of receivables from customers

The description of the accounting and valuation methods is presented in the notes in section "Notes on Individual Items on the Balance Sheet (subsection Impairment charges on receivables from customers) as well as in the section "Discretionary Decisions and Estimates (subsection Impairment of financial assets: impairment charges)".

Risk to the Financial Statements

Receivables from customers are presented in the balance sheet with the amount of TEUR 5,450,150. The impairment charges on receivable from customers amount to TEUR -136,992.

Within the lending monitoring process the Group verifies whether impairment triggers of receivables occurred and, hence, specific loan loss provisions need to be recognized.

Specific loan loss provisions for significant receivables at default are determined individually based on estimates regarding amount and timing of expected future cash flows. Those are mainly influenced by the economic situation and development of customers as well as from the valuation of collateral.

General loan loss provisions for individually non-significant receivables at default and portfolio loan loss provisions for loans without impairment triggers are based on models with statistical parameters such as the probability of default and loss given default, and are influenced by the valuation of existing collateral.

This report is a translation of the original report in German, which is solely valid.

The risk in respect of the financial statement is that impairment triggers might not be identified in time and that the calculation of provisions is based on assumptions and estimates which are subject to discretion and estimation uncertainties.

Our audit approach
We examined the lending approval- and montoring process of the Group. Hereby, we interviewed the responsible employees and went through the internal guidelines. We analysed and assessed whether these guidelines were appropriate to detect the inherent risks and derive adequate loan loss provisions. On a sample basis, we tested the relevant key controls with regard to design and implementation, as well as to effectiveness.

Based on a sample from the credit and loan portfolio with significant receivables we examined whether impairment trigger were detected in a timely manner. The sample selection was made mainly risk oriented with focus on rating categories with higher risk of default. When impairment triggers had been detected for significant receivables, we scrutinized whether the bank's assessments regarding the amount and timing of future cash flows from customers and collaterals were adequate.

We scrutinized the underlying calculation model of general loan loss provisions and portfolio loan loss provisions. Based on the result of the backtesting the applied parameters were analysed whether they are appropriate to determine adequate risk provisions on portfolio levels. Moreover, we assessed the consistency of the underlying database and tested the mathematical accuracy of the risk provision calculation.

Furthermore, we assessed on a sample basis the internal real estate appraisals used as collateral. Valuation experts supported the core audit team and benchmarkes selected real estate appraisals with market data whether their values are within an acceptable range.

Finally, we evaluated whether the disclosures in the notes are adequate.

Classification and valuation of companies recorded at equity method
The description of the accounting and valuation methods is presented in the notes in section "Notes on Individual Items on the Balance Sheet (subsection Investments in Entities accounted for using the Equity Method)".

Risk to the Financial Statements
The Group applies equity methods for its shares in associated companies. Overall, the shares in associated companies recorded at equity amount to a carrying amount of TEUR 520,354. The substantial part relates to Oberbank AG and the Bank für Tirol und Vorarlberg Aktiengesellschaft.

In case of objective impairment indicators of companies recorded at equity, a value in use is calculated based on a dividend discount model. Assumptions on future distributable earnings represent the relevant dividend under consideration of relevant regulatory capital requirements; equity cost rate was used for discounting to the valuation date. This valuation is dependent on internal and external factors, such as business planning, the level of the discount rate and the level of sustainable future profits used as basis in the calculation of the perpetual annuity.

The risk in respect of the financial statement is that impairment triggers might not be identified in time and that the calculation of provisions is based on assumptions and estimates which are subject to discretion and estimation uncertainties.

Our audit approach
We examined whether the requirements for classification as an associated company were met by inspecting the syndicate agreements.

We used valuation specialists who assessed the adequacy of the valuation model and the inherent significant assumptions and discretionary decisions. For this purpose, we assessed the adequacy of assumptions made for determining the discount rate by comparing them with the market and industry specific benchmarks and verified the derivation of the discount rates.

We scrutinized the business plans financials used in the valuation model, comparing and analyzing the actual values for the current year with the values budgeted in the previous year.

Finally, we assessed whether the disclosures in the notes regarding the companies recorded at equity method are adequate.

Recognition and valuation of financial instruments (Level 2 and Level 3)
The description of the accounting and valuation methods is presented in the notes in section "Notes on Individual Items on the Balance Sheet (subsection Measuring the Fair Value of Financial Assets and Liabilities)" as well as in note 35.

Risk to the financial statements
At initial recognition, financial instruments have to be designated to a category. The categorization is essential for the subsequent measurement.
Financial instruments (Level 2 and Level 3) are accounted for an amount of TEUR 98,781 (asset side) and TEUR 99,297 (liability side) in the financial statement.

Given the strong dependence on parameter estimations based on non-observable input factors and internal valuation models, the valuation of financial instruments at fair value accounted on the asset and liability side is, especially level 2 and level 3 instruments, highly discretionary.

This constitutes a risk for the financial statement.

Our audit approach
Regarding the categorization of financial instruments, we tested on a sample basis whether the underlying categorization criteria were met. We also tested whether the subsequent measurement is consistent with the respective category.

In the course of our audit, we used a treasury specialist, and in case of the valuation of investments in non-listed companies, also a valuation specialist, who assessed the valuation models and underlying parameters regarding their adequacy and market conformity.

We verified on a sample basis the calculation of fair values.

Finally, we assessed whether the relevant disclosures in the notes to the consolidated financial statements regarding the categorization and presentation of the valuation methods are complete and adequate.

RESPONSIBILITIES OF MANAGEMENT AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements in Section 245a UGB (Austrian Commercial Code) and 59a BWG (Austrian Banking Act) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

Moreover:
– We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
– We obtain an understanding of 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 Group's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

REPORT ON OTHER LEGAL REQUIREMENTS

Group Management Report

In accordance with the Austrian Generally Accepted Accounting Principles, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements.

Management is responsible for the preparation of the group management report in accordance with the Austrian Generally Accepted Accounting Principles and other legal requirements.

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

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Statement

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

Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report and the auditor's report. We expect the annual report to be provided to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any kind of assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact.

This report is a translation of the original report in German, which is solely valid.

ADDITIONAL INFORMATION IN ACCORDANCE WITH ARTICLE 10 EU REGULATION

At the Annual General Meeting dated 19 May 2016, we were elected as group auditors of BKS Bank AG, Klagenfurt am Wörthersee. We have been the Group's auditors from the year ended 31 December 1991, without interruption.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

AUDITOR IN CHARGE

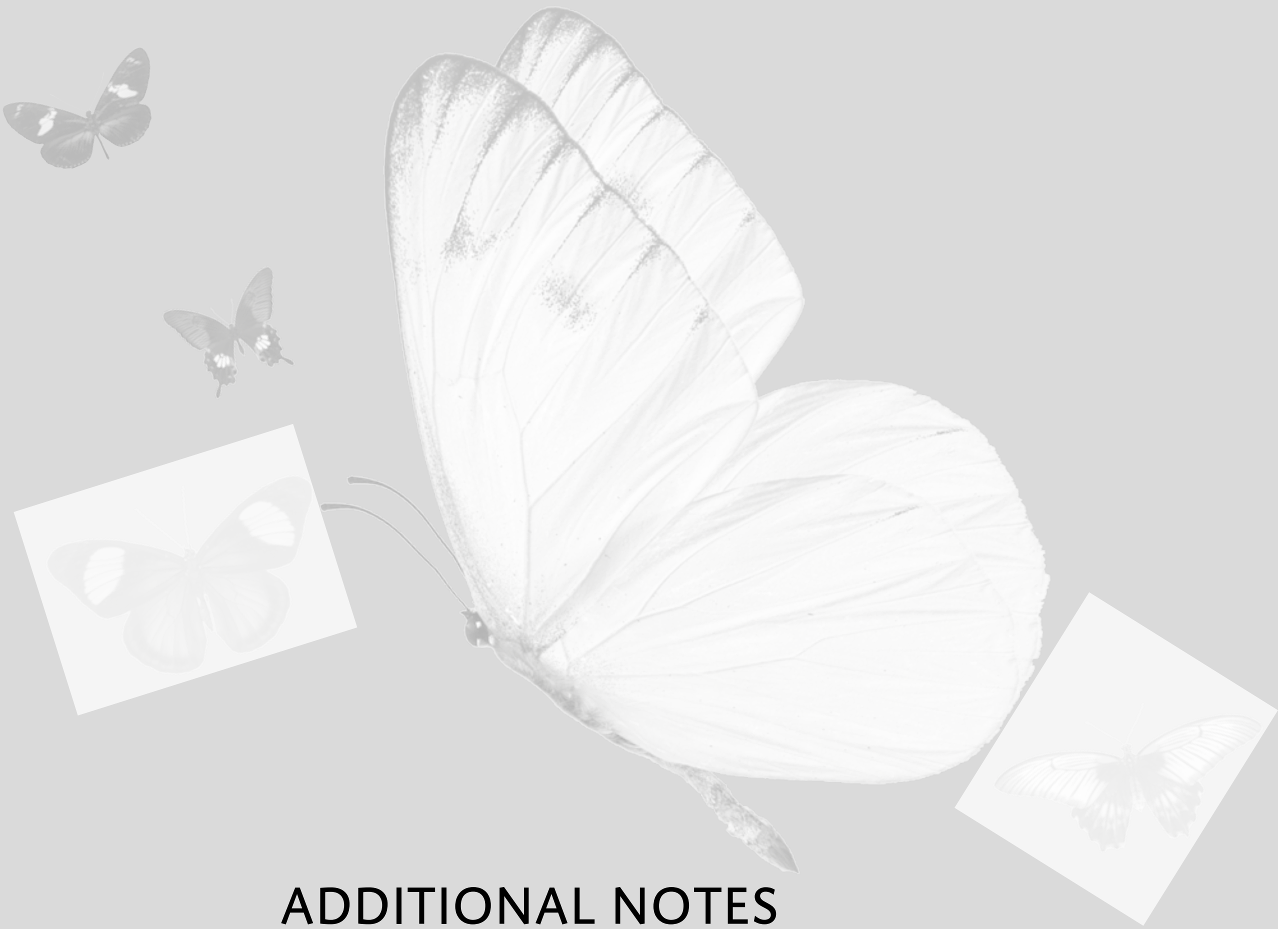
The auditor in charge is Christian Grinschgl.

Klagenfurt, 9 March 2018

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Christian Grinschgl
Wirtschaftsprüfer (Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid. The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the group management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.



ADDITIONAL NOTES

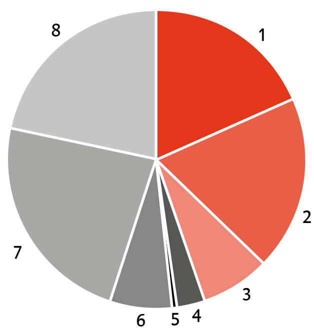
SHAREHOLDERS OF 3 BANKEN GROUP

SHAREHOLDERS OF BKS BANK AG

in %	by voting share	by share
1 Oberbank AG	19.36	18.52
2 Bank für Tirol und Vorarlberg Aktiengesellschaft	19.50	18.89
3 Generali 3Banken Holding AG	7.80	7.44
4 Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	3.09	2.99
5 BKS-Belegschaftsbeteiligungsprivatstiftung	0.42	0.73
6 UniCredit Bank Austria AG	6.10	6.63
7 CABO Beteiligungsgesellschaft m.b.H.	24.25	23.15
8 Free float	19.47	21.65

Share capital in EUR	79,279,200
Number of ordinary no-par shares	37,839,600
Number of no-par preference shares	1,800,000

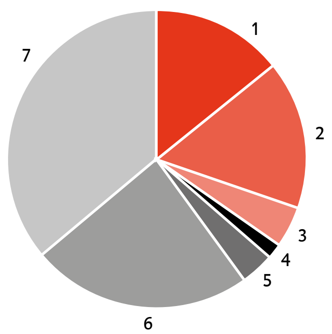
The red highlighting indicates shareholders who have signed syndicate agreements.



SHAREHOLDERS OF OBERBANK AG

in %	by voting share	by share
1 BKS Bank AG	15.21	14.21
2 Bank für Tirol und Vorarlberg Aktiengesellschaft	16.98	16.15
3 Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	4.90	4.50
4 Generali 3Banken Holding AG	1.93	1.76
5 Staff shares	3.76	3.61
6 CABO Beteiligungsgesellschaft m.b.H.	25.97	23.76
7 Free float	31.25	36.01

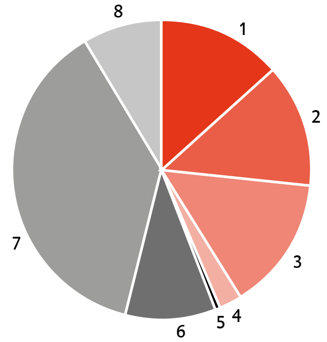
Share capital in EUR	105,921,900
Number of ordinary no-par shares	32,307,300
Number of no-par preference shares	3,000,000



SHAREHOLDERS OF BANK FÜR TIROL UND VORARLBERG AG

in %	by voting share	by share
1 BKS Bank AG	14.78	13.59
2 Oberbank AG	14.38	13.22
3 Generali 3Banken Holding AG	15.77	14.49
4 Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	2.66	2.45
5 BTV Privatstiftung	0.40	0.45
6 UniCredit Bank Austria AG	5.96	9.85
7 CABO Beteiligungsgesellschaft m.b.H.	40.83	37.53
8 Free float	5.22	8.42

Share capital in EUR	61,875,000
Number of ordinary no-par shares	28,437,500
Number of no-par preference shares	2,500,000



HISTORY OF OUR COMPANY

1922
A. v. Ehrfeld enters into a limited partnership with Bayerische Hypotheken- und Wechselbank called Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co. The bank is headquartered in Klagenfurt.

1928
The efforts to transform the limited partnership into a stock corporation result in the establishment of Bank für Kärnten.

1939
The company's name is changed from Bank für Kärnten to Bank für Kärnten Aktiengesellschaft.

1964
Work on the branch network commences.

1983
With the expansion into Styria, the company name is changed to "Bank für Kärnten und Steiermark Aktiengesellschaft" (abbreviation: BKS).

1986
The bank goes public and BKS ordinary share is listed on the Official Market of the Vienna Stock Exchange.

1990
First branch opens in Vienna.

1998
Start of international expansion with the establishment of a representation office in Croatia and the acquisition of a leasing company in Slovenia.

2000
First joint appearance of BKS Bank with the sister banks as the 3 Banken Group.

2003
Acquisition of a majority stake in Die Burgenländische Anlage & Kredit Bank AG (Die BAnK) .

2004
First branch opens in Slovenia and representation office established in Italy.

2005
A representation office is set up in Hungary. The company name is adapted to the expansion of the past few years and is renamed BKS Bank AG.

2007
Acquisition of Kvarner banka d.d. and entry into the Croatian banking market. Acquisition of "KOFIS Leasing" in Slovakia.

2011
Market entry in the Slovak banking market.

2015
The renowned rating agency oekom research AG confirmed BKS Bank's "prime" status for the first time. The bank is thus one of the industry's global leaders in sustainability.

2016
BKS Bank ordinary shares are added to the sustainability index, VÖNIX, of the Vienna Stock Exchange. The Croatian BKS Bank d.d. is merged with BKS Bank AG.

2017
We issue a social bond as the first bank in Austria. BKS Bank is nominated for the first time for the state award for corporate quality and is once again conferred the "EFQM Recognised for Excellence 5 Star" award.

GLOSSARY

Amendment: When changes, additions or improvements are made to existing IFRS standards, they are issued in the form of so-called amendments.

ALM Committee: The Asset/Liability Management Committee is an internal committee of BKS Bank responsible for managing the structure of the balance sheet and liquidity.

Entities accounted for using the equity method are entities in which equity investments are held that are not controlled, but upon whose financial and business policy decisions a significant influence can be exercised. These are recognized in the consolidated financial statements on pro rata basis with the amount of the equity in the company. In the consolidated income statement, the group's interest in their net profit is recognized in accordance with the equity interest held.

The **banking book** contains all on-balance sheet and off-balance sheet items recognized on a bank's balance sheet that are not assigned to the trading book.

BaSAG (Bundesgesetz zur Sanierung und Abwicklung von Banken: Austrian bank recovery and resolution act) implements the recovery and resolution directive for banks and securities firms (see also BRRD) in which Europe has jointly agreed new bank resolution rules. As part of the preventive measures, banks are required to prepare preventative recovery plans and disclose what resolution or restructuring action they intend to take if their financial position deteriorates. These plans are examined and evaluated by the competent supervisory authority (in Austria, Financial Market Authority, FMA). In addition, the regulatory authority has been given extensive powers of intervention. Among other things, it can require the holding of additional equity capital and order the implementation of measures and arrangements in the recovery plan.

Basel III: The package of measures known under the heading of Basel III contains the changes to the international regulatory requirements for banks adopted by the Basel Committee on Banking Supervision (BCBS) in December 2010. These requirements supplement or amend the capital adequacy framework for banks adopted in 2004 (Basel II). The overall aim of the changes is to strengthen regulation, supervision and risk management in the banking sector and thus to make it more crisis resistant. Major elements of the Basel Committee's recommendations for Basel III were incorporated in CRD IV and CRR I (see also Capital Requirements Directive and Capital Requirements Regulation). On 23 November 2016, the European Commission published a draft amendment to CRD IV and CRR I. The main changes of the amendment refer to the rules for determining the net stable funding ratio (NSFR), changes to the method of determining market risk and modifications to the calculation of counterparty default risk (SA-CRR).

GDP: GDP is the total value of all goods (i.e. goods and services) produced in an economy in a year less all inputs. In order to view GDP without the effect of changes in prices, one uses 'real' GDP, where all good and services are valued at the prevailing prices in a base year.

BRRD: The Bank Recovery and Resolution Directive (2014/59/EU) for the recovery and resolution of banks created the legal framework for crisis management in the financial sector. The aim is to make it possible to wind up every bank, regardless of its size or complexity, without endangering the stability of the financial market.

The **Capital Requirements Directive IV** (CRD IV) prepares the ground for a more solid and secure European financial system. The Member States were required to pass this Directive into national law by 31 December 2013. However, all competing provisions and those that were not consistent with the regulation (CRR) had to be removed from existing national legislation. In Austria, the major the changes to the law were in the Banking Act and in the related supervisory regulations which were comprehensively amended.

The **Capital Requirements Regulation (CRR I)** , which is directly effective in Austria's legal system, introduced a common minimum set of instruments for national supervisory authorities and, therefore, binding regulations for all Member States, including provisions on equity components, capital requirements, large loans (large investments), liquidity, debt (leverage) and disclosure regulations.

Corporate Social Responsibility (CSR) is an entrepreneurial practice that combines social justices and ecological responsibility with economic goals: systematic, verifiable, transparent and voluntary.

Corporate Volunteering refers to the voluntary work of employees in social projects as well as support for the volunteer work employees already engage in.

The **Cost/income ratio** measures the relation between operating expenses and operating income of banks. In this context, the general administrative expenses of a financial year are compared with the operating income of the bank. Operating income results from the sum of net interest income and net commission income, trading result and other operating profit. This indicator states the percentage of operating profit used for general administrative expenses and provides information on cost management and cost efficiency. The lower the ratio, the more economically a company is operating.

Counterbalancing capacity (CBC) in the name of the liquidity buffer made up of assets that are easily liquidated or eligible for repo transactions.

Credit spread: The credit spread is the risk premium and the difference in yield between an interest-bearing security and a risk-free reference interest rate with the same maturity. The credit spread risk is the risk of changes to the creditworthiness and/or risk premium-induced changes in the market price of the securities portfolio with a reference to the interest rate.

DBO stands for defined benefit obligation, which is the value of an obligation under a company pension plan based on the projected unit credit method.

Derivatives are financial instruments whose own value changes in response to changes in the market prices or expected prices of other financial instruments. They can therefore be used both to hedge against a drop in value or to speculate on gains in the value of the underlying. Options, futures and swaps are the most common types of derivatives.

Endorsement by the EU: An endorsement is required for new International Financial Reporting Standards to be applicable in Austria. This endorsement refers to a process in which the European Union adopts the International Financial Reporting Standards.

Expected-Loss Model: Expected credit losses that may occur in a financial instrument within 12 months of the date of the transaction or throughout the entire life (life time expected credit loss).

Fair value is defined as the amount for which an asset could currently be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Insofar as market prices exist on exchanges or other functioning markets, these are taken to be the fair value of an asset or liability.

The United States Congress enacted **FATCA** (the Foreign Account Tax Compliance Act) on 18 March 2010 to ensure that US subjects with accounts abroad meet their tax obligations. Under the act, all banks are obliged to identify customers with US ties and, if they consent, to report their names to the US tax authorities.

FATF (Financial Action Task Force on Money Laundering) is an international anti-money laundering body based at the OECD in Paris. Its task is to analyse money laundering and terrorism financing methods and develop measures to combat them.

Available-for-sale (AFS) financial assets are the financial assets of an entity that are designated as available for sale.

Held-to-maturity financial assets (HtM) are financial instruments acquired with a certain maturity and specified interest payments. These are intended to be held until maturity.

Forbearance is the term for concessions made to debtors (e.g. modifications of agreements) if they are in danger of no longer being able to meet their payment obligations. The term encompasses loans, bonds and revocable and irrevocable loan commitments with the exception of held-for-trading exposures. According to European Banking Authority (EBA) guidance, forbearance status must be reported on a quarterly basis.

Maturity transformation is the professional management of differing maturities and the associated differences between the rates of interest receivable and payable on assets and liabilities on a bank's balance sheet while taking account of current and expected market interest rate curves and maturity structures.

Business model pursuant to IFRS 9: Financial instruments must be assigned to a business model pursuant to IFRS 9. The business model defines how the financial instruments are managed and measured. In IFRS 9, a difference is made between the business models "hold to collect", "hold to collect and sell" and "Other".

The **going-concern principle** is the principle according to which financial statements and risk assessments view the entity as continuing in business unless actual or legislative circumstances dictate otherwise. Among other things, this is important when measuring assets.

Green Bonds are bonds for which proceeds of the issue are used exclusively for the pro rata or full financing or refinancing of eligible green projects and that meet all four core components of the Green Bond Principles. These may be new and/or already existing projects. The green projects selected must aim to create a clear benefit for the environment, which can be evaluated, and where feasible, quantified.

The **trading book** contains all positions held by a bank within the scope of its proprietary trading in financial instruments that it holds for re-sale or has acquired so as to exploit, on a short-term basis, existing or expected differences between buying and selling prices or movements in prices or interest rates. Positions not included in the trading book are assigned to the banking book.

Hedging is used to protect existing or future positions against the exposure to risks such as currency and interest rate risks. It involves taking a counter-position to another position so as to completely or partially offset risk.

Historical simulation is a statistical method for measuring value at risk using historical time series data.

ICAAP (the Internal Capital Adequacy Assessment Process) is the name of the extensive process and associated strategy with which banks decide the amount, composition and distribution of their (internal) capital resources. The distribution of economic capital steers and limits all the material operational and other
banking risks.

IFRS earnings per share are consolidated profit for the year after tax divided by the average number of an entity's shares in issue.

ILAAP (Internal Liquidity Adequacy Assessment Process) is, apart from ICAAP, a procedure for assessing the adequacy of internal liquidity pursuant to pillar 2 and thus an important risk management instrument for a credit institution. In the incurred-loss model charges for losses on loans and advances are only recognised in the financial statements when these can be attributed to a loss event that has already occurred.

The **International Financial Reporting Standards** (IFRSs) are the financial reporting standards issued by the International Accounting Standards Board (IASB) in the form of individual standards. The purpose of IFRS-compliant annual financial statements is to give investors information of relevance to their decisions regarding an entity's assets, liabilities, financial position and profit or loss as well as changes therein over time. In contrast, annual financial statements prepared in accordance with the UGB (Unternehmensgesetzbuch) are primarily geared to protecting creditors.

The **International Standards on Auditing** (ISAs) are internationally accepted standards for carrying out annual audits that must be adhered to in accordance with the International Financial Reporting Standards (IFRSs). They are published in the annual manual of the International Federation of Accountants (IFAC).

ISIN stands for International Securities Identification Number. The ISIN is used for the unique global identification of securities and replaced the national system of securities identification in 2003. An ISIN is a 12-character alphanumerical code comprising a two-character international country ID (e.g. AT for Austria), a nine-character national code and a one-digit control key. The ISIN of the ordinary BKS Bank AG share is AT0000624705; that of the preference share is AT0000624739.

Common equity tier 1 capital is divided into common equity and additional tier 1 capital. Common equity tier 1 capital consists of share capital, retained earnings and other reserves. The additional components of tier 1 capital include liabilities evidenced by paper that meet the requirements of CRR Article 52.

Key Audit Matters are the most important audit matters that in the view of the auditor pose the greatest risk of containing a material misstatement.

The **price/earnings ratio** (P/E) is important to investors when assessing shares. To calculate it, the share's stock market price is divided by the per-share earnings recorded or expected in the respective period. If the P/E ratio is relatively low, the stock is felt to be cheaply priced; if it is relatively high, it is seen as expensive.

The **leverage ratio** measures the relationship between common equity Tier 1 capital and non-risk weighted assets inclusive of off-balance sheet items. Its purpose is to restrain business models that are based on lending large amounts to prime borrowers while keeping capital charges to a minimum.

Lifetime expected loss: Lifetime expected losses are the expected credit losses caused by all possible default events over the expected life of a financial instrument.

Liquidity coverage ratio (LCR): The Basel Committee implemented the minimum liquidity coverage requirement to ensure that a bank always has short-term liquidity in a stress situation lasting for 30 days. This is to be achieved by making sure that the net cash outflows under stress — know as a bank's liquidity shortfall — are covered by a liquidity buffer consisting of highly liquid quality assets.

Loan-to-deposit ratio is the relationship between loans to primary deposits. This indicator describes the percentage at which loans can be refinanced by primary deposits.

Market capitalisation is the stock market value of an entity on a particular date. It is calculated by multiplying the number of shares in issue by the current stock market price of one share.

MiFID, MiFID II (Markets in Financial Instruments Directives) lay down uniform rules for investment services provided within the European Economic Area. The main objectives of the MiFID are to heighten market transparency, to strengthen competition among providers of financial services and in this manner improve investor protection. MiFID II addresses numerous weaknesses and shortcomings in the existing rules and regulations. It focuses on trade on regulated platforms and on increasing the transparency of high frequency trading.

Minimum Requirement for Eligible Liabilities (MREL): Minimum requirement for own funds and eligible liabilities pursuant to Art. 45 BRRD. EU Member States must ensures that credit institutions at all times meet the minimum requirements for own funds and eligible liabilities in the event of winding up.

Modified duration is a measure of the sensitivity of a financial investment to interest rates. It provides a means of approximating future changes in market value.

Net stable funding ratio (NSFR): This structural ratio gauges the stability of funding over a horizon of more than one year. It is part of the new liquidity requirements. The NSFR is designed to ensure that the amount of longer-term (stable) funding employed is at least sufficient relative to the liquidity profiles of the assets funded. The aim is to reduce banks' dependence on the functioning and liquidity of the inter-bank market.

NFC Function: This is the abbreviation for near field communication. A NFC card enables the contactless payment of small amounts of up to EUR 25. This payment procedure is faster than the conventional one. Data which was read otherwise by entering the card into the terminal is now transmitted by radio wave.

oekom research AG is a leading global rating agency in the segment of sustainable investments. Its registered office is located in Munich. It rates companies and countries. Additionally, oekom also provides strategy consulting on the most diverse sustainability themes.

ÖNACE is the Austrian version of the European system for the industrial classification of economic activities called NACE (Nomenclature statistique des activités économiques dans la Communauté européenne). The current NACE-compatible nomenclature is called ÖNACE 2008.

OTC (over the counter) derivatives are financial instruments traded off the stock exchange floor directly between market participants.

Payment Services Directive: The Payment Services Directive (PSD, PSD 2) provides the legal basis for creating a single market for payments in the EU.

Primary deposit balances consist of the customer assets made available to a bank in the form of savings, sight and time deposit balances, liabilities evidenced by paper and subordinated debt capital.

The projected unit credit method is an actuarial valuation method used to measure obligations under company retirement benefit schemes stipulated in the international financial reporting standard IAS 19 and in many foreign accounting standards. Only the portion of the obligation already earned is assessed on every valuation cutoff date. The present value of the earned part of the obligation is known as the defined benefit obligation.

The **Random Walk Simulation** is a mathematical model for a random movement derived from a historic time-series.

The **return on assets** (ROA) is profit (net profit for the year after minority interests) expressed as a percentage of the average balance sheet assets.

The **return on equity** (ROE) before or after tax expresses the relationship between profit before or after tax and average equity. This indicator describes the returns earned on equity by a company. The higher the indicator, the more profit the company has made in relation to its equity.

Risk/earnings-ratio (RER) This percentage states what proportion of net interest income has been used to cover credit risk. Risk-to-earnings ratio (RER) This ratio states what proportion of net interest income has been used to cover credit risk.

Social bonds are bonds for which proceeds of the issue are used exclusively for the pro rata or full financing or refinancing of eligible social projects and that meet all four core components of the Social Bond Principles. The green projects selected should aim to create a clear benefit for the environment, which can be evaluated, and where feasible, quantified.

The term **solvency** expresses the relationship between the own funds requirement arising from a bank's (weighted) balance sheet assets and off-balance sheet items and its eligible own funds within the meaning of the CRR. Solvency is regulated in the CRR.

SPPI criterion: The SPPI criterion is used for the classification and assessment of financial instruments. SPPI stands for "solely payment of principal und interest" and is used to determine the contractually-agreed payment flows of a financial asset. SPPI conformity means that the interest reflects the charge for the time value of money, for the default risk and for other fundamental risks, for the costs of the loan transaction and the profit margin. The details of the SPPI criterion in combination with the business model results in a specific classification and assessment pursuant to IFRS 9.

Supervisory Review and Evaluation Process (SREP): Under the Pillar 2 framework of the New Basel Capital Accord (bank supervision review process), the Supervisory Review and Evaluation Process is part of the process of reviewing and evaluating a bank's risk management and the adequacy of its ICAAP alongside the internal capital adequacy assessment process itself. In Austria, it is carried out in respect of less significant banks by the FMA as the competent supervisory authority. It also includes reviewing adherence to all the relevant regulations, identifying breaches and imposing regulatory sanctions.

Swap is the English designation for an swap transaction. Parties to a swap exchange financial obligations, fixed-interest obligations being exchanged for variable ones (interest rate swap) or sums in various currencies being exchanged (currency swap). Interest rate swaps make it possible to hedge against interest rate risks, resulting in a fixed interest rate that provides a solid foundation for calculations. Currency swaps make it possible to hedge against foreign exchange risks by swapping amounts denominated in different currencies together with the associated interest payments.

Total risk exposure amount is the sum of the assets weighted for counterparty risk including the requirements for operational risk, off-balance sheet items and special off-balance sheet items in the banking books determined in accordance with Austrian bank regulators' rules.

Unwinding means capturing the change in the present value of impaired receivables as interest income.

Value-at-risk analysis is a method for quantifying risk. It measures the potential future loss that, within a specified holding period and with a specific probability, will not be exceeded.

Consolidated entities are material, controlled entities whose assets, equity, liabilities, income and expenses net of consolidation items are accounted for in their entirety in consolidated financial statements.

LIST OF ABBREVIATIONS

ABGB	Allgemeines Bürgerliches Gesetzbuch (Austrian Civil Code)
AfA	Absetzung für Abnutzung (depreciation and amortisation)
AfB	"Arbeit für Menschen mit Behinderung"; mildtätige und gemeinnützige Gmbh
AFRAC	Austrian Financial Reporting and Auditing Committee
AfS	Available-for-sale financial assets
AktG	Aktiengesetz (Austrian Stock Corporation Act)
ALGAR	ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H.
AML	Anti-money laundering
APA-OTS	APA-OTS Originaltext-Service GmbH
ALM	Asset/liability management
APRÄG	Austrian Act Amending Audit Regulations of 2016 (APRÄG 2016)
AR	Aufsichtsrat (Supervisory Board)
ATX	Austrian Traded Index (Austrian equity index)
AT1	Additional Tier 1 capital
AVM	Aktives Vermögensmanagement (active asset management)
AVÖ	Aktuarvereinigung Österreichs
AWS	Austria Wirtschaftsservice Gesellschaft mbH
BaSAG	Bundesgesetz zur Sanierung und Abwicklung von Banken (Austrian Bank Recovery and Resolution act)
BCBS	Basel Committee on Banking Supervision
BIP	Bruttoinlandsprodukt (gross domestic product)
BörseG	Börsegesetz (Austrian Stock Exchange Act)
BP	Basis point
BRRD	Bank Recovery and Resolution Directive
BSG	BKS Service GmbH
BTV AG	Bank für Tirol und Vorarlberg Aktiengesellschaft
BWG	Bankwesengesetz (Austrian Banking Act)
CEO	Chief Executive Officer
CBC	Counterbalancing capacity
CET1	Common equity Tier 1 capital
CFO	Chief Financial Officer
CFT	Combating the Financing of Terrorism
CHF/SFr	Swiss franc
CIA©	Certified Internal Auditor
CIR	Cost-to-income ratio
CNY	Chinese renminbi
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRD IV	Capital Requirements Directive IV
C-Rules	'Comply or Explain' rules of the Code of Corporate Governance
CRR	Capital Requirements Regulation
CRS	Common Reporting Standards
CSR	Corporate social responsibility
DAX	Deutscher Aktienindex (German equity index)
DBO	Defined benefit obligation
DCF method	Discounted cash flow method
EAD	exposure at default
EAP	Employee Assistance Programme
EBA	European Banking Authority

ECL	Expected Credit Loss
EFQM	European Foundation for Quality Management
EIP	European Investment Practitioner
ERP	European Recovery Program
ESCB	European System of Central Banks
EUREX	European Exchange (derivatives exchange)
EU-RL	EU Richtlinie (EU Directive)
Eurostat	Statistical office of the European Union
EU-VO	EU-Verordnung (EU Regulation)
EWB	Einzelwertberichtigung (individual impairment charge)
ECB	European Central Bank
FASB	Financial Accounting Standards Board
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force on Money Laundering
FBSchVG	Act on covered bank debt securities
FED	Federal Reserve System
FI	financial instruments
FinTechs	Company in the financial technology industry
FMA	Austrian Financial Market Authority
FSC	Forest Stewardship Council
FTE	Full time equivalent
FV	Finanzielle Vermögenswerte (financial assets)
FVOCI	Fair Value Through Other Comprehensive Income
FVPL	Fair Value Through Profit or Loss
FX-Quote	Fremdwährungsquote (foreign exchange ratio)
GA	Granularity adjustment
GBP/£	Pound sterling
GC	General collateral
GRI	Global Reporting Initiative
GuV-Rechnung	Gewinn- und Verlustrechnung (income statement)
GWh	Gigawatt hour
HQLA	High quality liquid assets
HRK	Croatian kuna
HtM	Held to maturity
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IAS	International Accounting Standard
IC	IFRIC Interpretations Committee
ICAAP	Internal Capital Adequacy Assessment Process
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IKS	Internes Kontrollsystem (internal control system)
ILAAP	Internal Liquidity Adequacy Assessment Process
IR	Investor relations
ISA	International Standards on Auditing
ISIN	International Securities Identification Number
iVV	individuelle Vermögensverwaltung (individual asset management)
IMF	International Monetary Fund

JPY	Japanese yen
KAG	Kapitalanlagegesellschaft (asset management company)
KGV	Kurs-Gewinn-Verhältnis (P/E ratio)
KMU	Kleine und mittlere Unternehmen (SMEs: small and medium-sized enterprises)
KStG	Körperschaftsteuergesetz (Austrian Corporation Tax Act)
LAR	Loans and receivables
LCR	Liquidity coverage ratio
LR	Leverage ratio
L-Rules	'Legal Requirement' rules of the Code of Corporate Governance
MiFID; MiFiD II	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MREL	Minimum Requirement for own funds and Eligible Liabilities
NaDiVeG	Nachhaltigkeits- und Diversitätsverbesserungsgesetz (Sustainability and Diversity Improvement Act)
NSFR	Net stable funding ratio
NPL ratio	Non-performing loan ratio
ÖCGK	Österreichischer Corporate Governance Kodex (Austrian Code of Corporate Governance)
OECD	Organization for Economic Cooperation and Development
OeKB	Oesterreichische Kontrollbank AG
OeNB	Oesterreichische Nationalbank (central bank of the Republic of Austria)
ÖNACE	Austrian version of NACE (Nomenclature statistique des activités économiques dans la Communauté européenne)
OPEC	Organization of Petroleum Exporting Countries
OR Committee	Operational Risk Committee
OTC products	Over-the-counter products
PD	Probability of default
PJ	Personaljahre (person-years)
PSD	Payment Services Directive
RÄG	Rechnungslegungs-Änderungsgesetz 2014 (Financial Disclosure Amendment Act 2014)
Repo	Repurchase agreement
RER	Risk-to-earnings ratio
ROA	Return on assets
ROE	Return on equity
R-Rules	'Recommendations' rules of the Code of Corporate Governance
RTU	Risk-taking units
SIC	Standing Interpretations Committee
SPPI criterion	Solely payments of principal and interest
SREP	Supervisory Review and Evaluation Process
UGB	Unternehmensgesetzbuch (Austrian Business Code)
USD	US dollar
VAR	Value at risk
VStG	Verwaltungsstrafgesetz (Austrian Administrative Fines Act)
Vst.-Vors.	Vorstandsvorsitzende (Chairwoman of the Management Board)
WAG	Wertpapieraufsichtsgesetz (Austrian Securities Supervision Act)
WIFO	Österreichisches Institut für Wirtschaftsforschung
Xetra	Electronic trading system of Deutsche Börse AG also used in Vienna
ZCR/RC	Controlling Department (Risk Controlling)
ZEA	Treasury and International Operations
ZKM	Credit Management Department
ZVB	Office of the Management Board

FORWARD-LOOKING STATEMENTS

This annual report contains statements and forecasts that refer to the future development of the BKS Bank Group. Such forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 9 March 2018. Should the assumptions on which the forecasts are based fail to materialize or the risks described in the Risk Report occur, the actual results may differ from those currently expected. This Annual Report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

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