ANNUAL REPORT 2018

–PRESERVING THE VALUABLE OPEN TO THE NEW–

The pace of digitalisation poses an enormous challenge to us. On the one hand, we have to make the new technologies part of our everyday routines, and on the other, we cannot disregard our fundamental values. The valuable handmade keys of the Schell Collection stand for the centuries-old need of people for privacy and security. A need that is more topical than ever in today’s digital age. In cyber-security, keys turn into encryption. Thus, the antique keys symbolize a treasure that must be preserved to guarantee protection and security for our customers in the future as well.

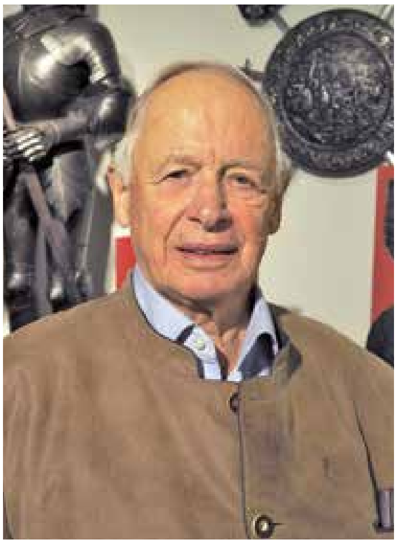
SCHELL COLLECTION

The Schell Collection currently has around 13,000 exhibition pieces making it one of the world's largest collections of locks, keys, lockboxes, coffers, chests and ornamental cast iron objects.

The objects on exhibit to the public are presented in a museum building erected for this purpose with 2,500 m^2 of space located at Wienerstraße 10 in Graz. Of the numerous objects on exhibit, some are always on tour at other exhibitions and at partner museums. The entire collection was built up with private funds without any public means over a period of more than 50 years and constantly enlarged. Seven special-interest books with thousands of colour photographs of the objects have been published in German and English.

We are thankful to the Schell Collection for the permission to use the images of the valuable objects in this Annual Report.

www.schell-collection.com



Hanns Schell

HANNS SCHELL – SUCCESSFUL ENTREPRENEUR AND COLLECTOR

Hanns Schell has been collecting locks and keys for over 50 years.

He was born in Graz in 1938. At the age of 18, he started working at his parents business, Eisenwarengroßhandel Odörfer. In 1962, he married his wife Liselotte. They have five sons and one daughter. In 1969, Hanns Schell became the managing partner of the business. He worked to expand the company by opening new branches and through acquisitions. The steel trade company Filli in Klagenfurt was acquired in 1988 and with the help of Director A. Kropfitsch, the company was expanded to the size it has today. The company, Filli-Stahl became an important production and trade company on the Austrian market.

Hanns Schell developed a passion for old locks early on motivated by his profession and also his mountain-climbing excursions. This passion led to the creation of today's largest collection of locks, keys, lockboxes, coffers, chests and ornamental cast iron objects in the world. Today, Hanns Schell is active in "pre-retirement" in his own words. However, he has long since transferred the company to his sons.

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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

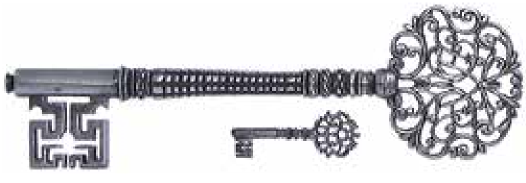
INCOME STATEMENT in €m	2016	2017	2018
Net interest income	120.5	120.7	129.7
Impairment charges	-31.0	-26.7	-18.3
Net fee and commission income	48.8	49.9	55.5
General administrative expenses	-106.4	-107.8	-114.6
Profit for the year before tax	49.8	77.2	87.0
Profit for the year after tax	46.2	68.0	77.4
BALANCE SHEET in €m			
Total assets	7,581.1	7,579.5	8,434.9
Receivables from customers after impairment charges	5,175.3	5,313.2	5,918.0
Primary deposits	5,568.0	5,669.1	6,218.2
– thereof savings deposits	1,529.0	1,475.1	1,429.4
– thereof liabilities evidenced by paper incl. subordinated debt capital	743.2	712.6	750.7
Equity	958.8	1,046.5	1,210.7
Customer funds under management	13,723.2	14,150.7	14,518.4
– thereof on custody accounts	8,155.1	8,481.6	8,300.2
OWN FUNDS UNDER CRR in € m			
Total risk exposure amount	4,974.1	5,016.7	5,283.1
Own funds	670.0	701.6	779.2
– thereof common equity tier 1 (CET1) capital	625.9	614.5	593.7
– thereof total tier 1 capital (CET1+AT1)	625.9	627.8	645.2
Common equity tier 1 capital ratio (in %)	12.6	12.5	12.2
Total capital ratio (in %)	13.5	14.0	14.8
PERFORMANCE RATIOS			
Return on equity after tax	5.1	6.8	6.8
Return on assets after tax	0.6	0.9	1.0
Cost/income ratio (cost/income coefficient)	56.2	51.9	50.3
Risk/earnings ratio (credit risk/net interest income)	20.1	16.7	10.5
Non-performing loan ratio (NPL ratio)	4.8	3.5	2.5
Net stable funding ratio (NSFR)	99.1	105.0	110.2
Liquidity coverage ratio (LCR):	155.6	145.2	137.7
Leverage ratio	8.5	8.0	8.0
RESOURCES			
Average number of staff	926	928	932
Number of branches	60	63	63
THE BKS BANK'S SHARE			
Number of no-par ordinary shares (ISIN AT0000624705)	37,839,600	37,839,600	41,142,900
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000	1,800,000
High (ordinary/preference share) in €	17.3/15.4	18.5/17.8	19.8/18.2
Low (ordinary/preference share) in €	15.8/13.9	16.8/15.4	16.5/16.9
Close (ordinary/preference share) in €	16.8/15.4	17.8/17.7	16.8/17.0
Market capitalisation in €m as at 31 Dec.	662.7	705.3	721.8
Dividend per share in €	0.23	0.23	0.23[1)]
Price/earnings ratio, ordinary/preference share	13.7/12.5	10.4/10.3	9.2/9.3

[1)] Proposal made to the 80th Annual General Meeting of BKS Bank AG on 8 May 2019

PREFACE BY THE CHAIRWOMAN OF THE MANAGEMENT BOARD

–CONTINUITY AND INNOVATION THE KEY TO SUCCESS–

Herta Stockbauer
Chairwomen of the Management Board



Steel cut key,
18th century

DEAR SHAREHOLDERS,

I am very proud to report excellent earnings for the year 2018. Net profit for the year after tax was EUR 77.4 million and 13.8% higher year on year. Our total assets now clearly exceed the eight billion euro threshold. At year-end, the lending volume was EUR 6.0 billion – more than ever before. Primary deposit balances broke a new record at EUR 6.2 billion. And the successful capital increase at the beginning of 2018 was also supportive. A total of 3,303,300 ordinary new shares were placed on the market. With the issuance proceeds of EUR 55.2 million, we will continue our sustainability-driven growth strategy and invest in the expansion of the branch network and in digitalisation. We would like to cordially thank all those investors who bought our new shares.

WITH ENTHUSIASM INTO THE NEW YEAR

In 2018, we achieved a major milestone in Slovenia on our path to growth: In the first half-year, we acquired some 9,000 customers from the brokerage firm GBD (Gorenjska borznoposredniška družba d.d.). A further transaction is planned for 2019. We will acquire around 25,000 customers from ALTA Invest, investicijske storitve, d.d. starting in March 2019. This will make BKS Bank the largest investment service provider in Slovenia.

KEY TO SUCCESS: DIGITAL COMPETENCE AND BRANCHES

Enormous progress was made in the implementation of our digitalisation strategy. Our new portal for corporate and business customers, BizzNet, addresses the main needs of companies and offers a clear separation of private and business transactions. Also designed for corporate and business customers is the Business App. BKS Bank Online for retail customers was renamed MyNet and new functionalities added. Since the start of the reporting year, retail customers have been able to use the product BKS Wallet that features the ZOIN function. The website www.bks.at was redesigned and features many user-friendly functionalities.

Our branches in Austria and abroad remain the points of interaction with our customers. Therefore, we designed the bank branch of the future in 2018. We believe that the bank branch is still the best place to offer first-rate services and we will continue to invest in the expansion of our branch network. In the reporting year, we opened new branches in Vienna and Kranj.

EXCELLENCE AS A FUNDAMENTAL PRINCIPLE

Excellence is an important element of our corporate strategy and is often confirmed by external experts. In a customer satisfaction survey, our customers gave us 1.59 rating which is an excellent score. The high quality of our advisory services is regularly commended by awards. In June 2018, BKS Bank was named the best bank in Austria for financial advice regarding real estate loans by Österreichische Gesellschaft für Verbraucherstudien (ÖGVS) and the business magazine 'trend'. At the beginning of January 2019, we were once again named winner by ÖGVS and the magazine 'trend', though this time in the category "Best Investment Advisor in Austria". We are very proud of these achievements and these serve us as incentive for our future work.

Decisive for these achievements is our quality management system based on the EFQM Excellence Model. Quality Austria regularly conducts enterprise quality assessments, with the last one having been completed in December 2018. The highly satisfactory findings: BKS Bank was awarded the title "EFQM Recognised for Excellence 5*" and added to the "List of Excellent Companies" in Austria. BKS Bank is the only bank on the list.

SUSTAINABILITY AS A SUCCESS FACTOR

Sustainability plays a major role at BKS Bank. The effects of climate change are visible and perceptible, and measures to reduce the strain on the environment are shifting into the focus of international attention. In May, the European Union presented its action plan for financing sustainable growth. This plan aims to incentivize investments in climate protection. The financial industry can make an important contribution to this goal.

One instrument for financing investments in climate protection are green bonds. BKS Bank issued a bond again in 2018 whose issuing proceeds were used to fund an ecological and sustainable project. Our bank is a pioneer in this field.

In the reporting year, we also joined the WWF Climate Group and started a project with WWF Österreich. The objective is to jointly develop a de-carbonisation strategy for our bank. These are some examples of the sustainable activities we engage in to ensure that we remain best in class. And we are best in class. In February 2018, ISS-oekom once again awarded us prime status for our CSR performance. With this rating, the BKS Bank ranks among the best banks worldwide in the area of sustainability.

SUPERVISORY BOARD, MANAGEMENT BOARD AND EMPLOYEES

On 1 September 2018, Alexander Novak, joined the Management Board after having served many years as head of the Slovenia Branch. Wolfgang Mandl, who worked for BKS Bank for over two decades, did not wish to prolong his mandate on the Board and left BKS Bank at the end of 2018. With the close of the 79th Annual General Meeting, Josef Korak left the Supervisory Board. His expertise was a valuable contribution to the work of the Supervisory Board for 13 years. I am pleased to welcome Stefanie Lindstaedt, one of Austria's most prominent digitalisation experts, as a new member on the Supervisory Board.

Our employees performed outstanding work once again in 2018 and the members of the Supervisory Board provided amazing support and backing. I would like to express my greatest appreciation for their hard work and commitment.

Herta Stockbauer
Chairwoman of the Management Board

Ornamental caskets, embossed silver and gold-plated, around 1875

–PROTECTING ASSETS–

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 (ÖCGK). We are also committed to social and ecological responsibility towards our shareholders, customers, employees and the general public. Our sustainability strategy defines the principles of our highly responsible business policy.

AUSTRIAN CODE OF CORPORATE GOVERNANCE (ÖCGK)

The Austrian Code of Corporate Governance (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 of the ÖCGK is to establish responsible corporate management and controls guided by the aspiration to create long-term value. The Code is designed to create a high level of transparency for all stakeholders: shareholders, business partners, customers and employees alike.

Key principles such as the equal treatment of all shareholders, transparency, independence of supervisory board members, open communication between supervisory board and management board, avoidance of conflicts of interest and supervision by the supervisory board and auditors have the aim of strengthening 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 departures from a rule, but require an explanation for them. The Code also contains R Rules ("Recommendations") that are only recommendations. Where R Rules are not complied with, a company need neither disclose nor justify such non-compliance. The special rules applicable to banks and insurance companies are not affected by the Code. The Code does not require the disclosure of operational or business secrets.

COMMITMENT TO ÖCGK

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 27 March 2018.

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 DEPARTURES FROM C RULES

Rule 2 C ('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 carried just one vote. No single shareholder had a disproportionately large voting power. The decision to issue non-voting preference shares was reached in 1991.

Rule 31 C: The disclosure of the remuneration of the members of the Management Board is done 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.

Rule 45 C: On account of the expansion of the body of shareholders, representatives of the largest shareholders have been elected to the Supervisory Board. Since our principal equity holders are likewise banks, their representatives also held positions on the boards of other banks that compete with BKS Bank. These persons have declared their independence in individual declarations.

The Code of Corporate Governance, 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/investor-relations/corporate-governance.

This report describes the corporate governance structures and processes established at BKS Bank. The report was prepared in accordance with § 243c and § 267b Austrian Business Code and meets the requirements of the Sustainability and Diversity Improvement Act (NaDiVeG). The report takes guidance from the provisions in Annex 2a of ÖCGK. Further themes of relevance for the Code of Corporate Governance 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 Code of Corporate Governance 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 the 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. These are closely involved in the risk and compliance management systems of the BKS Bank Group.

The remuneration principles as adopted by the Supervisory Board of BKS Bank AG also apply to the management staff. Regular reports are given to the Supervisory Board of the parent company on developments at significant subsidiaries with business operations.

The European supervisory authorities EBA and ESMA published Guidelines in September 2017 on the assessment of the suitability of members of the management body and key function holders (ESMA71-99-598 EBA/GL/2017/12) as well as Guidelines on Internal Governance (EBA/GL/2017/11). Austria's legislators specified the provisions of both Guidelines in the Banking Act and passed these into law effective 14 June 2018. Transition periods were agreed for certain provisions so that the amendments relating to the definition of formal independence for supervisory board members or those on the composition of the committees enter into force only as of 1 January 2019 or with the next personnel change on the supervisory board, but at the latest as of 1 July 2019 (§ 103w para 1 in conjunction with § 107 para 99 Banking Act).

INFORMATION ON THE INTERNET ON ÖCGK AND BKS BANK

	Address on the internet
Austrian Code of Corporate Governance (ÖCGK)	www.corporate-governance.at
BKS Bank share	www.bks.at/investor-relations/die-bks-bank-aktie
Shareholder structure	www.bks.at/investor-relations/aktionaersstruktur
Financial calendar	www.bks.at/investor-relations/unternehmenskalender
Annual General Meeting	www.bks.at/investor-relations/hauptversammlung
Corporate Governance - Conformity Declaration of BKS Bank AG – Guidelines for Independence – Report of BKS Bank on the Austrian Code of Corporate Governance (ÖCGK) 2018 – Publications pursuant to § 65a Banking Act on Corporate Governance and Remuneration – Articles of Association of BKS Bank	www.bks.at/investor-relations/corporate-governance
Business, Financial and Sustainability Reports of BKS Bank	www.bks.at/investor-relations/berichte-und-veroeffentlichungen
Disclosure pursuant to the Capital Requirements Regulation (CRR)	www.bks.at/investor-relations/berichte-und-veroeffentlichungen
Press Releases of BKS Bank	www.bks.at/news-presse

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 rules of procedure. 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 Management Board member assigned a specific business area is directly responsible for it. However, the other members of the Management Board were always kept fully informed about the enterprise as a whole, and fundamental decisions were submitted to the full Management Board 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, there were four jointly responsible members on the Management Board of BKS Bank.

HERTA STOCKBAUER

Chairwoman of the Management Board, born 1960
Date of initial appointment: 1 July 2004
End of the period of office: 30 June 2024

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

Her areas of responsibility are Corporate and Business Banking, Retail Banking in Austria, Private Banking, Accounts and Sales Controlling, Human Resources, Public Relations, Marketing, Social Media, CSR and Investor Relations, Subsidiaries in Austria and Equity Investments.

Mandates in companies included in the group of consolidated companies:
– Chairwoman of the Supervisory Board of Oberbank AG
– Vice-Chairwoman of the supervisory board of Bank für Tirol und Vorarlberg Aktiengesellschaft

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

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

After completing his study of business administration, Dieter Kraßnitzer worked for the publication 'Börsenkurier' as a journalist and completed several internships at auditing and tax advisory firms. He has worked 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.

Dieter Kraßnitzer is on the Management Board of BKS Bank and responsible for Risk Management, Risk Controlling, Back Office Lending and Treasury, ICT, Organisation, Securities Services as well as for 3 Banken IT GmbH. In the area of international business, he is responsible for the back office and risk management.

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

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

ALEXANDER NOVAK

Member of the Management Board, born 1971
Date of initial appointment: 1 September 2018
End of the period of office: 31 August 2021

Alexander Novak was born in 1971 in Bad Eisenkappel. He studied business administration at the University of Economics and Business Administration of Vienna. After his studies, he first worked as a tax advisor and in international commodity trading before he started his career at BKS Bank in 2000 as a team member of accounting and controlling. From 2004, he worked to build up the Slovenia Branch. He headed the branch from its establishment until he was appointed to the Management Board in 2018.

On the Management Board of BKS Bank, Alexander Novak is responsible for Corporates and Retail Banking abroad, for Group Treasury, Leasing and Real Estate subsidiaries abroad and for IT on foreign markets.

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

WOLFGANG MANDL

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

Wolfgang Mandl started his career in 1990 as an account manager for retail banking customers at the Spittal branch and completed his study of applied business administration in 1997 at the Alpen-Adria University Klagenfurt Afterwards, he assumed several assignments for corporates at the head office in Klagenfurt before he became Head of Klagenfurt Regional Head Office in 2003 as responsible management member for retail banking. In January 2013, he became a member of the Management Board of BKS Bank AG. Wolfgang Mandl did not wish to prolong his mandate on the Board and resigned from the Management Board and BKS Bank effective 31 December 2018.

REMITS OF THE MANAGEMENT BOARD

HERTA STOCKBAUER	DIETER KRAßNITZER	ALEXANDER NOVAK[1]

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 *as defined in the internal business rules, ÖCGK and supervisory law*

HERTA STOCKBAUER	DIETER KRAßNITZER	ALEXANDER NOVAK[1]
– Corporate and Retail Banking in Austria – Private Banking – Accounting and Management Accounting for Sales – Human Resources – Public Relations, Marketing, Social Media, Investor Relations – Subsidiaries in Austria and Equity Investments	*– Risk Management – Risk Controlling – Back Office Lending, Branch Services and Treasury – ICT and Business Organisation – 3 Banken IT Gesellschaft m.b.H. – Securities Services – International Business: Back Office and Risk Management*	*– Corporate and Retail Banking abroad – Group Treasury – Leasing and real estate subsidiaries abroad – ICT abroad*

[1] from 1 September 2018

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 Code of Corporate Governance and the provisions of § 28a Austrian Banking Act.

WORKING PROCEDURES OF THE SUPERVISORY BOARD

The Supervisory Board pursues the goal of fulfilling its supervisory and advisory functions optimally based on the expert qualifications, diversity and personal competence of its members.

The Supervisory Board of BKS Bank consisted of ten shareholder representatives and four members delegated by the Works Council. The Supervisory Board advises and monitors the Management Board of the bank, with the expert work being conducted at the plenary board meetings and also in the commitees of the Supervisory Board. The Supervisory Board reaches decisions autonomously on appointments to the Management Board and on the appointment of the chairperson of the Management Board, and it develops long-term successor planning together with the Management Board. The Supervisory Board monitors the management in accordance with the requirements of the law, the articles of association and the internal 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, moreover, 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 decisions on dividend distributions. The chairperson of the Supervisory Board is responsible for the organisation of the Supervisory Board, for preparing meetings and for collaboration with the Management Board. The Supervisory Board also leads the annual general meetings of BKS Bank and heads the committees of the Supervisory Board.

The rights and obligations of the employees’ representatives are generally equal to those of shareholders. This applies, in particular, to the right to receive information and to monitoring rights, to the obligation to act with due diligence, to the obligation to maintain secrecy and to the liability for failure to comply. In the event of personal conflicts of interest, employees' representatives shall abstain from voting, the same being applicable to shareholders' representatives. In the reporting year, no member of the Supervisory Board had a conflict of interests in the meaning the C Rule 46 of ÖCGK. The remuneration of the Members of the Supervisory Board is presented in detail in the remuneration report on page 33 et seq.

MEMBERS OF THE SUPERVISORY BOARD OF BKS BANK AG

HONORARY PRESIDENT

Hermann Bell

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

SHAREHOLDER REPRESENTATIVES

Gerhard Burtscher

Chairman, independent, born 1967
Initially elected: 19 May 2016, appointed until the 82nd Annual General Meeting (2021)
Mandates on supervisory boards and similar functions in domestic and foreign listed companies:
– Vice-Chairman of the Supervisory Board of Oberbank AG

Franz Gasselsberger

Vice-Chairman, independent, born 1959
Initially elected: 19 April 2002; appointed until the 81st Annual General Meeting (2020).
Mandates on supervisory boards and similar functions in domestic and foreign listed companies:
– Chairman of the Supervisory Board of Bank für Tirol und Vorarlberg Aktiengesellschaft
– 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)
Mandates on supervisory boards and similar functions in domestic and foreign listed companies:
– Member of the Supervisory Board of Bank für Tirol und Vorarlberg Aktiengesellschaft
– Member of the Supervisory Board of Oberbank AG

Reinhard Iro

Independent, born 1949
Initially elected: 26 April 2000; appointed until the 84th Annual General Meeting (2023).
Mandates on supervisory boards and similar functions in 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; resigned from the Supervisory Board as of the end of the 79th Annual General Meeting on 9 May 2018.

Stefanie Lindstaedt
Independent, born 1968
Initially elected: 9 May 2018, appointed until the 84th Annual General Meeting (2023)

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)
Mandates on supervisory boards and similar functions in domestic and foreign listed companies:
– Member of the Supervisory Board of Bank für Tirol und Vorarlberg Aktiengesellschaft
– 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 1963, initially delegated: 1 December 2012
Herta Pobaschnig, born 1960, initially delegated: 1 June 2007
Hanspeter Traar, born 1956, initially delegated: 1 January 2003
Ulrike Zambelli, born in 1972; initially delegated: 15 June 2015
Gertrude Wolf, born 1960, initially delegated: 1 November 2013; left the Supervisory Board on 28 February 2018.

The number and type of all additional mandates of the Supervisory Board comply with the mandate restrictions for all members pursuant to § 28a para 5 Banking Act.

REPRESENTATIVES OF THE SUPERVISORY AUTHORITY

Wolfgang Eder, born 1964
Date of initial appointment: 1 September 2017

Dietmar Klanatsky, MA, born 1971
Date of initial appointment: 1 January 2018

INDEPENDENCE OF THE SUPERVISORY BOARD

The majority of the members of the Supervisory Board should be independent as specified in C Rule 53 of the Code of Corporate Governance. 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 constitute a material conflict of interests and would therefore be capable of influencing the behaviour of the member.

Each of them have declared their independence in accordance with the guidelines below in an individual declaration. Furthermore – with the exception of Franz Gasselsberger, Gerhard Burtscher, Karl Samstag and Gregor Hofstätter-Pobst – no members of governing bodies of 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 subsidiaries or individuals (including Supervisory Board members) that could jeopardize the Bank's independence.

The Supervisory Board defined the criteria below for the assessment of the independence of a member of the Supervisory Board:

GUIDELINES OF THE SUPERVISORY BOARD OF BKS BANK ON INDEPENDENCE

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 para 2 Stock Corporation Act.

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 also applies to business relationships with companies in which the Supervisory Board member has a significant business interest. The approval of individual business transactions by the Supervisory Board in accordance with L Rule 48 shall not automatically mean qualification as not independent. The conclusion or existence of agreements with the Company that are customary in the banking business shall not be deemed to prejudice the Supervisory Board member's 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.

The 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

The Supervisory Board takes care of its business as a rule at its plenary meetings, but delegates individual matters to five qualified committees. The establishment of these committees and their decision-making powers are defined in the internal business rules for the Supervisory Board. The nomination of members to the committees from the Works Council is done in accordance with the provisions of the Austrian Labour Act (Arbeitsverfassungsgesetz). The chairperson of a committee reports regularly to the plenary meeting of the Supervisory Board on the work of the respective committee.

AUDIT COMMITTEE

The key tasks of the Audit Committee pursuant to § 63a para 4 Banking Act include the auditing of the single-entity financial statements and the preparation of its approval, the audit of the consolidated financial statements and the Group management report, the audit of the proposal for the appropriation of profits, the management report and the corporate governance report. Moreover, the Audit Committee monitors the financial reporting processes, audits the effectiveness of the internal control system (ICS), the internal auditing system and the risk management system. Additionally, the Audit Committee monitors the audits of the single-entity financial statements and consolidated financial statements. It prepares the proposal for the selection of the auditor and monitors the independence of the auditor.

WORKING COMMITTEE

According to the internal business rules, the Working Committee usually reaches its decisions by circular vote on matters that cannot be decided by the plenary meeting or the Credit Committee due to their urgency. This body is convened as needed and communicates closely with the Management Board. The proposals made to the Management Board and the outcomes of the vote must be reported afterwards to the full Supervisory Board.

RISK AND CREDIT COMMITTEE

The main tasks of the Risk and Credit Committee pursuant to § 39d Banking Act include advising the management on the bank's current and future risk appetite and risk strategy and in respect of monitoring implementation of the risk strategy. Furthermore, the Risk and Credit Committee reviews if the pricing policy is adequate for the business model and the risk strategy of the credit institution.

The Risk and Credit Committee also decides on the granting of new loans and loan prolongations, and on leasing and guarantee transactions as of a certain volume of debt. As a rule, these decisions are reached by circular vote. At the subsequent meetings, the Supervisory Board is informed of the decisions reached.

NOMINATIONS COMMITTEE

The Nominations Committee presents proposals to the Supervisory Board for filling vacant mandates on the Management Board and Supervisory Board, and deals with succession planning. Furthermore, the Nominations Committee is responsible for issues relating to diversity and also reviews the fit and proper status of the members of the Management Board and Supervisory Board. It also evaluates the management's policies for the selection and appointment of persons to top management positions.

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 Banking Act and the related Annexes. It discusses and suggests changes to, among other things, the remuneration policy guidelines of BKS Bank and of the Group, and presents these to the Supervisory Board for approval.

COMMITTEES ESTABLISHED 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	✓				
Maximilian Medwed	✓				
Herta Pobaschnig	✓				✓
Hanspeter Traar		✓	✓		
Ulrike Zambelli		✓	✓		

MEETINGS AND MAIN ACTIVITIES OF THE SUPERVISORY BOARD

Four meetings of the Supervisory Board were held in the financial year 2018. At every Supervisory Board meeting, the Management Board members reported on the current development of the financial position, profit or loss and assets of the company and on the risk situation of BKS Bank and its affiliates. Furthermore, at every meeting, current regulatory requirements and their impact on BKS Bank were discussed. The Management Board discussed in detail the business strategy and presented all matters requiring its approval to the Supervisory Board in timely manner. Moreover, after the end of Supervisory Board meetings, fit and proper training courses were held.

The first meeting of the Supervisory Board of BKS Bank took place on 27 March 2018. The Supervisory Board reviewed the financial statements and management report of BKS Bank AG, the consolidated financial statements and Group management report as well as the corporate governance report 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 2017 and the consolidated financial statements and Group management report for the year ended on 31 December 2017 as well as the proposal for the distribution of the profit for 2017. The Chairperson of the Audit, Nominations and Remuneration Committee reported on the key issues discussed at the 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, Alexander Novak was appointed a new member of the Management Board by unanimous vote and the mandate of Herta Stockbauer was prolonged by a further five years.

The second meeting of the Supervisory Board was held right after the 79th Annual General Meeting on 9 May 2018. At this meeting, the assembly dealt with the elections for the chairperson and vice chairperson as well as with the appointments to the five committees of the Supervisory Board. The current appointments to the committees of the Supervisory Report are presented on page 26. The chairperson of the Supervisory Board also holds the position of chairperson of all committees.

The third meeting took place on 12 September 2018. The Management Board reported on the development of business in the first half-year 2018 and presented the outlook for the full year 2018 and the risk report. Afterwards, there were detailed reports from the Audit Committee. Moreover, the revised financial recovery plan was adjusted to comply with the supervisory requirements and approved, and the proposal of the Management Board to amend the business rules were also approved. 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.

At the fourth meeting of the Supervisory Board on 5 December 2018, the Management Board presented the further development and implementation of the company strategy 2022 to the full Supervisory Board, as well as the measures derived therefrom to achieve the company goals. Furthermore, the outlook for 2018, the earnings, costs and investment budget for 2019 as well as the planned volume of own issues for 2019 were presented to the Supervisory Board for approval. The full Supervisory Board also discussed the report on major loans granted pursuant to § 28b Banking Act. Additionally, a report on the resolution of the Working Committee on the issuance of an AT 1 note was presented. The amendments required by law to the fit and proper rules were added to the Fit and Proper Policy of BKS Bank and approved by the Supervisory Board. The Policy entered into force on 1 January 2019.

MEETINGS AND MAIN ACTIVITIES OF THE COMMITTEES

AUDIT COMMITTEE

The Audit Committee met twice in the reporting year. At the first meeting on 27 March 2018, the consolidated financial statements including the Group management report 2017, the single-entity financial statements including the management report 2017, the report of the chairperson of the Supervisory Board and the proposal for the distribution of the profit, 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 79th Annual General Meeting to charge KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt with the audit of the single-entity financial statements 2019 of BKS Bank AG and the consolidated financial statements for 2019.

At the second meeting on 12 September 2018, the motion of the Management Board for approval of any permissible non-audit services by the auditors was adopted. Twice a year, a report is made to the Audit Committee on the non-audit services actually provided. Pursuant to § 63a para 4 nos 1 and 2 Banking Act, 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 the risk management system. The representatives of the auditing firm KPMG Austria GmbH attended the two meetings as experts for the purpose of providing information.

WORKING COMMITTEE

In the reporting year, the Working Committee adopted six resolutions. These included two resolutions on the capital increase of BKS Bank and resolutions on the establishment of a branch in Kranj, the acquisition of the customer base of ALTA Invest, investicijske storitve, d.d., the capital increase of BTV in the autumn of 2018 and the issuance of an AT 1 note in December 2018

RISK AND CREDIT COMMITTEE

The Risk and Credit Committee adopted almost all of its resolutions during the reporting year by circular vote due to the need for prompt decisions and dealt with 44 loan applications. The Committee reported on these resolutions at the respective subsequent plenary meetings of the Supervisory Board. At the meeting of 5 December, the Committee discussed BKS Bank's risk situation as well as the operational and other banking risks pursuant to § 39 para 2b Banking Act.

To this end, the members of the Committee scrutinised the risk management and the finalised risk strategy. The risk management process of the bank is effective and reasonable, and risk monitoring is conducted in an orderly manner.

NOMINATIONS COMMITTEE

The Nominations Committee met on 26 March 2018. The members of the Nominations Committee conducted the annual fit and proper evaluation for the Supervisory Board and the Management Board. The members of the Nominations Committee themselves had undergone and passed the fit and proper evaluation already at the Supervisory Board's meeting of 23 November 2017.

Wolfgang Mandl's mandate on the Management Board expired on 31 December 2018. As Wolfgang Mandl will be embarking on a new path in his professional career, he requested the Chairman of the Supervisory Board to refrain from prolonging his mandate on the Management Board. The Nominations Committee therefore proposed to the Supervisory Board to appoint Alexander Novak as a new member of the Management Board effective 1 September 2018. Alexander Novak had been Head of the Slovenia Branch up to then. Furthermore, the proposal was made to the Supervisory Board to prolong the mandate on the Management Board of Herta Stockbauer by a further five years.

The Nominations Committee also dealt with the prolongation and filling of vacant mandates on the Supervisory Board. As the period of office of Reinhard Iro ended at the close of the 79th Annual General Meeting on 9 May 2018, a proposal was made for his reelection for the maximum permissible period under the articles of association. Josef Korak resigned from the Supervisory Board based on the drawing of lots in accordance with the articles of association of BKS Bank AG. He was not available for reelection to another term. Therefore, the Nominations Committee proposed to appoint Stefanie Lindstaedt to the Supervisory Board for the maximum permissible period under the articles of association.

REMUNERATION COMMITTEE

The Remuneration Committee met on 26 March 2018. At the meeting, the Committee members discussed the principles of the remuneration policy and its implementation. To this end, the Head of Risk Management was also available to the Committee members for consultation.

The Remuneration Committee adopted the amendments to the Remuneration Guidelines for BKS Bank AG and Group by unanimous vote, and presented these to the full Supervisory Board for approval.

The members of the Remuneration Committee also discussed the remuneration of top management staff, top risk management staff, compliance positions, persons responsible in control functions and risk buyers. The Remuneration Committee reached the conclusion that the fixed and variable components of the remuneration of the persons concerned did not contain any misguided incentives and that the remuneration granted was in compliance with statutory provisions.

Furthermore, the Remuneration Committee decided to pay out a fifth each of the variable remuneration for the years 2013 to 2016, for which provisions had been set aside, and to adjust the salaries of 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 ÖCGK. At the meeting of 27 March 2018, 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 work procedures assessed as efficient and effective.

REMUNERATION REPORT

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

Details on the remuneration practices are published in the Disclosure Report pursuant to the Capital Requirements Regulation (CRR), which is available at www.bks.at under » Über uns » Investor Relations » Berichte und Veröffentlichungen.

REMUNERATION OF MANAGEMENT BOARD MEMBERS

At its meeting of 25 November 2010, the Supervisory Board delegated all matters relating to the remuneration of the Management Board to the Remuneration Committee. The Committee has since 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 Banking Act including Annexes.

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 2018. 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 Banking Act. By complying with the detailed regulatory provisions for banks regarding the remuneration policy of credit institutions, the requirements of § 78 (1) Stock Corporation Act were also fully met.

The remuneration of active members of the Management Board of BKS Bank is oriented on their areas of work and remits, on their contribution to profits, and on the appropriate standards applicable to companies of similar size from the same industry. This takes into account a balanced ratio of fixed and variable components, with the guidance for the variable components being 25% of total remuneration. The variable remuneration components are limited to 40% of total 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 own funds 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 were used as a measure for granting variable remuneration components.

These include, for example:
– percentage use of economic capital
– NPL ratio
– indicators on concentration risk in the lending business
– interest rate risk in percentage of own funds
– loans-to-deposits ratio
– absolute 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, the members may be requested to return the amounts.

In the reporting year, the remuneration of active members of the Management Board totaled EUR 1,460.3 thousand (pr. yr.: EUR 1,349.0k), of which approximately 84% were fixed and approximately 16% variable. In accordance with the Remuneration Guidelines, one-fifth of the variable remuneration set aside for 2012, 2013, 2014, 2015 and 2016 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 have any partial payouts of variable components in the form of BKS Bank shares or options on these shares. Therefore, the variable components paid out to the members of the Management Board do not provide any incentives to assume unreasonable risks.

The rules based on the FMA circular on the “Principles of Remuneration Policy and Practices” for the variable remuneration components were amended to the effect that the assessment basis is no longer the total remuneration, but rather the fixed amount.

The remuneration paid to the Management Board in the reporting year is also presented in the notes to the financial statements on p. 218. Termination benefits net of provisions was EUR 11 thousand. With respect to termination and post-retirement benefits for active Management Board members, a volume of EUR 367 thousand were released in the reporting year.

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

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 termination benefits upon end of their employment contracts pursuant to the provisions of the Act on Salaried Employees and of the Collective Agreement for Banks. Management Board members whose appointment takes place after 2018 are subject to the rules of the Act on Retirement Provisions for Company Employees and the Self-employed with respect to termination benefits.

The rules applicable to the premature termination of the position on the Management Board comply with the provisions of C Rule 27a of 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 BKS Bank. Unless there is good 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, the compensation payment for a maximum amount of two total annual remunerations is fully forfeited.

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 865.2 thousand (pr.yr.: EUR 940.0 thousand).

REMUNERATION PAID TO THE MANAGEMENT BOARD

in €k	2017	2018
Remuneration of active Management Board members	1,349	1,460
– of which Herta Stockbauer	671	664
– of which Dieter Kraßnitzer	364	407
– of which Wolfgang Mandl	314	304
– of which Alexander Novak	-	84
Post-employment benefits for former Management Board members and their survivors	940	865
Allocation to severance and retirement provisions for active Board members	116	-367

REMUNERATION OF TOP MANAGEMENT STAFF

The Remuneration Guidelines also apply to the heads of departments at the head office, the heads of domestic and foreign main branches and the managing directors of consolidated domestic and foreign companies. The top management employees responsible for the market are classified as risk buyers. The share of variable remuneration in relation to total remuneration is limited to 25% of the fixed remuneration component or to the absolute figure of EUR 30,000. Therefore, the remuneration system does provide any incentives to assume unreasonable risks. The Remuneration Committee regularly evaluates the variable remuneration components and compliance with the remuneration rules. Top management staff are additionally subject to the fit and proper rules of BKS Bank.

DIRECTORS & OFFICERS INSURANCE

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

REMUNERATION OF SUPERVISORY BOARD MEMBERS

The remuneration paid to Supervisory Board members is regulated in the articles of association of BKS Bank. The remuneration is adjusted as needed by the Annual General Meeting. An adjustment was made last at the Annual General Meeting of 9 May 2017.

In the reporting year 2018, the chairperson of the Supervisory Board received EUR 24,000, the vice chairperson EUR 20,000 and further shareholder representatives EUR 18,000 each per year. The reimbursement of expenses for each meeting attended was EUR 150 per meeting. Supervisory Board members who belong to one or more Committees set up by the Supervisory Board are paid a fee for their work on the respective committees. The annual remuneration of members of the Audit, Risk and Credit Committees amounted to EUR 6,000 for each member, and for member of the Remuneration Committee to EUR 3,000 for each member. Remuneration for the members of the Working Committee and the Nominations Committee was EUR 2,000 and EUR 1,000 respectively for each member.

The member of the Supervisory Board nominated by UniCredit Bank Austria AG, Gregor Hofstätter-Pobst, does not receive any remuneration. The UniCredit Bank Austria AG requested us to refrain from paying such remuneration due to the internal rules for supervisory board activities of active managers of the UniCredit Group. The Generali Group also has internal rules regarding the remuneration for members of governing bodies. Remuneration for the supervisory board activities of Klaus Wallner is not paid to him directly, but to the company for which he works.

In the reporting period, total remuneration granted to the shareholder representatives on the Supervisory Board amounted to EUR 236.1 thousand. The payments are made only after the Supervisory Board has been discharged from liability by the Annual General Meeting for financial year 2018. No member of the Supervisory Board participated on fewer than half of the plenary meetings. The attendance rate of the shareholder and staff representatives was therefore 92.9%.

SUPERVISORY BOARD REMUNERATION

Name in EUR	Fixed SB fees	Committee work	Meeting fee	Total Remuneration 2018
Gerhard Burtscher	24,000	18,000	600	42,600
Franz Gasselsberger	20,000	14,000	600	34,600
Christina Fromme-Knoch	18,000	-	600	18,600
Gregor Hofstätter-Pobst[1)]	-	-	-	-
Reinhard Iro	18,000	5,000	600	23,600
Josef Korak[2)]	6,337	-	150	6,487
Stefanie Lindstaedt[3)]	11,663	-	450	12,113
Heimo Penker	18,000	12,000	600	30,600
Karl Samstag	18,000	-	450	18,450
Sabine Urnik	18,000	6,000	600	24,600
Klaus Wallner[4)]	18,000	6,000	450	24,450

1) This member of the Supervisory Board did not receive any remuneration or meeting fees due to an internal rule of the UniCredit Group.
2) until 9 May 2018
3) from 9 May 2018
4) Under an internal rule of the Generali Group, this SB member does not receive the SB remuneration personally, but rather it is allocated to the company at which the SB member is active.

REMUNERATION OF THE BANK AUDITOR

At the 78th Annual General Meeting of 9 May 2017, the resolution was taken by unanimous vote to charge 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 2018. The bank auditor presented a list of all revenues received in the preceding financial year broken down by category of service to the Supervisory Board as well as a budget for the expected audit costs for the financial year 2019. 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 (APRÄG 2016) provides for a strict separation of audit and non-audit services that are permitted to be provided by the auditor and its network. The Audit Committee approved the budget for permissible non-audit services and checked adherence with the budget limit. In the reporting period, we spent a total of EUR 654 thousand on fees for mandatory audits. EUR 166 thousand were attributable to other advisory services, and EUR 61 thousand to business and tax advice.

INFORMATION ON FEES PAID TO THE BANK AUDITOR

in €k	2017	2018
Fees for mandatory audits of the single-entity and consolidated financial statements	522	654
Fees for other auditing services	159	166
Fees for advisory services, including tax advice	54	61
Total	**735**	**881**

DIVERSITY CONCEPT AND MEASURES TO PROMOTE WOMEN

BKS Bank's policy on human resources is designed to ensure equal opportunities and rights to all employees and to prevent any type of discrimination. When appointing members to the Management Board, when filling management positions and when making proposals for the election of members to the Supervisory Board we give due consideration to the expert know-how and personal qualifications of the candidates and to the aspects of diversity.

EQUAL OPPORTUNITY FROM THE START

It is our philosophy to extend equal treatment to all employees and to take action to prevent anyone from suffering a disadvantage or being discriminated against. When selecting personnel, we always give preference to the person who best meet the requirements irrespective of sex, age or socio-cultural background. When filling management positions, all employees have equal career opportunities. Our goal is to fill top-level and second-level management positions primarily with staff from our own ranks. We have defined a target ratio for this purpose. A number of promotion and development programmes are in place to achieve this goal. Any employee with an interest may apply to participate in the promotion and development programmes; it is not necessary to be nominated by an immediate superior. In this manner, we ensure equal opportunity. Furthermore, we committed ourselves to a Code of Conduct years ago under which we disclose our position on equal opportunity, equal treatment and diversity.

CRITERIA FOR THE SELECTION OF MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS

When making proposals to the Annual General Meeting regarding appointments for mandates becoming vacant, the Supervisory Board and the Nominations Committee must give due consideration to adequate representation of both genders, internationality, age structure, and the educational and professional background of potential applicants. The criteria for the selection of Management Board and Supervisory Board members are defined in the fit and proper policy of BKS Bank.

The criteria for the selection of Management Board and Supervisory Board members include a relevant theoretical education, practical knowledge and several years of experience in management positions. Furthermore, the suitability for a mandate on the Management or Supervisory Board requires personal qualifications such as integrity and impartiality, personal reliability, a good reputation and the fulfilment of governance criteria.

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

Since May 2018, an experienced digitalisation expert has been a member of the Supervisory Board of BKS Bank. All members of the Management Board and the majority of the members of the Supervisory Board have a university degree and hold – or have held – a management position in the banking and insurance sector. Two Supervisory Board members teach and engage in research at universities and at non-university research institutions. Staff representatives on the Supervisory Board are long-year employees with a profound knowledge of BKS Bank.

The Management Board members and the shareholder representatives on the Supervisory Board have a broad range of experience at national and international companies and research institutions. They are very familiar with the special situations that result from the different cultural practices and other legal systems. The Management Board and Supervisory Board members have excellent foreign language skills.

We have a special interest in winning over qualified women for positions of responsibility. The Nominations Committee defined the target ratio for the underrepresented gender on the Management and Supervisory Boards at 30% in 2014. The members of the Nominations Committee monitor compliance with the target ratio and review the effectiveness of the measures decided to promote women.

In the reporting year, the share of women on the Supervisory Board was increased further by the election of Stefanie Lindstaedt. 30% of the capital representatives and half of the staff representatives are women, which corresponds to a total ratio of 36%. There was one change on the Management Board of BKS Bank in the year under review. In order to guarantee an orderly handover, the Management Board temporarily consisted of four persons – one women and three men – from September on. The share of women on the Management Board at year-end was therefore 25% and has been 33% again since the start of the year.

Age plays a role when assessing the suitability of potential candidates, as a balanced age distribution is of relevance when assessing facts of a matter and for reasons of succession. We do not want to discriminate against anyone due to a specific age, but take care to ensure an age mix that also corresponds to the distribution in the working population and in the respective professions. Therefore, the age range of the members of the Supervisory Board is between 46 and 74 years, and on the Management Board between 47 and 60 years.

MEASURES TO PROMOTE WOMEN

At BKS Bank, we have 1,119 employees of which 618 are women. We are pleased that today 32.4% of management positions at our company are filled by women. In the reporting year, six of the 18 new management positions appointees were women, which is a share of 33.3%.

The goal is to raise the share of women in management positions to 35% by 2020. In order to achieve this, we have launched a number of measures to promote women: The women's career promotion programme started in 2012, 'Frauen.Perspektiven.Zukunft' (Women.Perspectives.Future) includes specific measures to encourage women to aim for management and expert careers. A number of 44 women have completed the women's career programme to date. Of these, ten succeeded in starting a management career and ten further women switched fields. Five female employees are currently on maternity leave. The fourth year of the qualification programme started with 13 attendees in October 2018.

A good balance of career and family life plays a decisive role when considering career moves. BKS Bank supports its employees with numerous offers that help them balance work and family life. Flexible working time models, extensive further education and training opportunities, care services for small children, support for childcare during holiday periods and the proactive encouragement of men to take childcare leave are measures for which funding is also made available. For these initiatives, we received the certificate 'berufundfamilie' (workandfamily), an audit programme of the Federal Ministry for Economy, Family and Youth, in the years 2010, 2013 and 2016. In Slovenia, BKS Bank has held the corresponding local certificate since 2015. In Croatia, we achieved the "MAMFORCE©Standard" award for the most family-friendly company in 2017. In the reporting year, we successfully completed recertification in Slovenia and also in Croatia.

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 circumstance that there are a lot more women than men in part-time positions and this causes their professional careers to develop along a flatter curve. Frequently more men have all-in remunerations for additional work.

In 2018, we reduced the income gap from 17.5% to 17.0% which is a reduction by 0.5%-points. We aim to reduce the ratio of part-time work currently at 24.2% in the coming years as well. Many years of part-time work have a negative effect on future pension payments. Therefore, we want to take measures to make it possible also for employees with children to work full time. It is also important to us to move the average retirement age of our female employees closer to 60 years. In 2018, the average retirement age was 59.8 thus slightly higher than in the preceding year – 59.1 – and very close to the target.

WOMEN IN MANAGEMENT POSITIONS

As at 31/12/2018	Number of women	Ratio	Number of men	Ratio
Management Board	1	25%	3	75%
Supervisory Board (shareholder representatives)	3	30%	7	70%
Supervisory Board (staff representatives)	2	50%	2	50%
Other management positions	55	32%	115	68%

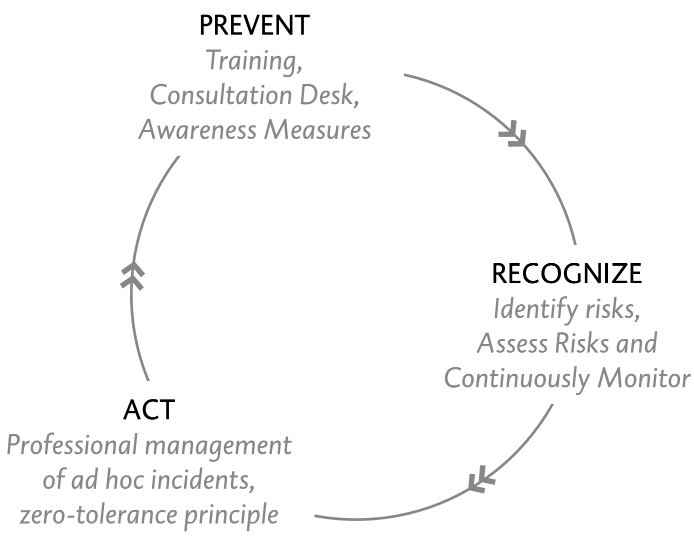
COMPLIANCE MANAGEMENT SYSTEM

Apart from risk management and the internal control system, compliance is the third pillar of enterprise monitoring at the bank. The primary goal is to prevent breaches of the law and regulations, and to protect the BKS Bank Group, its employees, the managing and corporate bodies as well as the owners from 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. The term '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 assures our long-term success.

To ensure behaviour in compliance with legal provisions and regulations as well as with ethical norms, we have set up a compliance management system based on three elements: 'recognize', 'prevent' and 'act'. We dedicate special attention to the theme of prevention through specific communication and training measures.

COMPLIANCE MANAGEMENT SYSTEM OF BKS BANK



New employees are trained in compliance themes immediately after they start working. Subsequently, all employees must attend mandatory compliance seminars every three years. Additionally, e-learning courses must be completed in regular intervals. 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 and their beneficial owners as well as the origin of the funds being used in the business relationship or in a transaction. Furthermore, the purpose of the transaction executed is questioned to assess the risk.

The Compliance Officer has a number of supervisory, control, notification, reporting and information obligations. The Compliance Officer also has extensive powers for giving instructions, requesting information and investigating.

The extensive compliance themes include, among other things, the following core compliance areas: Prevention of money laundering, prevention of terrorism financing, compliance with financial sanctions, capital market and securities compliance, anti-corruption, as well as regulatory compliance in accordance with the law.

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

The capital market compliance team takes care of the compliance themes that BKS Bank as a listed company and service provider for financial instruments must observe. These include, in particular, the creation of compliance rules and regulations, the development and execution of communications and training measures, the prevention and combatting of inside dealings and market manipulation, as well as the periodical assessment of compliance risks. Processes, and rules and regulations relating to anti-corruption complement these areas.

Within the scope of regulatory compliance, a team of specialists is responsible at BKS Bank for monitoring compliance with statutory provisions in the areas prescribed by law, for recognising changes to the law and, if applicable, for initiating implementation measures.

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

The financial year 2018 was marked by the practical experience made with the requirements of MiFID II that entered into force as of January 2018. The numerous supplementary legal acts that were enacted in the course of the reporting year made it necessary to regularly update our rules and regulations, and the ICT systems. Implementation practices by the authorities is also only in the process of being developed so that the practical application of the MiFID II provisions continues to pose a challenge.

The act on the ultimate beneficial owners registry (Wirtschaftliche Eigentümer Registergesetz, WiEReG) fully entered into force in the year 2018. The new law imposes the obligation on Austrian legal entities to register their ultimate beneficial owners and their controlling legal entity in a public register. Not all companies subject to the registration obligation were familiar with the topic of ultimate beneficial owner. BKS Bank customers also had questions on how specific provisions of the law are to be interpreted.

BKS Bank uses this registry as a supplementary tool for determining and checking the ultimate beneficial owner of a customer.

BKS Bank was well prepared for the entry into force of the new EU General Data Protection Regulation in May 2018 by a project that was started some time ago. The questions that arose in the first few months regarding the new provisions were answered by the project team, and technical and organisation solutions were found to ensure the protection of the data entrusted to BKS Bank.

DIRECTORS' DEALINGS

BKS Bank is under the obligation to disclose directors' dealings reports. At the close of the last day of trading on the stock market in 2018, the members of the Management Board held a total of 3,954 ordinary shares and 4,759 preference shares on their securities accounts with BKS Bank; Supervisory Board members held 6,229 ordinary shares and 2,755 preference shares. In total, this corresponds to a share of around 0.04% of shares issued. Purchases and sales by members of the Management Board and the Supervisory Board as well by closely related parties are reported in accordance with the EU Market Abuse Regulation to the Financial Market Authority (FMA) and are published throughout Europe by news agencies and disclosed on the website of BKS Bank. This is done when the value of the respective transaction for own account reaches or exceeds a total of EUR 5,000 in the calendar year. In the past financial year, there were 15 Directors' Dealings notifications. The higher number year on year results mainly from transactions by related parties.

COMPLIANCE AND AML INFORMATION ON BKS BANK ON THE INTERNET

	Address on the internet
– Extract from registers – AML Declaration – Banking License – USA Patriot Act Certification – Wolfsberg Questionnaire of BKS Bank AG – W-8BEN-E – Directors' Dealings Reports	www.bks.at/investor-relations/compliance-informationen

INDEPENDENT ASSESSMENT OF THE FUNCTIONALITY OF THE RISK MANAGEMENT

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt, conducted an assessment of the functionality of risk management at BKS Bank pursuant to C Rule 83 of the Austrian Code of Corporate Governance. The auditor uses the master framework for company-wide risk management as guidance which is published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Among other things, the auditor assesses the risk policy, risk strategy and organisation of the risk management. The mode of procedure for identifying, analysing and measuring risks was investigated as well as the measures to manage risk. Furthermore, risk monitoring and reporting on risk management was analysed in detail. The auditor presented its report on the functionality of risk management to the Chairman of the Supervisory Board.

At the first meeting of the Audit Committee on 27 March 2018, the result of the audit was discussed in detail. The Chairman of the Supervisory Board reported to the full Supervisory Board that the audit pursuant to C Rule 83 did not result in any objections and that BKS Bank has a functioning risk management system in place. At the second meeting of the Audit Committee, the topic discussed was risk management and its current further development in accordance with the rules of § 63a para 4 Banking Act. A principal area of focus was the management of payment service risks. At the meeting of the Risk and Credit Committee on 5 December 2018, the objectives and implementation of the measures of the risk strategy were discussed. Risk management at BKS Bank is described in detail from page 116.

BKS Bank has an internal audit system in accordance with C Rule 18 of the Austrian Code of Corporate Governance and pursuant to § 42 Banking Act 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, it 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). In the 1980s, we started building up an ICS oriented on internationally-recognised standards. The ICS is risk-based and comprises a large number of control measures that ensure efficient and correct working procedures. The main element is the risk-control matrix in which the controls are linked to the identified and measured risks per business process and support process. Additionally, the quality of the controls is assessed regularly based on a maturity level model. The organisational structure and responsibilities in ICS are clearly regulated. The ICS coordinators continuously develop the internal control system and report to the Management Board in regular intervals. In this manner, we constantly improve monitoring at the company and ensure the protection of assets and also greater efficiency.

ACCOUNTING AND DISCLOSURE

As an exchange-listed company, BKS Bank AG prepares the consolidated financial statements and short interim financial statements, 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 two 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. The financial reports are published on the website of BKS Bank in German and in English.

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 the Group management report, the bank presents a relevant analysis of the development of business and describes the key financial and non-financial risks and uncertainties it is exposed to. Additionally, the key features of the internal control system are described as well as the risk management system with respect to the financial reporting process. The Notes contain information on how the company deals responsibly with the various types of risks. We publish a separate sustainability report that meets the requirements for non-financial disclosures.

The single-entity financial statements of BKS Bank AG were prepared in accordance with the provisions of Austrian Business Code. The consolidated financial statements and single-entity financial statements are prepared by the company and audited by the auditor elected at the Annual General Meeting, and are approved and confirmed by the Supervisory Board.

A financial calendar is published in the financial reports and on the website for the current year and for the subsequent year. We publish inside information immediately on our website and leave this information online for five years.

Klagenfurt am Wörthersee, 8 March 2019

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Alexander Novak
Member of the Management Board

REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

DEAR READERS,

BKS Bank can once again look back at a very successful business year in 2018. Although the challenges for banks are becoming increasingly daunting from year to year, BKS Bank has continuously achieved excellent results backed by a responsible management and committed employees. BKS Bank believes that change is an opportunity. Therefore, it is always a reliable partner for its customers, shareholders and employees, and also a bank with a future. The successful capital increase in the first quarter of 2018 is also strong evidence of the high degree of trust people have in BKS Bank.

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 between the Supervisory Board meetings. The Supervisory Board was therefore always involved all in key decisions. Thus, it was possible for the Supervisory Board members to assure themselves of the lawfulness, effectiveness and orderliness of the management activities.

The Supervisory Board pools its areas of expertise in five committees, all of which I have the honour of chairing. This report provides a description of the main areas of work of these committees on page 25.

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 on page 17.

CHANGES TO THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Effective 1 September 2018, Alexander Novak newly joined the Management Board of BKS Bank. Alexander Novak has worked at BKS Bank for 18 years in various management positions. From 2014, he worked for several years to build up the Slovenia Branch. His areas of responsibility on the Management Board include the foreign markets and their significance for BKS Bank, which has been growing continuously and will develop into dynamic growth markets again. I am very pleased that this top position was filled from among the ranks of BKS Bank's employees. It became necessary to fill a mandate on the Management Board, because Wolfgang Mandl reached the decision to embark on a new career path. At the end of the period of office on 31 December 2018, Wolfgang Mandl left the Management Board of BKS Bank. I would like to express my gratitude to Mr. Mandl on behalf of the entire Supervisory Board for his highly responsible management of BKS Bank and constructive collaboration.

BKS Bank's articles of association prescribe that 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. The period of office of Reinhard Iro ended at the close of the 79th Annual General Meeting 9 May 2018. He ran for office again and was reelected by the Annual General Meeting for the maximum period permitted by the articles of association.

Based on a drawing of lots, Josef Korak resigned from the Supervisory Board of BKS Bank. He was no longer available for another term. Josef Korak served on the Supervisory Board for 13 years. I would like to cordially thank Josef Korak on behalf of BKS Bank and of the Supervisory Board for his hard work and commitment. His broad range of expertise was an enormously valuable contribution.

The Annual General Meeting elected Stefanie Lindstaedt as a new member of the Supervisory Board. She is the head of a research center for big data and data-driven business. I am very pleased that a digitalisation expert with international experience has joined the Supervisory Board of BKS Bank.

All newly elected and reelected members of the Supervisory Board declared their independence; the relevant statements have been published on www.bks.at in accordance with § 87 (2) Stock Corporation Act.

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

I would like to stress that the Nominations Committee endeavours to take into account all aspects of diversity, such as age, gender, educational and professional background as well as internationality when making proposals for the composition of the Supervisory Board. 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 due care and a forward-looking entrepreneurial outlook.

DIVERSITY

With the appointment of Stefanie Lindstaedt to the Supervisory Board of BKS Bank, the share of women on the Board rose to approximately 36% as at 31 December 2018. Therefore, we exceeded the 30% ratio for women and men on supervisory boards stipulated in § 86 (7) Stock Exchange Act, which became effective as of January 2018 and is applicable to elections and appointments to supervisory boards.

The attendance rate of the shareholder and staff representatives at the four Supervisory Board meetings was about 92.9%. No member of the Supervisory Board failed to take part in more than half of the meetings.

AUDIT OF THE FINANCIAL STATEMENTS

The accounting records, the financial statements and management report of BKS Bank AG for 2018 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuer-beratunggesellschaft, Klagenfurt branch. The audit was conducted in accordance with statutory provisions and did not give rise to any objections. The auditors confirmed this by awarding an unqualified audit certificate.

The following were identified as key audit matters in the audit of the financial statements for 2018, and in the audit opinion, the resultant risk as well as the relevant audit approach were set out in detail:
– Impairment of receivables from customers
– Classification and measurement of companies accounted for using the equity method

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 2018 and to carry the remaining profit forward to a new account.

The consolidated financial statements for the year ended on 31 December 2018 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 2018 as well as of the result of operations and cash flows for the period from 1 January to 31 December 2018. 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 declared its agreement with the financial statements including the management report presented by the Management Board, thus acknowledging and approving the financial statements 2018 of the company in accordance with § 96 para 4 Stock Corporation Act. 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 staff members on behalf of the Supervisory Board for their immeasurable personal commitment and hard work. I would particularly like to thank our customers and shareholders that place their trust in BKS Bank.

Klagenfurt am Wörthersee, in March 2019

Gerhard Burtscher
Chairman of the Supervisory Board

Finely etched iron coffer with concealed keyhole and two bolts, 1540

–INVESTING SAFELY–

INVESTOR RELATIONS

THE BKS BANK' SHARE

STEADY AND SUSTAINABLE APPRECIATION

The BKS Bank's share has been traded on the Vienna Stock Exchange for more than 30 years. Ever since, BKS Bank has demonstrated every year 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 to be a solid long-term investment for both private and institutional investors also in economically difficult times.

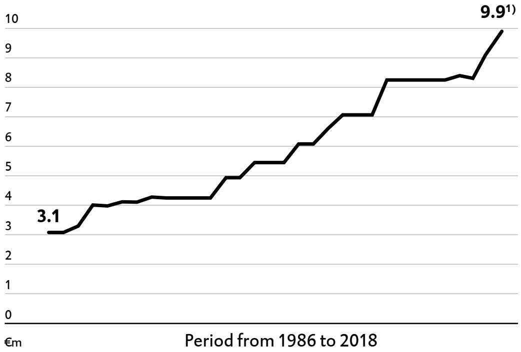
The ordinary shares of BKS Bank AG have been listed on the Vienna Stock Exchange since 1986 and the preference shares since 1991. The share classes are traded on the segment 'standard market auction' of the Vienna Stock Exchange. Each share corresponds to an equal share of the subscribed capital. The 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 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.

In a move to further strengthen our own funds and benefit from the good economic conditions to expand our share in the market, 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.

For twelve 'old' ordinary shares or preference shares, shareholders were entitled to purchase one new ordinary share. In total, 3,303,300 new ordinary shares were floated at an offer price of EUR 16.7 per share. The share capital increased by EUR 6,606,600 to EUR 85,885,800. All new ordinary shares were successfully placed on the market. Thus, after the completion of the capital increase in March 2018, there were 41,142,900 ordinary shares and 1,800,000 preference shares quoted on the Vienna Stock Exchange. The trust our shareholders place in us makes us very proud and makes it possible for us to successfully and sustainably enlarge our market position.

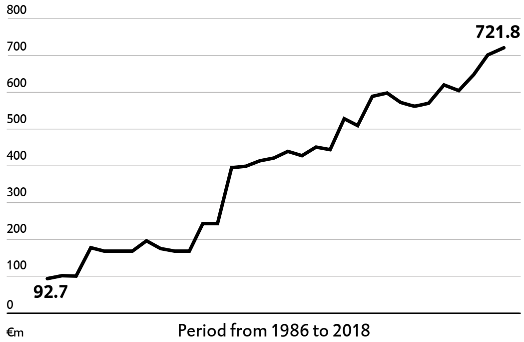
The closing price of the ordinary share at year-end 2018 was EUR 16.8 and the closing price of the preference share was EUR 17.0. At a market capitalisation of EUR 721.8 million, we again exceeded our best all-time high of 2017 – not least due to our successful capital increase.

DEVELOPMENT OF THE DIVIDEND OF THE BKS BANK SHARE



[1)] Proposal to the 80th Annual General Meeting

MARKET CAPITALIZATION OF BKS BANK

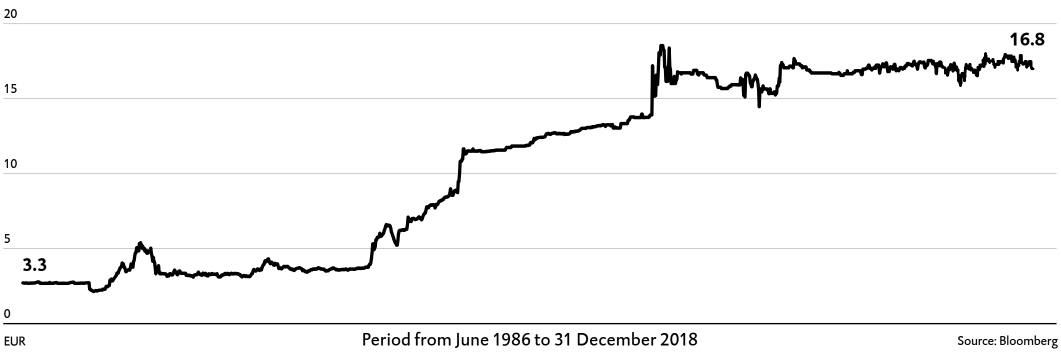


The sustained good economic development in the financial year 2018 is reflected in the good earnings achieved by our bank. In the reporting year, we once again achieved very good earnings. Our goal is unchanged: to achieve a balance between strengthening the level of own funds and paying out a reasonable dividend when determining the use of the net profit.

Another objective is to ensure long-term value appreciation as well as adequate returns on shares for our shareholders. For the financial year 2018, the Management Board will propose to the 80th Annual General Meeting to distribute dividends in an amount of EUR 9,876,867.

This corresponds to EUR 0.23 per share and a return of 1.37% on ordinary shares and of 1.35% on preference shares based on the year-end price of 2018. The dividend payout ratio based on BKS Bank AG's net profit after tax would amount to 30.0%.

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)

Oberbank AG, Linz, holds 19.3% 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 46.5% of the shares with voting rights. The syndication of the shareholdings reinforces the independence of the credit institution 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 preemption 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 30.3% of voting rights. The remaining ordinary shares are mostly owned by private and institutional investors. BKS Belegschaftsbeteiligungsprivatstiftung (employee foundation) – which serves exclusively to fully transfer income on shares to the employees of BKS Bank as set out in § 10 para 1 Corporation Tax Act – owned over 0.4% of shares with voting rights at the end of 2018. 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. Further information on the shareholder structure of BKS Bank is available in the Group management report from page 78 and on the website at www.bks.at » Investor Relations » Aktionärsstruktur.

RESOLUTIONS PASSED BY THE 79TH ANNUAL GENERAL MEETING

Shareholders of BKS Bank with voting rights exercise their votes at the Annual General Meeting and are involved in important company decisions by law and the articles of association. 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 capital representatives, by a simple majority of the share capital representatives.

At the 79th Annual General Meeting of BKS Bank AG on 9 May 2018, approximately 82% of the voting capital was represented, with the free float presence of shareholders with voting rights being around 2.5%.

The following was presented to the shareholders at the Annual General Meeting:
– Approved financial statements and management report for FY 2017,
– Consolidated financial statements and Group management report for FY 2017,
– Report on nonfinancial information,
– 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. Resolution on the appropriation of the net profit for the financial year 2017 was adopted by a majority vote. Accordingly, 99.9% of shareholders in attendance agreed with the recommendation to pay out a dividend of EUR 0.23 per share on the reported net profit for the year ending on 31 December 2017 and to carry the remainder forward to a new account in accordance with § 65 para 5 Stock Corporation Act. The dividend payout date proposed was 16 May 2018.

The agenda item "Elections to the Supervisory Board" was passed unanimously. Reinhard Iro, after the expiry of his mandate, was reelected to the Supervisory Board for the maximum permissible period of five years pursuant to the articles of association, which means until the close of the Annual General Meeting that decides on the discharge of the Supervisory Board for the financial year 2022. Josef Korak left the Supervisory Board based on the drawing of lots and was no longer available for reelection. Stefanie Lindstaedt was elected as a new member of the Supervisory Board, also for the maximum permissible period pursuant to the articles of association of five years. The resolution on the appointment of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungs-gesellschaft, Klagenfurt, as a bank auditor for the financial year 2019 was reached by a unanimous vote.

The resolution on the seventh item of the agenda authorised the Management Board to increase the share capital of the Company through the issuance of up to 8,000,000 ordinary no-par bearer shares against contributions in cash of up to EUR 16,000,000 - if required in several tranches - within five years of the corresponding amendment to the articles of association being registered in the Companies Register pursuant to § 169 Stock Corporation Act with the consent of the Supervisory Board. The issue price and the issuance terms are to be defined in agreement with the Supervisory Board. The Supervisory Board was authorised to pass resolutions on amendments to the articles of association that result from the issuance of shares from the approved capital. At the same time, the resolution passed at the 78th Annual General Meeting of 9 May 2017 and valid until 19 July 2022 was revoked to the extent not used up to then of EUR 9,393,400, which had authorised the Management Board to increase the share capital by up to EUR 16,000,000 by issuing up to 8,000,000 no-par value bearer shares.

Furthermore, the 79th Annual General Meeting authorised the Management Board to do the following:

– purchase own shares in accordance with § 65 para 1 no. 4 Stock Corporation Act up to the legally permissible volume for the purpose of offering these shares to the employees, management staff and members of the Management Board or of the Supervisory Board of the company or of an affiliated company and
– to purchase own shares in accordance with § 65 para 1 no 7 Stock Corporation Act for the purpose of securities trading in a volume of up to 5% of the share capital and
– to purchase own shares in accordance with § 65 para 1 no 8 Stock Corporation Act up to the legally permissible volume without a dedicated purpose

in each case for a period of 30 months as of the date of the resolution.

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. 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 newly relaunched website www.bks.at under Investor Relations, we provide extensive information on the company such as the annual reports and half-year reports as well as interim reports, sustainability reports, reports on new bond issues planned, reports on changes to material investment thresholds and other capital actions subject to notification requirements. The notifications on directors' dealings are also published there. 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 » About Us» News & Media.

We have been publishing an annual sustainability report in accordance with the requirements of the Global Reporting Initiative (GRI) and the requirements of the Sustainability and Diversity Improvement Act (NaDiVeG) since 2012. We explain our sustainability strategy in detail in this report and also discuss the numerous activities in the areas of company management and strategy, people, customers and products, society and social engagement as well as environment and climate protection. We published our sustainability report for 2018 in early April on our website www.bks.at under » Investor Relations » Berichte und Veröffentlichungen.

FINANCIAL CALENDAR 2019

Date	Content of the announcement
2 April 2019	Publication of the single-entity financial statements and the consolidated financial statements 2018 on the internet and in the Official Gazette of the Republic of Austria "Wiener Zeitung"
8 May 2019	80th Annual General Meeting
14 May 2019	Dividend ex-day
15 May 2019	Record date
16 May 2019	Dividend payout day
24 May 2019	Interim report for the period ended 31 March 2019
30 August 2019	Half-year financial report 2019
29 November 2019	Interim report for the period ended 30 September 2019

INVESTOR RELATIONS CONTACT

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

Massive brass furniture lock with two latches and six bolts, 19th century

–INNOVATION MEANS NEW PERSPECTIVES–

CORPORATE STRATEGY

COMPANY PROFILE

BKS Bank is a universal regional bank with its headquarters in Carinthia. We have subsidiaries in six countries, employ 1,119 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, we started providing services to retail customers in the 1960s. We began our international expansion in the late 1990s. Today, we serve over 164,400 corporate and retail customers in Austria and in our foreign markets. BKS Bank'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 on property developers and municipalities. Our customer-specific advisory services and products include finance for working capital, capital goods and exports; advisory services for government subsidy schemes; payment services; leasing business, deposit-taking and products for investing excess liquidity and for building wealth, as well as digital services. We serve some 21,400 corporate customers. In retail banking, we provide services to private individuals and members of the healthcare professions. Our range of services cover all classical banking products as well as digital services. These include housing loans, retirement products, savings and investment products, asset management, payment services, digital services, leasing and insurance brokerage. We serve around 143,000 retail customers.

Detailed information on our retail and corporate business is provided in the segment report starting on page 102.

OUR MARKETS

Austria is our principal market and includes the regions of Carinthia, Styria, Vienna, Lower Austria and Burgenland. Apart from Austria, we are also present in Slovenia, Croatia and Slovakia with branches and leasing companies. BKS Bank has one representation office in Italy and one in Hungary. Customers in these countries are serviced exclusively cross-border the same as German customers.

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-year partnership with the building society Wüstenrot and Generali Versicherung complete 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. For demanding customers, we are the first choice. Why? Because we are able to combine advisory excellence with modern technology. This reinforces our position as one of the leading banks in Austria.

OUR MISSION

Our mission is an expression of our how we see ourselves and shows what BKS Bank stands for. The 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 brave.

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 currently valid laws and internal guidelines.

STRATEGY PROCESS

BKS Bank has a well-thought-out strategy process. Once a year, the top management meets at a strategy retreat for several days to review and redefine the 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

The corporate strategy with its cornerstones and goals is represented in a strategy building that we have 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 proven 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 shares holders every year. When it comes to sustainability, we are among the top players in Austria. An interim assessment:

LIQUIDITY COVERAGE RATIO
We exceed the minimum regulatory ratio of 100%

137.7%

EQUITY

SOLID CAPITAL COVER
12.2% CET1 ratio
14.8% total capital ratio

The proceeds from the capital increase were EUR 55.2 million.

LEVERAGE RATIO

8.0%

The required ratio is 3%

CUSTOMER SATISFACTION
Our customers gave us a 1.6 rating on a scale from 1 to 5.

VISION AND MISSION

RISK

TREND RISK/EARNINGS RATIO

TREND NPL RATIO

EARNINGS AND COSTS

PROFIT FOR THE PERIOD AFTER TAX

EUR 77.4 **million**

NUMBER OF CUSTOMERS

164,400

COST/INCOME RATIO

50.3% Much better than industry average

BIZZNET LAUNCHED SUCCESSFULLY

The modern customer portal for corporate and business banking customers offers secure and convenient solutions.

ACCOUNTABILITY

GOAL-ORIENTED MANAGEMENT

Our management staff acts responsibly, independently and professionally.

OUTPERFORMED TARGET

116.3%

Ratio of budget attainment in consolidated profit after tax

FLUCTUATION RATE IN %

6.3%

High employee loyalty

QUALITY AND SUSTAINABILITY

PRIME

ISS-oekom once again awarded us prime status for our CSR activities.

Corporate Responsibility Prime rated by ISS-oekom

AWARD

We have received the quality seal "Recognised for Excellence 5 Star" again.

EFQM Recognised for Excellence 5 Star - 2019

STRATEGY 2022

The challenges for banks have been growing since the financial and economic crisis ten years ago. Nonetheless, BKS Bank has been expanding steadily despite an environment of persistently low-interest rates and massive changes affecting the industry – buzzword digitalisation. The solid economic development of BKS Bank is driven by a steadfast adherence to its business policy principles. Providing customers with excellent services, growing sustainably and earning stable returns will remain our main objectives also in future.

In the banking industry, a discussion has been under way for some time as to whether the traditional bank branch still has a place in banking considering the advance of digitalisation. The number of bank employees has, in fact, been declining for several years. Nonetheless, we believe that the bank branch is still the best place to offer first-rate services. Despite the fact that customer behaviour has changed enormously and many customers prefer to conduct their daily banking transactions online, we also see that customers like to have competent partners to seek advice from when dealing with more complex banking transactions. We expanded our commitment to branch banking in the past year by developing a new branch concept to meet any future challenges. We will modernize our branches gradually to bring them up to the standards of the digital age. In our growth regions – especially Vienna and the foreign markets – we plan to open new locations, because being close to our customers is important to us. At the same time, the development of additional digital products and services by no means stands in the way of our commitment to branch banking. Rather we view these as a useful supplements. We will, of course, continue to invest heavily in the further development of our security standards.

We also aim to grow in business areas of minor impact on equity. The fee and commission income from payment services has developed into a reliable and stable source of earnings. We plan to take more advantage of this trend by expanding our range of products and increasing our advisory know-how. We believe there is more room for growth in the securities business. We aim to achieve this through innovative products especially in the area of sustainable investments, and also by a higher acquisition and closing ratios. Additionally, we are working on the further digitalisation of our services in this area. In Slovenia, we acquired a large number of investment customers from a brokerage firm in the first half of 2018. Another transaction of this kind is planned for implementation in 2019. The task now is to integrate the new customers, provide them with comprehensive services and earn their long-term loyalty to our bank.

Our goal for the coming year is to make a contribution to the efforts to lower global greenhouse gases and limit global warming to a level clearly below 2° Celsius. Together with WWF we are working on a de-carbonisation strategy through which we hope to give our loan portfolio a more sustainable orientation. Banks have enormous steering power for environmental and climate protection by defining which industry and company projects are granted funding and at which terms.

STRATEGIC OBJECTIVES

We are profitable and productive, and continuously earn good results.

Our (common) equity tier 1 capital ratio is strong.

We respect our customers and steadily increase the number of corporate and retail customers.

We limit (credit) risks adequately.

We are expanding our market shares in Vienna and in foreign markets.

We have returned to profitability in the retail segment.

We focus on growth in business areas with little impact on equity.

Our corporate image is that of a bank that acts responsibly.

We are transforming our organisation for the digital age.

Sustainability and quality is established in our daily work.

We respect our employees.

Our management staff acts responsibly, independently and professionally.

STRATEGIC INITIATIVES 2018

In the reporting year, we advanced our corporate strategy as planned and successfully completed a number of important strategic projects. The following sections present an overview of the measures taken. We also report on the strategic initiatives in the corporate and retail business in the segment report starting on page 102.

SUCCESSFUL CAPITAL INCREASE

In the first quarter of 2018, we completed a successful capital increase. BKS Bank AG issued a total of 3,303,300 new ordinary no-par value shares that were fully placed on the market. Calculated on the offer price of EUR 16.7 per new share, the gross proceeds from the capital increase was around EUR 55.2 million. We plan to use the proceeds of the issue to continue on our sustainable growth course and to make the required investments to expand our network of branches and implement our digitalisation strategy.

SETTING NEW STANDARDS WITH BIZZNET

At the end of October, we launched BizzNet, a special portal for corporate and business banking customers. We offer BizzNet in two variants. BizzNet and BizzNet Plus are very user-friendly and feature modern functionalities and secure authentication procedures. Key functions such as setting up and managing funds transfers, multiple funds transfers, importing and exporting data from data storage devices and simple handling of authentication rights are integrated into the business portal and may be selected as a module. Corporate and business banking customers also have the possibility of switching between business and private transactions by two clicks of the mouse. To make it easier to differentiate the two, BKS Bank Online was renamed MyNet and new functionalities were added. With the launch of the corporate and business customer portal, we achieved a major milestone in the implementation of our digitalisation strategy.

WWW.BKS.AT - WITH LATEST TECHNOLOGY AND NEW DESIGN

The website of BKS Bank was newly designed in the reporting year. Modernised services, a user-friendly design and state-of-the-art technology were at the focus of efforts. The new website has many new features including a chat function, a display optimised for all end devices, as well as the possibility of ordering products and services online. www.bks.at went live in August 2018.

SHORTER DEVELOPMENT CYCLES WITH AGILE METHODS

We adhere rigorously to our digitalisation strategy also in the retail banking segment. The focus in this case is on finance and accounts. MyNet and our website are designed to help customers achieve their financing wishes quickly and to open accounts more easily. To be able to create market-ready products faster, we acquired a strong partner in the reporting year. We are very pleased to have gained as an internaltionally-renowned company as a cooperation partner for omni-channel solutions. Together with a highly motivated project team, within an agile project we are working on a modern communications platform that can be used jointly by customers and account managers. In a few weeks, all customers will be able to realize their housing dreams through this new platform.

SUCCESSFUL GROWTH COURSE CONTINUED

We are close to our customers. For this reason, we are constantly enlarging our branch network in our growth markets. In Vienna, we opened the ninth branch in October, while in Slovenia, we celebrated the eighth new branch opening. Our growth plans in Slovenia have developed very dynamically in the reporting year after we acquired the customers of investment firms. In April 2018, we acquired some 9,000 investment customers of GBD (Gorenjska borznoposredniška družba d.d.). In the autumn, negotiations were started with a further Slovenian investment firm and was also finalised successfully. At the beginning of March 2019, we will acquire some 25,000 custody accounts of the Slovenian firm ALTA Invest, investicijske storitve, d.d. With this second takeover, we have now have become the largest investment service provider in Slovenia.

CONTRIBUTING TO CLIMATE PROTECTION WITH GREEN BONDS

Sustainable investments were in high demand also in the reporting year, because the number of customers that want to know what projects their money is going into is growing. In September 2018, we issued another green bond whose proceeds will be used for the erection of photovoltaic plants. The second BKS Bank green bond met with lively interest. Within a short time, the issue was fully placed on the market. Green bonds are an important way of helping companies invest in environmental and climate protection. Green bonds will become increasingly important, because they also play a major role in the European Union's action plan for financing sustainable growth. Therefore, we are very proud that BKS Bank is a pioneer on the Vienna Stock Exchange in the area of sustainable issues.

GREATER COMMITMENT TO BRANCHES

In the project “Branch of the Future”, a team is working on how traditional bank branches can be transformed to meet the requirements of the digital age and how to respond to the changed habits of customers – more online transactions, less frequency at branches. The new branch concept rests on the pillars of modern design, ease of use and clear processes. In order to simplify processes at branches, the new concept uses a digital furnishings such as touchscreens, signature pads, digital advertising boards and tablets. Moreover, processes have been optimised for dealings over the counter and with tellers. The classical teller will be replaced by attractive reception counters, while cash transactions will be settled discreetly in separate rooms or at modern self-service devices. The new branch concept gives account managers more room and time for personal advisory services. The new branch in Vienna/Hernals that opened in October 2018 has already been designed according to the new branch concept as well as the branch in Gleisdorf, Styria.

NEW FOCUS ON SUSTAINABILITY IN CONSTRUCTION

We plan to make investments in our region. This is highly important to us as a responsible bank. We are investing EUR 13 million at the location of our headquarters in Klagenfurt for a residential housing project developed by our real estate subsidiary, BKS-Immobilien-Service GmbH, that is being built mainly by Carinthian companies. A building with 50 flats is being erected at a prime central location of Klagenfurt that combines many ecological aspects. The special feature of this project is that of the 50 flats planned 23 of them will be offered for assisted living. This type of living arrangement is attractive especially for older persons who wish to have a self-determined life in old age. The assisted living project is being developed jointly with Hilfswerk Carinthia. In May 2018, the cornerstone was laid. Construction work for the enlargement of the existing underground garage that will offer another 200 parking spots has been completed. The flats will be ready in the autumn of 2019.

IFRS 9, MIFID II AND THE EU GENERAL DATA PROTECTION REGULATION SUCCESSFULLY IMPLEMENTED

The financial year 2018 was dominated by the implementation work on several regulatory and statutory projects. The first project was the amendment to the EU Markets in Financial Instruments Directive (MiFID II) that entered into force together with further legal acts on 3 January 2018. The new MiFID II requirements created fundamental changes in the investment business. The numerous amendments concerned both product design and pricing as well as documentation of customer talks and the advisory process. The work on the MiFID II project lasted over two years.

Likewise in January 2018, the new IFRS 9 standard entered into force which we must apply as an international group of companies. IFRS 9 provides for a totally new set of rules for measuring financial instruments. The entire financial reporting process had to be restructured, securities had to be reclassified, and products and terms analysed. The consolidated financial statements as at 31 March 2018 already take account of the new accounting rules under IFRS 9.

At the end of May 2018, the new General Data Protection Regulation (GDRP) entered into force that required adjustments to our processes and systems. In one project, the changes and effects of the GDRP were analysed and implementation measures decided for Austria and abroad. Among the measures taken was the creation of a register of procedures, the preparation of privacy impact assessments and the appointment of a data protection supervisor. The required data protection is achieved by taking many technical and organisational measures including access control, measures to ensure the need-to-know principle and data encryption.

We would like to stress again that the excessive regulatory obligations imposed on banks have been an increasing burden for years. The implementation of the regulatory requirements involved an enormous effort in terms of technology, time and money. An easing of this burden is yet to be seen. In our view, this would be urgently needed to strengthen the earnings capacity of banks and to increase their resilience.

Steel-cut key,
18th century

–KEY FACTORS OF SUCCESS–

GROUP MANAGEMENT REPORT

ECONOMIC ENVIRONMENT

SLOWING GLOBAL ECONOMY

The economic expectations for 2018 were quite high after a very positive year 2017, but were met only in part. Although overall economic development in 2018 was very robust, it was still much slower than in the preceding year. Sentiment among businesses and consumers weakened over the course of the year.

Growth of the US economy peaked in 2018. The pace of growth slowed especially in the second half of the year. A burden on the US economy was also the relatively long duration of the so-called government shutdown, that is, the cessation of operations of a large part of the public administration in the US around the end of the year. According to current estimates, real economic growth was 2.6% in 2018.

1.8%

Growth in the euro area

EUROPEAN ECONOMY GREW AT SLOWER PACE

The economy in the euro area expanded at 0.2% in the fourth quarter of 2018. GDP growth over the full year 2018 was 1.8% after 2.4% in the preceding year. The pace of growth slowed especially in the second half of the year 2018. Germany and Italy were two of the four major economies in the euro area that suffered a setback in the third quarter as compared to the preceding quarter. While Germany has probably recovered somewhat in the fourth quarter and posted a slight gain, Italy slipped into a 'technical recession' in the fourth quarter.

In the euro area, sentiment indicators also became gloomier, however, these were still above the 50-point mark which indicates an expansion. Therefore, it is becoming clear that it is rather the industrial sector rather than the service sector that is affected by the dampened sentiment. This is creating the impression that it is especially a global environment dominated by fear of a trade war between the US and China, and by the uncertain outcome of the Brexit issue that is putting a damper on sentiment, while the internal sectors in Western economies seem to be better protected.

The European labour market developed very positively also in the year 2018. The unemployment rate dropped in the euro zone to 8.1%. However, the differences between the EU countries are very big. While the unemployment rate was 3.3% in Germany, in Spain it climbed to 14.8% as computed by Eurostat. The good development on the labour market very likely boosted consumption by private households in the euro area also in the new year. What cannot still be estimated is how Great Britain's exit from the European Union will affect Europe's economy.

AUSTRIA'S ECONOMY EXPANDED FASTER

2.7%
GDP gains in Austria

The Austrian economy retained its pace of growth in 2018 and gained 0.4% each in the third and fourth quarters. GDP rose by 2.7% over the full year which is a growth rate above the EU average. The pleasing economic development was supported mainly by internal demand and by foreign trade, even though the development of exports over the course of the year lost some steam. Austria's labour market developed very gratifyingly considering the good economic development. The Employment Office recorded the strongest relative decline in persons seeking employment since the year 2000 - despite the greater supply of labour. The unemployment rate was 7.7% according to the national accounts as at 31 December 2018.

The economic development of our foreign markets was also better than that of the euro zone. In Slovenia and Slovakia, GDP growth was 4.3% and 4.0%, respectively, while the Croatian economy expanded by 2.8%.

VOLATILITY OVERSHADOWED INVESTMENT YEAR 2018

-18%
ATX

-18%
DAX

The year 2018 was very disappointing for stock investors. The global stock market stood at -6% at the end of December. Alone in the month of December, stocks on Wall Street recorded the worst month since 1931. The list of weak returns on stocks can be presented as follows: emerging countries -10%, Japanese stocks in euro -10%, European small caps -17%, Austria -18%, Germany -18%. US stocks achieved a small gain of 0.5% in euro in the year 2018. The reason may be that the USD appreciated versus the euro by 5%.

The year 2018 was a negative one also for the bond market. Corporate bonds posted prices losses in both the segment with good credit ratings (2%) and, in particular, in low-grade bonds (4%). Emerging market bonds suffered from the shift in capital flows to US bonds despite respectable returns and lost 9%. German government bonds profited from global insecurity and achieved a price gain of 1%. However, the return on a 10-year German government bond was only 0.24% at year-end.

CHANGING ECB MONETARY POLICY

The European Central Bank (ECB) phased out its ultra easy monetary policy over the course of 2018 and ended its bond purchasing programme as expected at the end of 2018. In the future, only redemptions will be reinvested. Nonetheless, a first interest rate move by the European guardians of the currency is not expected before the autumn of 2019. The US Fed by contrast carried out four hikes of key lending rates in 2018 by 25 basis points each. The US key lending rate is now within a bandwidth of 2.25% and 2.50%. Further interest rate moves are possible in 2019 due to the still good economic development, though slower, and to rising inflation. Should the economic indicators in the US weaken though, a break in the interest rate hiking cycle cannot be ruled out.

EURO WEAKNESS

The euro depreciated versus most major trade currencies in the reporting year. The exchange rate versus the Swiss franc changed from 1.170 to 1.126, which is minus of 4%. The exchange rate EUR/JPY dropped from 135.28 to 125.83, which is a loss of 7%. EUR vs. USD depreciated from 1.201 to 1.147 EUR per US dollar, which is a minus of 5%. Compared to the British pound, the euro became less expensive from 0.888 to EUR 0.899 EUR per GBP (-1.0%). Relative to the Chinese renminbi, the euro appreciated by 1% from 7.802 to 7.867 EUR per CNY. The Croatian kuna, which is important to us as a bank, depreciated slightly versus the euro by 0.2% and was quoted at the end of December 2018 at HRK 7.411 per EUR after HRK 7.433 per EUR at year-end 2017.

Gold per ounce

1,282.49 $

DIMMING ECONOMIC PROSPECTS WEIGHED ON COMMODITIES MARKETS

At the end of September 2018, gold lost ground due mainly to rising US interest rates and lost around 7% until this time. In the subsequent decline on global stock markets, gold showed its strength as a 'safe haven' in times of crisis and recouped a lot of ground. The price of gold appreciated by around 3% over the full year 2018. Apart from gold, the year 2018 was a very sluggish one for commodities. Due to weakening economic prospects and the trade dispute between China and the US, it was mainly energy commodities as well as industrial metals that lost value. The Brent oil price declined by around 16% (in euro), while industrial metals lost around 18%. As expectations for global growth and global demand for commodities continues to be subdued, a volatile sideways movement of commodity prices is very likely in this environment.

MANAGEMENT AND ORGANISATIONAL STRUCTURE

The organisational structure remained largely unchanged in the reporting year and breaks down 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, and Group Treasury.
– The international branches, subsidiaries and representation offices are assigned to the department for treasury and international operations.
– 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 and technical services (BKS Service GmbH) and construction management, building administration and the vehicle fleet (BKS Immobilien-Service GmbH) have been outsourced.

PERSONNEL CHANGES

At his own request, Wolfgang Mandl did not prolong his mandate on the Board scheduled to expire at the end of 2018 and resigned from the BKS Bank effective 31 December 2018. Alexander Novak, the long-year head of BKS Bank in Slovenia joined the Management Board of BKS Bank on 1 September 2018. More details on Alexander Novak are contained in the Corporate Governance Report on page 19.

The successor to Alexander Novak as head of the Slovenia Branch is Dimitrij Pregelj. He started his banking career at BKS Bank in 2011 and was appointed deputy head of Risk Management in 2014. On the Management Board, he is responsible for the areas of Risk and Back Office. Sales continue to be headed by Boštjan Dežman. Damjan Hempt, long-year managing director of BKS-leasing d.o.o., is now also deputy head of the Slovenia Branch of BKS Bank.

Ladislav Fülöp was appointed successor to Harald Brunner as head of the Slovakia Branch and as managing director of BKS-Leasing s.r.o. Ladislav Fülöp joined BKS Bank as a trainee in 2009. At the beginning of 2011, he switched to the BKS Bank AG Slovakia Branch. Since September 2012, he has been responsible for Retail Banking.

Since 1 June 2018, Wilma Kovačič and Michael Meschnark have jointly headed BKS-Leasing Gesellschaft m.b.H. Prior to being appointed managing director, Wilma Kovačič worked in the internal audit as an auditing expert for regulatory matters.

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 2018:

– Damjan Hempt, deputy head of BKS Bank Slovenia Branch,
– Günther Offner, head of Payment Services in the Department for Corporate and Business Customers, and
– Dimitrij Pregelj, head of BKS Bank Slovenia Branch.

DIVERSITY IN THE MANAGEMENT

All employees of BKS Bank have the same career opportunities regardless of age, gender or socio-cultural background. The number of female (55) and male management staff (115) did not change in 2018 as compared to 2017. 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 47% of management staff of BKS Bank Group are over 50 years old so that generation change is also an issue. When filling management positions in our international markets, BKS Bank relies primarily on persons from the respective region. Therefore, in Slovenia, Croatia and Slovakia all three heads of the branches and managing directors are from the respective market region.

HIGH MANAGEMENT QUALITY

The high level of social and expert competence of the management staff is very important to BKS Bank when selecting staff. 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 has been held with the top management 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 13 key positions at headquarters that make it possible for staff members to pursue an externally visible career apart from the classical management positions.

FIT AND PROPER

BKS Bank ensures the suitability of key staff by offering regular training and further education to its Management Board, Supervisory Board, management staff and persons in key positions. There are further education measures on expert themes for members of the Supervisory Board that are usually held after its meetings.

ORGANISATIONAL STRUCTURE

MANAGEMENT

Herta Stockbauer, CEO
Dieter Kraßnitzer
Alexander Novak[1]

HEAD OFFICE 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

SERVICE COMPANIES IN AUSTRIA

BKS Immobilien-Service GmbH
Manfred Isopp

BKS Service GmbH
Jaroslav Zvolensky
Klaus Patterer

[1] from 1 September 2018

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

LEASING IN AUSTRIA

BKS-Leasing GmbH
Michael Meschnark
Wilma Kovačič

ABROAD

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

Representation Offices
Italy (Padua)
Hungary (Sopron)

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
Dimitrij Pregelj
Damjan Hempt (deputy head)

Croatia
Tihomir Zadražil
Juraj Pezelj

Slovakia
Ladislav Fülöp
Peter Chovanec

As at 1 January 2019

SHAREHOLDERS OF BKS BANK

BKS Bank's shares are listed on the standard market auction segment of the Vienna Stock Exchange. We carried out a 12:1 capital increase in the reporting year. In the capital increase, 3,303,300 ordinary bearer shares were issued that raised the share capital by EUR 6,606,600 to EUR 85,885,800. In accordance with the articles of association, the share capital is divided into 41,142,900 ordinary bearer shares and 1,800,000 preference bearer shares with a nominal value of EUR 2 each. 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.

AUTHORISED CAPITAL

The Management Board was authorised according to § 4 articles of association of BKS Bank to increase, within five years of the corresponding amendment to the articles of association being registered in the Companies Register pursuant to § 169 Stock Corporation Act and subject to approval by the Supervisory Board, the share capital by up to EUR 16,000,000 through 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. The amendment to the articles of association was registered in the Companies Register on 12 June 2018.

COMPOSITION OF THE CAPITAL

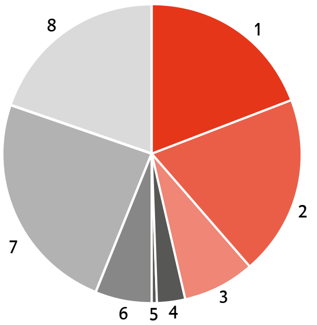
A share of 38.7% is held by the two sister banks Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft, and 7.8% by Generali 3Banken Holding AG. These three investors are related by a syndicate agreement. The purpose of the syndicate agreement is to guarantee the independence of BKS Bank AG through the joint exercise of voting rights at Annual General Meetings and mutual preemption rights of the syndicate partners. After the capital increase, the voting share of the syndicate partners was 46.5%.

KEY INFORMATION ON THE BKS BANK'S SHARE

	2017	2018
Number of ordinary no-par shares (ISIN AT0000624705)	37,839,600	41,142,900
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000
High (ordinary/preference share) in €	18,5/17,8	19,8/18,2
Low (ordinary/preference share) in €	16,8/15,4	16,5/16,9
Close (ordinary/preference share) in €	17,8/17,7	16,8/17,0
Market capitalisation in €m	705.3	721.8
IFRS result per share outstanding in €	1.72	1.82
Dividend per share	0.23	0.23[1)]
PER ordinary/preference share	10.4/10.3	9.2/9.3
Dividend yield ordinary share	1.29	1.37
Dividend yield preference share	1.30	1.35

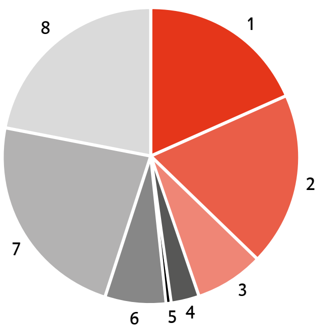
[1)] *Proposal to the 80th Annual General Meeting on 8 May 2019*

SHAREHOLDERS OF BKS BANK BY SHARE WITH VOTING RIGHTS AS AT 31 DECEMBER 2018



		in %
1	Oberbank AG	19.3
2	Bank für Tirol und Vorarlberg Aktiengesellschaft	19.5
3	Generali 3Banken Holding AG	7.8
4	Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	3.1
5	BKS-Belegschaftsbeteiligungsprivatstiftung	0.4
6	UniCredit Bank Austria AG	6.1
7	CABO Beteiligungsgesellschaft m.b.H.	24.2
8	Free float	19.6

SHAREHOLDERS OF BKS BANK BY SHARE AS AT 31 DECEMBER 2018



		in %
1	Oberbank AG	18.5
2	Bank für Tirol und Vorarlberg Aktiengesellschaft	18.9
3	Generali 3Banken Holding AG	7.4
4	Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	3.0
5	BKS-Belegschaftsbeteiligungsprivatstiftung	0.8
6	UniCredit Bank Austria AG	6.6
7	CABO Beteiligungsgesellschaft m.b.H.	23.2
8	Free float	21.6

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

The largest individual shareholder in 2018 was UniCredit Bank Austria AG with its subsidiary CABO Beteiligungsgesellschaft m.b.H. These two companies took part in the capital increase and at year end held 6.1% and 24.2% of ordinary shares. Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H. held 3.1% of the share capital in BKS Bank AG with voting rights. Free float after the capital increase was 19.7% and at year-end 19.6%. This includes the 0.7% ordinary shares owned by employees of BKS Bank. BKS Belegschaftsbeteiligungsprivatstiftung (employee foundation) – which serves exclusively to fully transfer income on shares to the employees of BKS Bank as set out in § 10 para 1 Corporation Tax Act 1988 – owned approximately 0.4% of shares with voting rights.

Broken down by shares in the capital, as of 31 December 2018 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 21.6% 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 660,672 ordinary shares as at 31 December 2018 and 175,490 preference shares, which corresponds to a ratio of around 1.6% of voting rights or 1.9% of the share capital.

SHARE BUYBACKS

In 2013, our bank acquired around 100,000 shares on the stock exchange and off-floor through a publicly-announced stock buyback programme. During the period from 5 to 18 April 2018, a number of 13,562 shares were transferred to employees within the scope of the employee participation scheme at a market price of EUR 19.1 and – under certain conditions – paid out as part of the annual bonus. At the end of 2018, the number of ordinary shares attributable to the employee participation scheme programme was 14,000 or 0.03% of voting shares compared to 27,562 shares in the preceding year.

INFORMATION ON THE INTERNET ON ÖCGK AND BKS BANK

	Address on the internet
Austrian Code of Corporate Governance (ÖCGK)	www.corporate-governance.at
BKS Bank share	www.bks.at/investor-relations/die-bks-bank-aktie
Shareholder structure	www.bks.at/investor-relations/aktionaersstruktur
Financial calendar	www.bks.at/investor-relations/unternehmenskalender
Annual General Meeting	www.bks.at/investor-relations/hauptversammlung
Corporate Governance - Conformity Declaration of BKS Bank AG – Guidelines for Independence – Report of BKS Bank on the Austrian Code of Corporate Governance (ÖCGK) 2018 – Publications pursuant to § 65a Banking Act on Corporate Governance and Remuneration – Articles of Association of BKS Bank	www.bks.at/investor-relations/corporate-governance
Business, Financial and Sustainability Reports of BKS Bank	www.bks.at/investor-relations/berichte-und-veroeffentlichungen
Press Releases of BKS Bank	www.bks.at/news-presse

MARKETS OF BKS BANK

BKS Bank was founded in Klagenfurt in 1922 as Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co. Our market reach has increased significantly since the bank's foundation. Today, BKS Bank does banking and leasing business in Austria, Slovenia, Croatia and Slovakia. We have one representation office in Italy and one in Hungary. Customers in these countries are served exclusively cross-border the same as German customers.

AUSTRIA

The predominant market region is Austria where 49 of the 63 branches are located. Regionally, the market covers an area along the south-east axis from Carinthia to Vienna. Organisationally, the bank has grouped the domestic market into the sales areas Carinthia, Styria and Vienna-Lower Austria-Burgenland.

Carinthia, where the bank originated, remains our main market. Some 41.8% of loans and about 55.3% of deposits in the domestic market are managed through branches in Carinthia. The majority of our staff is employed in Carinthia. In 1983, we started to expand our market to include the neighbouring region of Styria. We established a presence in Graz and mainly in Styrian district capitals. BKS Bank Regional Head Office for Styria operates 12 branches, employs 76.7 staff members (in FTEs) and serves roughly 24,000 customers.

We see the best opportunities for further growth in Austria 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 most recent new branch was the ninth one opened in Hernals in Vienna. This branch has been set up in accordance with the new branch concept. The BKS Bank Regional Head Office Vienna-Lower Austria-Burgenland serves over 25,500 customers at 17 branches and employs 102.1 staff members (in FTEs).

INTERNATIONAL MARKETS

Our foreign markets have developed into dynamic growth markets again. These are organised into a Slovenia Branch, Croatia Branch and Slovakia Branch. Slovenia, where we started our gradual expansion, has meanwhile become the third-most important market within the BKS Bank Group. Market entry was in 1998 with the acquisition of a leasing company, today BKS-leasing d.o.o. The Slovenian leasing company developed into an outstanding success story. BKS-leasing d.o.o. has an excellent reputation on the Slovenian leasing market based on its excellent advisory quality and fast processing that translates into steadily growing business. In the reporting year, we celebrated the 20th anniversary of the leasing company with long-standing customers, partners and employees.

Six years after the establishment of the Slovenian leasing company, we opened the first bank branch in Ljubljana. The expansion of today's universal bank is being done step by step. We recently opened our eighth branch in Kranj. Our expansion plans in Slovenia include the enlargement of our locations and acquisitions in the investment segment.

Ornamental key with dome and view of two women and men behind curtains, ca. 1800

–OPEN TO THE NEEDS OF CUSTOMERS–

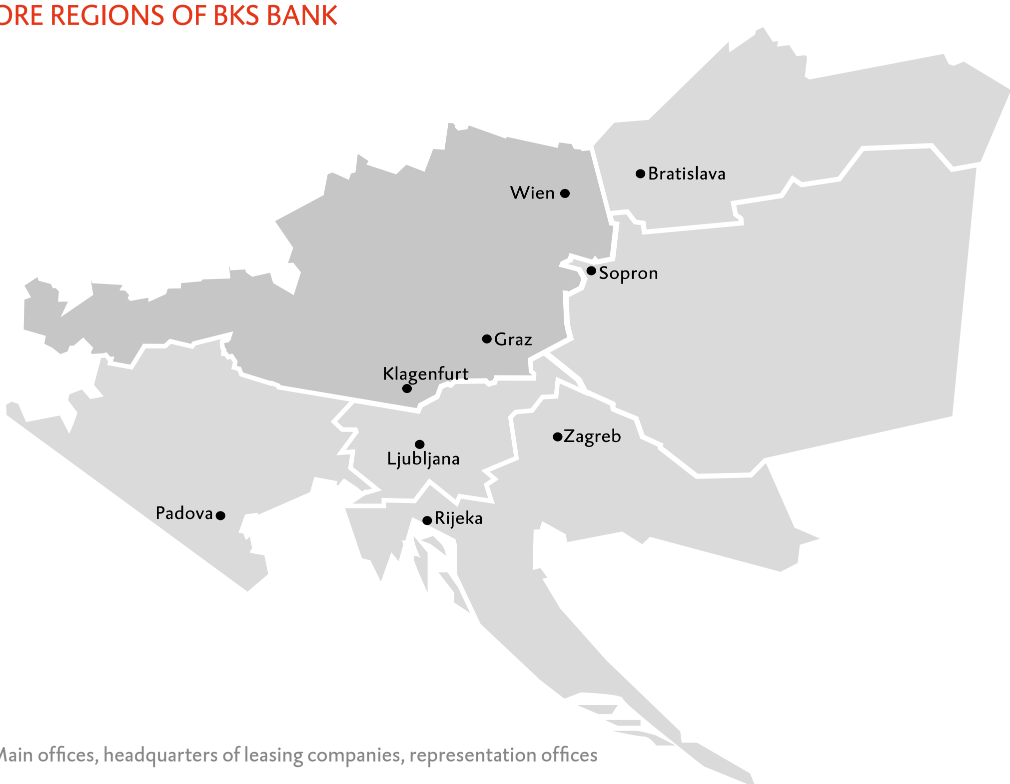
Alexander Novak
Member of the Management Board

In the reporting year, we acquired 9,000 investment customers from GBD (Gorenjska borznoposredniška družba d.d.), and at the end of the year, we finalised negotiations for the acquisition of further brokerage customers from ALTA Invest, investicijske storitve, d.d. After these two acquisitions of a total of some 34,000 customers, we are the largest investment service provider in Slovenia.

The first step into Croatia was taken in 1998, but we started there with only one representation office. The next step was the establishment of the Croatian leasing company, BKS-leasing Croatia d.o.o., which has been growing steadily ever since. On the Croatian banking market, we started out with the acquisition of Kvarner banka d.d. in 2007. Ten years later, we merged the Croatian bank subsidiary into the BKS Bank AG. The Croatia Branch serves over 5,300 corporate and retail customers through three branches and employs 59.5 staff members (in FTEs).

In Slovakia, we have been active since 2007. Our Slovak Branch is headquartered in Bratislava and has further branches in Banská Bystrica and Žilina. We also have a leasing company in Slovakia that we acquired in 2007. BKS-Leasing s.r.o. is headquartered in Bratislava and has further branches at the same locations as the bank. In total, we employ 38.6 persons in Slovakia in FTE.

CORE REGIONS OF BKS BANK



● Main offices, headquarters of leasing companies, representation offices

CONSOLIDATED COMPANIES AND EQUITY INTERESTS

The relevant group of consolidated companies of BKS Bank includes 15 credit and financial institutions as well as companies that supply banking services including domestic and foreign leasing companies. The overview below presents the companies that belong to the BKS Bank Group according 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 net profit of the subsidiaries, the pro rata equity in associated companies as well as the number of employees at the respective companies.

In the financial year 2018, we eliminated the following companies from the group of consolidated companies: Drei Banken Versicherungsagentur GmbH in Liquidation domiciled in Linz, LVM Beteiligungs Gesellschaft m.b.H. in Liquidation domiciled in Vienna as well as BKS Hybrid alpha GmbH domiciled in Klagenfurt, which will all be liquidated in the coming financial year. VBG-CH Verwaltungs und Beteiligungs GmbH domiciled in Klagenfurt as the parent company of LVM Beteiligungs Gesellschaft m.b.H. in Liquidation also discontinued operations and was therefore deconsolidated.

GROUP OF CONSOLIDATED COMPANIES

Credit and financial institutions	Consolidation	Accounted for using the equity method	Proportionate consolidation
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	✓		
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	✓		
BKS Service GmbH, Klagenfurt	✓		
BKS Immobilien-Service Gesellschaft m.b.H., Klagenfurt	✓		
BKS Hybrid beta GmbH, Klagenfurt	✓		
BKS 2000 - Beteiligungsverwaltungsgesellschaft mbH, Klagenfurt	✓		

The group of consolidated companies of the BKS Bank Group includes, apart from BKS Bank AG, 11 credit and financial institutions and companies that provide 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.

Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft are accounted for using the equity method in accordance with IAS 28. For these companies, the carrying amounts of the investments are adjusted for the changes in the net assets of the respective entities. On 31 December 2018, BKS Bank held a share of 15.2%, and 14.7%, respectively, in these credit institutions, 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 recognised in the consolidated financial statements on a proportionate basis. This investment is classified as a joint operation according to IFRS 11.

CREDIT INSTITUTIONS AND FINANCIAL INSTITUTIONS

BKS BANK AG

Object of business	Credit institution
Head office	Klagenfurt
Year of foundation	1922
Total assets	EUR 7.9 billion
Number of branches	63
Number of employees in FTE	908.9

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 40.0k
Year of foundation	1989
Leasing volume	EUR 209.3m
Number of employees in FTE	10.7

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 136.7m
Number of employees in FTE	19.2

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 50.1m
Number of employees in FTE	13.3

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 15.0m
Year of acquisition	2007
Leasing volume	EUR 42.9m
Number of employees in FTE	12.8

OBERBANK AG

Object of business	Credit institution
Share in the capital	14.21%
Head office	Linz
Year of foundation	1869
Total assets	EUR 22.2bn
Number of branches	170
Average number of staff	2,101

BANK FÜR TIROL UND VORARLBERG AG

Object of business	Credit institution
Share in the capital	13.59%
Head office	Innsbruck
Year of foundation	1904
Total assets	EUR 11.6bn
Number of branches	36
Average number of staff	1,438

ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT M.B.H.

Object of business	Hedging of large credit risks
Share in the capital	25%
Share capital	EUR 8.0m
Head office	Linz
Year of foundation	1984

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	1988

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

IEV IMMOBILIEN GMBH

Object of business	General partner of IEV GmbH & Co KG
Share in the capital	100%
Head office	Klagenfurt
Share capital	EUR 35.0k
Year of foundation	2007

BKS HYBRID BETA GMBH

Object of business	Issuance of a hybrid bond
Share in the capital	100%
Head office	Klagenfurt
Share capital	EUR 35.0k
Year of foundation	2009

BKS SERVICE GMBH

Object of business	Service company for banking-relating activities
Share in the capital	100%
Head office	Klagenfurt
Share capital	EUR 35.0k
Year of foundation	2011
Number of employees in FTE	55.5

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 40.0k
Year of foundation	1973
Number of employees in FTE	11.7

BKS 2000 - BETEILIGUNGSVERWALTUNGSGESELLSCHAFT MBH

Object of business	Investment company
Share in the capital	100%
Head office	Klagenfurt
Share capital	EUR 40.0k
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
Pekra Holding 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	3.10
Einlagensicherung AUSTRIA Ges.m.b.H.	0.19
CEESEG Aktiengesellschaft	0.38
PSA Payment Services Austria GmbH	1.46

ASSETS, EQUITY AND LIABILITIES

Total assets of the BKS Bank Group expanded by a remarkable EUR 855.4 million to EUR 8.4 million as at 31 December 2018. The sustained positive development of the economy resulted in an extraordinarily steep rise in lending volumes and substantially reduced the need for impairment charges on loans and advances. The primary deposits also developed very well and exceeded the EUR 6 billion mark for the first time.

ASSETS

IFRS 9 CHANGED PRESENTATION OF THE FINANCIAL STATEMENTS

The BKS Bank Group has been applying IFRS 9 since 1 January 2018. The changes to classification and measurement policies as well as the impairment rules of IFRS 9 impact the balance sheet and the income statement, financial reporting and risk management processes, internal controls and reporting. The figures of comparison for the financial year 2017 have not been adjusted – as possible under the transitional provisions of IFRS 9 – and therefore correspond to the classification and measurement policies of IAS 39 applied as at 31 December 2017. The following section contains our comments on the development of assets from 1 January to 31 December 2018.

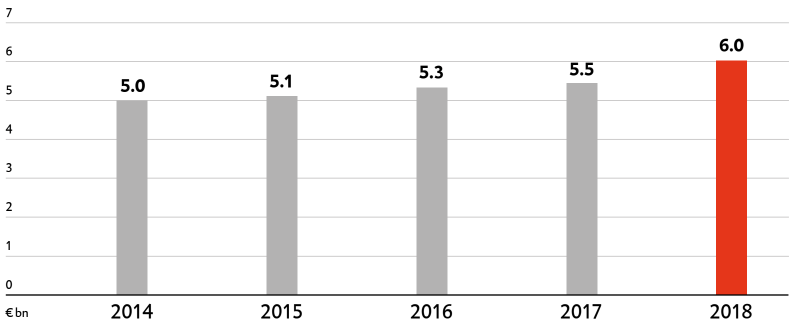
CHANGE TO BALANCE SHEET ITEMS PURSUANT TO IFRS 9 AS AT 1 JANUARY 2018

in €m	31/12/2017	01/01/2018	31/12/2018	± in %
Receivables from other banks	97.7	97.7	177.2	81.4
Receivables from customers	5,450.2	5,506.1	6,025.9	9.4
- Impairment charges on receivables from customers	-137.0	-122.7	-107.9	-12.0
Trading assets	9.8	9.8	8.0	-18.2
Financial assets (FA)	1,043.1	n/a	n/a	-
– FA designated at fair value through profit or loss	78.3	n/a	n/a	-
– FA available-for-sale	182.1	n/a	n/a	-
– FA held-to-maturity	782.8	n/a	n/a	-
Debt securities and other fixed-interest securities	n/a	862.1	904.4	4.9
Shares and other non-interest bearing securities	n/a	125.3	135.6	8.3

ROBUST CREDIT GROWTH

The financial year 2018 was dominated by exceptionally strong demand for credit. In Austria and on our foreign markets, the volume of new loans was substantial at EUR 1.8 billion. The stable economic development encouraged the willingness of businesses to invest in capital goods and demand from retail customers for housing loans was also quite robust. A rising demand for loans was seen in all of our regions. The steepest increase in new loans granted took place in the growth region of Vienna-Lower Austria-Burgenland. We extended a volume of EUR 430 million in new loans mainly to corporate and business banking customers.
The trend on the Carinthian home market was also quite pleasing. Almost one fourth of the volume of new business, specifically EUR 414.3 million was transacted with Carinthian businesses and private households. Also in Styria, lively investment activity in the business sector resulted in a volume of new loans of EUR 266.1 million.

DEVELOPMENT OF RECEIVABLES FROM CUSTOMERS



27.8% of new business was generated in our foreign markets. In total, the portfolio of loans before impairment charges on receivables from customers was EUR 6.0 billion as at 31 December 2018, which represents a robust increase in credit volume of 9.4% as at 1 January 2018. Receivables from customers include the lending volume of the parent company BKS Bank AG as well lending by domestic and foreign leasing companies.

Impairment charges on receivables from customers developed very satisfactorily in the reporting year and amounted to around EUR 107.9 million. The decline year on year was due, on the one hand, to the good economic development, and on the other, to our rigorous efforts to improve the portfolio structure. The same reasons were behind the much lower ratio of non-performing loans, which amounted to a gratifying 2.5% as at 31 December 2018.

The share of foreign currency loans decreased again substantially in the reporting year 2018. The foreign currency ratio (FX ratio) – exclusive of EUR loans to customers of the Croatia Branch – was 2.4% on 31 December 2018, thus a decline by 0.8%-points.

BOOM IN LEASING

Lease finance represent an attractive alternative to conventional loans. It is very popular in Austria as well as on our foreign markets. We have been engaged in the lease business for many years and have constantly worked to increase our know-how and competence in this field. Our excellent advisory services paired with a high degree of reliability is greatly appreciated by our customers. Our leasing companies profited from this positive development and closed the financial year 2018 with solid profits. We posted double-digit growth rates in all regions.

The leasing volume of BKS-Leasing GmbH rose to EUR 209.3 million by 31 December 2018, which is a substantial increase of 19.3%. The strong expansion of the transaction volume was driven firstly by our lively sales activities. Secondly, a simpler and faster digital application and approval procedure also led to much higher sales figures.

The Slovenian leasing company surpassed the all-time high of the preceding year and achieved a leasing volume of EUR 136.7 million, a remarkable increase of 30.8%. In Croatia, the leasing business also developed very satisfactorily and expanded by 16.6% to EUR 50.1 million.

We are particularly happy with the development of the Slovak leasing company. In the reporting year, we took measures to improve business and these started to show effects already by year-end 2018. The leasing volume increased year on year by 67.7% to a very satisfactory EUR 42.9 million.

HIGHER LIQUIDITY BUFFER

With the initial application of IFRS 9, the balance sheet item of financial assets disappeared. Assets are now grouped into two new balance sheet items "Debt securities and other fixed-interest securities" and "Shares and other equity".

The volume of debt securities and other fixed-income securities increased by 4.9% to EUR 904.4 million. We had invested a volume of EUR 110.9 million by 31 December 2018 that was offset by redemptions and disposals in an amount of EUR 67.3 million. We hold high quality liquid assets in this item to achieve a comfortable liquidity buffer and to meet regulatory liquidity standards.

The shares held in companies accounted for by the equity method increased in the reporting year to EUR 599.7 million (+15.2%). The rise was supported by the contributions to profit from our partner banks and to the capital increase by the Bank für Tirol und Vorarlberg Aktiengesellschaft.

Cash reserves, which consist of cash and balances with the central banks, was higher by one fifth year on year and amounted to EUR 572.0 million. The relatively high value on the reporting date was due, above all, to corporate and business banking customers who invested excess liquidity in short term forms.

EQUITY AND LIABILITIES

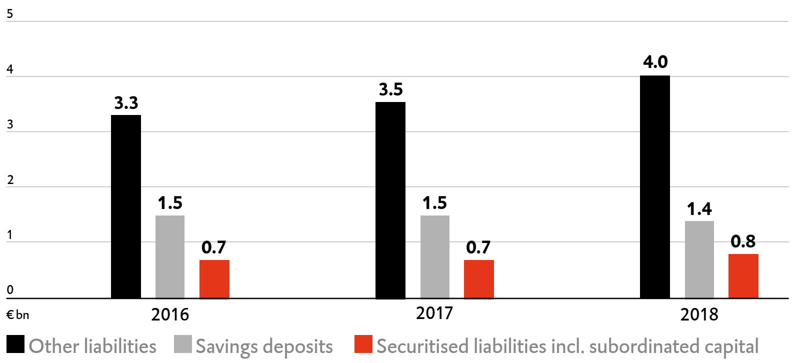
PRIMARY DEPOSITS CLIMB TO OVER SIX BILLION FOR THE FIRST TIME

We achieved a new record in the volume of primary deposits. At a level of EUR 6.2 billion, we surpassed the EUR 6 billion mark for the first time. Overall, the increase in primary deposits was 9.7% higher than one year ago. This increase shows the enormous trust customers place in BKS Bank and its employees. However, the high level of primary deposits also weighs on earnings, because we have to pay negative interest of 0.4% when we deposit customer funds short-term with central banks.

As regards amounts owed to customers, sight and term deposits predominated again, as they reached EUR 4.0 billion which constitutes a steep rise of 16.0%. A large portion comes from corporate customers who still dispose of high liquidity. However, a growing number of retail customers are also opting to deposit funds on sight accounts or in short-term investments. As at 31 December 2018, the volume increased to EUR 1.1 billion, which is a gain of 23.8%. Our customers want to be able to access their savings conveniently, flexibly and also online. This trend is also seen in the development of volumes on the “Mein Geld-Konto” accounts that increased in the reporting year by EUR 37.0 million to EUR 326.8 million. By contrast, savings deposits posted a slight decline. The volume of savings deposits on classical savings passbooks was EUR 1.43 billion, which is a minus of 3.1%.

The BKS Bank has an excellent reputation on the Slovenian banking market which is seen, among other things, in the high level of primary deposits. The Slovenia Branch recorded an increase in primary deposits by 17.7% to EUR 937.6 million in the past financial year.

DEVELOPMENT OF PRIMARY DEPOSIT BALANCES



ENORMOUS INVESTOR INTEREST IN BKS BANK ISSUES

The issuance business was highly successful in the business year 2018. In particular with respect to institutional investors, BKS Bank has proven a reliable and competent issuer. We issued EUR 75.0 million in private placements including EUR 13.0 million in subordinated debt capital until 31 December 2018. In September 2018, we issued a 2.25% Nachrangobligation (junior bond) with a maturity of 8 years to strengthen our subordinate capital. By 31 December 2018, we had placed EUR 10.5 million. Briefly before year-end 2018 we offered an Additional Tier 1 note for subscription.

We are particularly pleased about the development of the issuance of our second green bond that we floated in September. The proceeds of the issuance will be used exclusively for the erection of photovoltaic power plants. We are very happy to see how well-received the green bond was among investors. Green bonds are an important way of helping companies invest in environmental and climate protection. Green bonds will become increasingly important, because they also play a major role in the European Union's action plan for financing sustainable growth. Therefore, we are very proud that BKS Bank is a pioneer in regard to sustainable issuance policy. Overall, own issues including subordinate capital increased to EUR 750.7 million, which is a gain of 5.4%.

As at 31 December 2018, Group equity rose to EUR 1.21 billion. The increase was driven, on the one hand, by the addition of the proceeds from the capital increase completed in the first quarter 2018, and on the other, by the write-up of the result for the period. The increase in equity is documented in detail in the Consolidated Statement of Changes in Equity in the Notes starting on page 153. Subscribed capital was EUR 85.9, a rise by 8.3%.

BKS BANK DEBT SECURITIES IN 2018

ISIN	Designation	Nominal amount in €
AT0000A1ZYC1	1% BKS Bank Obligation 2018-2024/1	10,500,000
AT0000A239X8	0.875% BKS Bank Green Bond 2018-2024/2	3,000,000
AT0000A23JY8	2.25% BKS Bank Nachrangige Obligation 2018-2026/3	10,533,000
AT0000A23UM0	0.875% BKS Bank Obligation 2018-2023/4	4,213,000
AT0000A203U0	Variable BKS Bank Obligation 2018-2028/1/PP	12,000,000
AT0000A205J8	2.22% BKS Bank Obligation 2018-2028/2/PP	10,000,000
AT0000A20AY3	3.43% BKS Bank Nachrangige Obligation 2018-2028/3/PP	13,000,000
AT0000A20CA9	1.26% covered BKS Bank Obligation 2018-2028/4/PP	20,000,000
AT0000A20DL4	Variable covered BKS Bank Obligation 2018-2028/5/PP	10,000,000
AT0000A21AW5	1.26% covered BKS Bank Obligation 2018-2028/6/PP	10,000,000
AT0000A250Y3	BKS Bank Additional Tier 1 note 2018	5,600,000

RESULTS OF OPERATIONS

BKS Bank closed the financial year 2018 with excellent earnings again. At 13.8%, we again surpassed the record level achieved in the preceding year. The challenges for banks remained enormous also in the reporting year. Nonetheless, we once again proved that it was especially the excellent quality of our advisory services paired with an attractive range of digital products and services that attracted customers. Our uncompromising focus on earnings and sustainable growth ensures that we achieve our strategic objectives.

ANOTHER YEAR OF EXCELLENT RESULTS

BKS Bank earned a consolidated net profit after tax of EUR 77.4 million as at 31 December 2018, thus surpassing the very good level of the preceding year by EUR 9.4 million. Therefore, once again we are able to report the best profits in the history of our company in 2018. The robust consolidated profit was supported by several positive developments. The stable economy helped us achieve extraordinarily strong credit growth that also resulted in improved net interest income and net fee and commission income. The good economic development also greatly reduced the need for impairment charges. Our intensified efforts in acquisition and advisory services were also important contributors.

Net interest income before impairment charges went up from EUR 120.7 million to a pleasing EUR 129.7 million. The increase by EUR 9.0 million or 7.5% is especially gratifying, because in the financial year 2018 we were also confronted with an environment of persistently low interest rates. Net interest income increased by 3.8% to EUR 160.1 million, while interest expenses decreased to EUR 30.5 million (-9.3%). Net interest income after impairment charges increased by EUR 17.4 million, a remarkable gain of 18.6%.

A positive economic outlook, increased demand for loans, and improved earnings in the banking industry heightened competition. Therefore, margins in the lending business narrowed year on year from 1.97% to 1.87%. Margins on deposits stayed at the negative level of the preceding year due to the prevailing low interest rates and were -0.08%, despite the fact that we are increasingly charging negative interest on deposits to institutional customers.

KEY COMPONENTS OF THE INCOME STATEMENT

in €m	2017	2018	± in %
Net interest income	120.7	129.7	7.5
Impairment charges	-26.7	-18.3	-31.5
Net fee and commission income	49.9	55.5	11.2
Profit/loss from investments accounted for using the equity method	39.1	44.8	14.8
Net trading income	1.5	0.3	-81.9
Profit/loss from financial assets	4.2	-7.9	>-100
General administrative expenses	-107.8	-114.6	6.3
Profit for the year before tax	77.2	87.0	12.8
Tax on income	-9.1	-9.6	5.3
Profit for the year	68.0	77.4	13.8

LOWER IMPAIRMENT CHARGES ON LOANS AND ADVANCES

The stable economic development and our responsible lending policy had very positive effects on the risk situation in the lending business. Compared to the preceding year, impairment charges decreased by almost one third to EUR 18.3 million. For financial instruments measured at amortised cost, impairment charges on receivables from customers were set aside in an amount of EUR 18.9 million after EUR 24.8 million in the preceding year.

IMPAIRMENT CHARGES

in €k	2017	2018	± in %
Financial instruments measured at amortised cost	25,936	18,904	-27.1
– Allocation (+)/reversal (-) of impairment charges (net)	24,775	18,904	-23.7
– Direct write-offs	2,097	n/a	-
– Recoveries from receivables written off	-936	n/a	-
Financial instruments measured at fair value OCI	n/a	70	-
– Allocation (+)/reversal (-) of impairment charges (net)	n/a	70	-
Loan commitments and financial guarantee contracts	788	-681	>-100
– Allocation (+)/reversal (-) of provisions (net)	788	-681	>-100
Impairment charges	**26,724**	**18,293**	**-31.5**

In the reporting year, the impairment charges for our foreign leasing subsidiaries was lower. For the Slovenian and the Croatian leasing company, on balance we released impairment charges of EUR 389.4k and EUR 71.3k, respectively, while we allocated risk provisions for the Slovak Branch of only EUR 117.4k.

STRONG INCREASE IN FEE AND COMMISSION INCOME

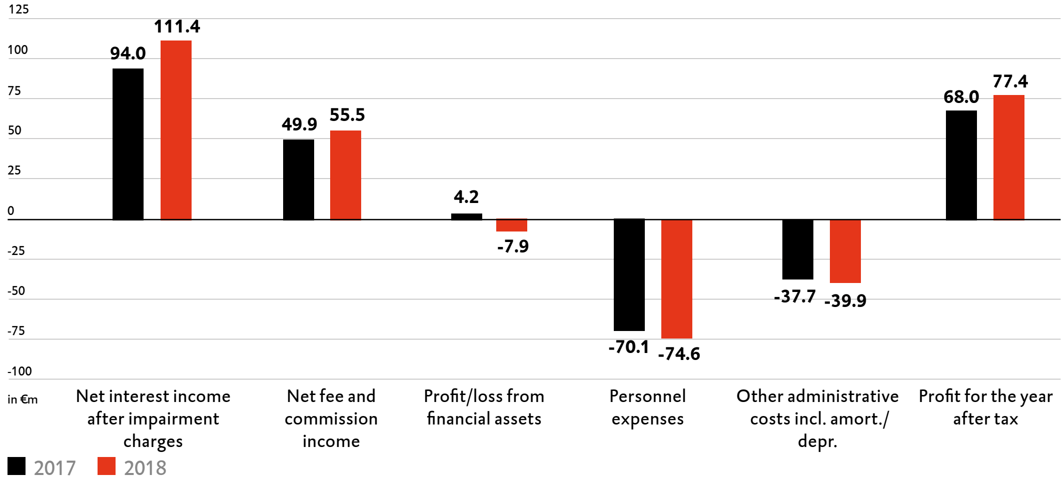
Net fee and commission income increased steeply by 11.2% to EUR 55.5 million as at 31 December 2018.

MAJOR SUPPORT FROM PAYMENT SERVICES

It was especially payment products and services that developed very dynamically. Compared to the preceding year, income from payment services increased by 5.2% to EUR 20.8 million. This business field has developed into a stable and important source of support for earnings over the past few years. We realigned our positioning for payment services in the reporting year with the aim of advancing our business lines that do not burden equity. Over the course of the coming months, the reorientation process will be completed.

In October 2018, BizzNet, the customer portal designed for corporate and business banking customers, was launched on the market. BizzNet is a modern and flexible customer portal on which customers can conveniently and securely execute their principal business transactions.

KEY COMPONENTS OF THE INCOME STATEMENT



At the same time as the introduction of BizzNet, the online banking platform for retail customers was renamed MyNet and new functionalities were added. We are investing large amounts into the expansion of our range of digital products and services, while also taking care of our classical banking business. It is also important to us to be able to supply cash throughout all our markets. In the reporting year, we increased the number of ATMs at locations outside of our branch network.

The solid development of net fee and commission income was supported by the surge in commissions on loans for which demand was much higher year on year. The figure as at 31 December 2018 was a very satisfactory EUR 17.7 million.

SECURITIES OPERATIONS LAG BEHIND EXPECTATIONS

Income from securities operations decreased and at year-end 2018 stood at EUR 13.2 million thus dropping by 3.9%. The weaker performance may be attributed to several factors. Stock markets were much more volatile in the financial year 2018 than in the preceding year. Investors acted more cautiously and did not engage in as many securities transactions. The tighter regulatory framework that entered into forced in 2018 with MiFID II also put a damper on the earnings potential in the securities business.

In Austria, we carried out adjustments and changes in the area of asset management. A leaner structure and a new composition has considerably heightened the appeal of our asset management services. Furthermore, we enlarged our range of asset management offers by two funds of funds, the “BKS Anlagemix konservativ” and the “BKS Anlagemix dynamisch”.

Our goal is to also enlarge our market shares in Slovenia. In the reporting year, we achieved a major milestone on our path to growth. In the first half-year, we acquired some 9,000 customers from the brokerage firm GBD (Gorenjska borznoposredniška družba d.d.). At the end of the year 2018, we served some 11,300 customers with custody accounts and the volume of assets under management was around EUR 1.1 billion. The next transaction in the securities business is already being prepared. By March 2019, we will have acquired around 25,000 customers from another brokerage firm, ALTA Invest, investicijske storitve, d.d. This makes BKS Bank the largest investment services provider in Slovenia.

Excellent investment services

BKS Bank and its employees stand for excellent advisory services, a fact confirmed time and again by external institutions. The last time in January 2019. Österreichische Gesellschaft für Verbraucherstudien (ÖGVS) and trend magazine named BKS Bank the winner in the category “Beste Anlageberatung Österreichs” (best investor advisory services in Austria). Also our investment fund subsidiary, 3 Banken-Generali Investment-Gesellschaft m.b.H was pleased to receive a distinction in 2018. The investment magazine “Börsianer” conferred the designation “Beste inländische Fondsgesellschaft 2018” (best domestic investment fund company) for the third time.

TURBULENCE ON CAPITAL MARKETS IMPACTED PROFITS ON FINANCIAL ASSETS

With the introduction of IFRS 9, the content of the item “Profit/loss from financial assets/ liabilities” changed. The two items “Profit/loss from available-for-sale financial assets” and “Profit/loss from held-to-maturity financial assets” were eliminated. Three new items were created and these developed as set out below as at 31 December 2018.

The item “Profit/loss from financial assets measured at fair value through profit or loss (mandatory)” posted a negative balance of EUR -5.1 million due mainly to the wide price fluctuations on international stock markets in the last days of December 2018. The turbulence on the stock markets caused losses especially on investment funds. The item “Profit/loss from derecognition of financial assets measured at amortised cost” was a minimal EUR 0.2 million as at 31 December 2018.

The new item “Other profit or loss from financial assets/liabilities” posted a slight minus of EUR 65,000. The item “Profit/loss from financial instruments designated at fair value” was negative compared to the previous year at EUR -2.8 million. This item now reports expenses for the credit risk of receivables from customers assigned to this category. This resulted primarily in the negative result from the fair value option. The profit/loss from financial assets/liabilities therefore amounted to a total of EUR -7.9 million at year end 2018 versus the closing figure in the preceding year of EUR 4.2 million.

STAFF COSTS AND DIGITALISATION PROJECTS ARE COST DRIVERS

General administrative expenses increased year on year by 6.3% to EUR 114.6 million. A major portion of administrative expenses is attributable to personnel expenses which increased considerably at EUR 74.6 million (+6.5%). The rise was due mainly to the average increase of 2.8% in wages and salaries under collective agreements which also entailed higher provisions for jubilee bonuses and death benefits due to the application of the new mortality tables (AVÖ 2018-P). Transitional provisions were not applied. Therefore, the costs for these two items rose by EUR 2.0 million. Generally, we have a very defensive stance when filling vacancies. Therefore, the average headcount increased versus 2017 by only 4 to 932 employees in FTE and was due to the enlargement of our branch network and the constant expansion of our digitalisation competence.

HIGHER EXPENSES FOR DIGITALISATION PROJECTS

Other administrative costs amounted to EUR 32.8 million in the reporting period, which is 5.8% higher year on year. The increase was due to the progress in the implementation of our digitalisation strategy. Digitalisation and the information and communications technologies (ICT) play a central role at BKS Bank and are a key element of our growth strategy. Today, banking is inconceivable without modern digital customer applications with disruption-free and secure IT operations.

In the past financial year, work continued or was completed on 144 projects – some of which are scheduled to run for several years. The projects include several ones mandated by new legislation and regulatory requirements such as MiFID II, the General Data Protection Regulation of the EU, IFRS 9 and PSD 2. It is, above all, digitalisation projects that require more resources and create innovative solutions for our customers. The new corporate customer portals BizzNet and BizzNet Plus, the further development of the retail customer portal MyNet, the newly launched business app and the relaunch of the BKS Bank website are just a few examples.

Some major projects were also completed on our foreign markets, including the implementation of a digital loan application and approval system, the introduction of a campaign management, and the successful integration of the GBD brokerage customers. Therefore, ICT costs increased by 8.2% to EUR 18.3 million.

3 Banken IT GmbH is responsible for implementation of ICT projects and ICT operations at BKS Bank. 3 Banken IT GmbH is a joint subsidiary of Oberbank AG, Bank für Tirol und Vorarlberg Aktiengesellschaft and BKS Bank. It operates a competence center in Klagenfurt and Innsbruck and employs some 271 employees on the annual average.

The great significance of information technology means that BKS Bank invests large amounts every year directly or through 3 Banken IT GmbH into the network infrastructure, hardware and software. In 2018, the amount was EUR 17.4 million.

OTHER OPERATING INCOME IMPROVES

Other operating income reflects mainly the burden from regulatory costs. Compared to the preceding year, the result improved by one third, though it was still not satisfactory at EUR -2.5 million. This result includes contributions to the winding-up and deposit protection fund of EUR 4.7 million (pr.yr.: EUR 4.3 million) and the stability tax of EUR 1.1 million (pr.yr.: EUR 1.0 million).

PROFIT FOR THE YEAR

As at 31 December 2018, BKS Bank earned a consolidated net profit before tax of EUR 87.0 million following EUR 77.2 million in the preceding year. After deducting taxes of EUR 9.6 million, net profit after tax for the Group was EUR 77.4 million or a gain of 13.8%.

PROPOSAL FOR THE DISTRIBUTION OF THE PROFIT

The distributable profit is based on the net profit of the parent company BKS Bank AG. BKS Bank AG earned a net profit of EUR 33.0 million from 1 January to 31 December 2018 after EUR 25.9 million in the preceding year. Reserves of EUR 23.3 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 reported a net profit of EUR 10,145,255.78.
We will propose to the 80th Annual General Meeting on 8 May 2019 to distribute a dividend of EUR 0.23 per share, which is EUR 9,876,867 and to carry the remainder of EUR 0.3 million to the new account.

POSITIVE DEVELOPMENT OF PERFORMANCE RATIOS

The key performance indicators developed very satisfactorily backed by the excellent result for the year. Return on equity (RoE) after tax remained at a solid level of 6.8%, while return on assets (RoA) after tax rose from 0.9% to 1.0%.

The cost/income ratio decreased to a pleasing 50.3%, thus clearly below the internal benchmark of <55.0%. The risk/earnings ratio reached a new excellent level of 10.5%, a reduction by 6.2%-points.

The ratio of non-performing loans improved on account of the steady reduction of risk exposure from 3.5% in 2017 to a gratifying 2.5%.

On 31 December 2018, the leverage ratio was 8.0% and therefore above the 3.0% ratio required by law. The liquidity coverage ratio (LCR) reached 137.7%, while the net stable funding ratio (NSFR) was 110.2%. The mandatory level for these two indicators is 100% in each case. BKS Bank exceeded both ratios.

The capital ratios changed due to the successful capital increase in the first quarter of 2018 as follows. The tier 1 capital ratio decreased from 12.5% to 12.2%, because the deduction items increased markedly due to the phasing out of transitional provisions. The total capital ratio improved from 14.0% to 14.8%. The two capital ratios were thus much higher than required by law. IFRS earnings per share were EUR 1.82 as at 31 December 2018.

KEY PERFORMANCE INDICATORS

in %	2017	2018	± in %-points
ROE after tax (net profit/Ø equity)	6.8	6.8	-
ROA after tax (net profit/Ø equity)	0.9	1.0	0.1
Cost/income ratio	51.9	50.3	-1.6
Risk/earnings ratio	16.7	10.5	-6.2
NPL ratio	3.5	2.5	-1.0
Leverage ratio	8.0	8.0	-
Liquidity coverage ratio (LCR ratio)	145.2	137.7	-7.5
Net stable funding ratio (NSFR)	105.0	110.2	5.2
Tier 1 capital ratio	12.5	12.2	-0.3
Total capital ratio	14.0	14.8	0.8
			in %
IFRS result per share in issue in €	1.72	1.82	5.8

SEGMENT REPORT

The segment report has four parts: Corporate and Business Banking, Retail Banking, Financial Markets and Other. Within the BKS Bank Group, the corporate and business banking segment is the most successful one. The steady increase in earnings in this segment is based on our excellent advisory know-how and the strong performance in acquisitions. The segment financial markets has developed into a reliable source of earnings despite the volatile market conditions. The retail banking segment was overshadowed for a long time by declining earnings. We have taken many measures to return this segment to profitability and are pleased to report that we have succeeded.

CORPORATE AND BUSINESS BANKING

In the financial year 2018, we served some 21,400 customers in the segment of Corporate and Business Banking, which is a gain of 9.7%. We acquired many new customers, above all, in our growth markets who were attracted by our range of products and services and by our excellent advisory quality.

This customer segment includes many firms from the industrial sector, commerce and trade, as well as from the free professions, farming and forestry, winemakers and institutional clients and also the public sector.

EXCELLENT SEGMENT RESULTS

Business in the Corporate and Business Banking segment developed excellently in the past financial year. The highlights of our performance in this segment include net interest income and net fee and commission income in which we achieved double-digit growth rates of 13.7% and 11.5%, respectively. The excellent net interest income of EUR 102.3 million is due primarily to the strong growth in lending. Net fee and commission income amounted to EUR 30.6 million and was driven by a substantial rise in income from payment services and by higher commissions on loans.

CORPORATE AND BUSINESS BANKING

in €m	2017	2018
Net interest income	90.0	102.3
Impairment charges	-23.4	-18.9
Net fee and commission income	27.4	30.6
General administrative expenses	-48.2	-50.0
Other operating income net of other operating expenses	1.2	1.2
Profit/loss for the year before tax	**47.0**	**65.2**
ROE before tax	15.7%	17.4%
Cost/income ratio	40.6%	37.3%
Risk/earnings ratio	26.1%	18.5%

Credit risk also developed highly satisfactorily in the reporting year supported by the stable economy. We were also spared any major cases of insolvency in the year 2018. Therefore, impairment charges for losses on loans and advances were 19.4% lower than in the preceding year and amounted to EUR 18.9 million.

Administrative expenses increased by 3.7% to EUR 50.0 million. The increase results from higher IT expenses and from higher provisions for jubilee bonuses and death benefits due to the hike in salaries and wages under the collective agreement and the adjustment for the new mortality tables. In total, BKS Bank attained a significant increase in earnings by 38.7% and net profit before tax was EUR 65.2 million as at 31 December 2018.

The very good development of business in the segment is reflected in the improved management benchmarks. Return on equity (RoE) was 17.4% while the cost/income ratio decreased from 40.6% to 37.3%. The risk/earnings ratio reached a very good level at 18.5%, which is a reduction by 7.6%-points versus 2017.

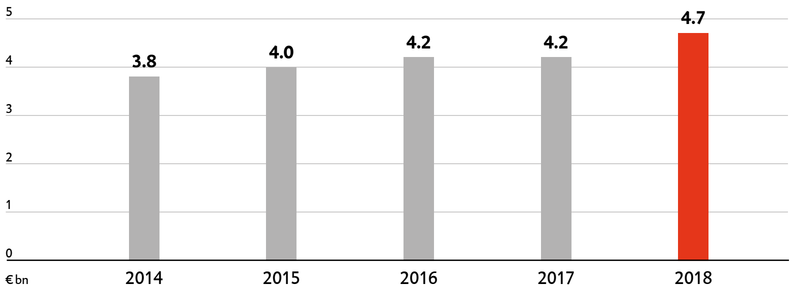
STRONG DEMAND FOR LOANS

The financial year 2018 was dominated by exceptionally strong demand for credit. Many businesses took advantage of the good overall economy to make investments. The steep increase in demand for finance resulted a Group-wide total volume of new loans to corporate customers of EUR 1.5 billion. Receivables increased to EUR 4.7 billion, which is an rise in credit volume by 11.9%. The corporate and business banking segment accounted for over three quarters of the loan portfolio of the Group.

The leasing business also benefited from higher demand for loans and this business gained ground throughout the Group. The volume of new lease finance contracts with corporate and business banking customers increased in the reporting year to EUR 203.8 million. Above all, the Austrian and Slovenian leasing subsidiaries contributed enormously to this strong performance in new contracts with EUR 81.3 million and EUR 72.7 million, respectively.

In Slovenia, we have established a good reputation as a reliable finance partner among municipalities. The outstanding credit volume to Slovenian municipalities was EUR 89.9 million or around 15.0% of the finance volume of our Slovenian subsidiaries.

RECEIVABLES FROM CORPORATE AND BUSINESS BANKING CUSTOMERS



Another key business line is export finance and the related advisory services regarding financial assistance schemes. In the reporting year, we financed 40 projects with a credit volume of EUR 54.6 million, which is double the volume of 2017. This confirms that our approach – personal advisory services paired with extensive expert know-how – is the right way to support export-oriented customers in their transactions. In 2018 as well, we made excellent 8th place in a ranking of loans granted under export subsidy schemes in Austria. The outstanding volume of export finance at year-end 2018 was EUR 152.8 million, a rise by 34.0%.

In the area of finance subsidy schemes for capital spending, the number of eligible projects increased steeply throughout Austria. This development was triggered by the special measures taken to promote growth such as the employment bonus and the investment incentive premium for large companies and SMEs. We succeeded in obtaining the best possible finance structures for our customers in the reporting year and extended EUR 35 million in subsidised loans for some 78 investment projects.

In Corporate Banking we provide support to large corporates with sales revenues of over EUR 75.0 million as well as to institutional customers, larger municipalities and structured finance. This business line developed very positively in 2018 as well and we granted over EUR 155.7 million in new loans through this organisational unit.

Sustainable lending on the rise
In the lending business, the promotion of sustainable lending is increasing in significance. We started offering sustainable finance products already very early on. Thus, we anticipated developments that are now being confirmed by the European Union action plan for the financing of sustainable growth. In 2018, for example, we floated our second green bond. With the issuance proceeds, BKS Bank is funding the construction of photovoltaic plants in Austria. In 2018, a volume of new loans in an amount of EUR 65 million for sustainable growth was granted to corporate and business banking customers.

ALL-TIME HIGH IN SIGHT AND TERMI DEPOSITS

The volume of sight and term deposits from corporate and business customers increased once again robustly by 13.3% to EUR 2.9 billion. The excellent liquidity situation of our corporate and business customers is reflected in this high level. We created a new service for money market investments designed specifically for our large corporates: “Liquiditätskonto” and “Business Profit Plus Konto”.

BIZZNET LAUNCHED SUCCESSFULLY

In the Corporate and Business Banking segment, we achieved a major milestone in the implementation of our digitalisation strategy in 2018. We launched the two new customer portals in October – BizzNet and BizzNet Plus – that have features designed to meet the needs of corporate customers. The modern and flexible customer portals have become very popular since they went live. We are already working on the next development step. In the course of the coming year, corporate customers will be able to transact standardised lease transactions or create guarantee letters directly in the customer portal.

We also developed a separate information and authorisation app for corporate customers in 2018. The business app permits users to check current information on payment transfers on their account and to complete funds transfers regardless of where they are. Furthermore, since the beginning 2018 we have been offering an additional service that permits the simplified establishment of a limited liability company (GmbH). We are one of the first banks in Austria to offer this service.

We also use the opportunities of digitalisation to optimize our advisory processes. A new software application, Business Check, supports our account managers with customer relationship management.

SERVICE BUSINESS EXPANDING

We are pursuing the strategic goal of becoming less dependent on the lending business. To this end, we are promoting the expansion of business areas with a lesser impact on equity. We are very pleased to report growth in our service business by 11.5% in the reporting year. We achieved gains in all product segments, with payment services excelling with an increase of 10.9%. The steep rise makes us all the more pleased, since payment services is a very competitive business and strongly dominated by the advance of digitalisation. Additionally, the implementation of the EU Directive for Payment Services (PSD 2) also required quite a few adjustments. In the reporting year, some aspects of the PSD 2 were resolved including the implementation of the new risk and security regulations and also important preparatory work was done ahead of the opening of the market for payment services to third parties that will happen in the course of the year 2019.

In the corporate and business banking segment we are traditionally more engaged in the lending business than in the securities business. We plan to increase our activities in the securities business as well. Despite the volatility on capital markets, we achieved higher fee and commission income from securities operations in the past year. The increase was 4.8%. In December 2018, we issued an AT 1 note that was subscribed to mainly by institutional investors. We placed a volume of EUR 5.6 million before the end of the year 2018.

The insurance business also developed well in 2018. Company retirement schemes are an important focus of our advisory services for corporate and business banking customers. In total, the premium volume in retirement products was EUR 5.3 million in the reporting year. In property insurance, we increased net annual premium income by 34.4.%.

OUTLOOK FOR CORPORATE AND BUSINESS BANKING

The extraordinary success achieved in the past few years in the corporate and business banking segment is closely connected to the outstanding quality of our advisory services. In order to retain this high level, we have expanded and systemically reorganised our product training courses and expert seminars as well as sales training.

We have been increasing the number of new customers steadily in the past few years. We plan to continues this trend also in 2019 and increase our activities in the region of Vienna-Lower Austria-Burgenland and on our foreign markets.

With respect to product development, we are concentrating on the expansion of our digital services for corporate and business banking customers. The complete, digital handling of standardised transactions is a special focus, because in our view this creates many benefits for our corporate customers. The use of digital signatures is also on the agenda.

Important to us is to increase the orientation of our loan portfolio on sustainability. We have set up a working group to this end that will look at the de-carbonisation of our credit portfolio and at the EU action plan for the financing of sustainable growth. Furthermore, we plan to issue another green bond or social bond to raise funds for sustainable investment projects in 2019.

RETAIL BANKING

In the retail banking segment, we provide services to private individuals and members of the healthcare professions. As at 31 December 2018, we had around 143,000 customers in this segment , which is 7.2% more than in the prior year. The increase is due to the takeover of some 9,000 asset management and brokerage customers of GBD (Gorenjska borznoposredniška družba d.d) in Slovenia.

We achieved a trend reversal in the retail banking segment. After years of declining earnings, we recorded a significant rise in income for the first time again in 2018. We worked hard to make the retail banking segment profitable again. We achieved this in the reporting year thanks to our commitment to pursuing our goals with unwavering dedication. This achievement of improved results was also due to the overall economic upswing. Demand for loans from private households was boosted by the sound economy and impairment charges for loans and advances declined substantially.

RETAIL BANKING

in €m	2017	2018
Net interest income	25.0	25.6
Impairment charges	-1.6	0.5
Net fee and commission income	21.8	24.7
General administrative expenses	-51.8	-51.2
Other operating income net of other operating expenses	1.2	1.7
Profit/loss for the year before tax	**-5.5**	**1.3**
ROE before tax	-11.3%	2.1%
Cost/income ratio	108.0%	98.4%
Risk/earnings ratio	6.5%	-

SIGNIFICANTLY IMPROVED RESULT

In the Retail Banking segment, we closed the financial year 2018 with a net profit for the year before tax of EUR 1.3 million. In the preceding year, this result was negative at EUR -5.5 million. The much improved result is due to higher net fee and commission income (+13.5%) and to the positive development of impairment charges for losses on loans and advances. On balance, we reversed a volume of EUR 0.5 million in impairment charges in the reporting year. Net interest income increased by 2.5% to EUR 25.6 million. Administrative expenses were almost unchanged year on year at EUR 51.2 million. Other operating income was EUR 1.7 million versus EUR 1.2 million in the preceding year.

The positive result for the segment also improved the management benchmarks: The cost/income ratio dropped from 108.0% to 98.4%. Return on equity was positive at 2.1%.

SURGE IN DEMAND FOR LOANS

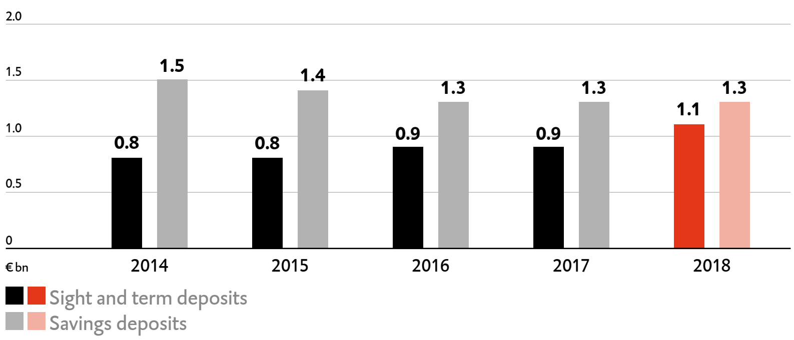
We saw a steep increase in demand for loans also in the Retail Banking segment. The good economic situation and the entailing improvement on the labour market created higher demand for real estate and housing loans as well as for consumer loans. As at 31 December 2018, the loan portfolio in Retail Banking was EUR 1.3 billion or up by 7.4% year on year.

We plan to promote our sustainability activities more prominently also in our core business. We offer our domestic and foreign retail customers special forms of finance that meet the goals of sustainability. In Austria, we have been offering the product “Silberkredit” since 2016, which gives older persons access to loans. The excellent development of volumes in this product shows that there is demand in the market. Demand has more than doubled compared to the prior year, up from EUR 12.7 million to EUR 27.4 million.

In Slovenia as well, the introduction of green loans was successful. Green loans are for investments that support climate protection. At year-end 2018, the volume of green loans was EUR 24.6 million and has risen threefold since 2017.

The risk situation in private lending stayed very relaxed also in the reporting year, and on balance we were able to release EUR 0.5 million in impairment charges on loans and advances. The reduction in the volume of foreign currency loans in Swiss franc progressed in the right direction also in 2018. The volume of loans in Swiss franc decreased by a very pleasing 15.2% to EUR 85.5 million. The FX ratio as of 31 December 2018 (excluding EUR loans to customers of the Croatia Branch) was 7.2% versus 9.7% in 2017.

PAYABLES TO RETAIL BANKING CUSTOMERS



ROBUST RISE IN CUSTOMER DEPOSITS
Irrespective of the sustained low level of interest rates, payables to retail customers increased by 8.1% to EUR 2.3 billion. Remarkable was the fact that the increase was mainly in short-term, daily callable deposits. Retail customers want to be able to manage their savings irrespective of when and where they are, and are increasingly demanding online savings variants. The volume of sight and term deposits increased considerably by 23.8% to EUR 1.1 billion as at 31 December 2018. Classical savings passbooks continued to lose appeal, and the level of savings deposits decreased by 2.7% to EUR 1.3 billion. Classical building society savings contracts are still one of the more popular savings forms. In the reporting year, we closed 3,808 building society savings contracts which we sell as a long-year partner of Wüstenrot.

STEEP INCREASE IN FEE AND COMMISSION INCOME
In Retail Banking, we also aim to grow in business areas of minor impact on equity. We achieved this quite well in the past financial year. We attained gains in all lines of the service business, with net fee and commission income rising from EUR 21.7 million to EUR 24.7 million or up by 13.5%.

The payment services segment also developed into a solid source of revenue for the retail segment. Compared to 2017, income from commissions on payments services increased by 9.1%. In this segment, we are steadfast in the pursuit of our digitalisation strategy.

In mid-year 2018, we added the functions Zoin and Debit Mobile to the BKS Wallet and also new functionalities to the BKS app such as limit adjustments for debit cards. In the autumn of 2018, the customer portal was redesigned to meet the needs of the customer segment more specifically and MyNet was launched for retail customers. We are very pleased that our modern customer portal is so well-received by customers. The higher number of portal users (+21%) is also evidence of how popular the portal is among customers. The number of BKS app users increased by 27% versus 2017. At year-end, we also implemented the BKS security app that can be used to conveniently conduct secure payment transactions.

Non-cash payment methods gaining popularity
The card business also developed very well in the financial year 2018. The number of maestro cards increased significantly again. Meanwhile, 66,000 retail customers use debit cards especially for cashless payment transactions. The total number of these transactions rose by over 15% to almost 5.0 million payment transactions. More than half of these transactions are carried out using cards with the contactless NFC function. The number of transactions with credit cards increased significantly as well: +16% regarding the number of transactions and almost 11% more in volume. Over 65% of the transactions executed with our BKS MasterCard were used for internet payments.

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 regular premium payments, and risk and accident insurance. The insurance business developed very satisfactorily in the reporting year. We posted excellent growth rates in all insurance segments. Endowment insurance policies increased by 20.2%, risk insurance by 10.0% and the rise in accident insurance by a considerable 31.8%. In Slovenia as well, we are satisfied with the course of business in the area of insurance. On the Slovenian market, we serve exclusively as brokers for insurance products.

TURBULENT STOCK MARKET YEAR PUTS DAMPER ON INVESTOR SENTIMENT

The ups and downs of the stock market year 2018 meant that investors had to have a strong stomach. As almost investment classes suffered price losses, sentiment among investors was quite gloomy. Nonetheless, fee and commission income from securities operations increased by 5.8%, which was supported, among other things, by the acquisition of customers from the Slovenian brokerage firm GBD.

We have been offering our customers asset management services for many years. In the second half of 2018, we developed this area substantially. With three new portfolio variants – conservative, dynamic and sustainable – investors may choose a strategy that takes into account their own risk tolerance and personal objectives. In asset management, both domestic and foreign investment funds as well as funds of funds are used. The increased use of funds of funds enables a wider diversification within asset management and at lower costs. We expect the innovation in asset management to bring new momentum to the investment business in 2019.

As already mentioned in this report, we issued another green bond in 2018. Sustainable investments are very appealing to investors and the green bond was fully placed on the market within just a short time. With the issuance proceeds of the green bond, BKS Bank is funding the construction of photovoltaic plants in several provinces of Austria by the company, Exklusivreal 4you GmbH. We plan to continue our sustainable issuance policy in 2019 as well.

We also saw a solid increase in commissions on loans. These increased compared to 2017 by 52.4% thanks to robust credit growth and our strict invoicing policy.

OUTLOOK FOR THE RETAIL SEGMENT

In the coming months, we will concentrate on efforts to strengthen our earnings situation further. To achieve this, we will work to swiftly advance our digitalisation strategy, bring innovative products to the market and develop our excellent advisory quality. In just a few months, we will launch a new digital platform for housing loans. The replacement of the security card by the BKS security app and the further developments in MyNet are also on our digitalisation agenda.

In the classical banking business, we rely on initiatives that aim to improve acquisition of new customers and to boost sales. This refers mainly to training for our account managers on how to use our own digital products and services. The cornerstone was laid in the past reporting year by the introduction of digital coaches. Furthermore, we want to reach younger customers with our products and services. We are therefore working on alternative forms of access for young people.

FINANCIAL MARKETS

Apart from income earned on the management of term structures, the main sources of revenue in Financial Markets are returns on the Treasury securities portfolio and the contributions of entities recognised by the equity method. Proprietary trading is not at the focus of our business activities.

The persistently flat interest rate curve is still a rigid barrier to earning returns on maturity transformation. Moreover, the substantial turmoil on stock markets in the second half of December 2018 resulted in a negative result from financial assets of EUR -7.8 million. Therefore, the segment results dropped by 28.3% to EUR 29.2 million.

FINANCIAL MARKETS

in €m	2017	2018
Net interest income incl. profit/loss from entities accounted by the equity method	42.2	43.7
Impairment charges	-1.7	0.1
Net fee and commission income	0.3	-0.2
Net trading income	1.5	0.3
General administrative expenses	-5.9	-7.4
Other operating income	-0.06	0.5
Profit/loss from financial assets	4.2	-7.8
Profit for the year before tax	**40.7**	**29.2**
ROE before tax	6.3%	4.3%
Cost/income ratio	13.4%	16.7%
Risk/earnings ratio	3.9%	-

SEGMENT RESULT STILL POSITIVE

Including returns from entities accounted for using the equity method, net interest income increased by EUR 1.5 million to EUR 43.7 million. The economic upswing boosted the development of business at our partner banks. Income from investments also developed positively and contributed EUR 2.2 million to net interest income. The investments are measured mainly by the discounted cash flow method as at the reporting date. The result of the measurement was EUR -0.6 million. Term structure income came under pressure due to the flat interest rate curve. This includes the results from interbank transactions, treasury operations, derivatives in the banking book and the application of the internal reference interest rate.

In the financial year 2018, we used the option of procuring liquidity in an amount of EUR 300 million through the long-standing OeNB/ESCB tender, just as in 2017. This long-term tender runs until mid 2020. Our first-class credit rating in the banking industry and our conservative investment strategy of focusing primarily on high quality liquid assets resulted in the reversal of impairment charges in an amount of EUR 0.1 million. The impairment charges were calculated as an expected credit loss based on IFRS 9 rules.

Administrative expenses increased by 25.6% to EUR 7.4 million. The largest change to profit/loss was seen in the profit/loss from financial assets. At EUR -7.8 million, the result was significantly lower than the prior-year figure of EUR 4.2 million.

The segment-specific indicators developed as follows as at 31 December 2018: The cost/income ratio increased by 3.3%-points to 16.7%. Return on equity declined by 2.0%-points to 4.3%.

FINANCIAL MARKETS OUTLOOK

We will continue to serve as a solid and reliable issuer of securities and plan to float own issues in the current year as well. In this manner, we offer our customers attractive investment opportunities. An active issuance policy also helps us meet the new MREL ratio (minimum requirement for eligible liabilities) and the net stable funding ratio (NSFR) lastingly. Our investment activities in 2019 will continue to be guided by the avoidance of market risks. We stand by our conservative investment strategy and invest mainly in high quality liquid assets. We will, of course, also continue our collaboration with our strategic partners, Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft.

OTHER

The Other segment encompasses items of income and expenses that cannot be allocated clearly unambiguously to the other segments and/or cannot be attributed to any one individual segment. In our calculations for the segment, we take great care to allocate the income and expense items only to the business segments in which these have been earned or incurred.

Net profit/loss for the year before tax was EUR -8.6 million versus EUR -5.0 in the preceding year. The negative result was due mainly to the high expenses caused by regulatory requirements. The costs for the deposit protection fund of EUR 1.9 million and the contributions to the winding-up fund of EUR 2.8 million are allocated to this segment. Allocation to the individual business segments was not done, because these regulatory costs would be used to build up the respective funds over a period of 10 years and then be derecognised. An allocation would result in a distorted presentation of the business segments over time. Administrative expenses increased due to non-sales IT costs from EUR 1.9 million to EUR 6.0 million.

CONSOLIDATED OWN FUNDS

BKS Bank calculates the own funds ratio and the total risk exposure according to the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). The calculation of own funds requirements for credit risk, for market risk and for operational risk is done using the standardised approach.

The Supervisory Review and Evaluation Process (SREP) conducted by the Austrian Financial Market Authority (FMA) came to the conclusion that, as at 31 December 2018, BKS Bank had to meet the following minimum requirements without a capital conservation buffer, as a percentage of total risk exposure:
– 5.7% for common equity tier 1 capital
– 7.6% for tier 1 capital, and
– 10.1% for the total capital ratio

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

in €m	31/12/2017	31/12/2018
Share capital	77.5	83.7
Reserves net of intangible assets	909.3	1,061.8
Deductions	-372.3	-551.8
Common equity tier 1 capital (CET1)	**614.5**	**593.7**[1)]
Common equity tier 1 ratio	12.3%	11.2%
Hybrid capital	20.0	8.0
AT1 note	36.2	43.5
Deductions	-42.9	-
Additional tier 1 capital	**13.3**	**51.5**
Tier 1 capital (CET1 + AT1)	**627.8**	**645.2**
Tier 1 capital ratio	12.5%	12.2%
Tier 2 capital	116.5	134.0
Deductions	-42.7	-
Total own funds	**701.6**	**779.2**
Total capital ratio	14.0%	14.8%
Total risk exposure amount	5,016.7	5,283.1

[1)] *Includes profit for the year 2018. Formal adoption is still outstanding.*

STRONGER CAPITAL COVER AFTER SUCCESSFUL CAPITAL INCREASE

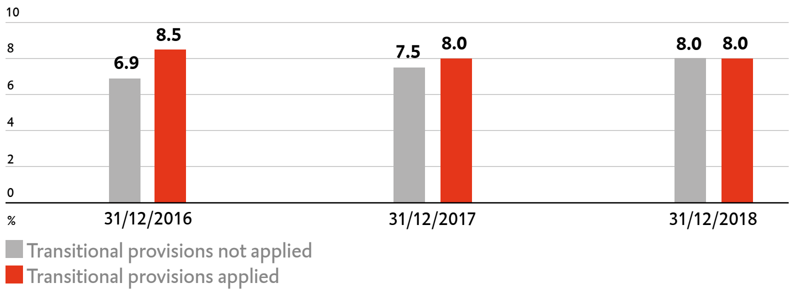
In the first quarter of 2018, we completed a capital increase at a ratio of 12:1. In total, BKS Bank issued 3,303,300 new ordinary shares at an offer price of EUR 16.7 per new share and attained proceeds of EUR 55.2 million.

However, common equity tier 1 capital decreased to EUR 593.7 million due to much higher deduction items that resulted from the phasing out of the transitional provisions. Therefore, the common equity tier 1 capital ratio also dropped from 12.3% to 11.2%. Including tier 2 capital in an amount of EUR 134.0 million, the bank's own funds came to EUR 779.2 which is a rise by 11.1%. The total capital ratio increased to a gratifying 14.8%.

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 2018. Therefore, we clearly meet the regulatory minimum ratio of 3.0% and the internal benchmark of > 5%.

LEVERAGE RATIO



RISK MANAGEMENT

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 risk based on the premise of recognising all relevant risks early that may result from the banking business and banking operations, and to 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 optimised. 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 discussed and agreed with the Supervisory Board.

At BKS Bank, a solid risk culture is established throughout the Group on the basis of a comprehensive understanding of our risks based on the values of BKS Bank. The risk culture is described at the top level by the mission statement and the risk strategy of BKS Bank and represents how management staff and employees are to deal with risk within the scope of their work. Sustainability plays a major role at BKS Bank. Therefore, these have many forms in our business policy.

In accordance with the provisions of § 39a Banking Act, banks must have effective plans and processes to determine the amount, the composition and distribution of the capital used for the quantitative and qualitative hedging of all risks arising from the banking business and banking operations. Based on these factors, banks must maintain capital in the required volume. These processes are summarised 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 para 3 Banking Act for the purpose of identifying, measuring, managing and monitoring liquidity. It 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 targets by producing timely and extensive risk reports.

STRUCTURE AND ORGANISATION OF RISK MANAGEMENT

The risk strategy of BKS Bank is characterised by a conservative handling 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.

Central responsibility for risk management lies with the member of the Management Board whose remit does not include front office activities.The risk strategy is revised annually, approved by the Management Board and discussed and evaluated by the members of the Risk and Credit Committee of the Supervisory Board. The Management Board decides on the risk management principles, the limits for all relevant risks, and the procedures for monitoring and managing risks.

In accordance with § 39 para 5 Banking Act, 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.

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 reviewed once a year for conformity 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 and 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 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 meets four times a year. The members of the OR Committee analyse the loss events, support the risk-taking units and the management with the active management of operational risk, monitor the measures taken and develop the OR risk management system.

CREDIT RISK JOUR FIXE MEETINGS

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 the weekly meetings, an extended Credit Risk Committee meets on a quarterly basis. This Committee manages credit risk at the portfolio level, engages in the continuous further development of the credit risk management process, and facilitates the swift deployment of steering instruments.

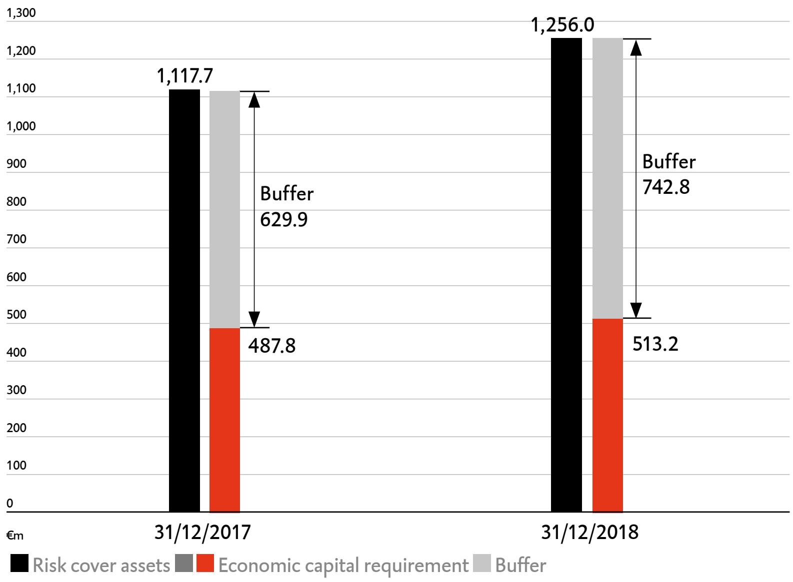
INTERNAL CAPITAL ADEQUACY

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. An assessment of the appropriateness of the internal capital adequacy is done quarterly. The aim is to ensure that BKS Bank always has sufficient assets to cover its risks and is able to absorb the risks taken also in the case of unexpected events. All identified and quantified unexpected risks are aggregated to an overall bank risk.

The individual positions of the risk cover assets are ranked according to their realisation capacity, taking into account above all their liquidation capacity and publicity effects. Capital adequacy in the going concern assumption is based on the potential risk, the risk-bearing capacity and the thresholds derived therefrom with the aim of ensuring that the bank is capable of absorbing any adverse loss event and can continue conduct business in an orderly manner. The capital adequacy target of the liquidation approach reflects the regulatory view and serves to protect creditors.

Unexpected losses in the liquidation approach are calculated for a period of observation of one year with a confidence level of 99.9% at BKS Bank. As at 31 December 2018, the economic capital requirement was determined at EUR 513.2 million after EUR 487.8 million in the preceding year. The corresponding cover assets were EUR 1,256.0 million compared with EUR 1,117.7 million at year-end 2017. The increase in the risk cover assets was due mainly to the capital increase and to the net profit earned.

RISK-BEARING CAPACITY BY LIQUIDATION APPROACH



BREAKDOWN OF RISKS IN THE LIQUIDATION APPROACH

in %	2017	2018
1 Credit risk	61.8	64.7
2 Interest rate risk in the banking book[1)]	15.9	14.0
3 Equity price risk[1)]	0.9	1.0
4 Foreign currency risk[1)]	0.5	0.4
5 Credit spread risk	7.6	7.7
6 Operational risk	5.4	5.1
7 Liquidity risk	2.5	0.8
8 Macroeconomic risk	3.3	3.6
9 Other risks	2.1	2.7

[1)] *Net of diversification effects*

As in the preceding year, the economic capital requirement for credit risk was the largest risk capital requirement within the group of credit institutions. Credit risks account for about 64.7% (2017: 61.8%) of the total loss potential.

STRESS TESTS IN OVERALL BANK RISK MANAGEMENT

We conduct stress tests on a quarterly basis 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.

Lock with register, 19th century

–DEVELOPING KEY SKILLS–

Dieter Kraßnitzer
Member of the Management Board

CREDIT RISK

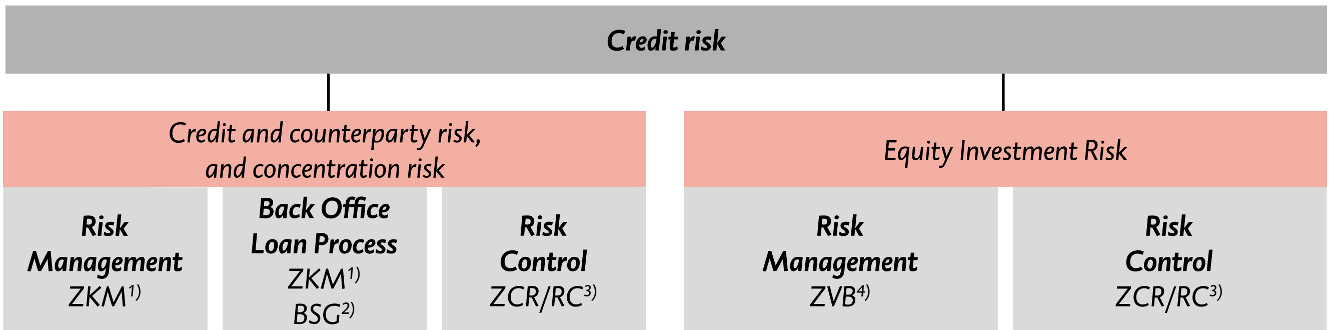
We define credit risk as the risk of a partial or complete default on contractually-agreed repayments on a loan. This risk may be grounded in a counterparty's creditworthiness or indirectly in the country risk of a counterparty's domicile. Credit risk is by far BKS Bank's most important risk category. The 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 on a know-your-customer basis. Therefore, 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 realisation risk of the collateral.

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 Risk Controlling. 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 MANAGEMENT



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

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 independent experts from Credit Management.

CREDIT RISK CONCENTRATIONS

Concentrations of credit risk are managed at the portfolio level. Our aim is to achieve a balanced distribution of credit exposures by size, and limits are 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.

INVESTMENT RISK

Equity investment risk encompasses the risk of lost dividends, impairments and realised 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 strategic focus; they are acquired for the purposes of our banking operations.

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.

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 subsidiaries with business operations 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.

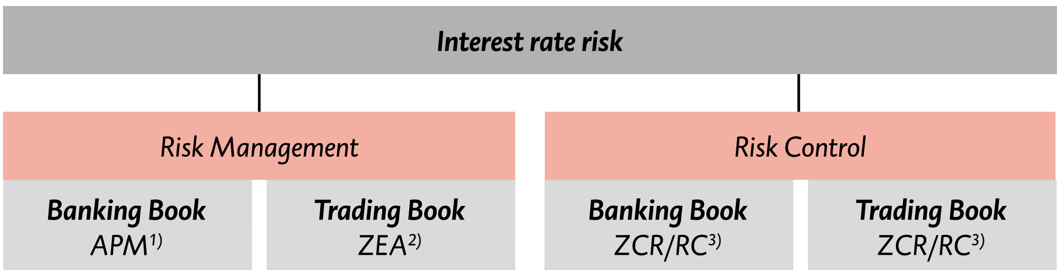
INTEREST RATE RISK

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

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.

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. 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 interest rate risk is the remit of Proprietary Trading and International Operations.

MANAGEMENT OF INTEREST RATE RISK



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

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 instrument for interest rate management.

CREDIT SPREAD RISK

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. BKS Bank quantifies the credit spread risk for the bond portfolio in the banking book. The BKS Bank Group generally pursues a conservative strategy for avoiding credit spread risks. The credit spread risk is managed monthly by the ALM Committee. Risk control is the responsibility of Risk Controlling.

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 equity funds. Once a month, equity price risk is quantified using a historical simulation as value-at-risk and reported to the ALM Committee.

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 generally done through investment funds; we invest in individual stocks only to a minor extent.

MANAGEMENT OF EQUITY PRICE 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 foreign exchange risk, open currency positions are evaluated daily and compared with the corresponding limits.

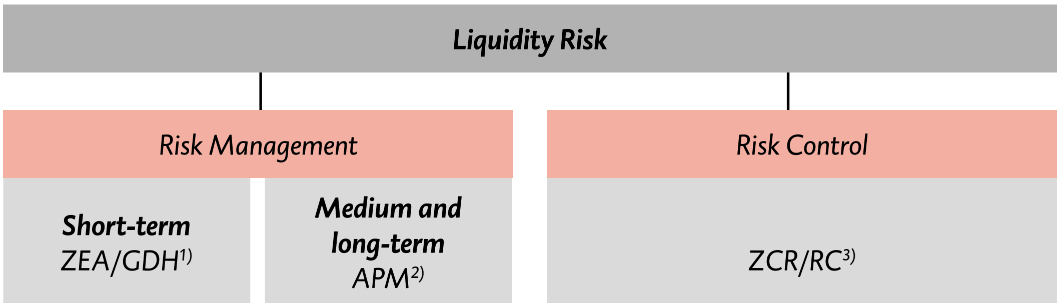
Traditionally, exposure to currency risks is kept low at BKS Bank, because making profits on open foreign exchange positions is not the focus of our business policy. Therefore, open foreign exchange positions are held only short term and in low volumes. Foreign currency loans and deposits in foreign currencies are generally refinanced or invested in the same currency.

The management of foreign currency positions is the responsibility of Proprietary Trading and International Operations, Money Market and FX Trade. Foreign exchange positions are monitored by Risk Controlling.

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/Risk Controlling*

LIQUIDITY MANAGEMENT PRINCIPLES

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.

Essential for liquidity management is a diversification of the refinancing profile by investor category, product and maturity. The policy for loan terms and conditions is managed on the basis of the Risikomanagementverordnung (Austrian risk management decree) and the EBA guidelines 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 by 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 utilisation 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 Risk Controlling Group is responsible for liquidity risk control, ensuring adherence to the principles, procedures and limits that had been established. 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 RISK MANAGEMENT

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 provides a quick overview of the current situation. The analyses are supplemented by stress tests, which we categorise as general macroeconomic scenarios, bank-specific scenarios or combined stress scenarios.

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.

INDICATORS FOR MANAGING LIQUIDITY RISK

	2017	2018
Deposit concentration	0.36	0.38
Loan/deposit ratio (LDR)	92.3%	91.7%
Liquidity coverage ratio (LCR)	145.2%	137.8%
Net stable funding ratio (NSFR)	105.0%	110.2%

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, people or systems errors or from external factors.

At BKS Bank AG and at all Austrian and foreign subsidiaries, operational risks are limited by 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, a company held jointly with our partner banks, and by extensive data protection and security measures and professional business continuity management. These measures are reviewed for adequacy regularly by Internal Audit. 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 excellent at 100% in 2018. Also impressive is the fact that 99.7% of transactions have a response time of less than one second. The multiple backup tests conducted also yielded satisfactory results.

All enterprise processes are related to information and communication technology, and therefore, ICT governance is of enormous importance. ICT governance is understood to be all principles, procedures and measures in place to ensure that the ICT strategy supports the business targets, that 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. 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.

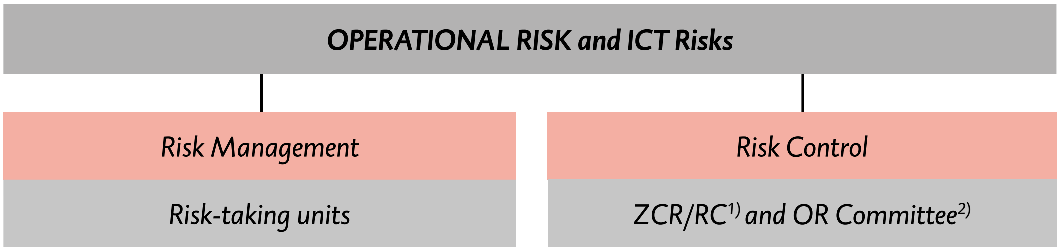
Excluding those resulting from credit operations, 231 loss events were recorded at BKS Bank in 2018 (2017: 216 loss events). The average loss amount after deducting amounts recovered was EUR 8.1 thousand (2017: EUR 12.1 thousand). Most loss events occurred in the category customers, products and business practices.

As in past years, we applied the standardised approach to measure the regulatory capital requirement for operational risk. In the year under review, the regulatory own funds requirement was EUR 25.9 million (2017: EUR 26.1 million). This compared with actual risk losses net of amounts recovered of EUR 1.9 million (2017: EUR 2.6 million). The total loss was only 7% of the regulatory own funds requirement for operational risk.

A risk self assessment is conducted every three years. In this process, more than 100 management staff members throughout the Group were interviewed about their risk assessment for operational risk.

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

OPERATIONAL RISK AND ICT RISKS



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

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 any change as may be required to the business plan, refinancing bottlenecks may occur that would render it necessary to sell assets in an emergency situation and, therefore, cause losses or 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 and was 8.0% at year-end (2017: 8.0%). Therefore, the leverage ratio is much better than the minimum ratio of 3% currently being discussed.

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 and major structural changes
- 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 risks from interest rate risk, from foreign currency risk, from equity price risk and from credit risks

INTERNAL CONTROL SYSTEM IN THE FINANCIAL REPORTING PROCESS

This section discusses the material disclosures required pursuant to § 243a para 2 Business Code regarding the internal control and risk management system (ICS) in connection with BKS Bank's financial reporting process.

ICS ensures 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 financial reporting processes are covered in a separate manual for the Group as well as in internal guidelines for risk provisions. Financial reporting is an important element of the internal control system throughout the Group and is evaluated annually.

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 and associated processes, consolidation 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 controls 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 mandatory 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 employed 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/Financial Reporting 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 the SAP system. Authorisations are documented and their approval is reviewed 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 receive an interim report containing notes on budget deviations, material changes and changes over time. Shareholders receive quarterly interim reports that are published on the website www.bks.at under » Investor Relations » Berichte und Veröffentlichungen.

MONITORING EFFECTIVENESS OF THE MEASURES

The monitoring of 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 is conducted of the ICS with a reference to the financial reporting process within the scope of process management. Moreover, an independent review is conducted by the 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 orderliness 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 the Audit Committee mandated by law.

SUSTAINABILITY AND NON-FINANCIAL PERFORMANCE INDICATORS

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 at www.bks.at/Nachhaltigkeit (only in German). The indicators on the following pages present an overview of our non-financial performance indicators and their trends.

HOLISTIC SUSTAINABILITY STRATEGY

Quality and sustainability are the foundation of our corporate strategy. Therefore, we do not just take isolated CRS measures, but have been pursuing a holistic sustainability strategy for many years at our company. The strategy has five thematic strands:

- Strategy and governance
- Employees
- Products and innovation
- Society and social engagement
- Environment and climate protection

We are very pleased about the external awards we have received on many occasions for our sustainability activities. We are especially proud to have been awarded prime status again by ISS oekom at the beginning of 2018. This places us among the top banks with respect to sustainability in Austria. BKS Bank was included again in the sustainability index, VÖNIX, of the Vienna Stock Exchange.

STRATEGY AND GOVERNANCE

The sustainability strategy was redefined for the period 2018 to 2022 and states the objectives for the framework of action for the coming years. We adhered to the sustainable development goals of the UN Global Compact when defining the sustainability strategy. A multi-tiered stakeholder discussion process was conducted that resulted in valuable impulses that helped us arrive at our principal themes.

In the thematic strand Strategy and Governance, we produced, among other things, a new code of conduct in the reporting year that was distributed to our employees at the beginning of 2019. A number of 343 Austrian employees completed a CSR e-learning course to learn in detail about the latest trends in sustainability and the numerous CSR activities of BKS Bank. Several surveys of stakeholders supplied important inputs also in 2018 for the further development of the sustainability strategy.

In the middle of December 2018, we organised a workshop jointly with WWF Austria to which 26 experts were invited to speak on the topics of sustainability, energy, mobility and financial industry. The possibilities were discussed of de-carbonisation in the core business areas and in the areas of building and mobility, as we believe that these are the ones with the strongest points for our service operations.

SURVEY OF STAKEHOLDERS 2018

Stakeholder group surveyed	Survey
Customers in Austria	Online survey on customer satisfaction
Customers in Gleisdorf	The first bank branch designed according to the concept "branch of the future" was opened in Gleisdorf. Customers were asked about their opinions on the new design.
Employees in Slovenia	Survey of satisfaction with the work-life balance as part of the recertification as a family-friendly company
Employees in Austria	Idea screening for the new CSR measures planned (job ticket, bonuses for sustainable travel to work and package delivery to larger units)

EMPLOYEES

In the reporting year, BKS Bank employed 1,119 persons, which was 1.8% more than in 2017, because we had to account for growth in Slovenia, especially in the securities and leasing business. In total, we hired 100 new employees of which 41 were women. Our employees represent diversity:

– They come from 10 different countries.
– 55% of our employees are women.
– 32.4% of our management staff are women.
– 77% of employees work in Austria, 12% in Slovenia, 7% in Croatia and 4% in Slovakia.
– With a share of 55.0%, the majority of our employees are between 30 and 50 years of age.
– The average duration of employment is 14.8 years.
– 47 employees celebrated a service anniversary in 2018; two of them had worked for 45 years at BKS Bank.

EMPLOYMENT STRUCTURE

Employees by number of persons	2017	2018
Total number of employees	1,099	1,119
– thereof in Austria	860	861
– thereof in Slovenia	121	137
– thereof in Croatia	73	74
– thereof in Slovakia	40	42
– thereof in Italy	4	4
– thereof in Hungary	1	1
– thereof women	623	619
– thereof men	476	500
Full-time employees	849	848
– thereof women	389	373
– thereof men	460	475
Part-time employees	250	271
– thereof women	234	246
– thereof men	16	25
Employees with physical disabilities	28	27

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

WORK-LIFE BALANCE

BKS Bank wants to be a fair employer. Apart from adequate income, many social benefits and good collaboration with the Works Council, we offer our employees a lot of measures to achieve a good work-life balance. In Austria, BKS Bank has been certified since 2010 with the quality seal ”berufundfamilie”. In Slovenia and Croatia, we were recertified and received the local award naming us a family-friendly business. As part of the recertification process, a survey among employees was conducted in Slovenia. A share of 92% of the persons surveyed are satisfied with the measures to help balance work life with family life. A share of 79% said that their work-life balance has improved since initial certification in 2015.

The offers we have to help employees balance work and family life is one of the building blocks of our efforts to bring more women into management positions. A further instrument is our women’s career programme “Frauen.Perspektiven.Zukunft”. In 2018, a new round with 13 participants started. Of the 16 employees that completed the talent programme in 2018, seven were women.

In Austria, we were happy to receive another award. We were distinguished for the measures taken to promote the health of our employees by the quality seal “Gütesiegel für Betriebliche Gesundheitsförderung“.

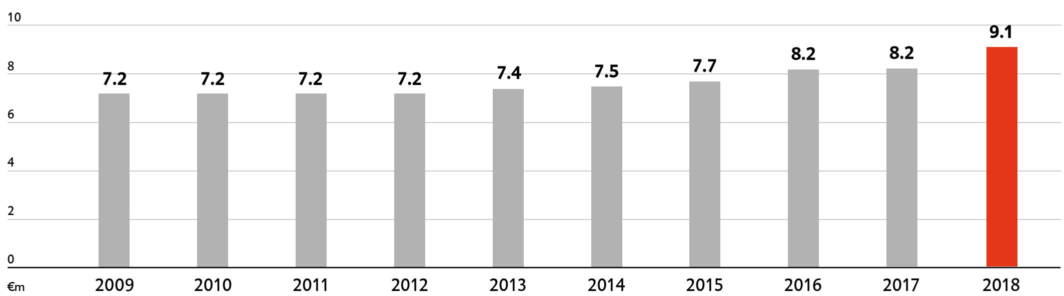
33,497 HOURS OF TRAINING

One of our key strategic goals is to offer excellent advisory services. Therefore, we are investing in many different measures to further the education and training of our employees. Every employee spent an average of 4.2 days in training courses in 2018, which is a total of 33,497 hours. In the financial year, we introduced a new learning management software that offers many different and modern options for blended learning and e-learning. This application also greatly improved the administration of the training data.

GREATER PRODUCTIVITY

The high degree of enthusiasm for learning and regular projects to improve efficiency contribute enormously to higher productivity. In the year 2009, business volume per employee was EUR 7.2 million, while ten years later, it is now EUR 9.1 million. This is an increase of 26.4%.

DEVELOPMENT OF BUSINESS VOLUME PER EMPLOYEE



PRODUCTS AND INNOVATION

BKS Bank's business model is oriented on sustainability and pursues the goal of serving as a reliable partner for the domestic economy. We do not engage in speculative transactions and set great store by the integration of CSR into our core business lines. We

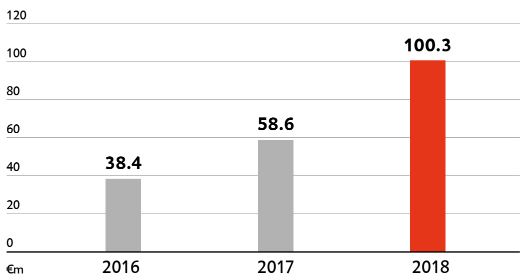
- offer a broad range of sustainable products and services,
- fulfill our steering function for the economy by basing our lending policy and our own investments on ecological and social criteria,
- contribute to economic growth by acting as a reliable partner for finance,
- design our guidelines and processes as far as possible in accordance with sustainability criteria,
- show our commitment in presentations for customers and employees, and
- work in accountability networks as a multiplier for CSR.

We closely monitor international developments for the further development of our sustainability strategy. Currently, we are working on, for example, the EU Action Plan for Financing Sustainable Growth, the proposal of the financial sector for the United Nations Environment Programme – Finance Initiative (UNEP FI) to establish new principles for responsible banking, and the green bond principles and benchmark proposals of the EU.

WIDER RANGE OF SUSTAINABLE PRODUCTS

Our sustainability strategy 2018 to 2022 defines the goal of raising the volume of sustainable products by 10% p.a. We are very pleased to have been able to have substantially surpassed this goal in the past years.

VOLUME OF SUSTAINABLE PRODUCTS[1)]



[1)] The chart presents volumes in AVM nachhaltig, green bonds and social bonds, eco savings passbooks, eco loans, green loans and the "Silberkredit" loans. In 2018, the present value of green leasing was recorded for the first time.

FOCUS ON SUSTAINABLE FINANCE

Sustainable finance solutions are gaining ground internationally. Since the beginning of 2018, we have been identifying newly granted retail and corporate loans that have sustainable objectives in our IT systems. A difference can be made between ecological and social sustainability. BKS Bank offers its customers several sustainable products. For example, the 'Silberkredit' closes a market gap, because it is also granted to persons over 65 years of age. The fact that there is demand on the market for this product is shown by the extremely positive development in the lending volume which has more than doubled compared to the preceding year, up from EUR 12.7 million to EUR 27.4 million.

The green loan in Slovenia supports investments in climate protection. At the end of 2018, BKS Bank AG had granted a volume of EUR 24.6 million (2017: EUR 7.4 million) in this type of loan product. In Croatia, a green loan similar to the one in Slovenia was introduced in the first quarter of 2019. We are also planning to campaign for green leasing to establish this option among the public and in this way increase awareness for the topic of e-mobility and photovoltaics.

SECOND GREEN BOND SUCCESSFULLY FLOATED

A highlight of sustainable investments was the new issue of a green bond. With the issuance proceeds from the green bond, BKS Bank is funding the construction of photovoltaic plants in several provinces of Austria by the company, Exklusivreal 4you GmbH. Exklusivreal 4you GmbH is one of the most experienced builders of solar power plants. The partner company, Mein Kraftwerk PV GmbH, ensures the long-term operation of the solar plants. In this case as well, the new ecological bond was fully placed on the market within the shortest time. It was designed to be attractive also to private investors. A second party opinion (SPO) prepared by the firm rfu – Mag. Reinhard Friesenbichler Unternehmensberatung presents the sustainability of the investment product transparently. We are planning the issuance of a further green bond or social bond for 2019.

SOCIETY AND SOCIAL ENGAGEMENT

BKS Bank takes its responsibility as a reliable partner for the region seriously. In 2018, we supported 505 initiatives with EUR 294 thousand including the flagships of Carinthian culture: the German literature days and the Carinthian Summer. For the first time, we supported the Christine Lavant Award that was conferred to the writer Klaus Merz.

In an effort to increase financial knowledge in the population, we invited customers to information events on the topic of cybercrime and also the readers of 'Wienerin' to an evening discussion on "Can money be ecological, too?". We used Facebook for a financial quiz and we added a special knowledge section to our website.

ENVIRONMENT AND CLIMATE PROTECTION

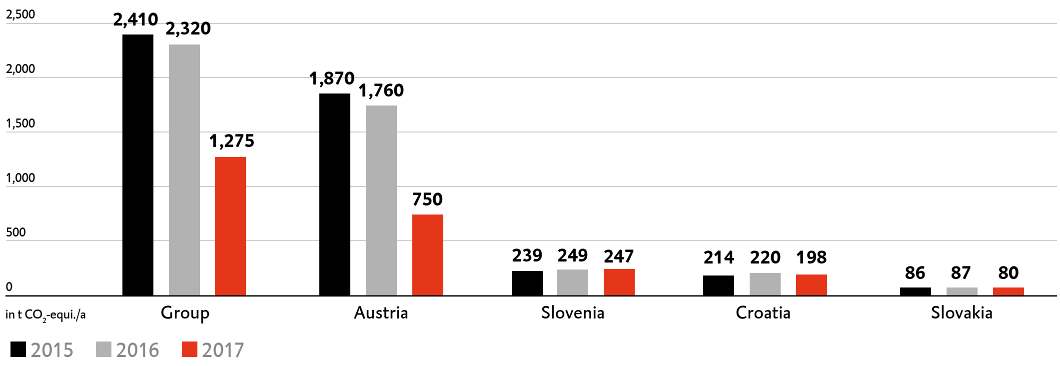
We want to contribute meaningfully to the fight against climate change. Therefore, since 2012 we have had a climate protection strategy that is regularly reviewed, most recently in 2018 and can be downloaded from our website at www.bks.at/nachhaltigkeit/klimaschutzstrategie.

The focus of our activities for the environment and climate protection is on reducing our greenhouse emissions and energy consumption. Progress is measured by determining the carbon footprint throughout the Group. When determining the carbon footprint, which is also the basis for the measurement of energy consumption, the environmental data available to us for the objects in which we rent premises becomes available only with a long delay. Therefore, the calculation of the carbon footprint is prepared for the year before the reporting year of the sustainability report or annual report.

GROUP-WIDE DECREASE IN CARBON FOOTPRINT BY 45%

We are pleased to report that we lowered our carbon footprint in 2017 by 45% to 1,275 t CO_2 equivalents. The main reason was the changeover to electricity from renewable energy sources in Austria that resulted in a reduction of 940 t CO_2 equivalents. This also strongly changed the percentage composition of the carbon footprint. The share of electricity decreased from 53% in 2016 to 23% in 2017. Although there was also strong savings in distance heating by 128 t CO_2 equivalents, the share of distance heating rose to 30%. Distance heating is now the main cause of our greenhouse emissions. We hope that the introduction of the environmental management system EMAS 2019 will create more impulses for savings.

CARBON FOOTPRINT OF BKS BANK



WORK ON DECARBONISATION STRATEGY

In the Paris Agreement on Climate Change, the world community agreed in 2015 to limit global warming to well below 2 degrees Celsius above preindustrial levels. All climate experts agree that without decarbonisation – exit from fossil fuels – the climate protection goals cannot be achieved. BKS Bank is very aware of the significance of de-carbonisation for the fight against climate change. Therefore, we decided to work together with experts from the World Wide Fund for Nature (WWF) on de-carbonisation for a period of three years. Our collaboration started in October 2018, at the same time as BKS Bank joined the WWF CLIMATE GROUP.

MOBILITY AND CONSTRUCTION

The de-carbonisation potential is also available in mobility and construction at BKS Bank. With respect to new service vehicles, we will only buy new vehicles of emission class 6, hybrid or e-vehicles. In 2018, for example, six new hybrid vehicles were acquired. A positive development is the lower fuel consumption since 2016. At the end of the year 2018, 74 vehicles were in use throughout the Group which covered 2,031k kilometres of travel for business.

BKS Bank owns 65 properties with a total surface area of 84.7 thousand m^2. Of this area, 41.7 thousand m^2 are used for banking operations, and 37.0 thousand m^2 are rented out to third parties. BKS Immobilien-Service GmbH is responsible for construction and building management. When restoring buildings, we usually replace outdated oil-fueled or gas heating systems by climate-friendly heating systems. In the case of new buildings, we also endeavour to install environmentally-friendly heating systems. For example, at the BKS Wohnpark (residential park) under construction at the site of the head office, a ground water heat pump has been installed. In order to take advantage of the additional sustainability potential of construction, a building project will be ÖGNI certified for the first time in 2019.

OVERVIEW OF PROPERTIES IN AUSTRIA

	2017	2018
Number of properties	60	59
Total surface area in m^2	68,247	68,495
– thereof used for banking operations in m^2	36,737	37,561
– thereof rented to third parties in m^2	26,673	25,817
Rental occupancy ratio in %	92.9	92.5
Net rental income from third party rentals in EUR millions	2.6	2.6

OVERVIEW OF PROPERTIES IN OUR FOREIGN MARKETS 2018

	Slovenia	Croatia
Number of properties	4	2
Total surface area in m^2	14,460	1,724
– thereof used for banking operations in m^2	2,653	1,499
– thereof rented to third parties in m^2	11,035	225
Rental occupancy ratio in %	94.6	100
Net rental income from third party rentals in EUR millions	1.4	0.03

NON-FINANCIAL PERFORMANCE INDICATORS (STRATEGY AND GOVERNANCE)

	Indicators 2016	Indicators 2017	Indicators 2018
Sustainability rating by ISS oekom (scale from A+ to D-)	C "Prime"	C "Prime"	C+ "Prime"
Company quality rating	R4E 5*	R4E 5*	R4E 5*[1)]
Number of complaints Group-wide	403	667	761

[1)] *EFQM Recognised for Excellence 5 Star*

NON-FINANCIAL PERFORMANCE INDICATORS (EMPLOYEES)

	Indicators 2016	Indicators 2017	Indicators 2018
Number of employees, Group	1,071	1,099	1,119
Women on the Management Board (in %)	33.3	33.3	25.0
Women on the Supervisory Board (in %)	35.7	33.3	35.7
Share of women in management positions in total number Management staff (in %)	32.1	32.4	32.4
Average days of training per employee	5.0	4.2	4.2
Fluctuation rate (in %)[1)]	5.2	5.2	6.3
Participants in the yearly project for the promotion of workplace health	281	266	379
Sick leave ratio (in %)[2)]	2.9	3.1	2.8
Average parenthood leave in years	1.8	2.3	1.8
Return rate from parenthood leave in %[3)]	-	92	96
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 (Enterprises for Families)	✓	✓	✓
– Carinthian International Club	✓	✓	✓
– Charta der Vielfalt (Diversity Charter)	✓	✓	✓

[1)] *The staff turnover rate was computed on the basis of employees who left (excluding retirements and employees in the leisure-time phase of the part-time working model for older employees, employees on parental leave, educational or sabbatical leave).*
[2)] *Sick days ratio compares the number of workdays on which employees were sick in relation to total working time expressed as a percentage.*
[3)] *The return rate compares the total number of employees that return to work after parental leave in a percentage relation to the total number of employees whose return to the workplace after parental leave was agreed.*

NON-FINANCIAL PERFORMANCE INDICATORS (SOCIETY AND SOCIETY AND SOCIAL ENGAGEMENT)

	Indicators 2016	Indicators 2017	Indicators 2018
Number of sponsored projects	445	405	505
Sponsoring in EUR thousand	267	254	294
Participants in corporate volunteering projects	112	108	101
Hours worked in corporate volunteering projects	312	658	442
Entries for TRIGOS Styria (2017) and Carinthia (2016, 2018)	25	24	22
Memberships in CSR networks (selection):			
– UN Global Compact	✓	✓	✓
– respACT	✓	✓	✓
– Verantwortung zeigen!	✓	✓	✓
– WWF CLIMATE GROUP			✓

NON-FINANCIAL PERFORMANCE INDICATORS (PRODUCTS AND INNOVATION)

	Indicators 2016	Indicators 2017	Indicators 2018
Number of customers	152,000	152,800	164,400
Number branches	60	63	63
Volume of sustainable products in € m[1]	38.4	58.6	100.3
Sustainable lending in € m[2]	-	-	69.5
Investment volume in AVM nachhaltig in € m[3]	18.6	19.7	16.3
Volume of green and social bonds issues in € m	-	8.0	11.0
Sustainable assets of 3 Banken KAG in public investment funds in € m	191.6	142.7	165.4
Sustainable assets of 3 Banken KAG in special funds in € m	148.0	450.0	611.9
Deposits on eco savings passbooks in € m	7.9	8.2	8.6
Share of suppliers which have agreed to the Code of Conduct for Suppliers (in %)	100	100	100

[1] *The presentation comprises volumes in AVM nachhaltig, green bonds and social bonds, eco-savings passbook, eco loans, green loans and the "Silberkredit" loans. In 2018, the present value of green leasing was recorded for the first time.*
[2] *The recording of sustainable loans started at the beginning of 2018. The value given refers to the volume of new loans.*
[3] *On 1 January 2019, the designation was changed from AVM nachhaltig to BKS Portfolio Strategie nachhaltig.*

NON-FINANCIAL PERFORMANCE INDICATORS (ENVIRONMENT AND CLIMATE)

	Indicators 2015	Indicators 2016	Indicators 2017
Carbon footprint, total in t CO_2equivalents	2,410	2,320	1,275
Carbon footprint per employee in t CO_2equivalents	2.3	2.2	1.2
Electricity consumption in GWh	3.2	3.6	3.5
Share of electricity from renewable sources[1] (in %)	100	100	100
Distance heating consumption in GWh	3.0	2.9	2.3
Diesel in 1,000 l	137	124	125

	Indicators 2016	Indicators 2017	Indicators 2018
Reduction in kilometres of travel replaced by video conferences	256,890	274,440	290,820
Kilometres travelled by rail	81,258	106,748	128,681
Paper consumption in t	45.1	46.3	46.6
Paper consumption per employee in kg	42.1	42.1	41.6
Units of hardware recycled by AfB	205	661	305

[1] *Only in Austria*

OUTLOOK

ECONOMIC OUTLOOK

The global economy is still on a robust path of growth even though growth rates and sentiment indicators weakened recently. According to estimates by the International Monetary Fund (IMF), the global economy is expected to grow by 3.5% in 2019. The IMF does not expect a global recession at present, however, the risk of a larger decline has increased. The principal risk is expected to come from the trade conflict between the US and China. Furthermore, there are a number of additional factors that may lead to negative effects such as a hard Brexit or a stronger economic downswing in China.

In the US, the pace of growth is relative high due to consumption by private households. However, the pace of expansion is not as high as the development in the past year. Growth seems to have peaked in the preceding year. The interest rate hikes by the Federal Reserve (Fed) have caused economic development to slow as intended. Analysts expect a growth rate of 2.5% in 2019. As regards inflation, currently there are no risks of prices rising too steeply, therefore, only moderate interest rate hikes are expected for the US in 2019.

In China, the latest data indicate that the continued tension regarding trade with the US is gradually turning into a burden. The Chinese central bank recently announced a cut to its minimum reserve rate by 1%. This cut is expected to pump around RMB 800 billion into the economy in the estimate of the Chinese central bank. By taking this step, the intent is to stimulate demand on the internal market in order to reduce dependence on foreign countries. Despite trade barriers, the Chinese economy is expected to expand by around 6% in 2019.

EUROPE

In Europe, both sentiment indicators and growth rates became gloomier in the second half of the year 2018. The driving forced behind the European economy, Germany, even came close to a recession recently. Similar to Austria, Germany as an exporting country is exposed to the slowing global economy. Italy is in a recession, with the growth domestic product being negative in the third and fourth quarter of 2018. The IMF lowered the economic prognosis for the euro area at the beginning of 2019 from 1.9% to currently 1.3%. The European Commission agrees with this assessment and also corrected its growth forecast from 1.9% to now 1.3% for 2019. The reason for the correction was due mainly to lower expectations for Germany, Italy and also France. The prognosis is also very uncertain due to international tension and the threat of a chaotic Brexit.

AUSTRIA

As in most other economies, Austria apparently also passed the peak of economic growth in 2018. Austria's growth dynamic is still robust, but is gradually slowing. This is not very surprising considering that Austria is traditionally an export-oriented economy and therefore cannot avoid the global trend of slowing economic output. Economists expect a growth rate of 2.0% for 2019. Growth is currently being supported by industrial production. For 2019, the family bonus payment is expected to boost private consumption. The good economic situation is having a benign effect on the labour market. The unemployment rate is expected to be around 4.6% in 2019 according to Eurostat calculations.

WIDELY FLUCTUATING STOCK MARKETS SET TO CONTINUE

The stock market recently suffered setbacks due to the weakening of global economic prospects and fears of recession. Political themes such as the unresolved issue of Brexit and many negative news reports on companies are additional burdens. In this environment, risk appetite among investors is restrained. On account of declining prices, a number of markets are again being valued very attractively. Therefore, the year 2019 is expected to be a positive one for stock markets, though one will have to expect wide fluctuations and temporary setbacks for stocks.

For bond investors, the situation remains challenging. Investments in euro government bonds with top credit ratings remained relatively unappealing due to the generally low level of returns. Speculation that the Fed will also refrain from raising key lending rates by any notable extent depressed yields on government bonds at the long end. However, should the economic and inflationary indicators improve, yields on government bonds are expected to gradually rise again. This would have a negative impact on the prices of these bonds. Corporate bonds with good credit ratings could become appealing to investors in 2019. Risk premiums on these bonds increased recently and now offer relatively attractive yields again.

BANKING BUSINESS TO REMAIN CHALLENGING IN 2019

The financial year 2019 is not expected to bring any easing worth mentioning for banks. We remain cautious considering the challenging overall conditions – low interest rates, digitalisation, regulatory burdens and pressure on costs.

For the coming year, we expect business to develop slightly more subdued and, above all, we believe lending growth will be lower. Due to the more pessimistic economic outlook, we assume that companies will be more defensive in their investment decisions. Still, the relaxed risk situation is expected to continue. In the coming financial year, we will continue to work rigorously to reduce risk exposure to further decrease the NPL ratio.

Considering the widespread insecurity resulting from the Brexit issue and the slowing economy, it seems that a hike in key lending rates by the European Central Bank (ECB) is becoming less and less likely for 2019. The sustained low level of interest rates will continue to burden earnings in the lending business. To reduce dependence on interest income, we are concentrating on business areas with minor impact on equity. We believe there is enormous potential in the area of payment services. As already mentioned, we will restructure the organisation of this business area in the coming months and reposition ourselves on the market. In this context, we plan to expand the range of products and services and improve our advisory services.

We also expect results in the securities business to be better than in 2018. We expect higher profits, especially on the Slovenian market. Apart from taking measures to strengthen our earnings capacity, we also exercise stringency in our cost discipline. We have not changed our objective to keep the cost/income ratio below the internal benchmark of 55.0%.

It seems as if Great Britain is set to leave the European Union without an agreement. We have analysed to what extent we might be affected by Brexit, regardless of whether regulated or unregulated. At present, we do not expect any need to make major adjustments to our processes or expect financial losses. There are hardly any business relationships with companies, private individuals or credit institutions in Great Britain. Neither do we expect any hindrances to the payment systems or securities clearing systems used by BKS Bank.

OPTIMISTIC OUTLOOK FOR THE FINANCIAL YEAR 2019

The development of business in the first two months of the new financial years was in line with expectations. We are aware that the implementation of our strategy goals could be disrupted by market turmoil, economic downturns, regulatory changes, political events or competition. Nonetheless, we are optimistic that we will be able to continue on our autonomous path thanks to our tested business model, solid capital adequacy and sound market position. In 2019 as well, we will make every effort to keep BKS Bank on the path to success. We aim to pay out a dividend that adequately reflects our profits and own funds also in the new financial year.

Work on the acquisition of some 25,000 portfolio customers from the Slovenian investment firm ALTA Invest, investicijske storitve, d.d. is under way and the takeover will be completed on schedule in March. There were no events of material relevance for reporting purposes between the end of the financial year and the preparation and approval of the annual financial statements by the auditors.

Klagenfurt am Wörthersee, 8 March 2019

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Alexander Novak
Member of the Management Board

Combination padlock, 20th century

–SAFETY IN NUMBERS–

CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO IFRS

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR 2018

INCOME STATEMENT

in €k	Notes to the Financial Statements	2017	2018	± in %
Interest income applying the effective interest rate method		137,538	141,844	3.1
Other interest income and other similar income		16,735	18,303	9.4
Interest expenses and other similar expenses		-33,587	-30,454	-9.3
Net interest income	**(1)**	**120,686**	**129,693**	**7.5**
Impairment charges	(2)	-26,724	-18,293	-31.5
Net interest income after impairment charges		**93,962**	**111,400**	**18.6**
Fee and commission income		53,721	59,906	11.5
Fee and commission expenses		-3,825	-4,439	16.1
Net fee and commission income	**(3)**	**49,896**	**55,467**	**11.2**
Profit/loss from investments accounted for using the equity method	(4)	39,068	44,848	14.8
Net trading income	(5)	1,544	280	-81.9
General administrative expenses	(6)	-107,754	-114,577	6.3
Other operating income	(7)	4,624	6,467	39.9
Other operating expenses	(7)	-8,376	-8,992	7.4
Profit/loss from financial assets/liabilities		**4,211**	**-7,852**	**>-100**
– Profit/loss from financial instruments designated at fair value through profit/loss	(8)	1,300	-2,841	>-100
– Profit/loss from available-for-sale financial assets (AfS)	(9)	2,915	n/a	-
– Profit/loss from held-to-maturity financial assets (HtM)	(10)	-4	n/a	-
– Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	(11)	n/a	-5,125	-
– Profit/loss from derecognition of financial assets measured at amortised cost	(12)	n/a	179	-
– Other profit or loss from financial assets/liabilities	(13)	n/a	-65	-
Profit for the year before tax		**77,175**	**87,041**	**12.8**
Income tax expense	(14)	-9,138	-9,621	5.3
Profit for the year		**68,038**	**77,420**	**13.8**
Non-controlling interests		-3	-3	-2.1
Profit for the year after non-controlling interests		**68,035**	**77,417**	**13.8**

OTHER COMPREHENSIVE INCOME

in €k	2017	2018	± in %
Profit for the year	**68,038**	**77,420**	**13.8**
Other comprehensive income	**17,537**	**-6,883**	**>-100**
Items not reclassified to profit or loss for the year	**2,405**	**-5,360**	**>-100**
± Actuarial gains/losses in conformity with IAS 19	510	-3,444	>-100
± Deferred taxes on actuarial gains/losses in conformity with IAS 19	-129	860	>100
± Changes in the fair value of equity instruments measured at fair value	n/a	-1,339	-
± Deferred taxes on changes in fair value of equity instruments measured at fair value	n/a	412	-
± Fair value changes of financial liabilities designated at FV PL attributable to own credit risk	n/a	-56	-
± Deferred taxes on fair value changes of financial liabilities designated at FV PL attributable to own credit risk	n/a	14	-
± Share of income and expenses of associates accounted for using the equity-method taken directly to equity	2,024	-1,807	>-100
Items reclassified to profit or loss for the year	**15,132**	**-1,523**	**>-100**
± Exchange differences	57	16	-71.7
± Available-for-sale reserve	18,798	n/a	-
± Net change in fair value	19,775	n/a	-
± Reclassified to profit or loss	-977	n/a	-
± Deferred taxes taken to AfS reserve items	-4,699	n/a	-
± Changes in the fair value of debt instruments measured at fair value	n/a	-1	-
± Net change in fair value	n/a	75	-
± Reclassified to profit or loss	n/a	-76	-
± Deferred taxes on changes to the fair value of debt instruments measured at fair value	n/a	18	-
± Share of income and expenses of associates accounted for using the equity method taken directly to equity	976	-1,556	>-100
Total comprehensive income	**85,575**	**70,537**	**-17.6**
Non-controlling interests	-3	-3	-2.1
Total comprehensive income after non-controlling interests	**85,572**	**70,534**	**-17.6**

EARNINGS AND DIVIDEND PER SHARE

	2017	2018
Average number of shares in issue (ordinary and preference shares)	38,955,556	41,476,708
Dividend per share (ordinary and preference share)	0.23	0.23
Earnings per ordinary and preference share (diluted and undiluted)	1.72	1.82

The indicator '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 in circulation. To determine earnings per share, the coupon payment 2018 on additional equity instruments was deducted from profit taking into account the tax effect.

QUARTERLY REVIEW 2018

in €k	Q1/2018	Q2/2018	Q3/2018	Q4/2018
Interest income and other similar income	39,041	42,560	38,606	39,940
Interest expenses and other similar expenses	-8,466	-7,422	-7,599	-6,968
Net interest income	**30,575**	**35,137**	**31,007**	**32,973**
Impairment charges	-2,867	-6,208	-5,098	-4,119
Net interest income after impairment charges	**27,708**	**28,929**	**25,909**	**28,853**
Fee and commission income	13,506	15,999	13,906	16,494
Fee and commission expenses	-1,042	-1,113	-1,130	-1,155
Net fee and commission income	**12,464**	**14,886**	**12,776**	**15,339**
Profit/loss from investments accounted for using the equity method	7,488	11,329	12,826	13,205
Net trading income	-13	-192	913	-429
General administrative expenses	-27,607	-30,353	-27,044	-29,573
Other operating income	1,271	1,844	1,126	2,226
Other operating expenses	-5,075	-1,504	-1,383	-1,030
Profit/loss from financial assets/liabilities	**-932**	**-3,641**	**1,725**	**-5,004**
– Profit/loss from financial instruments designated at fair value through profit/loss	-203	-2,909	315	-44
– Profit/loss from available-for-sale financial assets (AfS)	n/a	n/a	n/a	n/a
– Profit/loss from held-to-maturity financial assets (HtM)	n/a	n/a	n/a	n/a
– Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	-1,819	561	826	-4,693
– Profit/loss from derecognition of financial assets measured at amortised cost	-143	49	501	-228
– Other profit/loss from financial assets/liabilities	1,233	-1,341	82	-39
Profit for the period before tax	**15,305**	**21,299**	**26,849**	**23,588**
Income tax expense	-1,889	-2,091	-3,663	-1,979
Profit for the period	**13,416**	**19,209**	**23,186**	**21,609**
Non-controlling interests	-1	-1	-1	-
Profit for the period after non-controlling interests	**13,414**	**19,208**	**23,185**	**21,609**

QUARTERLY REVIEW 2017

in €k	Q1/2017	Q2/2017	Q3/2017	Q4/2017
Interest income and other similar income	37,780	39,766	38,145	38,582
Interest expenses and other similar expenses	-8,887	-8,711	-8,619	-7,370
Net interest income	**28,893**	**31,055**	**29,526**	**31,213**
Impairment charges	-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 instruments designated at fair value through profit/loss	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	-	-	-
– Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	n/a	n/a	n/a	n/a
– Profit/loss from derecognition of financial assets measured at amortised cost	n/a	n/a	n/a	n/a
– Other profit/loss from financial assets/liabilities	n/a	n/a	n/a	n/a
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	**11,256**	**21,870**	**18,507**	**16,404**
Non-controlling interests	-1	-	-1	-1
Profit for the period after non-controlling interests	**11,256**	**21,870**	**18,506**	**16,403**

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2018

ASSETS

in €k	Notes to the Financial Statements	31/12/2017	31/12/2018	± in %
Cash and balances with the central bank	(15)	476,589	571,963	20.0
Receivables from other banks	(16)	97,711	177,248	81.4
– Impairment charges on receivables from other banks	(17)	-	-322	-
Receivables from customers	(18)	5,450,150	6,025,858	10.6
– Impairment charges on receivables from customers	(19)	-136,992	-107,879	-21.3
Trading assets	(20)	9,837	8,045	-18.2
Financial assets (FA)		1,043,134	n/a	-
– Financial assets designated at fair value through profit or loss	(21)	78,300	n/a	-
– Available-for-sale financial assets	(22)	182,069	n/a	-
– Held-to-maturity financial assets	(23)	782,765	n/a	-
Debt securities and other fixed-interest securities	(24)	n/a	904,421	-
– Impairment charges on debt securities	(25)	n/a	-258	-
Shares and other non-interest bearing securities	(26)	n/a	135,609	-
Investments in entities accounted for using the equity method	(27)	520,354	599,668	15.2
Intangible assets	(28)	1,638	3,859	>100
Property, plant and equipment	(29)	55,174	53,336	-3.3
Investment property	(30)	30,868	34,530	11.9
Deferred tax assets	(31)	7,873	6,363	-19.2
Other assets	(32)	23,161	22,497	-2.9
Total assets		**7,579,497**	**8,434,938**	**11.3**

EQUITY AND LIABILITIES

in €k	Notes to the Financial Statements	31/12/2017	31/12/2018	± in %
Payables to other banks	(33)	694,986	836,489	20.4
Payables to customers	(34)	4,956,489	5,467,463	10.3
– of which savings deposits		1,475,137	1,429,395	-3.1
– of which other payables		3,481,352	4,038,068	16.0
Liabilities evidenced by paper	(35)	553,952	571,052	3.1
– of which at fair value through profit or loss		84,688	84,744	0.1
Trading liabilities	(36)	14,608	8,362	-42.8
Provisions	(37)	123,631	134,485	8.8
Deferred tax liabilities	(31)	127	-	-
Other items	(38)	30,542	26,699	-12.6
Subordinated debt capital	(39)	158,622	179,667	13.3
Equity		1,046,540	1,210,721	15.7
– Shareholders' equity	(40)	1,046,518	1,210,696	15.7
– Non-controlling interests		22	25	13.6
Total equity and liabilities		**7,579,497**	**8,434,938**	**11.3**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained earnings[1]	Profit for the year	Additional equity instruments[2]	Equity
As at 31/12/2017	**79,279**	**193,032**	**-168**	**31,956**	**638,184**	**68,035**	**36,200**	**1,046,518**
Impact of adopting IFRS 9				-6,635	16,203			9,568
As at 01/01/2018 after adoption of IFRS 9	**79,279**	**193,032**	**-168**	**25,321**	**654,387**	**68,035**	**36,200**	**1,056,086**
Distribution						-8,935		-8,935
Coupon payments on additional equity instruments						-2,333		-2,333
Taken to retained earnings					56,768	-56,768		-
Profit for the year						77,417		77,417
Other comprehensive income			-167	-3,983	-2,734			-6,883
Capital increase	6,607	48,384						54,991
Effect of the equity method					35,175			35,175
Change in treasury shares					-1,810			-1,810
Issuance of additional equity instruments							7,300	7,300
Other changes					-311			-311
As at 31/12/2018	**85,886**	**241,416**	**-335**	**21,338**	**741,475**	**77,417**	**43,500**	**1,210,696**

Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity xmethod)	12,178
Deferred tax reserve	-3,045

[1] The line item Effect of the equity method contains EUR 29.9 million from the syndicate banks due to the application of IFRS 9.
[2] The additional tier 1 bonds issued in 2015, 2017 and 2018 are classified as equity in conformity with IAS 32.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained reserves	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 comprehensive income			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**

Status of available-for-sale reserve (excl. reserves of associates accounted for using the equity method)	22,918
Deferred tax reserve	-5,729

[1] The additional tier 1 bonds issued in 2015 and 2017 are classified as equity in conformity with IAS 32.

Please refer to (40) Notes Shareholders' equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOWS

in €k	2017	2018
Profit for the year after tax	**68,038**	**77,420**
Non-cash items in profit for the year and reconciliation to net cash flow from operating activities		
– Depreciation, amortisation and impairment charge on receivables and property and equipment	26,973	22,393
– Changes in provisions	11,420	12,732
– Gains and losses on disposals	-2,625	-641
– Change in other non-cash items	3,475	3,953
– Profit/loss shares in entities accounted for using the equity method	-39,068	-44,848
– Net interest income	-120,686	-129,693
– Tax expenses	9,138	9,622
Subtotal	**-43,335**	**-49,062**
Change in assets and liabilities from operating business activities after correction for non-cash items:		
– Receivables from banks and customers	-20,228	-628,120
– Trading assets	3	1,792
– Other assets	4,125	-1,412
– Payables to banks and customers	-40,207	655,567
– Trading liabilities	-3	-6,245
– Provisions and other liabilities	-30,403	-13,966
– Interest received	151,430	156,612
– Interest paid	-35,980	-33,477
– Dividends received	3,906	4,260
– Income tax paid	-9,261	-4,078
Cash flow from operating activities	**-19,953**	**81,871**
Cash inflow from sales of:		
– Financial assets, and property and equipment	175,353	81,949
Cash outflow from purchases of:		
– Financial assets, and property and equipment	-198,545	-162,268
Dividends from entities accounted for using the equity method	5,282	5,846
Cash flow from investing activities	**-17,910**	**-74,473**
Capital increase	-	54,991
Dividend distributions	-8,965	-8,935
Issuance of additional equity instruments	12,800	7,300
Coupon payments on additional equity instruments	-1,463	-2,333
Cash inflow/outflow from treasury shares	-2,699	-1,810
Cash inflow from subordinated liabilities and other financing activities	125,127	112,912
Cash outflow from subordinated liabilities and other financing activities	-153,900	-74,300
Cash flow from financing activities	**-29,100**	**87,825**
Cash and cash equivalents at end of preceding year	**543,542**	**476,589**
Cash flow from operating activities	-19,953	81,871
Cash flow from investing activities	-17,910	-74,473
Cash flow from financing activities	-29,100	87,825
Effect of exchange rate changes on cash and cash equivalents	10	151
Cash and cash equivalents at end of year under review	**476,589**	**571,963**

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 (IFRS) 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 2018 financial year as exempting consolidated financial statements within the meaning of § 59a Banking Act. In addition, the requirements of § 245a para 1 Business Code were 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 into a stock corporation lead to the formation of Bank für Kärnten (Bank for Carinthia) in 1928. The move to enter the Styrian market took place 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 branches in Vienna since 1990. In 2003, it began developing the markets in Burgenland and Lower Austria. 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) form the 3 Banken Group. 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 8 March 2019 and approved them for submission to the Supervisory Board. The Supervisory Board has 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 effective for the financial year under review, the financial reporting policies applied in the 2017 financial year were retained in 2018. The comparative figures for the previous year are based on the same requirements. Standards announced but not yet effective for the financial year under review were not applied.

APPLICABLE STANDARDS/AMENDMENTS FROM 01/01/2018

Standard/Amendment	Effective in the EU for annual periods beginning on or after this date	Endorsement by the EU
IFRS 2 – Share-based Payment (Amendment)	01/01/2018	February 2018
IFRS 4 – Insurance Contracts (Amendment)	01/01/2018	November 2017
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 (clarification)	01/01/2018	October 2017
IAS 40 – Classification of Property under Construction (amendment)	01/01/2018	March 2018
IFRIC Interpretation 22 – Interpretation on foreign currency transactions and advance consideration	01/01/2018	March 2018
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' and must be applied for the first time in the first reporting period starting on or after 1 January 2018. The BKS Bank Group applied the accounting and measurement rules of IFRS 9 for the first time as of 1 January 2018.

The changed classification and measurement policies as well as the impairment rules of IFRS 9 have impacts on the balance sheet and the income statement, on financial reporting and risk management processes, internal controls and reporting. The comparative figures for the financial year 2017 were not adjusted – as is possible under IFRS 9 – and therefore correspond to the classification and measurement policies applicable until 31 December 2017 under IAS 39.

The new accounting and measurement policies of IFRS 9 are described in the section 'Notes on individual items of the balance sheet'.

IFRS 15 and clarifications to IFRS 15: The IASB and the FASB (Financial Accounting Standards Board) jointly issued IFRS 15 jointly on 28 May 2014. The clarifications to IFRS 15 were published in April 2016. IFRS 15 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.

An analysis of the BKS Bank Group in the financial year 2017 showed that the introduction of this standard did not have any effect on the BKS Bank Group.

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 before. This amendment does not have any effect on the financial reporting of the BKS Bank Group.

No material changes for the BKS Bank Group result from the other amendments, interpretations and improvements mentioned above.

STANDARDS/AMENDMENTS APPLICABLE FROM 2019

Standards/Amendments	Effective in the EU for annual periods beginning on or after	Endorsement by the EU
IFRS 9 – Financial Instruments (Amendment)	01/01/2019	March 2018
IFRS 16 – Leases	01/01/2019	October 2017
IAS 28 – Investments in Associates and Joint Ventures (Amendment)	01/01/2019	February 2019
IFRIC Interpretation 23 – Uncertainty over income tax treatments	01/01/2019	October 2018

IFRS 16: The IASB published IFRS 16 Leasing on 13 January 2016 to replace IAS 17 Lease Contracts. IFRS 16 must be applied for the first time financial years starting on or after 1 January 2019, with early application being permitted. The BKS Bank Group will apply IFRS 16 for the first time as of 1 January 2019.

IFRS 16 specifies for lessors and lessees the recognition, measurement and disclosure requirements regarding leasing. The introduction of IFRS 16 comes with numerous new rules especially for lessees. The differentiation under IAS 17 between finance leases and operating leases has been abolished; IFRS 16 only specifies the 'right-of-use' model. Therefore, the lessee must recognise upon lease commencement an asset for the right of use and the related lease liability at their present value.

However, IFRS 16 grants the option of waiving mandatory recognition in the case of short-term lease contracts (term < 1 year) and lease contracts for low-value assets (< 5,000 EUR). BKS Bank will make use of both options.

IFRS 16 furthermore includes several options that can only be applied during the transition period. With respect to the option granted by IFRS 16 regarding the definition of lease contracts, the BKS Bank Group will take advantage of the so-called grandfathering option for legacy contracts. This means that the assessment of legacy contracts made in the past under IAS 17 will be retained. At the BKS Bank Group, most right-of-use assets to be recognised on-balance-sheet refer to right-of-use assets under lease for real estate. The number of right-of-use assets for movables is low. The application of the new definition of leases pursuant to IFRS 16 therefore only applies to new contracts entered into after the date of initial application.

At the date of transition, lessees can also elect which method of transition to IFRS 16 to apply. IFRS 16 differentiates between the retrospective method and the modified retrospective method. While the first approach requires full retrospective application to all prior reporting periods that were presented in accordance with IAS 8, the second method requires retrospective application as of the time of IFRS 16 is first applied and the recognition of the changeover effects in equity at the beginning of the current period. Prior-year figures will therefore not be adjusted. The BKS Bank Group uses the modified retrospective approach for the transition. This also includes electing how to measure the right of use to be recognised at the time of initial application. The right of use is recognised either at the carrying amount, i.e. as if IFRS 16 had been applied since the start of the lease contract, discounted at the incremental borrowing interest rate at the date of initial application, or in the amount of the lease liability adjusted for lease payments made in advance or deferred lease payments. BKS Bank has opted to recognise the right of use in the same amounts as the corresponding liability at the time of initial application of IFRS 16. Therefore, there are no transition effects in equity upon initial application.

Furthermore, IFRS 16 permits applying a uniform discount rate to similar lease portfolios and also classifying lease contracts as short-term based on their remaining time to maturity at the time of transition. BKS Bank makes use of both options. The other options available under IFRS 16 at the date of transition are not of relevance for the BKS Bank Group.

In the financial year 2018, the BKS Bank reviewed all existing rental and lease contracts under IAS 17 with respect to the effects of IFRS 16. As of 1 January 2019, these contracts resulted in the need to recognise a right-of-use asset in amount of EUR 27.5 million and a lease liability of EUR 27.4 million. We expect depreciation/amortisation for the financial year 2019 in an amount of EUR 2.8 million and interest expenses of EUR 0.2 million instead of the expenses for rentals and leasing reported under other administrative expenses up to now. Therefore, the effect on the profit in the financial year 2019 from the application of IFRS 16 will be around EUR -0.2 million.

Taking into consideration the EUR 27.5 million right-of-use asset to be recognised, total risk exposure increases from EUR 5,283.1 million to EUR 5,310.6 million. Thus, the total capital ratio decreases from 14.8% to 14.7%.

As regards accounting for lease contracts by the lessor, the regulations applicable to date under IAS 17 remain in force and are now contained in IFRS 16. Therefore, BKS Bank does not expect any significant effects on the consolidated financial statements, just more information to be provided in the Notes of the Annual Report 2019.

No material changes for the BKS Bank Group result from the other amendments, interpretations or improvements.

STANDARDS/AMENDMENTS TO BE APPLIED FROM 01/01/2020 OR LATER

Standards/Amendments	Effective in the EU for annual periods beginning on or after	Endorsement by the EU
IFRS 3 – Business Combinations (Amendment)	01/01/2020*	Pending
IFRS 17 - Insurance Contracts	01/01/2021*	Pending
IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendment)	01/01/2020*	Pending
IAS 19 – Employee Benefits (Amendment)	01/01/2019*	Pending
Annual improvements to IFRS standards, 2015-2017 cycle	01/01/2019*	Pending
Amendments to References to the Conceptual Framework in IFRS Standards (Amendment)	01/01/2020*	Pending

* If endorsed by the EU

No material changes result from the standards and amendments mentioned above for the BKS Bank Group.

III. RECOGNITION AND MEASUREMENT

General notes

The financial statements were prepared in euro (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 14 entities (11 consolidated, two accounted for using the equity method and one accounted for on a proportionate basis). 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 associates based on pro rata equity. Pursuant to IFRS 3 Business Combinations, initial consolidation was based on the purchase method.

Compared to the preceding year, three consolidated companies and one company accounted for using the equity method were excluded from the group of consolidated companies as at 31 December 2018 due to lacking materiality. The result of the deconsolidation of these companies does not have any effect on the consolidated income statement.

Consolidated entities

The following entities all conformed to the control concept for the purposes of 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 related 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%	31/12/2018
BKS-leasing d.o.o.	Ljubljana	100.00%	-	31/12/2018
BKS-leasing Croatia d.o.o.	Zagreb	100.00%	-	31/12/2018
BKS-Leasing s.r.o.	Bratislava	100.00%	-	31/12/2018
IEV Immobilien GmbH	Klagenfurt	100.00%	-	31/12/2018
Immobilien Errichtungs- und Vermietungs GmbH & Co KG	Klagenfurt	100.00%	-	31/12/2018
BKS 2000-Beteiligungs- und Verwaltungs GmbH	Klagenfurt	100.00%		31/12/2018
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	-	100.00%	31/12/2018
BKS Hybrid beta GmbH	Klagenfurt	100.00%	-	31/12/2018
BKS Immobilien-Service GmbH	Klagenfurt	100.00%	-	31/12/2018
BKS Service GmbH	Klagenfurt	100.00%	-	31/12/2018

Entities accounted for using the equity method
The following entities were classified as associates within the meaning of IAS 28, because the BKS Bank is able to exercise a significant influence on their financial and business policy decisions:

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Company	Head office	Direct equity interest	Reporting date of financial statements
Oberbank AG	Linz	14.2%	30/09/2018
BTV AG	Innsbruck	13.6%	30/09/2018

Regarding Oberbank AG and BTV AG, we point out that although BKS Bank had voting interests of less than 20% in those banks, namely 15.2% and 14.7%, respectively, and equity interests of less than 20%, namely 14.2% and 13.6%, respectively, the exercise of voting rights was governed by syndicate agreements. These allowed participation in the financial and business policy decisions of the banks 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 material transactions or events between the reporting date of the associated companies on 30 September and the reporting date of the Group on 31 December.

Entities accounted for on a proportionate basis
Pursuant to the provisions of IFRS 11, the investment in Alpenländische Garantie-GESELLSCHAFT m.b.H. (ALGAR) is classified as a joint operation, and therefore recognised on a proportionate basis in the consolidation.

ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

Company	Head office	Direct equity interest	Reporting date of financial statements
ALGAR	Linz	25.0%	31/12/2018

Other entities not included in consolidation

Based on our own discretion, the following entities in which BKS Bank holds stakes of over 20% were not included in the scope of consolidation on the grounds of the aforementioned immateriality provisions.

OTHER ENTITIES NOT INCLUDED IN CONSOLIDATION

Company	Head office	Direct equity interest	Indirect equity interest	Reporting date of financial statements
3 Banken IT GmbH	Linz	30.0%	-	31/12/2018
VBG Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.0%	-	31/12/2018
E 2000 Liegenschaftsverwaltungs GmbH	Klagenfurt	99.0%	1.0%	31/12/2018
PEKRA Holding GmbH	Klagenfurt	100.0%	-	31/12/2018
3 Banken Versicherungsmakler Gesellschaft m.b.H.	Innsbruck	30.0%	-	31/12/2018
BKS Hybrid alpha GmbH	Klagenfurt	100.0%	-	31/12/2018
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.0%	-	31/12/2018
LVM Beteiligungs Gesellschaft m.b.H.	Vienna	-	100.0%	31/12/2018
Drei Banken Versicherungsagentur GmbH	Linz	20.0%	-	31/12/2018

Performance of foreign subsidiaries and branches

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 DECEMBER 2018

in €k	Net interest income	Operating income	Number of employees (FTE)	Net profit/loss for the year before tax	Income tax expense	Profit/loss for the year after tax
Branches abroad						
Slovenia Branch (banking branch)	11,236	15,067	114.1	4,592	16	4,608
Croatia Branch (banking branch)	9,154	10,424	59.5	3,787	-305	3,482
Slovakia Branch (banking branch)	1,888	2,181	25.8	-170	-	-170
Subsidiaries						
BKS Leasing d.o.o., Ljubljana	3,905	4,418	19.2	2,197	-439	1,757
BKS-leasing Croatia d.o.o., Zagreb	2,137	2,276	13.3	958	-173	784
BKS-Leasing s.r.o., Bratislava	1,139	1,223	12.8	111	25	136

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 DECEMBER 2017

in €k	Net interest income	Operating income	Number of employees (FTE)	Net 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 currency translation

Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates valid on 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).

Their assets and liabilities were translated at the exchange rates valid at their balance sheet dates, while expenses and income were translated applying the average exchange rate for the respective period. The resulting exchange differences were recognised in Other comprehensive income and exchange differences were recognised as a component of equity.

NOTES ON INDIVIDUAL ITEMS ON THE BALANCE SHEET

Cash and balances with the central bank

This item consists of cash and balances with the central bank, which were recognised at nominal values.

Financial instruments pursuant to IFRS 9

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. Spot transactions are recognised and derecognised at their settlement dates.

Financial assets and liabilities must be classified at the time of recognition. They are initially measured at fair value, which, as a rule, is at cost. The classification is the basis for the subsequent measurement on the assets side and on the liabilities side of the balance sheet.

Pursuant to IFRS 9 financial assets are measured as follows upon initial recognition:
– at amortised cost – at fair value through other comprehensive income (FV OCI)
– at fair value through profit or loss (FV PL)

The classification of financial assets is based, on the one hand, on the business model under which the financial assets are managed, and on the other, on the cash flow characteristics of the contractual terms governing the financial assets (cash flow characteristics - SPPI test).

BKS Bank uses a benchmark test to ascertain if contractual cash flows consists only of interest and principal payments and therefore passes the SPPI test. All new contracts and all amendments to existing contracts are reviewed to see if the contract contains components (covenants) that fail to pass SPPI test (qualitative benchmark test). BKS Bank uses a quantitative benchmark test to SPPI-test new contracts with mismatching interest rate components. A mismatch occurs when the tenor of the reference rate does not coincide with the frequency of interest rate adjustments. However, this does not result in a failure to pass the SPPI test. Based on the quantitative benchmark test, the contractual cash flows of the financial instrument to be classified are compared as at the time of initial recognition with the cash flows of a so-called benchmark instrument. The terms of the benchmark instrument correspond to those of the financial instrument to be classified, except that there is no mismatch with respect to the interest components. If this comparison reveals a significant deviation in cash flows (>10%), the SPPI test is deemed failed, and the financial instrument is measured at fair value through profit or loss.

Financial instruments measured at amortised cost

Classification at amortised cost means that the financial assets are held within a business model whose objective is to hold the financial assets and to collect their contractual cash flows. Furthermore, the SPPI test requires the contractual cash flows to consist only of principal and interest payments. Subsequent measurement at amortised cost is applied to debt instruments. At BKS Bank, this measurement class applies to receivables from other banks, receivables from customers and debt securities. Under IFRS 9, impairments are recognised as impairment charges. Premiums and discounts are distributed across the life of the instrument and recognised in profit or loss using the effective interest rate method.

Financial instruments measured at fair value through other comprehensive income (FV OCI)
A financial asset is classified as at fair value through other comprehensive income (FV OCI) when the following conditions are met: The financial assets are held within a business model whose objective is to hold the financial assets to collect their contractual cash flows or to sell the financial assets. In this case as well, the SPPI test requires that financial assets **measured** as FV OCI (mandatory), the contractual cash flows consist only of principal and interest payments. Subsequent measurement in other comprehensive income (OCI) may therefore apply to **debt instruments**. They are generally measured by applying stock exchange prices. If these are not available, the present value method is used. Changes in the fair value of these instruments are recognised in other comprehensive income. Only when a financial asset is sold is the cumulated gain or loss in other comprehensive income reclassified to profit or loss (FV OCI with recycling). At BKS Bank, debt securities are reported in this category.

Under IFRS 9, **equity instruments** must generally be recognised at fair value through profit or loss (FV PL), as they do not meet the SPPI test. Upon initial recognition, an entity may irrevocably elect to recognise 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 (shares and other equity) as at fair value through other comprehensive income (FV OCI) without recycling. If there is no market price, the discounted cash flow method is used. For equity instruments that are designated at fair value through other comprehensive income (FV OCI) based on the election of the fair value OCI option, the fair value changes that occur over the life of the instrument are recognised in other comprehensive income (OCI). When an equity instrument is sold, the cumulated gain or loss recognised in other comprehensive income is not permitted to be reclassified to profit or loss (no recycling); reclassification to another equity item is admissible. At BKS Bank, these are allocated to retained earnings.

Financial instruments recognised at fair value through profit or loss (FV PL)
Financial assets that cannot be assigned to one of the abovementioned business models or that do not pass the SPPI test are recognised at fair value through profit or loss. As derivatives generally do not meet the SPPI test, these instruments must be measured as at fair value through profit or loss (FV PL mandatory). They are reported in the line item Trading assets and Trading liabilities on the balance sheet. Valuation gains and losses on the line item Trading assets and Trading liabilities are recognised in the income statement under Net trading income; interest expenses for the refinancing of trading assets are recognised in net interest income. Apart from derivatives, BKS Bank also recognises loans and debt securities in this measurement class that do not meet the SPPI test as well as equity instruments for which the fair value OCI option is not elected.

Irrespective of this, IFRS 9 offers the option of electing to irrevocably designate a financial asset upon initial recognition as at fair value through profit or loss (**fair value option**). A condition for such designation is that it must help eliminate or significantly lower measurement or recognition mismatches. At BKS Bank, the fair value option is applied in individual cases for loans and debt securities. The designated instruments are recognised as at FV PL. The designation for the items is selected by the Asset/Liability Management Committee (ALM). These items are taken to profit or loss at their fair value (asset or liability and related derivative). Valuation gains and losses are recognised in the income statement under Profit/loss from financial assets/liabilities, subitem Profit/loss from financial instruments designated at fair value through profit or loss.

The presentation of balance sheet items, measurement basis and category pursuant to IFRS 9 for the assets side may be summarised as follows for BKS Bank AG:

ASSETS

	As at fair value	At amortised cost	Other	Category
Cash and balances with the central bank			Nominal value	Not assignable
Receivables from other banks		✓	-	At amortised cost
Receivables from customers		✓	-	At amortised cost
	✓		-	Designated at FV PL (fair value option)
	✓		-	FV PL mandatory
Trading assets	✓		-	FV PL mandatory
Debt securities and other fixed-interest securities		✓	-	At amortised cost
	✓		-	FV OCI mandatory (with recycling)
	✓		-	Designated at FV PL (fair value option)
	✓			FV PL mandatory
Shares and other non-interest-bearing securities	✓		-	Designated at FV OCI (without recycling)
	✓		-	FV PL mandatory

Pursuant to IFRS 9 **financial liabilities** are measured as follows upon initial recognition:
– at amortised cost
– at fair value through profit or loss (FV PL)

Financial liabilities in the trading portfolio (held for trading) are measured at fair value in profit or loss. At BKS Bank, negative market values from derivatives are reported in the item Trading liabilities. Furthermore, this measurement includes financial liabilities that are irrevocably designated as at fair value through profit or loss upon initial recognition (fair value option). The explanations on the fair value option for the assets side apply also to the liabilities side. The change in the credit spread for own liabilities is reported in other comprehensive income (OCI).

LIABILITIES

	As at fair value	At amortised cost	Other	Category
Payables to banks		✓	-	At amortised cost
Payables to customers		✓	-	At amortised cost
Liabilities evidenced by paper		✓	-	At amortised cost
	✓		-	Designated at FV PL (fair value option)
Trading liabilities	✓		-	Held for trading
Subordinated debt capital		✓	-	At amortised cost

Impairment charges for financial instruments pursuant to IFRS 9
BKS Bank recognises impairment charges for debt instruments measured at amortised cost or measured at fair value through other comprehensive income (FV OCI mandatory) as well as for loan commitments and financial guarantee. The impairment model used pursuant to IFRS 9 is an expected loss model that also allocates impairment charges for expected future losses.

The amount of impairment charges to be allocated depends on the change in a financial instrument's default risk after its acquisition. On the basis of this approach, IFRS 9 distinguishes three different stages, with the amount of impairment charges 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 equivalent to the 12-month expected credit loss (ECL) is recognised. The 12-month expected credit loss corresponds to the expected 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 recognise a lifetime expected credit loss (ECL), which corresponds to the losses expected over the instrument's remaining life.
- Stage 3: For financial instruments classified in stage 3, the discounted cash flow method is used to determine the impairment charges for significant receivables, and in the case of non-significant receivables, lump sum criteria are used (the basis being the exposures not covered by collateral).

Instruments will be reclassified from stage 1 to stage 2 as soon as the default risk has increased significantly. Assignment to a stage is governed by an automated stage assessment process based on a number of factors. Both quantitative (rating downgrade) and qualitative criteria (30 days overdue, warnings) are used to decide on reclassification from one stage to another. BKS Bank has elected to use the low credit risk exemption for the stage assessment. This means that financial instruments with a low credit risk are measured on a 12-month ECL basis. We assess credit risk as low when the rating stage is in the investment grade range from AA to 1b.

An instrument is classified in stage 3 if the financial instrument is credit-impaired (rating in the default classes 5a to 5c). Where there is objective evidence on the balance sheet date that a financial instrument is impaired, it is classified in stage 3.

STAGE ALLOCATION CRITERIA

Criterion	Stage
Non-performing loans	3
Initial recognition of the contract	1
30-days overdue	2
90-days overdue	3
Foreign currency loans	2
Rating corresponds to investment grade	1
No initial risk rating can be determined	2
No current rating	2
Credit downgrade from investment grade by 3 or more rating stages	2
Credit downgrade from a good rating by 2 or more rating stages	2
Credit downgrade from a medium or poor rating stage by 1 or more stages	2

Financial instruments which are assigned to stage 2 on the respective balance sheet date and for which there are no indications of any significant increase in credit risk since initial recognition can be retransferred to stage 1.

The determination of the ECL is based on forward-looking information.

KEY PARAMETERS OF THE ECL MODEL FOR STAGE 1 AND STAGE 2

Parameter in the ECL model	Explanations
Exposure at default (EAD)	The amount of the loan at the time of credit default is the sum of all future contractual cash flows. Off-balance sheet transactions such as guarantees and unused lines of credit of customers are converted into an EAD taking into account a cash conversion feature (CCF).
Probability of default (PD)	The probability of default is determined for each customer on the basis of statistical estimates and follows the life-time concept. This means that the calculation of future probabilities of default also takes into account an assessment of future economic conditions in the form of a point-in-time calibration. Specific migration matrixes are used for every segment in the ECL model.
Forward-looking information (FLI)	Based on relevant macroeconomic forecasts, the forward-looking information weighted by BKS Bank's target markets is factored into the adjusted contingent default probability applying a straight-line regression analysis. Specific loss ratios are applied for every segment.
Loss given default (LGD)	LGD designates the relative amount of loss at the time of default. The loss ratio is measured based on the unsecured portion of the EAD, which, should the amount of the receivable be irrecoverable, is written off. LGD is determined based on the customer portfolios of BKS Bank and, like the probability of default, follows the life-time concept.
Discount rate (D)	Discounting is based on the effective interest rate.

When calculating the ECL in stages 1 and 2, the EAD, the PD and the LGD are modified to the contractually agreed duration and discounted (D). The calculation is explained in below:

$$ECL = \sum_{t=1}^{T} ECL_t = \sum_{t=1}^{T} mPD_t^{PIT} \cdot LGD_t \cdot EAD_t \cdot D_t$$

The collateral and the potential loss from the open risk positions is expressed in the loss given default ratio (LGD). Information on the collateral, on the default risk excluding collateral held, a description of the collateral held as well as quantitative information is contained in the risk report.

Expected credit loss is calculated on the basis of several scenarios. BKS Bank uses three rating scenarios: A base scenario, an upside and a downside scenario. These scenarios are combined based on weighting factors. The weighting is used to arrive at a risk-adequate, probability-weighted expected credit loss in line with expectations that is neither a best-case nor a worst-case nor a most-likely-case scenario.

When calculating the expected credit loss (ECL), probability of default (PD) takes account not only historic information, but also forecasts of macroeconomic factors. BKS Bank uses the following factors as indicators for forecasts: GDP (gross domestic product), inflation rate, unemployment, current account balance and interest rate.

Loss ratios are used to determine the average payments from financial assets after the default event. LGDs are calculated separately per segment, just like for PD. The portfolio segments are retail customers, corporate customers, banks, and sovereigns.

There were no changes to estimation methods or significant assumptions during the reporting period.

Impairment charges are generally recognised through profit or loss in the income statement. The reporting of impairment charges is disclosed as a deduction on the assets side of the balance sheet (impairment account). For financial assets designated at FV OCI, any impairment triggered by a change in credit rating is recognised in profit or loss. Impairment charges for loan commitments and financial guarantees are recognised under the item Provisions.

Impairment policy

Receivables deemed irrecoverable will be derecognised or written off when they can no longer be collected and when all the collateral for these receivables has been finally realised. Generally, no financial assets subject to execution measures are derecognised. A receivable is derecognised in any of the following cases:

– attempts to collect the receivable on the basis of an enforcement title have failed for a period of two years ,
– enforcement failed at least twice,
– no funds are expected to be received for the remaining debt or
– it is no longer possible to obtain an enforcement title.

All derecognised receivables that do not entail release from the remaining debt are handed over to third parties (e.g. collection agency) for collection.

Modifications to contracts

In the lending business, BKS Bank may have to modify loan contracts for existing loans. Reasons may be changed market conditions, on the one hand, or the borrower experiencing difficulties in making payments, on the other. A difference is made between significant and non-significant amendments to a contract. At BKS Bank, significant contract modifications include, for instance, a product switch, change in ownership, change in currency, increase in loan amount or a prolongation of term. This results in a derecognition of the financial asset prior to contract modification and a recognition of the modified financial asset at the time of recognition. The resultant difference is reported in the income statement as the profit/loss from derecognition. However, if the contract modification is not significant, i.e. if there is no derecognition and/or recognition, the amount of the difference between the gross carrying amount before contract modification and the gross carrying amount after contract modification is reported as modification gain/loss in the income statement.

The accounting and measurement methods applied for prior year figures pursuant to IAS 39 are described below:

Financial instruments pursuant to IAS 39

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: financial instruments held for trading, including all derivatives with the exception of those designated as hedges for other instruments;
  – financial assets and liabilities designated as at fair value through profit or loss: financial instruments designated at fair value (fair value option)
– available-for-sale financial assets and liabilities (AfS): financial instruments held with the intent to sell
– held-to-maturity financial assets and liabilities (HtM): financial instruments that are held to maturity
– loans and receivables
– financial liabilities (other liabilities)

Spot transactions are recognised and derecognised at their settlement dates.

On each reporting date, the financial assets are tested to determine whether there is objective evidence of impairment. Such objective evidence includes, for instance, a debtor in financial difficulties, default or delay in interest payments or repayments, concessions granted by BKS Bank AG or the consolidated subsidiaries to a debtor for financial or legal reasons connected with the debtor's financial difficulties that would otherwise not have considered. Subsequent measurement of financial instruments is either at fair value or at amortised cost. BKS Bank classified and measured financial instruments in conformity with IAS 39 and IFRS 7 as follows:

Financial assets/liabilities at fair value through profit or loss
Applying the fair value option, selected positions are summarised 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/losses are recognised in the item Profit/loss from financial assets/liabilities, subitem Profit/loss from financial instruments (FI) designated at fair value through profit or loss.

Available-for-sale financial assets
Available-for-sale (AFS) securities are a separate category of financial instruments. They are what remains when a financial asset is not recognised as a held-to-maturity asset, at fair value through profit/loss or as a receivable and loan. They are generally measured by applying stock exchange prices. If such prices are not available, the present value method is used for interest rate products. Different methods are applied to determine the fair value of equity instruments (discounted cash flow method, multiplier method, and net asset value method). Market value fluctuations resulting from such measurement are recognised in the AFS reserve and not through profit or loss. When such securities are sold, the corresponding part of the AFS reserve is recognised through profit or loss. In the event of impairment (e.g. a debtor in severe financial difficulties or a measurable decline in expected future cash flows), a charge is recognised 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 valued at amortised 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 charges are recognised in the income statement.

Loans and receivables
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 amortised cost. Impairments losses are recognised as impairment charges for receivables from customers. Premiums and discounts, if any, are distributed over the life of the asset and recognized in profit or loss. Amounts owed to credit institutions and customers are recognised as liabilities in the amounts payable.

Impairment charges on receivables from customers
Account was taken of the risks identifiable at the time of balance sheet preparation by recognising individual impairment charges (in the case of material exposures, these were calculated on the basis of the discounted cash flow method), by recognising individual impairment charges applying class-specific criteria and by way of portfolio impairment assessments carried out in accordance with IAS 39.64. The latter includes incurred but not yet identifiable losses. Such losses are calculated using the formula probability of default (PD) x loss given default (LGD) x exposure at default (EAD) x loss identification periods (LIP). Provisions were recognised for risks arising from contingent liabilities in accordance with IAS 37. The total impairment allowance balance is disclosed as a deduction on the assets side of the balance sheet (impairment account). Receivables deemed irrecoverable will be derecognised or written off when they can no longer be collected and when all the collateral for these receivables has been finally realised.

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 its control, 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%. There are syndicate agreements 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.

Investment property
This line item encompasses property intended for renting to third parties. It is measured at amortised 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 was on a straight-line basis.

Property, plant and equipment
Property, plant and equipment consists of land, buildings and other property and equipment comprising primarily office furniture and business equipment. Property, plant and equipment is recognised at amortised 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 allowances are recognized in the income statement under General administrative expenses to take account of impairment. If an impairment ceases to exist, a reversal is made up to the asset's amortised cost. No impairments or reversals were recognized during the period under review.

Intangible assets
Intangible assets have all been purchased and have limited useful lives. Amortisation is linear based on an asset's usual useful life. Essentially, this item consists of the customer base of the Slovenian company, Gorenjska borznoposredniška družba d.d., acquired in the financial year 2018 and of software. The amortisation rate for software is 25% (i.e. four years); the amortisation rate for the customer base acquired was determined at 10% (i.e. 10 years) after a detailed analysis.

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 recognised 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. These are measured at amortised cost.

Liabilities evidenced by paper

Liabilities evidenced by paper comprise bonds in circulation, debt securities and other liabilities evidenced by paper (own issues). In general, liabilities evidenced by paper are recognised at amortised cost. In exceptional cases and based on decisions by the ALM Committee, the fair value option is for securitised liabilities.

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. In general, subordinated debt capital is recognised at amortised cost.

Deferred tax assets and deferred tax liabilities

Income tax is reported and calculated in accordance with IAS 12. The calculation of deferred taxes 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 IFRS carrying amounts of assets or liabilities. These will probably give rise to additional tax burdens or reduce tax burdens in the future.

Provisions

In accordance with IAS 37, provisions are recognised if there is a current obligation to a third party arising from an event in the past likely to cause an outflow of resources and the amount is reliably determinable. BKS Bank recognises mainly 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. The AVÖ 2018-P mortality table as published in August 2018 was used for the actuarial calculation of provisions for social capital. 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 (retained earnings, revaluation reserve, foreign exchange differences and profit for the period). BKS Bank strives to strengthen its equity on a sustainable basis by reinvesting its profits. An additional tier 1 note was issued in 2015, 2017 and 2018, 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 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 must be presented in an 'appropriate expense classification'. As a result, negative interest income is presented as an interest expense. Likewise, positive interest expenses are presented as interest income.

Impairment charges

This line item reports income and expenses from recognising and reversing impairment charges in the amount of the 12-months expected credit loss (stage 1) or lifetime expected credit loss (stages 2 and 3). BKS Bank recognises such charges for financial assets measured at amortised at cost or designated at fair value through other comprehensive income (FV OCI mandatory) as well as for loans commitments and financial guarantee contracts. See also Note (2) for details.

Net fee and commission income

The line item 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 recognised 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 and from derivatives transactions. Positions in the trading book were measured marked to market. Net trading income also includes valuation 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.

Profit/loss from the derecognition of financial assets measured at amortised cost

This item reports profit/loss from the derecognition of financial assets measured at amortised cost. Direct write-offs and recoveries on receivables previously written off are also accounted for in this line item.

DISCRETIONARY DECISIONS AND ESTIMATES

Estimates and assumptions are required to account for some of the items on the balance sheet in conformity with International Financial Reporting Standards. Such estimates and assumptions are based on historical experience, plans, expectations and forecasts regarding future events that are likely from our 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 were made, the economic environments in the aforementioned markets are precisely analysed in detail and the results considered in the decision-making process. Material discretionary decisions, assumptions and estimates were made in the following areas.

Impairment of financial assets: impairment charges

Financial assets recognised at amortised cost are tested for objective evidence of potential 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 amount have substantial assessment uncertainties and room for discretion resulting from the economic situation and development of the borrower and 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, scenarios regarding the development of the economy and loss given default, and therefore also leave room for discretion and estimating uncertainties.

SENSITIVITY ANALYSIS

Sensitivity scenario	Explanations	in €k
Staging: negative scenario	Financial instruments in the “investment grade" rating class are transferred from stage 1 to stage 2. This is a changeover from the 12-month ECL view to the lifetime concept.	-21,582
Staging: positive scenario	Financial instruments that were assigned to stage 2 due a historic credit downgrade are transferred from stage 2 to stage 1. This is a changeover from the lifetime concept to the 12-month ECL view.	5,821
Macroeconomic assessment: negative scenario	The weighting factors with respect to future economic developments deteriorate and the worst-case scenario is weighted 5% higher, while the best-case-scenario is weighted 5% lower.	-1,728
Macroeconomic assessment: positive scenario	The weighting factors with respect to future economic developments on the target markets improve and the best-case scenario is weighted 5% higher, while the worst-case-scenario is weighted 5% lower.	1,728
Macroeconomic assessment: negative scenario	The weighting factors with respect to future economic developments deteriorate and the worst-case scenario is weighted 5% higher, while the base scenario is weighted 5% lower.	-1,344
Macroeconomic assessment: positive scenario	The weighting factors with respect to future economic developments on the target markets improve and the best-case scenario is weighted 5% higher, while the base scenario is weighted 5% lower.	384
Probability of default: negative scenario	The probability of default in the migration matrix increases by a factor of 1.1.	-5,122
Probability of default: positive scenario	The probability of default in the migration matrix decreases by a divisor of 1.1.	2,117

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, in the absence of a principal market, in the most advantageous market.
– Level 2: If the 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).

Provisions for social capital
Estimates regarding the discount rate, salary growth, the career trend and the retirement age were required to calculate provisions for post-employment, severance payments, 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 37 for further details.

Other provisions
The amounts of other provisions were 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.

Financial liabilities under cash flow from financing activities showed the following changes:

RECONCILIATION OF FINANCIAL LIABILITIES UNDER FINANCING ACTIVITIES 2018

	Consolidated balance sheet as at 01/01	Cash outflow	Cash inflow	Non-cash accrued interest and other changes	Consolidated balance sheet as at 31/12
Subordinated liabilities	158,622	-20,000	40,855	190	179,667

RECONCILIATION OF FINANCIAL LIABILITIES UNDER FINANCING ACTIVITIES 2017

	Consolidated balance sheet as at 01/01	Cash outflow	Cash inflow	Non-cash accrued interest and other changes	Consolidated balance sheet as at 31/12
Subordinated liabilities	198,585	-48,600	9,651	-1,014	158,622

EXPLANATIONS ON THE INITIAL APPLICATION OF IFRS 9

The following table presents a comparison of the measurement categories and carrying amounts pursuant to IAS 39 with the measurement categories determined pursuant to IFRS 9 and the carrying amounts as at 1 January 2018.

COMPARISON OF MEASUREMENT CATEGORIES AND CARRYING AMOUNTS PURSUANT TO IAS 39 AND IFRS 9 AS AT 1 JANUARY 2018

ASSETS	IAS 39		IFRS 9	
in €m	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and balances with the central bank	Nominal amount	476.6	Nominal amount	476.6
Receivables from other banks	At amortised cost (receivables and loans)	97.7	At amortised cost	97.7
Receivables from customers	At amortised cost (receivables and loans)	5,450.2	At amortised cost	5,402.2
		-	Fair value through profit or loss (FV PL)	48.1
	Designated at fair value through profit or loss (fair value option)	55.8	Designated at fair value through profit or loss (fair value option)	55.8
Trading assets	Held for trading	0.0	Fair value through profit or loss (FV PL)	0.0
Debt securities and other interest-bearing securities	At amortised cost (held to maturity)	782.8	At amortised cost	782.8
	Designated at fair value through profit or loss (fair value option)	22.5	Designated at fair value through profit or loss (fair value option)	22.4
		-	Fair value through profit or loss (FV PL)	0.1
	Available for sale	56.8	At fair value through other comprehensive income (FV OCI)	56.8
Shares and other non-interest bearing securities	Available for sale	125.3	At fair value through other comprehensive income - equity instruments (FV OCI)	83.1
			At fair value through profit or loss - financial instruments (FV PL)	42.2

RECONCILIATION OF CARRYING AMOUNTS PURSUANT TO IAS 39 TO IFRS 9 AT 1 JANUARY 2018 AT AMORTISED COST

ASSETS in €m	Carrying amount pursuant to IAS 39 at as 31/12/2017	Reclassification	Remeasurement	Carrying amount pursuant to IFRS 9 as at 01/01/2018
Cash and balances with the central bank				
Opening balance under IAS 39	476.6			
Closing balance under IFRS 9				476.6
Receivables from other banks				
Opening balance under IAS 39	97.7			
Closing balance under IFRS 9				97.7
Receivables from customers				
Opening balance under IAS 39	5,450.2			
– Reclassification: to at fair value through profit or loss (FV PL)		-48.0		
Closing balance under IFRS 9				5,402.2
Debt securities: at amortised cost				
Opening balance under IAS 39	-			
– Reclassification: from held-to-maturity		782.8		
Closing balance under IFRS 9				782.8
Debt securities: held to maturity				
Opening balance under IAS 39	782.8			
– Reclassification: to at amortised cost		-782.8		
Closing balance under IFRS 9				-
Impairment charges on receivables from customers				
Opening balance under IAS 39	-137.0			
– Receivables from other banks: Remeasurement ECL allowance			-0.2	
– Receivables from customers: Remeasurement ECL allowance			-22.5	
– Debt securities: Remeasurement ECL allowances (from HtM reclassification)			-0.5	
– Receivables: Reversal IBNR[1)]			36.9	
Closing balance under IFRS 9				-123.2
Total financial assets measured at amortised cost	**6,670.2**	**-48.0**	**13.8**	**6,636.1**

[1)] The reversal of IBNR (incurred but not reported) in the Remeasurement column also includes the reversal of the IBNR for receivables from customers that were reclassified as at fair value through profit or loss (mandatory).

RECONCILIATION OF CARRYING AMOUNTS PURSUANT TO IAS 39 TO IFRS 9 AT 1 JANUARY 2018 FAIR VALUE THROUGH PROFIT OR LOSS (FV PL)

ASSETS in €m	Carrying amount pursuant to IAS 39 at as 31/12/2017	Reclassification	Remeasurement	Carrying amount pursuant to IFRS 9 as at 01/01/2018
Trading assets				
Opening balance under IAS 39	0.0			
Closing balance under IFRS 9				0.0
Debt securities: Fair value through profit or loss (designated)				
Opening balance under IAS 39	22.5			
– Reclassification: to fair value through profit or loss (mandatory)		-0.1		
Closing balance under IFRS 9				22.4
Debt securities: Fair value through profit or loss (mandatory)				
Opening balance under IAS 39	-			
– Reclassification: from at fair value through profit or loss (designated)		0.1		
Closing balance under IFRS 9				0.1
Loans: Fair value through profit or loss (designated)				
Opening balance under IAS 39	55.8			
Closing balance under IFRS 9				55.8
Loans: Fair value through profit or loss (mandatory)				
Opening balance under IAS 39	-			
– Reclassification: from at amortised cost		48.0		
– Remeasurement: from at amortised cost to fair value			0.2	
Closing balance under IFRS 9				48.1
Shares and other non-interest bearing securities: Fair value through profit or loss (mandatory)				
Opening balance under IAS 39	-			
– Reclassification: from available-for-sale financial assets		42.2		
Closing balance under IFRS 9				42.2
Total financial assets measured at fair value through profit or loss	**78.3**	**90.2**	**0.2**	**168.7**

RECONCILIATION OF CARRYING AMOUNTS PURSUANT TO IAS 39 TO IFRS 9 AT 1 JANUARY 2018 FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FV OCI)

ASSETS in €m	Carrying amount pursuant to IAS 39 at as 31/12/2017	Reclassification	Remeasurement	Carrying amount pursuant to IFRS 9 as at 01/01/2018
Debt securities - FV OCI (with recycling)				
Opening balance under IAS 39	-			
– Reclassification: from available-for-sale financial assets		56.8		
Closing balance under IFRS 9				56.8
Shares and other non-interest bearing securities - FV OCI (without recycling)				
Opening balance under IAS 39	-			
– Reclassification: from available-for-sale financial assets		83.1		
Closing balance under IFRS 9				83.1
Debt securities - available for sale				
Opening balance under IAS 39	56.8			
– Reclassification: to FV OCI		-56.8		
Closing balance under IFRS 9				-
Shares and other non-interest bearing securities - available for sale				
Opening balance under IAS 39	125.3			
– Reclassification: to FV OCI		-83.1		
– Reclassification: to FV PL		-42.2		
Closing balance under IFRS 9				-
Total financial assets measured at fair value through other comprehensive	**182.1**	**-42.2**	**-**	**139.9**

The initial application of IFRS 9 on 1 January 2018 had the following effects on the financial assets of BKS Bank: Loans of EUR 47.9 million measured at amortised cost under IAS 39 were classified as at fair value through profit or loss (FV PL) due to the application of IFRS 9. These financial assets do not meet the SPPI test as required by IFRS 9 for measurement at amortised cost. The fair value at the time of initial application was EUR 48.1 million, the difference of EUR 0.2 million was reported in retained earnings as an adjustment to the opening value for equity.

The total portfolio of financial assets classified as held to maturity under IAS 39 was reclassified to the ‘hold to collect’ business model. As these financial assets meet the SPPI test, they continue to be measured at amortised cost also under IFRS 9.

With respect to most financial instruments reported as available for sale pursuant to IAS 39, measurement was at fair value through other comprehensive income (FV OCI) upon initial application of IFRS 9, because the fair value OCI option was selected for these equity instruments. Investment fund assets are measured at fair value through profit or loss (FV PL).

A debt security with a carrying amount of EUR 80 thousand for which the fair value option was used under IAS 39 was measured at fair value through profit or loss (FV PL) under IFRS 9. As the SPPI test as required by IFRS 9 for measurement at amortised cost was not met, it is no longer possible to exercise a fair value option.

The reconciliation of the final amount of impairment charges as at 31 December 2017 under IAS 39 to the opening balance of 1 January 2018 under IFRS 9 is presented in the table below.

RECONCILIATION OF IMPAIRMENT CHARGES UNDER IAS 39 TO OPENING BALANCE UNDER IFRS 9 AS AT 1 JANUARY 2018

ASSETS in €m	Impairment charges under IAS 39/Provisions under IAS 37 at as 31/12/2017	Reclassification	Remeasurement	Impairment charges under IFRS 9 as at 01/01/2018
Loans and receivables (IAS 39) / At amortised cost (IFRS 9)				
Receivables from other banks	-			
– Remeasurement ECL allowance			0.2	
Receivables from customers	137.0			
– Remeasurement ECL allowance			22.5	
– Reversal IBNR			-36.9	
Total	**137.0**	**-**	**-14.3**	**122.7**
Held to maturity (IAS 39) / At amortised cost (IFRS 9)				
Debt securities	-			
– Remeasurement ECL allowance			0.5	
Total	**-**	**-**	**0.5**	**0.5**
Available for sale (IAS 39)/FV OCI (IFRS 9)				
Debt securities	-			
– Remeasurement ECL allowance			0.0	
Total	**-**	**-**	**0.0**	**0.0**
Loan commitments and financial guarantee contracts	**-**		**1.3**	**1.3**
Total	**137.0**	**-**	**-12.5**	**124.5**

The effects of the initial application of IFRS 9 on shareholders' equity is as follows:

PRESENTATION OF INITIAL APPLICATION EFFECT ON EQUITY

in €m	Carrying amount
Revaluation reserve	
Carrying amount purs. to IAS 39 at 31/12/2017	**32.0**
Reclassification of investment funds from financial assets - available for sale to FV PL	-0.8
Recognition of ECL for debt securities FV OCI	0.0
Available-for-sale impairment	-8.1
Deferred taxes	2.2
Carrying amount pursuant to IFRS 9 as at 01/01/2018	**25.3**
Retained earnings	
Carrying amount purs. to IAS 39 at 31/12/2017	**638.2**
Reclassification of investment funds from financial assets - available for sale to FV PL	0.8
Remeasurement of loans from at amortised cost to FV PL	0.2
Recognition of ECL pursuant to IFRS 9	-24.4
Reversal IBNR	36.9
Recognition of fair value changes of financial liabilities designated at FV PL attributable to own credit risk	-
Available-for-sale impairment	8.1
Deferred taxes	-5.4
Carrying amount pursuant to IFRS 9 as at 01/01/2018	**654.4**

DETAILS OF THE INCOME STATEMENT

(1) NET INTEREST INCOME

in €k	2017	2018	± in %
Interest income applying the effective interest rate method:			
Lending operations measured at amortised cost	114,832	115,603	0.7
Fixed-interest securities measured at amortised cost	n/a	14,856	-
Fixed-interest securities measured at FV OCI	n/a	687	-
Fixed-interest securities held-to-maturity	16,558	n/a	-
Positive interest expenses[1)]	6,148	10,698	74.0
Total interest income applying the effective interest rate method	**137,538**	**141,844**	**3.1**
Other interest income and other similar income:			
Lending operations measured at fair value	n/a	977	-
Fixed-interest securities at fair value through profit or loss	451	451	-0.1
Fixed-interest securities available for sale	836	n/a	-
Leasing receivables	8,279	9,485	14.6
Shares and other non-interest bearing securities	3,906	4,260	9.1
Investment property	3,263	3,129	-4.1
Total other interest income and other similar income	**16,735**	**18,303**	**9.4**
Total interest income	**154,273**	**160,147**	**3.8**
Interest expenses and other similar expenses:			
Deposits from customers and other banks	7,223	4,620	-36.0
Liabilities evidenced by paper	20,432	19,146	-6.3
Negative interest income[1)]	5,419	6,056	11.8
Investment property	513	632	23.2
Total interest expenses and other similar expenses	**33,587**	**30,454**	**-9.3**
Net interest income	**120,686**	**129,693**	**7.5**

[1)] This consists of interest expenses that are positive or interest income that is negative as a result of the historically low interest rates.

The line item Interest income from the application of the effective interest rate method contains income from unwinding (i.e. from changes in the present values of cash flows) in an amount of EUR 2.4 million.

(2) IMPAIRMENT CHARGES

in €k	2017	2018	± in %
Financial instruments measured at amortised cost	25,936	18,904	-27.1
– Allocation (+)/reversal (-) of impairment charges (net)	24,775	18,904	-23.7
– Direct write-offs	2,097	n/a	-
– Recoveries in respect of receivables written off	-936	n/a	-
Financial instruments measured at fair value OCI	n/a	70	-
– Allocation (+)/reversal (-) of impairment charges (net)	n/a	70	-
Loan commitments and financial guarantee contracts	788	-681	>-100
– Allocation (+)/reversal (-) of provisions (net)	788	-681	>-100
Impairment charges	**26,724**	**18,293**	**-31.5**

This line item contains a reversal on impairment charges on lease receivables in the amount of €0.1 million (pr.yr.: allocation €0.2 million).

(3) NET FEE AND COMMISSION INCOME

in €k	2017	2018	± in %
Fee and commission income:			
Payment services	21,905	23,002	5.0
Securities operations	14,726	14,479	-1.7
Lending operations	12,582	18,356	45.9
Foreign exchange operations	3,107	2,877	-7.4
Other services	1,400	1,191	-14.9
Total fee and commission income	**53,721**	**59,906**	**11.5**
Fee and commission expenses:			
Payment services	2,168	2,233	3.0
Securities operations	1,000	1,284	28.4
Lending operations	374	701	87.3
Foreign exchange operations	230	178	-22.4
Other services	53	44	-17.2
Total fee and commission expenses	**3,825**	**4,440**	**16.1**
Net fee and commission income	**49,896**	**55,467**	**11.2**

(4) PROFIT/LOSS FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

in €k	2017	2018	± in %
Profit/loss from investments accounted for using the equity method	39,068	44,848	14.8
Profit/loss from investments accounted for using the equity method	**39,068**	**44,848**	**14.8**

(5) NET TRADING INCOME

in €k	2017	2018	± in %
Price-based transactions	-14	61	>100
Interest rate and currency contracts	1,558	219	-86.0
Net trading income	**1,544**	**280**	**-81.9**

(6) GENERAL ADMINISTRATIVE EXPENSES

in €k	2017	2018	± in %
Staff costs	70,060	74,628	6.5
– Wages and salaries	52,394	55,068	5.1
– Social security costs	12,524	12,724	1.6
– Costs of retirement benefits	3,765	4,046	7.5
– Other social expenses	1,377	2,790	>100
Other administrative costs	31,038	32,845	5.8
Depreciation/amortisation	6,656	7,103	6.7
General administrative expenses	**107,754**	**114,577**	**6.3**

The cost of retirement benefits contain contribution plan payments of EUR 1.3 million (pr.yr.: EUR 1.3 m) to a pension fund.

(7) OTHER OPERATING INCOME/EXPENSES

in €k	2017	2018	± in %
Other operating income	4,624	6,467	39.9
Other operating expenses	-8,376	-8,992	7.4
Other operating income/expenses	**-3,752**	**-2,525**	**-32.7**

The main sources of other operating income are non-interest bearing lease income of EUR 1.4 million (pr.yr.: EUR 1.1 million), fee and commission income from the insurance business of EUR 1.2 million (pr.yr.: EUR 1.0 million) as well as rental income of EUR 0.1 million (pr.yr.: 0.1 million).

The expenses include the payment of EUR 1.1 million for stability contribution (pr.yr.: EUR 1.0 million), the contributions to the resolution fund of EUR 2.8 million (pr.yr.: EUR 2.3 million) and the contributions to the deposit insurance scheme of EUR 1.9 million (pr.yr.: EUR 2.0 million).

(8) PROFIT/LOSS FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT/LOSS

in €k	2017	2018	± in %
Profit/loss from the measurement and disposal of derivatives	-73	-	-
Profit/loss from using the fair value option	1,373	-2,841	>-100
Profit/loss from financial instruments designated at fair value through profit/loss	**1,300**	**-2,841**	**>-100**

Fixed-interest loans to customers of EUR 85.3 million (pr.yr.: EUR 55.8 million), bonds in the active portfolio of EUR 22.0 million (pr.yr.: EUR 22.5 million) and own issues of EUR 84.7 million (pr.yr.: EUR 84.7 million) were hedged by interest rate swaps under 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	2017	2018	± in %
Profit/loss from measurement	190	n/a	-
Profit/loss on disposal	2,725	n/a	-
Profit/loss from available-for-sale financial assets	**2,915**	**n/a**	**-**

(10) PROFIT/LOSS FROM HELD-TO-MATURITY FINANCIAL ASSETS

in €k	2017	2018	± in %
Profit/loss from measurement	0	n/a	-
Profit/loss on disposal	-4	n/a	-
Profit/loss from held-to-maturity financial assets	**-4**	**n/a**	**-**

(11) PROFIT/LOSS FROM FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (MANDATORY)

in €k	2017	2018	± in %
Profit/loss from measurement	n/a	-5,130	-
Profit/loss on disposal	n/a	5	-
Profit/loss from financial assets measured at fair value through profit or loss (mandatory)	**n/a**	**-5,125**	**-**

(12) PROFIT/LOSS FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

in €k	2017	2018	± in %
Receivables from other banks	n/a	-104	-
– thereof profit	n/a	-	-
– thereof loss	n/a	-104	-
Receivables from customers	n/a	-35	-
– thereof profit	n/a	1,080	-
– thereof loss	n/a	-1,115	-
Debt securities	n/a	319	-
– thereof profit	n/a	319	-
– thereof loss	n/a	0	-
Profit/loss from derecognition of financial assets measured at amortised cost	**n/a**	**179**	**-**

(13) OTHER PROFIT OR LOSS FROM FINANCIAL ASSETS/LIABILITIES

in €k	2017	2018	± in %
Modification gains/losses	n/a	-128	-
– from financial assets measured at amortised cost	n/a	-128	-
– from financial assets measured through FV OCI	n/a	-	-
– from financial liabilities measured at amortised cost	n/a	-	-
Derecognition gains/losses	n/a	63	-
– from financial assets measured through FV OCI	n/a	63	-
– from financial liabilities measured at amortised cost	n/a	-	-
Other profit or loss from financial assets/liabilities	**n/a**	**-65**	**-**

Amortised cost before contract amendments amount to EUR 149.2 million. The loss from contract amendments is EURk -128.1.

(14) INCOME TAX EXPENSE

in €k	2017	2018	± in %
Current taxes	-4,680	-10,092	>100
Deferred taxes	-4,458	471	>-100
Income tax expense	**-9,138**	**-9,621**	**5.3**

RECONCILIATION

in €k	2017	2018
Profit for the year before tax	77,175	87,041
Applicable tax rate	25%	25%
Computed tax expense	19,294	21,760
Effect of differing tax rates	-443	-560
Tax savings		
– from tax-exempt income from investments	-720	-841
– Effects of investments in entities accounted for using the equity method	-9,767	-11,212
– from other tax-exempt income	-146	-19
– from other valuation adjustments	-329	-170
Additional tax incurred		
– as a result of non-deductible expenses	302	339
– from other tax effects	475	48
Aperiodic tax expenses/income	472	276
Income tax expense in period	**9,138**	**9,621**
Effective tax rate	11.8%	11.1%

DETAILS OF THE BALANCE SHEET

(15) CASH AND BALANCES WITH THE CENTRAL BANK

in €k	31/12/2017	31/12/2018	± in %
Cash in hand	85,095	85,576	0.6
Credit balances with central banks	391,494	486,387	24.2
Cash and balances with the central bank	**476,589**	**571,963**	**20.0**

(16) RECEIVABLES FROM OTHER BANKS

in €k	31/12/2017	31/12/2018	± in %
Receivables from Austrian banks	75,741	123,532	63.1
Receivables from foreign banks	21,970	53,716	>100
Receivables from other banks	**97,711**	**177,248**	**81.4**

RECEIVABLES FROM OTHER BANKS BY REMAINING TIME TO MATURITY

in €k	31/12/2017	31/12/2018	± in %
Due on demand	40,751	25,531	-37.3
Up to 3 months	36,371	45,391	24.8
From 3 months to 1 year	589	82,265	>100
From 1 year to 5 years	20,000	24,061	20.3
From 5 years and later	-	-	-
Receivables from other banks by remaining time to maturity	**97,711**	**177,248**	**81.4**

(17) IMPAIRMENT CHARGES ON RECEIVABLES FROM OTHER BANKS

in €k	Stage 1	Stage 2	Stage 3	2018
At the start of the reporting period	150	2	-	152
Additions due to new business	16	4	-	20
Change within stage:				
– Allocation/reversal	155	-	-	155
– Disposals due to usage	-	-	-	-
Reclassification from one stage to another:				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 2	-	-	-	-
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-	-	-	-
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-3	-2	-	-5
At the end of the reporting period	**318**	**4**	**-**	**322**

Gross carrying amounts changed as follows in the reporting year 2018:

GROSS CARRYING AMOUNTS FOR RECEIVABLES FROM OTHER BANKS

in €k	Stage 1	Stage 2	Stage 3	2018
At the start of the reporting period	90,607	7,104	-	97,711
Additions due to new business	18,319	7,100	-	25,419
Change within stage:				
– Increase/reduction of receivables	78,584	-	-	78,584
– Disposals due to usage	-	-	-	-
Reclassification from one stage to another:				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	1,801	-4,728		-2,927
– Reclassification from stage 3 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 2	-	-	-	-
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-1	1	-	-
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-19,127	-2,412	-	-21,539
At the end of the reporting period	**170,183**	**7,065**	**-**	**177,248**

(18) RECEIVABLES FROM CUSTOMERS

(18.1) RECEIVABLES FROM CUSTOMERS BY CUSTOMER GROUP

in €k	31/12/2017	31/12/2018	± in %
Corporate and business banking	4,241,104	4,727,697	11.5
Retail banking	1,209,047	1,298,161	7.4
Receivables from customers by customer group	**5,450,151**	**6,025,858**	**10.6**

(18.2) RECEIVABLES FROM CUSTOMERS BY MEASUREMENT CATEGORY

in €k	31/12/2017	31/12/2018	± in %
Financial assets measured at amortised cost	5,450,151	5,885,821	8.0
Financial assets measured at fair value through profit or loss (designated)	n/a	85,287	-
Financial assets measured at fair value through profit or loss (mandatory)	n/a	54,750	-
Receivables from customers by measurement category	**5,450,151**	**6,025,858**	**10.6**

Receivables from customers includes receivables from lease transactions of EUR 422.7 million (pr.yr.: EUR 316.5 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	31/12/2017	31/12/2018	± in %
Due on demand	121,498	203,503	67.5
Up to 3 months	938,299	1,090,238	16.2
From 3 months to 1 year	663,983	429,586	-35.3
From 1 year to 5 years	1,830,053	1,812,321	-1.0
From 5 years and later	1,896,318	2,490,210	31.3
Receivables from customers by remaining time to maturity	**5,450,151**	**6,025,858**	**10.6**

FINANCE LEASE RECEIVABLES BY REMAINING TIME TO MATURITY

in €k	2017	< 1 year	1 to 5 years	> 5 years	2018	± in %
Gross investment in the lease	339,078	109,693	239,997	97,738	447,428	32.0
Unearned finance income	22,623	7,909	13,690	3,103	24,702	9.2
Net investment in the lease	**316,455**	**101,784**	**226,307**	**94,635**	**422,726**	**33.6**

Receivables under leases are essentially contained in maturity bands >1 year.

(19) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €k	Stage 1	Stage 2	Stage 3	2018
At the start of the reporting period	8,146	14,313	100,123	122,582
Additions due to new business	2,813	1,632	-	4,445
Change within stage				
– Allocation/reversal	-768	-783	12,866	11,315
– Disposals due to usage	-	-	-30,019	-30,019
Reclassification from one stage to another:				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	535	-4,855	-	-4,320
– Reclassification from stage 3 to stage 1	297	-	-1,543	-1,246
– Reclassification from stage 3 to stage 2	-	169	-1,449	-1,280
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-549	4,890	-	4,341
– Reclassification from stage 1 to stage 3	-64	-	3,163	3,099
– Reclassification from stage 2 to stage 3	-	-166	4,831	4,665
Disposals due to repayment	-1,740	-1,437	-2,527	-5,704
At the end of the reporting period	**8,670**	**13,763**	**85,445**	**107,879**

Impairment charges on receivables from customers includes loan loss provisions for lease receivables of EUR 3.6 million (pr.yr.: EUR 8.7 million).

Gross carrying amounts changed as follows in the reporting year 2018:

GROSS CARRYING AMOUNTS OF RECEIVABLES FROM CUSTOMERS

in €k	Stage 1	Stage 2	Stage 3	2018
At the start of the reporting period	4,340,347	773,532	288,320	5,402,199
Additions due to new business	1,342,552	146,438	-	1,488,990
Change within stage				
– Increase/reduction of receivables	-224,385	-23,727	-22,004	-270,116
– Disposals due to usage/direct write-off	-	-	-31,135	-31,135
Reclassification from one stage to another:				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	238,695	-272,252	-	-33,557
– Reclassification from stage 3 to stage 1	13,373	-	-16,397	-3,024
– Reclassification from stage 3 to stage 2	-	9,859	-12,788	-2,929
– Increase due to credit risk	-	-	-	-
– Reclassification from stage 1 to stage 2	-244,463	237,655	-	-6,808
– Reclassification from stage 1 to stage 3	-14,006	-	11,677	-2,329
– Reclassification from stage 2 to stage 3	-	-14,731	14,157	-574
Disposals due to repayment	-537,901	-107,055	-9,940	-654,896
At the end of the reporting period	**4,914,212**	**749,719**	**221,890**	**5,885,821**

IMPAIRMENT CHARGES ON RECEIVABLES AT 31/12/2017

in €k	Specific impairment charge	Portfolio impairment pursuant to IAS 39	2017
At the start of the reporting period	116,746	38,390	155,136
Additions	38,272	1,341	39,613
Reversals	-16,450	-2,862	-19,312
Exchange rate effects	16	-	16
Usage	-38,461	-	-38,461
At the end of the reporting period	**100,123**	**36,869**	**136,992**

20) TRADING ASSETS

in €k	31/12/2017	31/12/2018	± in %
Positive fair values of derivative financial instruments	9,837	8,045	-18.2
– Currency contracts	2,539	1,464	-42.3
– Interest rate contracts	7	2	-69.5
– Fair value option	7,292	6,580	-9.8
Trading assets	**9,837**	**8,045**	**-18.2**

(21) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

in €k	31/12/2017	31/12/2018	± in %
Debt securities and other fixed-interest securities	22,495	n/a	-
Loans	55,805	n/a	-
Financial assets designated at fair value through profit or loss	**78,300**	**n/a**	**-**

FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS BY REMAINING TIME TO MATURITY

in €k	31/12/2017	31/12/2018	± in %
Up to 3 months	95	n/a	-
From 3 months to 1 year	563	n/a	-
From 1 to 5 years	7,644	n/a	-
From 5 years and later	69,998	n/a	-
Financial assets designated at FV through profit or loss by remaining time to maturity	**78,300**	**n/a**	**-**

(22) AVAILABLE-FOR-SALE FINANCIAL ASSETS

in €k	31/12/2017	31/12/2018	± in %
Debt securities and other fixed-interest securities	56,799	n/a	-
Shares and other non-interest bearing securities	45,268	n/a	-
Other investments	80,003	n/a	-
Available-for-sale financial assets	**182,069**	**n/a**	**-**

AVAILABLE-FOR-SALE FINANCIAL ASSETS BY REMAINING TIME TO MATURITY

in €k	31/12/2017	31/12/2018	± in %
Debt securities and other fixed-interest securities			
– Up to 3 months	905	n/a	-
– From 3 months to 1 year	2,060	n/a	-
– From 1 to 5 years	12,166	n/a	-
– From 5 years and later	41,668	n/a	-
Available-for-sale financial assets by remaining time to maturity	**56,799**	**n/a**	**-**

(23) HELD-TO-MATURITY FINANCIAL ASSETS

in €k	31/12/2017	31/12/2018	± in %
Debt securities and other fixed-interest securities	782,765	n/a	-
Held-to-maturity financial assets	**782,765**	**n/a**	**-**

HELD-TO-MATURITY FINANCIAL ASSETS BY REMAINING TIME TO MATURITY

in €k	31/12/2017	31/12/2018	± in %
Debt securities and other fixed-interest securities			
– Up to 3 months	33,781	n/a	-
– From 3 months to 1 year	21,005	n/a	-
– From 1 to 5 years	262,336	n/a	-
– From 5 years and later	465,643	n/a	-
Held-to-maturity financial assets	**782,765**	**n/a**	**-**

(24) DEBT SECURITIES AND OTHER FIXED-INTEREST SECURITIES

in €k	31/12/2017	31/12/2018	± in %
Financial assets measured at amortised cost	n/a	813,421	-
Financial assets measured at fair value through profit or loss (designated)	n/a	21,978	-
Financial assets measured at fair value OCI	n/a	68,977	-
Financial assets measured at fair value through profit or loss (mandatory)	n/a	45	-
Debt securities and other fixed-interest securities	**n/a**	**904,421**	**-**

DEBT SECURITIES AND OTHER FIXED-INTEREST SECURITIES BY REMAINING TIME TO MATURITY

in €k	31/12/2017	31/12/2018	± in %
– Up to 3 months	n/a	43,927	-
– From 3 months to 1 year	n/a	16,600	-
– From 1 to 5 years	n/a	315,356	-
– From 5 years and later	n/a	528,537	-
Debt securities and other fixed-interest securities by remaining time to maturity	**n/a**	**904,421**	**-**

(25) IMPAIRMENT CHARGES ON DEBT SECURITIES

in €k	Stage 1	Stage 2	Stage 3	2018
At the start of the reporting period	453	-	-	453
Additions due to new business	97	-	-	97
Change within stage	-218	-	-	-218
Reclassification from one stage to another:				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 2	-	-	-	-
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-	-	-	-
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-74	-	-	-74
At the end of the reporting period	**258**	**-**	**-**	**258**

Gross carrying amounts changed as follows in the reporting year 2018:

GROSS CARRYING AMOUNTS FOR DEBT SECURITIES

in €k	Stage 1	Stage 2	Stage 3	2018
At the start of the reporting period	782,765	-	-	782,765
Additions due to new business	91,629	-	-	91,629
Change within stage	-	-	-	-
Reclassification from one stage to another				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 2	-	-	-	-
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-	-	-	-
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-60,973	-	-	-60,973
At the end of the reporting period	**813,421**	**-**	**-**	**813,421**

(26) SHARES AND OTHER NON-INTEREST BEARING SECURITIES

in €k	31/12/2017	31/12/2018	± in %
Financial assets measured at fair value through profit or loss (mandatory)	n/a	45,780	-
Financial assets measured at fair value OCI	n/a	89,829	-
Shares and other non-interest bearing securities	**n/a**	**135,609**	**-**

BKS Bank Group’s investment fund assets are recognised in the measurement category At fair value through profit or loss (mandatory).

(27) INVESTMENTS IN ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

in €k	31/12/2017	31/12/2018	± in %
Oberbank AG	338,141	385,277	13.9
Bank für Tirol und Vorarlberg AG	180,492	214,391	18.8
Drei Banken Versicherungsagentur GmbH[1)]	1,721	-	-
Investments in entities accounted for using the equity method	**520,354**	**599,668**	**15.2**

[1)] The company was removed from consolidation at year-end 2018.

(28) INTANGIBLE ASSETS

in €k	31/12/2017	31/12/2018	± in %
Intangible assets	1,638	3,859	>100
Intangible assets	**1,638**	**3,859**	**>100**

(29) PROPERTY, PLANT AND EQUIPMENT

in €k	31/12/2017	31/12/2018	± in %
Property	8,368	8,024	-4.1
Buildings	38,912	37,647	-3.3
Other property, plant and equipment	7,894	7,665	-2.9
Property, plant and equipment	**55,174**	**53,336**	**-3.3**

(30) INVESTMENT PROPERTY

in €k	31/12/2017	31/12/2018	± in %
Property	8,407	8,422	0.2
Buildings	22,461	26,108	16.2
Investment property	**30,868**	**34,530**	**11.9**

At 31 December 2018, the fair values of our investment properties totalled EUR 56.3 million (pr. yr.: EUR 51.8 million). Rental income during the year under review was EUR 3.1 million (pr.yr: EUR 3.3 million). Expenses associated with achieving this rental income came to EUR 0.6 million (pr.yr.: EUR 0.5 million).

PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY 2018

in €k	Property, plant and equipment	Assets[1)]	Property[2)]	Total
Acquisition cost at 01/01/2018	**130,120**	**11,976**	**53,992**	**196,088**
Additions	9,566	3,315	7	12,888
Disposals	931	85	1,443	2,459
Exchange differences	-	-	-	-
Reclassification	-6,167	238	5,929	-
Acquisition cost at 31/12/2018	**132,588**	**15,444**	**58,485**	**206,517**
Accumulated depreciation/amortisation	79,252	11,585	23,955	114,792
Carrying amount at 31/12/2018	**53,336**	**3,859**	**34,530**	**91,725**
Carrying amount at 31/12/2017	55,174	1,638	30,868	87,680
Depreciation/amortisation in 2018	**4,705**	**1,354**	**1,044**	**7,103**

[1)] Intangible assets
[2)] Investment property

PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY 2017

in €k	Property, plant and equipment	Assets[1]	Property[2]	Total
Acquisition cost at 1 January 2017	**127,627**	**11,044**	**52,452**	**191,123**
Additions	5,303	930	628	6,861
Disposals	763	-	1,137	1,900
Exchange differences	2	2	-	4
Reclassification	-2,049	-	2,049	-
Acquisition 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] Intangible assets
[2] Investment property

(31) DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES 2018

in €k	31/12/2017	31/12/2018	Deferred taxes assets	Deferred tax liabilities
Receivables from customers	5,191	3,859	3,859	-
Impairment charges	5,425	2,300	2,300	-
Trading assets/trading liabilities	-4	-104	1,368	1,472
Available-for-sale financial assets	-9,064	n/a	n/a	n/a
Held-to-maturity financial assets	-228	n/a	n/a	n/a
Financial assets designated at fair value through profit or loss	-1,798	n/a	n/a	n/a
Debt securities and other fixed-interest securities	n/a	-967	-	967
Shares and other non-interest bearing securities	n/a	-8,474	-	8,474
Property, plant and equipment	-662	-660	-	660
Other assets and liabilities	254	601	601	-
Liabilities evidenced by paper	2,408	2,334	2,334	-
Provisions/social capital	6,417	7,682	7,682	-
Equity - issue	-192	-208	-	208
Tax assets (liabilities) before netting	**7,747**	**6,363**	**18,144**	**11,781**
Netting of taxes	-	-	-11,781	-11,781
Net deferred tax assets/tax liabilities	**-**	**-**	**6,363**	**-**

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES 2017

in €k	31/12/2016	31/12/2017	Deferred tax assets	Deferred tax liabilities
Receivables from customers	4,220	5,191	5,191	-
Impairment charges	10,172	5,425	5,425	-
Trading assets/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 at fair value through profit or loss	-2,232	-1,798	-	1,798
Property, plant 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 liabilities are netted pursuant to IAS 12.71.

Deferred tax assets were mainly the result of impairment charges recognised in accordance with IFRS 9, derivatives in the banking book with negative fair values, use of the fair value option for own 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 0.9 million (pr.yr.: EUR -0.1 million).

The projections for the coming three years shows that there will be sufficient taxable income to offset the deferred tax assets. There are no losses carried forward that will be subject to deferred tax assets.

Deferred tax liabilities were mainly attributable to the measurement of financial investments to fair value, the application of the effective interest rate method for securities measured at amortised cost, the positive fair value of securities designated under the fair value option, as well as derivatives in the banking book with positive fair values.

(32) OTHER ASSETS

in €k	31/12/2017	31/12/2018	± in %
Other items	20,826	19,037	-8.6
Deferred items	2,334	3,459	48.2
Other assets	**23,161**	**22,497**	**-2.9**

(33) PAYABLES TO OTHER BANKS

in €k	31/12/2017	31/12/2018	± in %
Payables to Austrian banks	571,672	732,544	28.1
Payables to foreign banks	123,314	103,945	-15.7
Payables to other banks	**694,986**	**836,489**	**20.4**

PAYABLES TO OTHER BANKS BY REMAINING TIME TO MATURITY

in €k	31/12/2017	31/12/2018	± in %
Due on demand	129,437	49,629	-61.7
Up to 3 months	56,793	193,273	>100
From 3 months to 1 year	193,985	247,551	27.6
From 1 year to 5 years	309,002	308,724	-0.1
From 5 years and later	5,769	37,312	>100
Payables to other banks by remaining time to maturity	**694,986**	**836,489**	**20.4**

(34) PAYABLES TO CUSTOMERS

in €k	31/12/2017	31/12/2018	± in %
Savings deposit balances	**1,475,137**	**1,429,395**	**-3.1**
– Corporate and business banking customers	189,578	178,506	-5.8
– Retail banking customers	1,285,559	1,250,889	-2.7
Other payables	**3,481,352**	**4,038,068**	**16.0**
– Corporate and business banking customers	2,594,792	2,940,119	13.3
– Retail banking customers	886,560	1,097,949	23.8
Payables to customers	**4,956,489**	**5,467,463**	**10.3**

PAYABLES TO CUSTOMERS BY REMAINING TIME TO MATURITY

in €k	31/12/2017	31/12/2018	± in %
Due on demand	3,051,479	3,959,195	29.7
Up to 3 months	538,818	298,621	-44.6
From 3 months to 1 year	1,044,294	560,116	-46.4
From 1 year to 5 years	304,557	606,757	99.2
From 5 years and later	17,342	42,774	>100
Payables to customers by remaining time to maturity	**4,956,489**	**5,467,463**	**10.3**

(35) LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2017	31/12/2018	± in %
Bonds issued	477,899	499,690	4.6
Other liabilities evidenced by paper	76,053	71,362	-6.2
Liabilities evidenced by paper	**553,952**	**571,052**	**3.1**

Liabilities evidenced by paper include bonds issued in an amount of EUR 80.0 million (pr.yr.: EUR 80.0 million) and other liabilities evidenced by paper of EUR 4.8 million (pr.yr.: EUR 4.7 million) that were measured at fair value (use of fair value option). The carrying amount of liabilities evidenced by paper measured at fair value is EUR 10.2 million(pr. yr.: EUR 10.6 million) above the repayment amount.

LIABILITIES EVIDENCED BY PAPER BY REMAINING TIME TO MATURITY

in €k	31/12/2017	31/12/2018	± in %
Up to 3 months	32,293	5,436	-83.2
from 3 months to 1 year	26,479	47,714	80.2
from 1 to 5 years	231,836	188,135	-18.8
from 5 years and over	263,345	329,767	25.2
Liabilities evidenced by paper by remaining time to maturity	**553,952**	**571,052**	**3.1**

(36) TRADING LIABILITIES

in €k	31/12/2017	31/12/2018	± in %
Negative fair values of derivative financial instruments	14,608	8,362	-42.8
– Currency contracts	9,272	2,369	-74.5
– Interest rate contracts	7	2	-70.2
– Fair value option	5,329	5,991	12.4
Trading liabilities	**14,608**	**8,362**	**-42.8**

(37) PROVISIONS

in €k	31/12/2017	31/12/2018	± in %
Provisions for post-employment benefits and similar obligations	69,693	72,702	4.3
Provisions for taxes (current taxes)	4,475	5,233	16.9
Provision for guarantees and credit facilities	n/a	1,384	-
Other provisions	49,463	55,166	11.5
Provisions	**123,631**	**134,485**	**8.8**

Provisions for post-employment benefits and similar obligations contain provisions for severance payments in the amount of EUR 25.4 million (pr.yr.: EUR 23.0 million), provisions for post-employment benefits in the amount of EUR 40.7 million (pr.yr.: EUR 41.6 million) and provisions for jubilee benefits in the amount of EUR 6.6 million (pr. yr.: EUR 5.1 million). Other provisions contain a provision in the amount of EUR 39.3 million (pr.yr.: EUR 33.9 million) resulting from the proportionate consolidation of ALGAR. The other material provisions included provisions for death benefits in the amount of EUR 4.2 million (pr.yr.: EUR 3.4 million) and provisions for remuneration in the amount of EUR 1.7 million (pr.yr.: EUR 1.6 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 termination benefits 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 right to two additional months' salary if it is the employer that gives notice. These additional monthly salaries are not covered by the contributions to the employee pension scheme.

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 commitments comprise old-age pensions, occupational disability pensions and widow(er)s' and orphans' pensions. In the 2000 financial year, the existing benefit commitments were transferred to VBV-Pensionkassen AG as the legal successor to BVP-Pensionskassen AG. BKS Bank's benefit obligations result from post-employment benefits already being paid to former employees or their surviving dependents and also from disability pension payments for still active employees.

ACTUARIAL ASSUMPTIONS

in %	2017	2018
Actuarial assumptions		
Interest rate	1.82%	2.01%
Salary trend of active employees	1.28%	2.76%
Pension dynamic	1.28%	2.10%
Career dynamic	0.25%	0.25%
Demographic assumptions		
Retirement age	65 years	65 years
Mortality table	AVÖ 2008	AVÖ 2018

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 .

CHANGES IN PROVISIONS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

in €k	31/12/2017	31/12/2018	± in %
Provisions as at 01/01	72,480	69,693	-3.8%
+ Interest expense	1,182	2,582	>100
+ Service cost	1,259	1,575	25.1%
- Payments during the reporting year	-4,717	-4,592	-2.6%
± Actuarial profit/loss[1]	-511	3,444	>100
Provisions as at 31/12	**69,693**	**72,702**	**4.3%**

[1] based on changed actuarial assumptions

DEVELOPMENT OF PROVISIONS

in €k	Total 31/12/2017	Post-employment benefits and similar obligations	Taxes and other	Total 2018	± in %
Provisions as at 01/01	126,902	69,693	53,938	123,631	-2.6
± Currency change	15	-1	-	-1	>-100
± Transfer	-	-	-	-	-
+ Additions	16,338	5,986	15,264	21,250	30.1
- Usage	-14,182	-1,183	-5,405	-6,588	-53.5
- Reversal	-5,442	-1,793	-2,014	-3,807	-30.0
Provisions as at 31/12	**123,631**	**72,702**	**61,783**	**134,485**	**8.8**

SENSITIVITY ANALYSIS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

Sensitivity analysis of DBO/present value of obligations in €k	Termination benefits 31/12/2017	Post-employment benefits 31/12/2017	Termination benefits 31/12/2018	Post-employment benefits 31/12/2018
Discount rate +1.0%	-2,434	-4,148	-2,936	-3,868
Discount rate -1.0%	1,016	5,076	1,131	4,666
Wage increase +0.5%	65	348	-12	174
Wage increase -0.5%	-1,660	-331	-2,018	-166
Pension increase +0.5%	-	1,841	-	1,846
Pension increase -0.5%	-	-1,715	-	-1,721
Increase in life expectancy by around 1 year	-	2,058	-	2,504

This sensitivity analysis shows the influence a change in the parameter for the major actuarial assumptions would have on the provisions for termination benefits and post-employment benefits as at 31 December 2018.

MATURITY ANALYSIS

Cash flows in €k	Termination benefits 31/12/2018	Post-employment benefits 31/12/2018
Expected payments in 2019	1,033	2,993
Expected payments in 2020	2,505	2,601
Expected payments 2021	1,844	2,265
Expected payments 2022	2,214	1,974
Expected payments 2023	1,914	1,721
Total expected payments 2019 to 2023	**9,510**	**11,555**
Weighted average maturity	8.54	10.85

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 2018 amounted to EUR 4.3 million (pr. yr.: EUR 4.7 million).

(38) OTHER LIABILITIES

in €k	31/12/2017	31/12/2018	± in %
Other liabilities	25,799	24,242	-6.0
Deferred items	4,743	2,458	-48.2
Other liabilities	**30,542**	**26,699**	**-12.6**

Other liabilities include, among other things, liabilities towards the tax authorities.

(39) SUBORDINATED DEBT CAPITAL

in €k	31/12/2017	31/12/2018	± in %
Supplementary capital	118,622	159,667	34.6
Hybrid capital	40,000	20,000	-50.0
Subordinated debt capital	**158,622**	**179,667**	**13.3**

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 176.9 (pr.yr.: EUR 156.0 million).

SUBORDINATED DEBT CAPITAL BY REMAINING TIME TO MATURITY

in €k	31/12/2017	31/12/2018	± in %
Up to 3 months	2,618	3,044	16.3
from 3 months to 1 year	20,000	20,000	-
from 1 to 5 years	73,351	73,375	-
from 5 years and over	62,653	83,248	32.9
Subordinated debt capital by remaining time to maturity	**158,622**	**179,667**	**13.3**

Supplementary capital notes in the amount of EUR 20.0 million will mature in 2019 (pr.yr.: EUR 0.0 million). In conformity with CRR Article 484, EUR 20.0 million in hybrid capital was counted towards consolidated own funds (pr. yr.: EUR 40.0 million). This does not constitute a component of shareholders' equity.

DETAILS ON SUBORDINATED DEBT CAPITAL (NOMINAL VALUES)

in €k	31/12/2017	31/12/2018	Full term
Variable Ergänzungskapital-Obligation 2006-2021/PP	2,350	2,350	15 years
Stufenzins-Ergänzungskapital-Obligation 2008-2020/4	15,000	15,000	12 years
7.35% hybrid bond of BKS Hybrid alpha GmbH 2008	20,000	-	-
Stufenzins-Ergänzungskapital Obligation 2010-2020/2	16,000	16,000	10 years
6% Hybrid bond of BKS Hybrid beta GmbH 2010	20,000	20,000	Unlimited
4 ¾% Ergänzungskapital-Obligation 2011-2019/3	20,000	20,000	8 years
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	20,000	20,000	8 years
3% Nachrangige Obligation 2017-2027/4	2,678	20,000	10 years
3.43% Nachrangige Obligation 2018-2028/3/PP	-	13,000	10 years
2 ¼% Nachrangige Obligation 2018-2026/3	-	10,533	8 years
Total subordinated capital	**156,028**	**176,883**	

Expenditure on subordinated obligations in the financial year came to EUR 8.4 million (pr.yr.: EUR 8.9 million).

(40) SHAREHOLDERS' EQUITY

in €k	31/12/2017	31/12/2018	± in %
Subscribed capital	79,279	85,886	8.3
– Share capital	79,279	85,886	8.3
Capital reserves	193,032	241,416	25.1
Retained earnings and other reserves	738,029	839,919	13.8
Additional equity instruments (AT 1 note)	36,200	43,500	20.2
Shareholders' equity before non-controlling interests	**1,046,540**	**1,210,721**	**15.7**
Non-controlling interests	-22	-25	13.6
Shareholders' equity	**1,046,518**	**1,210,696**	**15.7**

The share capital was represented by 41,142,900 (pr.yr.: EUR 37,839,600) ordinary no-par voting shares and 1,800,000 (pr.yr.: 1,800,000) non-voting no-par preference shares. Each share had a nominal value of EUR 2.0. Capital reserves contain premiums from the issuance of shares. Retained earnings and other reserves consists essentially of reinvested profits.

The capital increase carried out in the first quarter of 2018 raised the share capital of BKS Bank AG from EUR 79,279,200 to EUR 85,885,800. Based on the offer price of EUR 16.7 per new share, the gross proceeds of the capital increase were EUR 55.2 million. The transaction costs of EUR 0.2 million were deducted from equity. The new shares have full dividend rights for the current financial year 2018.

Additional equity instruments refer to the additional tier 1 bonds issued in 2015 (nominal amount EUR 23.4 million), 2017 (nominal amount EUR 12.8 million) and 2018 (nominal amount EUR 7.3 million), which are classified as equity under IAS 32. The liability reserve required by § 57 (5) Banking Act in the amount of EUR 83.3 million (pr.yr.: EUR 80.8 million) is contained in the item Retained earnings.

Non-controlling interests were of secondary importance in the BKS Bank Group's Statement of Changes in Equity (2018: EUR 24.5 thousand; pr.yr: EUR 21.6 thousand).

SHARES IN ISSUE 2018

Number of shares	Ordinary no-par shares	Preference no-par shares
As at 01/01/2018	**37,254,925**	**1,635,467**
Regular capital increase	3,303,300	-
Change in treasury shares	-89,997	-10,957
As at 31/12/2018	**40,468,228**	**1,624,510**
Treasury shares in the Group's portfolio	**674,672**	**175,490**
Shares issued	**41,142,900**	**1,800,000**

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 in the Group's portfolio	**584,675**	**164,533**
Shares issued	**37,839,600**	**1,800,000**

CAPITAL MANAGEMENT

(41) OWN FUNDS

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 (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 changed significantly when Basel III was implemented by CRD IV and CRR at the beginning of 2014 together with the amended Bankwesengesetz (BWG neu: new Austrian Banking Act). 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	31/12/2017	31/12/2018
Share capital	77.5	83.7
Reserves net of intangible assets	909.3	1,061.8
Deductions	-372.2	-551.8
Common equity tier 1 capital (CET1)[1)]	**614.5**	**593.7**
Common equity tier 1 ratio	12.3%	11.2%
Hybrid capital	20.0	8.0
AT1 note	36.2	43.5
Deductions	-42.9	-
Additional tier 1 capital	**13.3**	**51.5**
Tier 1 capital (CET1 + AT1)	**627.8**	**645.2**
Tier 1 capital ratio	12.5%	12.2%
Tier 2 capital	116.5	134.0
Deductions	-42.7	-
Total own funds	**701.6**	**779.2**
Total capital ratio	14.0%	14.8%
Total risk exposure amount	5,016.7	5,283.1

[1)] Includes profit for the year 2018. 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 2018, BKS Bank had to meet the following minimum requirements without a capital conservation buffer as a percentage of the total risk exposure amount: 5.7% for the common equity tier 1 capital, and 10.1% for the total capital ratio. The capital ratios recorded at the end of December 2018 were markedly above these requirements.

RISK REPORT

The quantitative information to be included in this report pursuant to IFRS 7.31 to 7.42 is based on the internal reporting for overall bank risk management.

(42) CREDIT RISK

(42.1) CREDIT RISK ACCORDING TO ICAAP

in €k	31/12/2017	31/12/2018
Receivables from customers	5,990,445	6,454,514
Promised credit lines[1)]	166,745	158,822
Receivables from banks	109,754	190,037
Securities and funds	817,086	887,814
Equity investments	600,357	685,307
Exposure volume	7,684,387	8,376,493

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

(42.2) RECONCILIATION OF IFRS POSITIONS TO INTERNAL CREDIT RISK POSITIONS

in €k	31/12/2017	31/12/2018
Consolidated receivables from customers pursuant to note (18.1)	5,450,151	6,025,858
+ Loans measured at fair value through profit or loss pursuant to note (21)	55,805	-
+ Contingent liabilities pursuant to note (60)	387,344	428,023
+ Corporate bonds	90,240	66,577
+ Exposure from derivative contracts with customers/other	6,905	13,036
- Receivables from customers as per note (60) with guarantee by main bank	n/a	-78,981
Receivables from customers according to internal risk management	5,990,445	6,454,514
Other exposures as per note (60)	1,377,699	1,337,235
Promised credit lines based on internally calculated withdrawal patterns	166,745	158,822
Receivables from other banks as per note (16)	97,711	177,248
+ Exposure from derivative contracts with other banks	12,043	12,789
Receivables from other banks according to internal risk management	**109,754**	**190,037**
Held-to-maturity financial assets as per note (23)	782,765	n/a
+ Debt securities and other and fixed-interest securities as per note (24)	n/a	904,421
+ Debt securities and other fixed-interest securities measured at fair value through profit or loss as per note (21)	22,495	n/a
+ Debt securities and other and fixed-interest securities classified as available for sale as per note (22)	56,799	n/a
+ Shares and other non-interest bearing securities as per note (22)	45,268	n/a
- Corporate bonds/other (reclassification to other customer receivables)	-90,240	-66,577
+ Investment funds under shares and other non-interest bearing securities as per note (26)	n/a	45,780
+ Shares and other non-interest bearing securities as per note (26)	n/a	4,190
Securities and funds according to internal risk management figures	**817,086**	**887,814**
Investments from Shares and other non-interest bearing securities as per note (26)	n/a	85,639
Other equity investments as per note (22)	80,003	n/a
+ Investments in entities accounted for using the equity method as per note (27)	520,354	599,668
Investments according to internal risk management	**600,357**	**685,307**
Credit risk according to ICAAP	**7,683,942**	**8,376,493**

Pursuant to IFRS 7.31 to 7.42, receivables under IFRS were reconciled with the credit risk exposure pursuant to the internal risk management rules.

Credit ratings in credit risk

A major element of the risk assessment process is our comprehensive rating system, which serves as the basis for risk management within the BKS Bank Group. The bank's internal rating models are validated every year.

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

(42.3) LOAN QUALITY BY CLASS OF RECEIVABLE 2018

Risk position by rating in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating
Receivables from customers	51,945	1,692,770	2,031,945	2,082,867	372,246	221,890	850
Promised credit lines	7,058	54,424	59,944	30,569	4,751	2,068	9
Receivables from banks	99,264	60,997	22,318	7,457	1	-	-
Securities and funds	762,805	103,579	16,525	-	-	-	4,904
Equity investments	663,800	11,373	6,804	281	45	-	3,005
Total	**1,584,873**	**1,923,142**	**2,137,536**	**2,121,174**	**377,042**	**223,959**	**8,768**

LOAN QUALITY BY CLASS OF RECEIVABLE 2017

Risk position by rating in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating
Receivables from customers	43,941	1,549,548	1,858,223	1,815,886	433,327	288,320	1,200
Promised credit lines	2,265	51,625	65,674	39,446	3,706	4,024	5
Receivables from banks	46,637	26,238	29,963	6,891	-	-	25
Securities and funds	708,921	62,229	37,316	-	-	-	8,620
Equity investments	580,865	9,533	6,628	943	80	-	2,307
Total	**1,382,630**	**1,699,174**	**1,997,804**	**1,863,166**	**437,114**	**292,343**	**12,157**

Credit quality improved again substantially in the reporting year, a fact that is reflected by the declining exposure in the rating classes 4a to 4b and in the non-performing classes 5a to 5c.

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

– A new impairment charge (specific impairment allowance)
– 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 credit rating
– Debtor's insolvency
– Loan irrecoverable for other reasons

At year-end, the non-performing loan ratio was 2.5% (2017: 3.5%). 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, credit lines promised, loans to banks and fixed-interest securities. The loss potential of non-performing loans is represented by the coverage ratio. Coverage ratio I is the relation between risk provisions to the total risk position and was 38.3% on 31 December 2018 (2017: 34.7%). Additionally, we use coverage ratio III which also includes internal collateral in the calculation, as an internal management measure. The cover ratio was 85.5% at year-end (2017: 79.9%).

(42.4) EXPOSURES CLASSIFIED AS FORBORNE 2018

in €k	Corporate and business banking customers	Retail banking customers	Total
Performing exposures	31,822	1,126	**32,948**
– of which with concessions regarding instalments	22,494	764	**23,258**
– of which rescheduled	9,328	362	**9,690**
Non-performing exposures	52,522	2,526	**55,048**
– of which with concessions regarding instalments	51,913	2,344	**54,257**
– of which rescheduled	609	182	**791**
Total	**84,344**	**3,652**	**87,996**

EXPOSURES CLASSIFIED AS FORBORNE 2017

in €k	Corporate and business banking customers	Retail banking customers	Total
Performing exposures	40,356	915	**41,271**
– of which with concessions regarding instalments	37,832	710	**38,542**
– of which rescheduled	2,524	205	**2,729**
Non-performing exposures	68,266	3,815	**72,081**
– of which with concessions regarding instalments	67,152	3,276	**70,428**
– of which rescheduled	1,114	539	**1,653**
Total	**108,622**	**4,730**	**113,352**

The concept of 'forbearance' plays an important role in the management of problematic exposures. This term covers all agreements that must be redrafted, because a borrower has fallen into financial difficulties. Financial difficulties are deemed given if repayment from cash flows can 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
– Making concessions compared with the loan instalments that had originally been agreed
– Making concessions regarding the terms and conditions of the loan
– Completely reconfiguring the loan (restructuring)

(42.5) IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS 2018

Carrying amount/max. default risk per class in €k	FI[1] that are neither past due nor impaired	Past due FI[1]	Impaired FI[1]	Overdue, but not yet impaired FI[1]
Receivables from customers	6,232,413	222,101	190,511	31,590
– thereof at fair value through profit or loss (designated)	85,287	-	-	-
– thereof at fair value through profit or loss (mandatory)	54,750	-	-	-
Promised credit lines	156,786	2,036	-	2,036
Receivables from banks	190,037	-	-	-
Securities and funds	887,814	-	-	-
– of which, debt securities at fair value through profit or loss (designated)	21,978	-	-	-
– of which funds at fair value through profit or loss (mandatory)	45,780	-	-	-
– of which equity shares at fair value OCI	4,190	-	-	-
Equity investments	685,307	-	-[2]	-
– of which, equity investments at fair value OCI	85,639	-	-	-
– of which, shares in entities accounted for using the equity method	599,668	-	-	-
Total	**8,152,357**	**224,137**	**190,511**	**33,626**

[1] Financial instruments
[2] The impaired investments from the year 2017 are measured at fair value OCI from 2018 onward.

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS 2017

Carrying amount/max. default risk per class in €k	FI[1] that are neither past due nor impaired	Past due FI[1]	Impaired FI[1]	Overdue, but not yet impaired FI[1]
Receivables from customers	5,702,125	288,320	238,189	50,131
– of which, at fair value through profit or loss (designated)	55,805	-	-	-
– of which, at fair value through profit or loss (mandatory)	n/a	n/a	n/a	n/a
Promised credit lines	162,721	4,024	-	4,024
Receivables from banks	109,754	-	-	-
Securities and funds	817,086	-	-	-
– of which, debt securities at fair value through profit or loss (designated)	22,495	-	-	-
– of which funds at fair value through profit or loss (mandatory)	n/a	n/a	n/a	n/a
– of which equity shares at fair value OCI	n/a	n/a	n/a	n/a
Equity investments	600,357	-	10,123	-
– of which, equity investments at fair value OCI	n/a	n/a	n/a	n/a
– of which, shares in entities accounted for using the equity method	520,354	-	-	-
Total	**7,392,043**	**292,344**	**248,312**	**54,155**

[1] Financial instruments

BKS Bank does not use credit derivatives to hedge default risks. The relevant figures presented in the sub-portfolios are not subject to impairment pursuant to IFRS 9.

(46.6) OVERDUE, NOT YET IMPAIRED RECEIVABLES FROM CUSTOMERS BY DEFAULT DATE 2018

Rating class in €k	< 1 month	1 to 6 months	6 months to 1 year	1 year to 5 years	> 5 years
5a	383	991	1,377	7,806	6,821
5b	438	2,637	521	3,494	7,121
5c	-	-	-	-	1
Total	**820**	**3,628**	**1,898**	**11,300**	**13,943**

OVERDUE, NOT YET IMPAIRED RECEIVABLES FROM CUSTOMERS BY DEFAULT DATE 2017

Rating class in €k	< 1 month	1 to 6 months	6 months to 1 year	1 year to 5 years	> 5 years
5a	523	629	767	23,764	8,998
5b	8	1,870	2,193	6,144	5,598
5c	-	-	-	1	-
Total	**530**	**2,498**	**2,960**	**29,909**	**14,596**

(42.7) SPECIFIC IMPAIRMENT ALLOWANCES BY CUSTOMER GROUP 2018

in €k	Carrying amount default[1]	Specific impairment allowance	Collateral
Corporate and business banking customers	203,143	76,618	81,533
Retail banking customers	18,958	8,827	6,236
Total	**222,101**	**85,445**	**87,769**

[1] Carrying amount of impaired receivables

SPECIFIC IMPAIRMENT ALLOWANCES BY CUSTOMER GROUP 2017

in €k	Carrying amount default[1]	Specific impairment allowance	Collateral
Corporate and business banking customers	265,337	89,605	126,514
Retail banking customers	22,982	10,518	11,578
Total	**288,319**	**100,123**	**138,092**

[1] Carrying amount of impaired receivables

The risks identifiable at the time the financial statements are prepared are taken into account by recognising specific impairment allowances, specific impairment allowances applying group-specific criteria, and by recognising the corresponding provisions pursuant to 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.

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

(42.8) CARRYING AMOUNTS BY RATING CLASS AND STAGES / OFF-BALANCE

	Carrying amounts				Provisions			
in €k	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
AA	866	-	-	866	-	-	-	-
A1	31	-	-	31	-	-	-	-
1a	442,478	382	-	442,860	42	18	-	60
1b	466,731	847	-	467,578	51	9	-	60
2a	154,541	57,561	-	212,102	74	75	-	149
2b	217,105	113,638	-	330,743	104	51	-	155
3a	170,611	58,041	-	228,652	126	265	-	391
3b	76,186	56,091	-	132,277	104	204	-	308
4a	10,631	29,965	-	40,596	29	99	-	128
4b	6,210	14,923	-	21,133	21	111	-	132
5a - 5c	-	-	-	-	-	-	-	-
OR	225	5	-	230	1	-	-	1
Total	**1,545,615**	**331,453**	**-**	**1,877,068**	**553**	**832**	**-**	**1,384**

CARRYING AMOUNTS BY RATING CLASS AND STAGE / ON-BALANCE

	Carrying amounts				Impairment allowances			
in €k	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
AA	1,085,622	-	-	1,085,622	109	-	-	109
A1	113,627	-	-	113,627	33	-	-	33
1a	863,319	43,741	-	907,060	191	327	-	518
1b	758,086	28,920	-	787,006	398	324	-	722
2a	881,082	38,380	-	919,462	1,020	554	-	1,574
2b	927,352	48,162	-	975,513	1,266	846	-	2,112
3a	944,590	146,446	-	1,091,036	2,119	2,879	-	4,998
3b	593,121	266,565	-	859,686	2,109	3,915	-	6,024
4a	110,674	119,573	-	230,248	520	3,036	-	3,556
4b	56,240	64,986	-	121,226	1,059	1,886	-	2,945
5a - 5c	-	-	221,890	221,890	-	-	85,445	85,445
OR	7,754	10	-	7,764	422	-	-	422
Total	**6,341,467**	**756,783**	**221,890**	**7,320,140**	**9,246**	**13,767**	**85,445**	**108,458**

(42.9) LOAN COLLATERAL 2018[1)]

in €k	Credit exposure /max. default risk	Collateral in total	of which financial collateral	of which personal collateral	of which real estate collateral	of which other	Risk position[2)]
Receivables from customers	6,454,514	3,888,276	132,527	132,665	2,862,044	761,040	2,566,238
– of which, at fair value through profit or loss (designated)	85,287	39,050	-	24,304	14,746	-	46,237
– of which, at fair value through profit or loss (mandatory)	54,750	46,888	672	10	40,848	5,359	7,862
Promised credit lines	158,822	-	-	-	-	-	158,822
Receivables from banks	190,037	-	-	-	-	-	190,037
Securities and funds	887,814	92,674	-	34,941	-	57,733	795,140
– of which, debt securities at fair value through profit or loss (designated)	21,978	-	-	-	-	-	21,978
– of which funds at fair value through profit or loss (mandatory)	45,780	-	-	-	-	-	45,780
– of which equity shares at fair value OCI	4,190	-	-	-	-	-	4,190
Equity investments	685,307	-	-	-	-	-	685,307
– of which, equity investments at fair value OCI	85,639	-	-	-	-	-	85,639
– of which, investments in entities acc. for using the equity method	599,668	-	-	-	-	-	599,668
Total	**8,376,493**	**3,980,950**	**132,527**	**167,606**	**2,862,044**	**818,773**	**4,395,543**

1) Lending value of the loan collateral measured in accordance with internal rules
2) Exposure less collateral

LOAN COLLATERAL 2017[1)]

in €k	Credit exposure /max. default risk	Collateral in total	of which financial Collateral	of which personal Collateral	of which Real estate collateral	of which other	Risk position[2)]
Receivables from customers	5,990,445	3,621,585	157,613	122,937	2,648,387	692,647	2,368,860
Promised credit lines	166,745	-	-	-	-	-	166,745
Receivables from banks	109,754	-	-	-	-	-	109,754
Securities and funds	817,086	76,535	-	44,941	-	31,594[3)]	740,551
Equity investments	600,357	-	-	-	-	-	600,357
Total	**7,684,387**	**3,698,120**	**157,613**	**167,878**	**2,648,387**	**724,241**	**3,986,267**

1) Lending value of the loan collateral measured in accordance with internal rules
2) Exposure less collateral
3) Covered bonds backed by the risk cover assets

(42.10) SIZE DISTRIBUTION OF RECEIVABLES FROM CUSTOMERS

Receivables from customers by size Basis: IFRS values	2017 in €k	Proportion, %	2018 Exposure	Proportion, %
< EUR 0.15 million	860,968	14.4	920,634	14.3
EUR 0.15 m to EUR 0.5 m	845,749	14.1	925,663	14.3
EUR 0.5 m to EUR 1.0 m	368,638	6.2	408,940	6.3
EUR 1.0 m to EUR 3.0 m	695,327	11.6	758,988	11.8
EUR 3.0 m to EUR 14.0 m	1,850,320	30.9	1,893,504	29.3
EUR 14 m to EUR 20 m	508,799	8.5	472,987	7.3
> EUR 20 m	860,643	14.4	1,073,797	16.6
Total	**5,990,445**	**100.0**	**6,454,514**	**100.0**

(42) RECEIVABLES FROM CUSTOMERS BY ECONOMIC ACTIVITY

Economic activity classification in conformity with ÖNACE (Statistik Austria)	2017 in €k	in %	2018 in €k	in %
Private households	1,107,347	18.5	1,170,307	18.1
Real estate activities	977,652	16.3	1,056,818	16.4
Construction	834,271	13.9	879,749	13.6
Manufacturing	716,678	12.0	742,159	11.5
Wholesale and retail trade; repair of motor vehicles and motorcycles	456,023	7.6	555,120	8.6
Financial and insurance activities	316,872	5.3	354,868	5.5
Professional, scientific and technical activities	289,274	4.8	353,205	5.5
Transport and storage	230,410	3.8	250,204	3.9
Accommodation and food service activities	195,019	3.3	203,428	3.2
Human health and social work activities	175,654	2.9	174,010	2.7
Administrative and support service activities	158,897	2.7	149,760	2.3
Public administration and defence; compulsory social security	147,896	2.5	148,000	2.3
Electricity, gas, steam and air conditioning supply	86,291	1.4	78,648	1.2
Agriculture and forestry, fishery	68,556	1.1	101,737	1.6
Mining and quarrying	58,569	1.0	55,139	0.9
Other service activities	57,101	1.0	46,134	0.7
Information and communication	44,781	0.7	55,729	0.9
Water supply; sewerage, waste management and remediation activities	33,732	0.6	35,671	0.6
The arts, entertainment and recreation	25,281	0.4	26,893	0.4
Education	10,140	0.2	16,937	0.3
Total	**5,990,445**	**100.0**	**6,454,514**	**100.0**

(42.12) RECEIVABLES FROM CUSTOMERS IN FOREIGN CURRENCIES BY COUNTRY AND CURRENCY 2018

in €k	EUR[1]	CHF	USD	JPY	Total
Austria	-	124,802	9,943	1,949	136,694
Slovenia	-	5,085	-	-	5,085
Croatia	426,158	289	-	-	426,447
Hungary	20,445	-	-	802	21,247
Switzerland	26,996	223	-	-	27,219
Other	24,398	2,148	1	-	26,547
Total	**497,997**	**132,546**	**9,943**	**2,751**	**643,238**

[1] EUR loans to customers from non-euro states

RECEIVABLES FROM CUSTOMERS IN FOREIGN CURRENCIES BY COUNTRY AND CURRENCY 2017

in €k	EUR[1]	CHF	USD	JPY	Total
Austria	-	147,744	12,187	1,914	161,845
Slovenia	-	5,973	-	-	5,973
Croatia	367,043	270	-	-	367,313
Hungary	20,578	-	-	873	21,451
Switzerland	26,760	1,601	-	-	28,361
Other	12,479	3,053	-	-	15,532
Total	**426,860**	**158,641**	**12,187**	**2,787**	**600,475**

[1] EUR loans to customers from non-euro states

(42.13) RECEIVABLES FROM CUSTOMERS BY COUNTRY 2018

in €k		Past due[2]	Specific impairment allowance[3]	Collateral for past due receivables
Austria	4,707,725	126,777	49,837	59,854
Slovenia	792,919	49,770	13,290	28,257
Croatia	505,689	24,763	12,090	15,938
Hungary	193,694	5,424	3,686	1,518
Slovak Republic	158,318	13,369	6,011	6,418
Italy	21,175	1,922	530	1,371
Germany	12,639	75	1	74
Other	62,355	1	-	-
Total	**6,454,514**	**222,101**	**85,445**	**113,430**

[1] Risk volume acc. to internal risk management
[2] Past due acc. to BKS Bank's definition of default
[3] Stage 3 Impairment charges on receivables from customers

In the case of financial instruments recognised in the default classes (ratings 5a, 5b or 5c), no impairment allowance is recognised for the portion backed by collateral.

RECEIVABLES FROM CUSTOMERS BY COUNTRY 2017

in €k		Past due[2]	Specific impairment allowance	Collateral for past due receivables
Austria	4,453,092	178,110	55,067	81,617
Slovenia	741,171	58,349	18,302	31,500
Croatia	412,718	24,351	11,577	14,672
Hungary	21,363	6,616	4,476	1,841
Slovak Republic	104,518	13,126	5,221	6,057
Italy	17,208	6,323	4,678	1,147
Germany	190,129	1,273	168	1,086
Other	50,246	171	634	172
Total	**5,990,445**	**288,319**	**100,123**	**138,092**

[1] Risk volume acc. to ICAAP
[2] Past due acc. to BKS Bank's definition of default

(42.14) SECURITIES AND FUNDS BY DOMICILE OF ISSUER

in €k Regions	At amortised cost 2017	At amortised cost 2018	Carrying amount purs. to IFRS[1] 2017	Carrying amount purs. to IFRS[1] 2018
Austria	380,301	411,608	384,929	411,021
Germany	82,894	93,551	82,921	93,432
Belgium	25,692	34,727	25,980	35,041
Finland	15,137	15,137	15,172	15,158
France	42,302	41,073	42,419	41,194
Ireland	26,085	26,085	26,419	26,411
Italy	15,087	-	15,272	-
Croatia	5,100	5,100	5,212	5,200
Lithuania	3,052	3,052	3,051	3,043
Luxembourg	109,433	114,432	113,557	116,631
Netherlands	14,946	14,946	14,986	14,991
Norway	5,022	24,829	5,019	24,982
Poland	4,975	10,057	5,073	10,180
Portugal	10,141	10,141	10,213	10,199
Slovak Republic	24,782	24,782	25,262	25,285
Slovenia	9,812	9,812	9,943	9,941
Spain	19,829	19,829	20,009	20,020
Sweden	11,608	20,000	11,648	20,062
USA	-	-	-	-
Total	**806,197**	**879,162**	**817,086**	**882,793**

[1] Including accrued interest

There were no impairments on positions in the securities and fund portfolio in the years 2017 and 2018.

(43) INVESTMENT RISK

EQUITY INVESTMENTS

in €k	31/12/2017	31/12/2018
Listed banks	518,633	599,668
Unlisted banks	18,333	15,762
Other unlisted equity investments	63,500	69,877
Total	**600,466**	**685,307**

(44) INTEREST RATE RISK

(44.1) REGULATORY INTEREST RATE RISK IN % OF OWN FUNDS

Currency	31/12/2017	31/12/2018
EUR	4.34	3.43
CHF	-	0.02
USD	0.06	-
JPY	-	-
Other	0.01	0.03
Total	**4.41**	**3.48**

(44.2) CHANGES IN PRESENT VALUE WHEN THE INTEREST RATE SHIFTS BY 200 BASIS POINTS

in €k	31/12/2017	31/12/2018
EUR	28,681	26,690
CHF	5	160
USD	400	13
JPY	9	4
Other	86	216
Total	**29,181**	**27,084**

(44.3) INTEREST RATE GAPS (EUR AND FX)

in €k	31/12/2017	31/12/2018
< 1 month	122,949	-102,962
1 to 3 months	633,277	552,123
3 to 6 months	372,671	781,369
6 to 12 months	-1,013,078	-883,985
1 to 2 years	-116,198	-559,952
2 to 3 years	-471,762	-461,205
3 to 4 years	55,807	156,824
4 to 5 years	179,711	128,624
> 5 years	383,000	425,000

Positive values for interest rate gaps represent a surplus on the assets side, negative values a surplus on the liabilities side, with respect to interest rate adjustments in the relevant maturity bands.

(44.4) VALUE-AT-RISK FIGURES INTEREST RATE RISK[1)]

in €k	2017	2018
Minimum values	6,801	21,746
Maximum values	27,982	24,944
Average values	15,915	23,136
Values at year-end	**27,982**	**24,944**

[1)] incl. credit spread risks

Value-at-risk with respect to interest rate risk is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

(45) EQUITY PRICE RISK

VALUE-AT-RISK FIGURES - EQUITY PRICE RISK

in €k	2017	2018
Minimum values	991	1,366
Maximum values	1,169	1,708
Average values	1,098	1,523
Values at year-end	**1,169**	**1,366**

Value-at-risk with respect to equity price risk is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

(46) RISKS FROM FOREIGN CURRENCY POSITIONS

VALUE-AT-RISK FIGURES - FOREIGN CURRENCY PRICE RISK

in €k	2017	2018
Minimum values	599	581
Maximum values	665	699
Average values	628	640
Values at year-end	**599**	**673**

Value-at-risk with respect to foreign currency positions is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

(46.1) EXCHANGE RATE RISK (OPEN FX POSITIONS)

in €k	31/12/2017	31/12/2018
HRK	-2,881	-2,901
USD	-780	-4
GBP	383	80
JPY	-	-16
CHF	-1,566	2,134

(47) LIQUIDITY RISK

(47.1) COLLATERAL ELIGIBLE FOR REFINANCING

in €k	31/12/2017	31/12/2018
Securities deposited with OeNB	688,084	763,667
Securities deposited with Clearstream	63,357	47,372
Securities deposited with Euroclear	60,694	60,753
Credit claims ceded to OeNB	384,695	302,531
Credit claims ceded to the Slovenian national bank	9,551	3,077
Total collateral eligible with the ECB	**1,206,381**	**1,177,400**
Minus OeNB tender block	-300,000	-296,943
Minus EUREX repo	-3,121	-3,225
Total available ESCB-eligible collateral	**903,260**	**877,232**
Cash and cash equivalents	84,924	85,619
Credit balance with OeNB	333,649	426,223
Liquidity buffer	**1,321,833**	**1,389,074**
Other securities	46,993	51,989
Counterbalancing capacity	**1,368,826**	**1,441,063**

(47.2) DEVELOPMENT OF FUNDING STRUCTURES

in €k	31/12/2017	31/12/2018
Savings deposits	1,475,137	1,429,395
Other **payables**	3,481,351	4,038,068
Liabilities evidenced by paper	553,952	571,052
Subordinated debt capital	158,622	179,667
Payables to other banks	694,986	836,489

(47.3) DERIVATIVE AND NON-DERIVATIVE LIABILITIES 2018 (CASH FLOW BASIS)

in €k	Carrying amounts	Contractual cash flows[1]	< 1 month	1 month to 1 year	1 to 5 years	> 5 years
Non-derivative liabilities	**7,054,671**	**7,363,611**	**899,449**	**2,489,679**	**1,163,156**	**2,811,328**
– Deposits from banks	836,489	853,971	190,246	310,648	313,405	39,672
– Deposits from customers	5,467,462	5,658,626	707,376	2,094,315	522,880	2,334,055
– Liabilities evidenced by paper	571,052	641,768	1,826	57,254	236,111	346,577
– Subordinated liabilities	179,667	209,245	-	27,461	90,760	91,023
Derivative liabilities	**7,871**	**2,007**	**143**	**1,273**	**579**	**12**
– Derivatives in the banking book	7,871	2,007	143	1,273	579	12
Total	**7,062,542**	**7,365,618**	**899,592**	**2,490,952**	**1,163,734**	**2,811,340**

[1] Not discounted

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

in €k	Carrying amounts	Contractual cash flows[1]	< 1 month	1 month to 1 year	1 to 5 years	> 5 years
Non-derivative liabilities	**6,364,049**	**6,662,401**	**751,010**	**2,811,506**	**683,470**	**2,416,416**
– Deposits from banks	694,986	692,595	110,950	565,349	10,027	6,269
– Deposits from customers	4,956,489	5,165,963	638,234	2,154,819	318,523	2,054,387
– Liabilities evidenced by paper	553,952	618,715	1,826	63,586	265,123	288,180
– Subordinated liabilities	158,622	185,128	-	27,751	89,797	67,580
Derivative liabilities	**14,273**	**8,008**	**358**	**7,650**	**-**	**-**
– Derivatives in the banking book	14,273	8,008	358	7,650	-	-
Total	**6,378,322**	**6,670,410**	**751,368**	**2,819,156**	**683,470**	**2,416,416**

[1] Not discounted

(48) OPERATIONAL RISK AND ICT RISKS BY EVENT CATEGORY

in €k	31/12/2017	31/12/2018
Fraud	17	60
Employment practices and workplace safety	22	47
Customers, products, business practices	2,354	1,576
Property damage	11	9
System failures	14	33
Settlement, sales and process management	203	142

ADDITIONAL NOTES

(49) FAIR VALUES

Financial assets and liabilities measured at fair value

31/12/2018

in €k	LEVEL 1 Market value	LEVEL 2 Based on market data	LEVEL 3 Internal measurement method	Total fair value
Assets				
Receivables from customers				
– at fair value through profit or loss (mandatory)	-	-	54,750	54,750
– at fair value through profit or loss (designated)	-	-	85,287	85,287
Trading assets (derivatives)	-	8,045	-	8,045
Debt securities and other fixed-interest securities				
– at fair value through profit or loss (mandatory)	45	-	-	45
– at fair value through profit or loss (designated)	21,978	-	-	21,978
– at fair value OCI	68,977	-	-	68,977
Shares and other non-interest bearing securities				
– at fair value through profit or loss (mandatory)	45,780	-	-	45,780
– at fair value OCI	4,191	3,665	81,973	89,829
Equity and liabilities				
Liabilities evidenced by paper	-	-	84,744	84,744
Trading liabilities	-	8,362	-	8,362

Due to changes in the measurement method, investments measured at fair value through OCI in an amount of EUR 50.3 million were reclassified from level 1 to level 3.

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	-	9,837	-	9,837
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
Equity and liabilities				
Liabilities evidenced by paper	-	-	84,688	84,688
Trading liabilities	-	14,608	-	14,608

[1] FA = financial assets

The values shown under level 3 in the available-for-sale portfolio refer to investments recognised at fair value in an amount of EUR 22.0 million. In addition, this item includes other entities not included in the scope of consolidation with a carrying amount of EUR 7.2 million, of which EUR 5.7 million are measured at fair value. No fair value measurement was applied to non-material minority investments.

LEVEL 3: MOVEMENTS IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

in €k	Receivables from customers - at fair value through profit or loss (designated)	Receivables from customers - at fair value through profit or loss (mandatory)	Shares and other non-interest bearing securities at fair value through OCI	Liabilities evidenced by paper at fair value through profit or loss
As at 1 January 2018	55,805	48,138	29,662	84,688
Income statement[1)]	-1,515	181	-	56
Reclassification	-	-	50,309	-
Other comprehensive income	-	-	-1,788	-
Purchased/added	35,391	15,821	4,115	-
Sold/redeemed	-4,394	-9,390	-325	-
As at 31/12/2018	**85,287**	**54,750**	**81,973**	**84,744**

[1)] Measurement changes in profit/loss; reported in item profit/loss from financial instruments designated at fair value through profit/loss and in the item profit/loss from financial assets measured at fair value through profit/loss (mandatory).

LEVEL 3: MOVEMENTS IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE 2017

in €k	Financial assets designated at fair value through profit or loss	Liabilities evidenced by paper thereof at fair value through profit or loss	Available-for-sale financial assets
As at 01/01/2017	52,675	85,130	12,992
Income statement[1)]	-1,439	-442	-
Other comprehensive income	-	-	12,518
Reclassified to level 2	-	-	-3,477
Purchased/added	16,700	-	-
Sold/redeemed	-12,131	-	-
As at 31/12/2017	**55,805**	**84,688**	**22,033**

[1)] Measurement changes in profit/loss; reported in item profit/loss on financial instruments designated at fair value through profit/loss

Measurement principles and classification

The fair values shown in the category Level 1 'Market values' were determined using prices quoted on active markets (stock exchange).

If market values were unavailable, fair value is 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 are ascertained on the basis of market data that are observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). As a rule, items in the category 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. As a rule, 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 the category 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 measured 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 time 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 time to maturity. In the 2018 reporting year, the changes in the ratings of the receivables from customers measured at fair value had an effect on the fair value of EUR -1.1 million (pr.yr.: EUR 0.0 million). In the 2018 reporting year, the changes to BKS Bank's rating had an effect on the fair value of the liabilities evidenced by paper in the amount of EUR 0.1 million (31/12/2017: EUR 0.3 million).

Sensitivity analysis
The sensitivity analysis of receivables from customers measured at fair value results in an accumulated change in value of EUR 0.5 million (previous year: EUR 0.2 million), assuming an improvement or deterioration in the 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 -0.4 million (pr.yr.: EUR -0.8 million).

For level 3 equity instruments in an amount of EUR 18.9 million, the material non-observable parameter is the interest rate. An interest rate increase by 50 basis points reduces the fair value by EUR 1.2 million. An interest rate decrease by 50 basis points raises the fair value by EUR 1.4 million. For level 3 equity instruments in an amount of EUR 52.4 million, the material, non-observable parameters are prices. A change in the price by 10% changes the fair value by EUR 3.6 million. For level 3 equity instruments in an amount of EUR 9.2 million, the material non-observable parameter is the carrying amount of equity. The remainder refers to immaterial minority investments for which no fair value measurement was applied.

FINANCIAL ASSETS AND LIABILITIES NOT RECOGNISED AT FAIR VALUE 31/12/2018

in €k	LEVEL 1 Market value	LEVEL 2 Based on market data	LEVEL 3 Internal measurement method	Total fair value	Carrying amount 31/12/2018
Assets					
Receivables from other banks[1]	-	-	177,116	177,116	176,926
Receivables from customers[1]	-	-	5,850,304	5,850,304	5,777,942
Debt securities and other fixed-interest securities	861,721	-	-	861,721	813,421
Equity and liabilities					
Payables to other banks	-	-	833,011	833,011	836,489
Payables to customers	-	-	5,467,571	5,467,571	5,467,463
Liabilities evidenced by paper	169,344	251,349	79,874	500,566	486,308
Subordinated debt capital	167,178	13,354	2,340	182,872	179,667

[1] reduced by spec. impair. allow./ECL

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

(50) FINANCIAL INVESTMENTS IN EQUITY INSTRUMENTS

With respect to equity instruments reported as available for sale pursuant to IAS 39, measurement is at fair value through other comprehensive income (FV OCI) under IFRS 9, because the fair value OCI option was selected. Apart from a minor number of shares with a carrying amount on the balance sheet date of EUR 4.2 million, these refer mainly to other equity investments and to shares in subsidiaries that were not consolidated due to immateriality.

The fair value OCI option was selected because these equity instruments represent financial investments held with the intention of a long-term holding period.

The proceeds from the sale of shares in the financial year 2018 amounted to EUR 424.4 thousand in retained earnings. These are low-value transactions.

PRESENTATION OF OTHER INVESTMENTS OF MATERIAL SIGNIFICANCE

in €k	air value at 31/12/2018	Dividend income recognised in 2018
Beteiligungsverwaltung Gesellschaft m.b.H.	15,118	231
Generali 3Banken Holding AG	33,712	465
Wienerberger AG	1,420	32
3-Banken Beteiligung Gesellschaft mbH	2,187	-
Oesterreichische Kontrollbank AG	14,531	1,000
BWA Beteiligungs- und Verwaltungs-Aktiengesellschaft	3,665	-
PEKRA Holding GmbH	4,326	-
VBG Verwaltungs- und Beteiligungs GmbH	3,371	-
Drei Banken Versicherungsagentur GmbH (in Liquidation)	1,694	-
3 Banken Kfz-Leasing GmbH	1,551	404
3 Banken IT GmbH	1,050	-
Other strategic investments	3,013	742

(51) PROFIT/LOSS BY MEASUREMENT CATEGORY 2018

in €k	2018
Interest income	1,746
Profit/loss recognised in the income statement	-4,845
– Profit/loss from FA[1] measured at fair value through profit or loss (mandatory)	**-3,099**
Interest income	1,216
Interest expense	-2,010
Profit/loss recognised in the income statement	-2,841
Profit/loss recognised in other comprehensive income	-56
– Profit/loss from FI[2] measured at fair value through profit or loss (designated)	**-3,690**
Interest income	151,121
Net fee and commission income	41,123
Profit/loss recognised in the income statement	51
Profit/loss from FA measured at amortised cost	**192,295**
Interest income	3,311
Profit/loss recognised in other comprehensive income	-1,763
Profit/loss from FA measured at fair value in other comprehensive income (designated)	**1,547**
Interest income	687
Profit/loss recognised in the income statement	64
Profit/loss recognised in other comprehensive income	-70
Profit/loss from FA measured at fair value in other comprehensive income	**680**
Interest expense	-28,875
Profit/loss recognised in the income statement	-
Profit/loss from financial liabilities measured at amortised cost	**-28,875**

[1] FA = financial assets
[2] FI = financial instruments

INCOME STATEMENT BY MEASUREMENT CATEGORY 2017

in €k	2017
Net interest income in the held-for-trading portfolio	17
Profit/loss in the held-for-trading portfolio	1,527
Profit/loss from held-for-trading portfolio	**1,544**
Interest income FA[1] at fair value through profit or loss	3,440
Interest expenses FI[2] at fair value through profit or loss	-2,012
Profit/loss on financial assets designated as at fair value through profit or loss	1,300
Profit/loss from FA at fair value through profit or loss[3]	**2,728**
Net interest income from available-for-sale FA	4,742
Profit/loss from available-for-sale FA	2,725
Net valuation of available-for-sale FA	190
Profit/loss from available-for-sale FA	**7,656**
Net interest income from loans and receivables	127,529
Impairment losses (impairment charge) on loans and receivables	-26,724
Net fee and commission income on loans and receivables	34,821
Profit/loss from loans and receivables	**135,627**
Net interest income from held-to-maturity FA	16,558
Profit/loss from held-to-maturity FA	-4
Profit/loss from held-to-maturity FA	**16,555**
Interest expenses on financial liabilities at amortised cost	-32,422
Profit/loss on financial liabilities measured at amortised cost	**-32,422**
Other operating income and expenses[4]	**-54,513**
Profit/loss for the year before tax	**77,175**

[1] FA = financial assets
[2] FI = financial instrument
[3] Fair value option and revaluation gains and losses on derivatives in Other assets and Other liabilities
[4] Includes remaining net interest and commission income, administrative expenses, other operating expenses and income

(52) INVESTMENTS IN ASSOCIATES

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, although they fall short of the 20% threshold: A syndicate agreement is in place between BKS Bank AG, BTV AG and Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH pertaining to their equity investments in Oberbank AG, and a syndicate agreement is in place between BKS Bank AG, Oberbank AG, Generali 3 Banken Holding AG and Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH pertaining to their equity investments in BTV AG.

Oberbank AG and BTV AG are included in the consolidated financial statements as of 30 September 2018, because the figures in the IFRS consolidated financial statements for year-end are not available due to the short time.

ASSOCIATES

Values as at 31/12	Type of relationship with the company	Head office	Voting rights in %		Equity interests in %		Fair value of the share	
			2017	2018	2017	2018	2017	2018
Oberbank AG	Strategic investment to secure autonomy	Linz	15.2	15.2	14.2	14.2	410,051	449,828
BTV AG	Strategic investment to secure autonomy	Innsbruck	14.8	14.7	13.6	13.6	96,065	110,065

FINANCIAL INFORMATION ABOUT SIGNIFICANT ASSOCIATES

	Oberbank AG		BTV AG	
in €m	31/12/2017	31/12/2018	31/12/2017	31/12/2018
Net interest income	315.3[1)]	345.2	119.6[1)]	123.8
Net fee and commission income	140.6	159.2	50.9	51.8
Consolidated profit for the year after tax	200.5	225.6	76.0	107.1
Total assets	20,830.6	22,212.6	10,462.6	11,630.1
Receivables from customers after impairment charges	14,367.6	15,633.0	7,141.9	7,753.5
Equity	2,466.8	2,797.9	1,367.3	1,639.0
Primary funds	13,394.7	14,244.0	7,605.7	8,162.3
– of which savings deposits	2,719.0	2,684.1	1,265.7	1,260.0
– of which liabilities evidenced by paper incl. subordinated debt capital	1,997.4	2,098.3	1,318.1	1,356.5
Dividends received (in €k)	3,261	4,515	1,121	1,261

[1)] Prior-year values were adjusted

Joint arrangement, joint operation

Pursuant to the provisions of IFRS 11, the investment in Alpenländische Garantie-GESELLSCHAFT m.b.H. (ALGAR) requires classification as a joint operation and has to be included in the scope of consolidation 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. Decisions by the general meeting require unanimity. Financial information regarding ALGAR is of minor importance.

Non-controlling interests

Non-controlling interests play a minor role in the BKS Bank Group, therefore disclosures have not been provided on the grounds of immateriality.

(53) RELATED PARTY DISCLOSURES

The following tables contain the mandatory disclosures of BKS Bank's relations with related parties as required by the Austrian Business Code § 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 members of the Management and Supervisory Board.

RELATED PARTY DISCLOSURES

	Outstanding balances		Guarantees received		Guarantees provided	
in €k	At 31/12/2017	At 31/12/2018	At 31/12/2017	At 31/12/2018	At 31/12/2017	At 31/12/2018
Non-consolidated subsidiaries			-	-	-	-
Receivables	2,914	2,927				
Liabilities	1,234	2,287				
Associates and joint arrangements			-	-	-	-
Receivables	2,494	2,451				
Liabilities	65,464	669				
Key management personnel			-	-	-	-
Receivables	424	235				
Liabilities	1,151	1,417				
Other related parties			-	-	-	-
Receivables	166	117				
Liabilities	726	827				

Transactions with related parties were on arm's length terms. During the financial year, there were no provisions for doubtful receivables and there was no expenditure on irrecoverable or doubtful receivables from related parties.

RELATED PARTY DISCLOSURES

in €k	2017	2018
Average number of staff	**996**	**997**
– of which wage earners	55	54
– of which salary earners	941	943
Average number of people employed by entities accounted for on a proportionate basis	**3,452**	**3,540**
Remuneration paid to the Management Board		
– Remuneration paid to active members of the Management Board	1,349	1,460
– Remuneration paid to former members of the Management Board and their surviving dependents	940	865
Remuneration paid to Supervisory Board members		
– Remuneration paid to active members of the Supervisory Board	234	236
– Remuneration paid to former members of the Supervisory Board and their surviving dependents	-	-
Management compensation pursuant to IAS 24	**1,583**	**1,880**
– Short-term employee benefits	1,336	1,503
– Post-employment benefits	156	377
– 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	57	25
– Loans and advances granted to members of the Supervisory Board	367	210
Expenditure on termination and post-employment benefits		
– Expenditure on termination and post-employment benefits for members of the Management Board	116	-367
– Expenditure on termination and post-employment benefits for other employees	6,204	5,322

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.

(54) SEGMENT REPORT

Segment reporting is based on the organisational structure of the Group that underlies its internal management reporting system.

SEGMENT RESULTS 2018

in €k	Retail banking customers	Corporate and business banking	Financial markets	Other	Total
Net interest income	25,636	102,306	43,660	2,939	174,541
– of which investments in entities accounted for using the equity method	-	-	44,848	-	44,848
Impairment charges	491	-18,901	118	-	-18,293
Net fee and commission income	24,670	30,555	-192	434	55,467
Net trading income	-	-	280	-	280
General administrative expenses	-51,153	-49,985	-7,413	-6,026	-114,577
Other operating income/expenses	1,673	1,190	536	-5,924	-2,525
Profit/loss from financial assets/liabilities	-		-7,816	-36	-7,851
Profit/loss for the year before tax	**1,317**	**65,164**	**29,173**	**-8,612**	**87,041**
Average risk-weighted assets	537,961	3,208,736	953,340	59,082	4,759,119
Average allocated equity	62,847	374,815	681,621	14,128	1,133,410
Segment liabilities	2,809,587	3,831,417	1,615,911	178,023	8,434,938
ROE based on profit for the year	**2.1%**	**17.4%**	**4.3%**	**-**	**7.7%**
Cost/income ratio	**98.4%**	**37.3%**	**16.7%**	**-**	**50.3%**
Risk/earnings ratio	**-**	**18.5%**	**-**	**-**	**10.5%**

SEGMENT RESULTS 2017

in €k	Retail banking customers	Corporate and business banking	Financial markets	Other	Total
Net interest income	25,012	89,978	42,197	2,568	159,754
–of which investments in entities accounted for using the equity method	-	-	39,068	-	39,068
Impairment charges	-1,622	-23,444	-1,658	-	-26,724
Net fee and commission income	21,737	27,415	326	418	49,896
Net trading income	-	-	1,545	-	1,545
General administrative expenses	-51,782	-48,201	-5,900	-1,872	-107,755
Other operating income/expenses	1,192	1,223	-60	-6,107	-3,752
Profit/loss from financial assets/liabilities	-	-	4,211	-	4,211
Profit/loss for the year before tax	**-5,464**	**46,970**	**40,662**	**-4,993**	**77,175**
Average risk-weighted assets	496,525	3,100,220	955,081	52,452	4,604,277
Average allocated equity	48,236	299,023	644,008	11,395	1,002,663
Segment liabilities	2,679,816	3,345,919	1,373,547	180,215	7,579,497
ROE based on profit for the year	**-11.3%**	**15.7%**	**6.3%**	**-**	**7.7%**
Cost/income ratio	**108.0%**	**40.6%**	**13.4%**	**-**	**51.9%**
Risk/earnings ratio	**6.5%**	**26.1%**	**3.9%**	**-**	**16.7%**

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 recognised 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. The reports used for internal management purposes comprise the following:
– Monthly reporting of results at profit centre level
– Quarterly reports for all relevant risk types
– Ad-hoc reports of exceptional events

Corporate and business banking
At the end of December 2018, 21,400 corporate and business banking customers were served 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 income and expenses of BKS Bank AG relating to business with corporate and business banking customers, income and expenses of the leasing companies were also allocated to this segment if they are from business with corporate customers.

Retail banking
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, wage and salary earners, and members of the health professions are reported summarized in the retail banking segment. Some 143,000 customers reported for this segment at the end of December 20.

Financial markets
The financial markets segment includes the profits from BKS Bank AG's proprietary trading activities, from securities held in its own portfolios, from investments, from derivatives in the banking book and from interbank transactions as well as from income from interest-rate term structure management.

Other segment encompasses items of income and expenses that cannot be allocated to the other segments and those contributions to profit that cannot be attributed to any other operation.

(55) NON-INTEREST BEARING ASSETS

in €k	31/12/2017	31/12/2018	± in %
Non-interest bearing assets	**194,229**	**146,868**	**-24.4**

Non-interest bearing receivables from customers net of any impairment came to EUR 0.2 million (pr.yr.: EUR 59.2 million).

(56) TOTAL RETURN ON EQUITY

The total return on equity as at 31 December 2018 was 0.96% (pr. yr.: 0.90%).

(57) SUBORDINATED ASSETS

in €k	31/12/2017	31/12/2018	± in %
Receivables from customers	40	40	-
Debt securities and other fixed-interest securities	-	-	-
Shares and other variable-interest securities	-	-	-

(58) FOREIGN CURRENCY BALANCES

in €k	31/12/2017	31/12/2018	± in %
Assets	287,556	314,891	9.5
Liabilities	215,367	288,913	34.1

(59) ADMINISTRATION AND AGENCY SERVICES

in €k	31/12/2017	31/12/2018	± in %
Administration and agency services	**1,769**	**1,770**	**0.1**

(60) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2017	31/12/2018	± in %
Guarantees	383,312	426,642	11.3
Letters of credit	4,032	1,381	-65.7
Contingent liabilities	**387,344**	**428,023**	**10.5**
Other commitments	1,377,699	1,337,235	-2.9
Commitments	**1,377,699**	**1,337,235**	**-2.9**

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.

(61) EVENTS AFTER THE BALANCE SHEET DATE

In the first quarter of 2019, we acquired some 25,000 customers from the Slovenian investment firm ALTA Invest, investicijske storitve, d.d. No material or reportable business transactions took place between the end of the financial year and the preparation of the financial statements and their certification by the auditor.

(62) ASSETS SERVING AS COLLATERAL FOR LIABILITIES

Liabilities	Assets	31/12/2017	31/12/2018
Money held in trust pursuant to § 230a Austrian Civil Code	Securities	12,999	11,894
Clearing system deposit for stock exchange trading in Vienna	Securities	1,585	1,588
Deposit for trading through EUREX	Securities	788	757
Collateral for trading through Xetra	Securities	1,486	3,969
Euroclear pledge	Securities	25,107	10,090
EUREX Repo (GC Pooling)	Securities	3,036	3,552
Margin for futures contracts	Receivables from other banks	8,463	4,135
Collateral for OeNB funding	Loans	300,000	296,943
Cover pool of mortgage loans for covered bonds	Loans	234,348	261,049
Cover pool of public sector debt for covered bonds	Loans	11,232	9,920
Pledge for OeKB CCPA clearing fund	Receivables from other banks	50	60

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.

(63) FEES PAID TO THE BANK AUDITOR

in €k	2017	2018	± in %
Fees for mandatory audits of the single-entity and consolidated financial statements	522	654	25.3
Fees for other auditing services	159	166	4.4
Fees for advisory services, including tax advice	54	61	13.0
Total fees	**735**	**881**	**19.9**

(64) OPERATING LEASING

The minimum lease payments under operating leasing contracts that cannot be terminated are presented below:

in €k	2017	2018	± in %
Up to 1 year	3,106	3,107	-
From 1 year to 5 years	11,354	11,902	4.8
From 5 years and over	15,917	13,529	-15.0
Total minimum lease payments	**30,377**	**28,538**	**-6.1**

(65) DERIVATIVES TRANSACTION VOLUME: BANKING BOOK

in €k	Nominal amount by time to maturity < 1 year	1 to 5 years	> 5 years
Interest rate contracts	**5,000**	**128,234**	**218,830**
Interest rate swaps	5,000	128,234	218,830
– Calls	2,500	64,117	109,415
– Puts	2,500	64,117	109,415
Interest rate options	-	-	-
– Calls	-	-	-
– Puts	-	-	-
Currency contracts	**902,459**	**177,317**	**-**
Currency forwards	509,497	-	-
– Calls	255,230	-	-
– Puts	254,267	-	-
Capital market swaps	-	177,317	-
– Calls	-	88,578	-
– Puts	-	88,739	-
Money market swaps (currency swaps)	392,962	-	-
– Calls	195,910	-	-
– Puts	197,052	-	-
Securities contracts	**-**	**-**	**-**
Stock options	-	-	-
– Calls	-	-	-
– Puts	-	-	-

DERIVATIVES TRANSACTION VOLUME: TRADING BOOK

in €k	Nominal amount by time to maturity < 1 year	1 to 5 years	> 5 years
Interest rate contracts	**1,200**	**11,070**	**1,004**
Interest rate swaps	-	-	-
– Calls	-	-	-
– Puts	-	-	-
Interest rate options	1,200	11,070	1,004
– Calls	600	5,535	502
– Puts	600	5,535	502
Currency contracts	**-**	**-**	**-**
Currency options	-	-	-
– Calls	-	-	-
– Puts	-	-	-

FINANCIAL INSTRUMENTS (TRADING BOOK)

in €k	31/12/2017	31/12/2018
Interest-bearing securities	-	-
Treasury shares	-	-

Nominal amount		Fair value (positive)		Fair value (negative)	
31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018
289,788	**352,064**	**6,687**	**5,964**	**4,991**	**5,544**
289,788	352,064	6,687	5,964	4,991	5,544
144,894	176,032	71	-	4,991	5,544
144,894	176,032	6,616	5,964	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,277,527	**1,079,776**	**2,542**	**1,464**	**9,274**	**2,377**
538,228	509,497	85	935	3,176	987
267,980	255,230	12	909	3,176	960
270,248	254,267	73	26	-	27
335,557	177,317	129	-	6,089	257
164,646	88,578	-	-	-	-
170,911	88,739	129	-	6,089	257
403,742	392,962	2,328	529	9	1,133
202,715	195,910	68	13	-	10
201,027	197,052	2,260	516	9	1,123
-	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Nominal amount		Fair value (positive)		Fair value (negative)	
31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018
14,918	**13,274**	**6**	**2**	**6**	**2**
120	-	-	-	-	-
60	-	-	-	-	-
60	-	-	-	-	-
14,798	13,274	6	2	6	2
7,399	6,637	6	2	-	-
7,399	6,637	-	-	6	2
-	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

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.

COMPANY'S BOARDS AND OFFICERS

Management Board
Herta Stockbauer, Chairwoman of the Management Board
Dieter Krassnitzer, Member
Wolfgang Mandl, Member until 31 December 2018
Alexander Novak, Member from 1 September 2018

Shareholder representatives on the Supervisory Board
Gerhard Burtscher, Chairman
Franz Gasselsberger, Vice Chairman
Christina Fromme-Knoch
Gregor Hofstätter-Pobst
Reinhard Iro
Josef Korak, until 9 May 2018
Stefanie Lindstaedt from 9 May 2018
Heimo Penker
Karl Samstag
Sabine Urnik
Klaus Wallner

Staff Representatives on the Supervisory Board
Maximilian Medwed
Herta Pobaschnig
Hanspeter Traar
Gertrude Wolf until 28 February 2018
Ulrike Zambelli

Klagenfurt am Wörthersee, 8 March 2019

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Alexander Novak
Member of the Management Board

CLOSING REMARKS BY THE MANAGEMENT BOARD

MANAGEMENT BOARD'S STATEMENT PURSUANT TO § 82 PARA 4 STOCK EXCHANGE ACT

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, 8 March 2019

Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Alexander Novak
Member of the Management Board

Member of the Management Board with responsibility for Risk Management, Risk Controlling, Credit Back Office, Branches and Treasury, ICT and Business Organisation, Securities Service, 3 Banken IT GmbH; also responsible for Back Office, Risk Management abroad

Chairwoman of the Management Board with responsibility for Corporate and Business Banking, Retail Banking in Austria, Private Banking, Accounts and Sales Controlling, Human Resources, Public Relations, Marketing, Social Media, CSR and Investor Relations, Subsidiaries and Equity Investments

Member of the Management Board with responsibility for Corporate and Business Banking and Retail Banking abroad, Group Treasury, Leasing and Real Estate Subsidiaries abroad, ICT abroad

PROFIT DISTRIBUTION PROPOSAL

The financial year 2018 of BKS Bank AG closed with a net profit of EUR 10,145,255.78. We propose that a dividend of EUR 0.23 per share be distributed out of the reported net profit as at 31 December 2018. The resulting distribution on 42,942,900 shares would be EUR 9,876,867. Subject to § 65 para. 5 Stock Corporation Act, we propose the remainder to be carried forward to a new account.

Klagenfurt am Wörthersee, 8 March 2019

Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Alexander Novak
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 2018, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows 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 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Business Code) and Section 59a BWG (Austrian Banking Act).

BASIS FOR OUR OPINION

We conducted our audit in accordance with 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 described in more detail in the section 'Auditor's Responsibilities' 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:

– Measurement of receivables from customers
– Classification and measurement of companies recognised using the equity method

Measurement of receivables from customers

The description of the accounting policies and measurement methods is presented in the Notes in the 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 in an amount of TEUR 6,025,858. Impairment charges on receivables from customers amount to TEUR 107,879.

Within the scope of monitoring the lending process, the Group verifies whether impairment triggers of receivables occurred and thus require specific impairment allowances (stage 3). For performing loans (stages 1 and 2), portfolio impairment assessments are determined for the expected credit loss (ECL). The allocation to the stages is based on assumptions and discretionary decisions.

Charges for receivables in stages 1 and 2 and for non-significant receivables in stage 3 (default) are based on models using statistical parameters such as 1-year and lifetime probability of default and loss given default, and are influenced by the value of the available collateral.

The determination of specific impairment allowances for significant receivables in default (stage 3) is done individually on the basis of an estimate of the amounts and timing of expected cash flows. The cash flows are influenced primarily by the economic situation and development of business of customers as well as by the value of the collateral.

The risk in respect of the financial statement is that the calculation of impairment charges of material volume are based on assumptions and estimates subject to discretion and estimation uncertainties with regard to the amount of the loan loss provisions.

Our audit approach
We examined the processes and major controls applied when determining impairment charges for expect credit losses and assessed if the ECL model is consistent with the requirements of IFRS 9 and suitable for adequately representing the impairment charges needed for loan receivables. Furthermore, we also tested the key controls of material significance within these processes. In this context, we tested the relevant controls with regard to design, implementation and effectiveness.l

We used the services of finance mathematicians for the assessment of risk provisions for performing loans and for non-significant loans in default based on the bank's internal validation models for the parameters applied – especially for the 1-year and lifetime probability of default and loss given default – to assess if the assumptions made were adequate. Furthermore, we analysed and measured forward-looking estimates and scenarios, and reviewed how they were taken into account in the stage allocation and in the parameter estimates. Additionally, we verified the correctness of the calculations. We carried out the audit activities described based on the initial application of IFRS 9 for both the opening balance sheet as of 1 January 2018 and the reporting date 31 December 2018.

Based on random samples of significant individual loans, we scrutinized if impairment triggers were recognised in time. The sample selection was mainly risk-oriented, with special attention being given to rating stages with higher risks of default. When impairment triggers were detected for exposures, we scrutinized whether the bank's assessments regarding the amount and timing of future cash flows from customers and collaterals were adequate.

Finally, we scrutinized if the qualitative and quantitative information given in the Notes, especially regarding the initial application of IFRS 9 for impairment charges on loans and advances were complete and adequate.

CLASSIFICATION AND MEASUREMENT OF COMPANIES RECOGNISED USING THE EQUITY METHOD
See a description of the accounting and measurement methods in the section 'Notes on Individual Items on the Balance Sheet (subsection Investments in Entities Accounted for Using the Equity Method)'.

Risk to the financial statements
Shares in associated companies are recognised by applying the equity method. In total, the investments in associates accounted for using the equity method had an amortised cost of TEUR 599,668. The most important investments concern Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft.

If there is objective evidence for impairment of the investments accounted for using the equity method, a value in use is calculated based on a dividend discount model. Assumptions about future earnings available for distribution with due consideration of relevant regulatory capital requirements represent the income of relevance for measurement discounted at the cost of equity up to the reporting date. This measurement depends 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 statements results from the fact that the measurement involves major discretionary and estimation uncertainties.

Our audit approach
We inspected the documents and contracts presented to us to ascertain whether the requirements for classification as an associated company were met.

We employed financial specialists to assess the adequacy of the measurement model and the inherent significant assumptions and discretionary decisions. For this purpose, we assessed the adequacy of assumptions made for determining the discount rates by comparing them with market and industry-specific reference rates and verified how the discount rates were arrived at. We examined the database used for the business plans in the measurement model, comparing and analysing the actual values for the given year with the values budgeted in the preceding year.

Subsequently, we assessed whether the disclosures in the Notes regarding the companies reported using the equity method are adequate.

RESPONSIBILITIES OF THE 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 International Financial Reporting Standards (IFRSs) as adopted by the EU, the additional requirements pursuant to Section 245a UGB (Austrian Commercial Code) 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 intends 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, 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 reach conclusions 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 controls that we identify during our audit.
- We communicate to the supervisory board/ 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 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 as applied in Austria.

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.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and 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. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

ADDITIONAL INFORMATION IN ACCORDANCE WITH ARTICLE 10 EU REGULATION

At the Annual General Meeting dated 9 May 2017, we were elected as group auditors. We were appointed by the Supervisory Board on 7 June 2017. 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.

ENGAGEMENT PARTNER

The engagement partner is Christian Grinschgl

Klagenfurt am Wörthersee, 8 March 2019

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. 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.

*Chimera-design steel-cut key,
17th century*

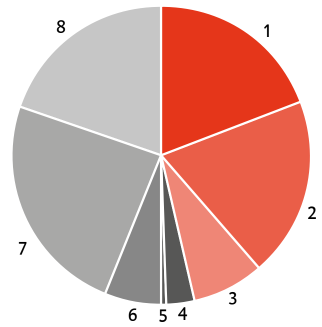
ADDITIONAL NOTES

SHAREHOLDER STRUCTURE OF THE 3 BANKEN GROUP

SHAREHOLDERS OF BKS BANK AG

The red highlighting indicates shareholders who have signed syndicate agreements.

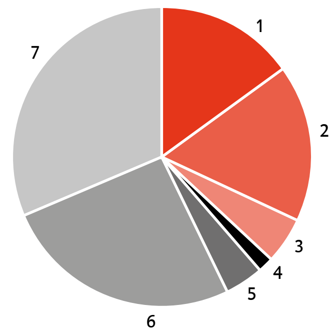
in %	by voting share	by share
1 Oberbank AG	19.3	18.5
2 Bank für Tirol und Vorarlberg Aktiengesellschaft	19.5	18.9
3 Generali 3Banken Holding AG	7.8	7.4
4 Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	3.1	3.0
5 BKS-Belegschaftsbeteiligungsprivatstiftung	0.4	0.8
6 UniCredit Bank Austria AG	6.1	6.6
7 CABO Beteiligungsgesellschaft m.b.H.	24.2	23.2
8 Free float	19.6	21.6



Share capital in €	**85,885,800**
Number of ordinary no-par shares	41,142,900
Number of no-par preference shares	1,800,000

SHAREHOLDERS OF OBERBANK AG

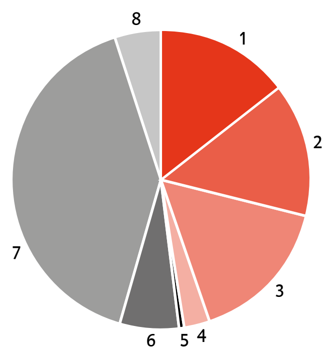
in %	by voting shares	by share
1 BKS Bank AG	15.2	14.2
2 Bank für Tirol und Vorarlberg Aktiengesellschaft	17.0	16.2
3 Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	5.0	4.5
4 Generali 3Banken Holding AG	1.8	1.6
5 Staff shares	3.9	3.8
6 CABO Beteiligungsgesellschaft m.b.H.	26.0	23.8
7 Free float	31.2	36.0



Share capital in €	**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 shares	by share
1 BKS Bank AG	14.7	13.6
2 Oberbank AG	14.3	13.2
3 Generali 3Banken Holding AG	16.0	14.8
4 Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	2.7	2.5
5 BTV Privatstiftung	0.6	0.6
6 UniCredit Bank Austria AG	6.3	9.9
7 CABO Beteiligungsgesellschaft m.b.H.	40.5	37.5
8 Free float	4.9	7.8



Share capital in €	**68,062,500**
Number of ordinary no-par shares	31,531,250
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
Start of the network of bank branches.

1983
With the expansion into Styria, the company name is changed to "Bank für Kärnten und Steiermark Aktiengesellschaft"

1986
The BKS Bank goes public and its 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 Burgenland's 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 into the Slovak banking market.

2015
The renowned rating agency oekom research AG confirmed BKS Bank's "prime" status for the first time.

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. First-time nomination for state award for business excellence.

2018
The rating agency ISS-oekom (formerly: oekom research AG) confirms BKS Bank's "prime" status. This ranks us among the top CSR companies worldwide. By acquiring the customers of two Slovenian brokerage firms, the course is set to attaining market leadership in the investment business in Slovenia. The corporate and business customer portal BizzNet goes online.

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, the interest rate risk 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 recognised 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 recognised according to the equity interest held.

The banking book contains all on-balance sheet and off-balance sheet items recognised in a bank's financial statements 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. Banks are required to prepare preventive recovery plans and disclose what resolution or restructuring action they intend to take if their financial position deteriorates, and the possible course of action for the orderly resolution or restructuring of the bank.

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, real GDP is used in which 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) prepared 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. In Austria, this entailed amendments to the Banking Act and related legislation.

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 operates.

Counterbalancing capacity (CBC) is 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.

The **deposit concentration** is a value used to estimate the withdrawal risk associated with a run on deposits and indicates, above all, the risk of being dependent on large deposits.

Endorsement by the EU: An endorsement by the EU 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 (lifetime expected credit loss).

Fair value: The fair value corresponds to the price at which an asset can be sold or a liability settled by market participants in an orderly transaction under market conditions on the balance sheet date.

The United States Congress enacted **FATCA** (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 analyze 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 the 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: Pursuant to IFRS 9, financial instruments must be assigned to a business model. The business model defines how financial instruments are managed and measured.

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 resale 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 (Internal Capital Adequacy Assessment Process) is the name of the extensive process and associated strategy by 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.

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 Austrian Business Code (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. An ISIN is a 12-character alphanumerical code comprising a two-character international country ID symbol (e.g. AT for Austria), a nine-character national code and a one-digit control figure. The ISIN of the ordinary BKS Bank AG share is AT0000624705; that of the preference share is AT0000624739.

ISS-oekom research AG (formerly 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, it also provides strategy consulting on the most diverse sustainability themes.

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 for 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.

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.

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. 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.

The calculation of the **NPL ratio** 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.

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 directly between participants in the market and not on an exchange.

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) The ratio indicates the credit risk expenses in relation to net interest income. This percentage 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 test: The SPPI test 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 by the FMA acting as the competent supervisory authority in respect of less significant banks. It also includes reviewing adherence to all the relevant regulations, identifying breaches and imposing regulatory sanctions.

Swap is the English designation for a swap transaction. Parties to a swap exchange financial obligations, with fixed-interest obligations being exchanged for variable ones (interest rate swap) or sums in different 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.

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 the consolidated financial statements of BKS Bank AG.

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
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 2016	Austrian Act Amending Audit Regulations of 2016
AR	Aufsichtsrat (Supervisory Board)
ATX	Austrian Traded Index (leading Austrian share index)
AT1	Additional Tier 1 capital
AVM	Aktives Vermögensmanagement (active asset management)
AVÖ	Aktuarvereinigung Österreichs
BaSAG	Bundesgesetz zur Sanierung und Abwicklung von Banken (Austrian Bank Recovery and Resolution act)
BIP	Bruttoinlandsprodukt (gross domestic product, GDP)
BörseG	Börsegesetz (Austrian Stock Exchange Act)
BRRD	Bank Recovery and Resolution Directive
BSG	BKS Service GmbH
BTV AG	Bank für Tirol und Vorarlberg Aktiengesellschaft
BWG	Bankwesengesetz (Austrian Banking Act)
CBC	Counterbalancing capacity
CCF	Credit Conversion Factor
CET1	Common equity tier 1 capital
CHF	Swiss franc
CIA©	Certified Internal Auditor
CIR	Cost/income ratio
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
CSR	Corporate social responsibility
DAX	Deutscher Aktienindex (German share index)
DBO	Defined benefit obligation
DCF method	Discounted cash flow method
DSGVO	Datenschutz-Grundverordnung (EU General Data Protection Regulation)
EAD	exposure at default
EBA	European Banking Authority
ECL	Expected credit loss
EFQM	European Foundation for Quality Management
EK-Instrumente	Eigenkapitalinstrumente (equity instruments)
ESMA	European Securities and Markets Authority
ESCB	European System of Central Banks
EUREX	European Exchange (derivatives exchange)
EU-RL	EU Richtlinie (EU Directive)
Eurostat	Statistical office of the European Union
EWB	Einzelwertberichtigung (specific impairment allowance)
ECB	European Central Bank
FASB	Financial Accounting Standards Board

FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force on Money Laundering
FBSchVG	Gesetz für fundierte Bankschuldverschreibungen (Act on covered bank debt securities)
Fed	Federal Reserve System
FI	financial instrument
FK-Instrumente	Fremdkapitalinstrumente (debt instruments)
FLI	Forward-looking information
FMA	Austrian Financial Market Authority
FV	Finanzielle Vermögenswerte (FA, financial assets)
FV OCI	fair value through other comprehensive income
FV PL	fair value through profit or loss
FX-Quote	Fremdwährungsquote (FX ratio, foreign exchange ratio)
GBD	Gorenjska borznoposredniška družba d.d.
GBP	Pound sterling
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
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBNR	Incurred but not reported
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)
IKT	Informations- und Kommunikationstechnologie (ICT, information and communications technology)
ILAAP	Internal Liquidity Adequacy Assessment Process
ISA	International Standards on Auditing
ISIN	International Securities Identification Number
IMF	International Monetary Fund
JPY	Japanese yen
KAG	Kapitalanlagegesellschaft (asset management company)
KGV	Kurs-Gewinn-Verhältnis (Price/earnings ratio, P/E ratio)
KI	Kreditinstitut (credit institution)
KMU	Kleine und mittlere Unternehmen (SME, small and medium-sised enterprises)
KStG	Körperschaftsteuergesetz (Austrian Corporation Tax Act)
KV	Kollektivvertrag (collective agreement)
LCR	Liquidity coverage ratio
LDR	Loan/deposit ratio
LGD	Loss given default
LIP	Loss identification period
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

n/a	not applicable
NaDiVeG	Nachhaltigkeits- und Diversitätsverbesserungsgesetz (Sustainability and Diversity Improvement Act)
NFC	Near field communication
NPL ratio	Non-performing loan ratio
NSFR	Net stable funding ratio
ÖCGK	Österreichischer Corporate Governance Kodex (Austrian Code of Corporate Governance)
FV OCI	Fair value through other comprehensive income
OECD	Organization for Economic Cooperation and Development
OeKB	Oesterreichische Kontrollbank AG
OeNB	Oesterreichische Nationalbank (central bank of the Republic of Austria)
ÖGNI	Österreichische Gesellschaft für Nachhaltige Immobilienwirtschaft
ÖGVS	Österreichische Gesellschaft für Verbraucherstudien
ÖNACE	Austrian version of NACE (Nomenclature statistique des activités économiques dans la Communauté européenne)
OR Committee	Operational Risk Committee
OTC products	Over-the-counter products
PD	Probability of default
PIT	Point-in-time
PJ	Personaljahre (person-years)
PSD 2	EU Payment Services Directive
RMB	Chinese renminbi
RER	Risk/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
SPO	Second party opinion
SPPI criterion	Solely payments of principal and interest (also SPPI test)
SREP	Supervisory Review and Evaluation Process
t CO2-equ./a	CO2 equivalents per year
UGB	Unternehmensgesetzbuch (Austrian Business Code)
USD	US dollar
VAR	Value at risk
Vst.-Dir.	Vorstandsdirektor (Director)
Vst.-Vors.	Vorstandsvorsitzende (Chair of the Management Board)
WAG	Wertpapieraufsichtsgesetz (Austrian Securities Supervision Act)
WiEReG	Wirtschaftliche Eigentümer Registergesetz (Ultimate Beneficial Owners Register)
WWF	World Wide Fund for Nature
WIFO	Österreichisches Institut für Wirtschaftsforschung (Austrian Institute of Economic Research)
Xetra	Electronic trading system
ZCR/RC	Controlling Department / Risk Controlling
ZEA	Proprietary Trading and International Operations Department
ZEA/GDH	Proprietary Trading and International Operations Department / Money and Foreign Exchange Trading
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. The forecasts are our estimates based on the information at our disposal on the copy deadline date 8 March 2019. 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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