BKS Bank

Annual Report

2019

Welcome to the world of BKS Bank

The digital transformation and globalisation are swiftly changing our world and creating enormous challenges – not only for our customers, but also for us. As a bank that cares about people and has strong regional roots, our principal aim is to ensure that our customers feel safe and secure. We welcome them to our bank warm-heartedly and work hard to earn their trust. For this reason, we only do what we are actually good at. And always strive to be better. We achieve this by understanding what people need and treating them as valuable and respected customers. Personal relationships are very important to us and help us offer not only excellent advice, services and products, but also create networks that foster common values as a way to better master future challenges.

Only strong customer relationships and our regional roots give us the assurance and the possibility to contribute meaningfully to our local communities. In everything we do, we are always aware of our responsibility for society and the environment.

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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 German into English. In the event of any discrepancies, the German version shall prevail.

Three-year performance comparison

INCOME STATEMENT in €m	2017	2018	2019
Net interest income	120.7	129.7	135.8
Impairment charges	-26.7	-18.3	-18.6
Net fee and commission income	49.9	55.5	58.2
General administrative expenses	-107.8	-114.6	-121.0
Profit for the year before tax	77.2	87.0	103.1
Profit for the year after tax	68.0	77.4	92.9
BALANCE SHEET in €m			
Total assets	7,579.5	8,434.9	8,857.6
Receivables from customers after impairment charges	5,313.2	5,918.0	6,288.1
Primary deposits	5,669.1	6,218.2	6,668.3
• thereof savings deposits	1,475.1	1,429.4	1,413.5
• thereof liabilities evidenced by paper incl. subordinated debt capital	712.6	750.7	854.4
Equity	1,046.5	1,210.7	1,301.5
Customer funds under management	14,150.7	14,518.4	18,548.0
• thereof on custody accounts	8,481.6	8,300.2	11,879.7
OWN FUNDS PURSUANT TO CRR in €m			
Total risk exposure amount	5,016.7	5,283.1	5,449.6
Own funds	701.6	779.2	881.4
• thereof common equity tier 1 (CET1) capital	614.5	593.7	629.6
• thereof total tier 1 capital (CET1 and AT1)	627.8	645.2	690.8
Tier 1 capital ratio (in %)	12.5	12.2	12.7
Total capital ratio (in %)	14.0	14.8	16.2
PERFORMANCE RATIOS			
Return on equity after tax	6.8	6.8	7.4
Return on assets after tax	0.9	1.0	1.1
Cost/income ratio (cost/income coefficient)	51.9	50.3	50.7
Risk/earnings ratio (credit risk/net interest income)	16.7	10.5	10.2
Non-performing loan ratio (NPL ratio)	3.5	3.3[1)]	2.4
Net stable funding ratio (NSFR)	105.0	110.2	112.4
Liquidity coverage ratio (LCR)	145.2	137.7	151.8
Leverage ratio	8.0	7.5	7.8
RESOURCES			
Average number of staff	928	932	962
Number of branches	63	63	63

THE BKS BANK'S SHARE	2017	2018	2019
Number of no-par ordinary shares (ISIN AT0000624705)	37,839,600	41,142,900	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 €	18,5/17,8	19,8/18,2	17,2/17,0
Low (ordinary/preference share) in €	16.8/15.4	16.5/16.9	15.0/13.4
Close (ordinary/preference share) in €	17.8/17.7	16.8/17.0	16.0/14.3
Market capitalization in €m as at 31 Dec.	705.3	721.8	684.0
Dividend per share in €	0.23	0.23	0.25[2)]
Price/earnings ratio, ordinary/preference share	10.4/10.3	9.2/9.3	7.4/6.7

[1)] The calculation method of the NPL ratio was changed effective as of 30 June 2019 to the risk dashboard calculation method of the European Banking Authority (EBA). The value as of 31 December 2018 was adjusted.
[2)] Proposal made to the 81st Annual General Meeting of BKS Bank AG on 6 May 2020

Preface by the Chairwoman of the Management Board

Dear Readers,

In this Annual Report, we look back at a highly memorable year with numerous highlights to celebrate. Apart from the very positive development of business at BKS Bank, we were especially pleased about the State Award for Business Excellence 2019. We are the first bank in Austria to receive this honour. At the same time, the jury of Quality Austria conferred BKS Bank the status of "Global Role Model for Sustainability". We were also very pleased about the distinction "Most Sustainable Bank" awarded by the magazine "Der Börsianer" and winning several national tests conducted by Österreichische Gesellschaft für Verbraucherstudien (Austrian Society for Consumer Studies). At the end of the year 2019, our customers gave us an excellent rating in a survey of customer satisfaction. On a scale of one to five, with one being the best grade, we achieved a very good overall satisfaction rating of 1.5. Our customers feel well served at our bank and assess our advisory services as excellent. We believe the high quality of advisory services provided by our staff is an important unique selling point. Customer surveys have shown quite clearly that the expert competence of our staff is a key asset and highly appreciated by our customers.

Record earnings

We are very pleased that this appreciation has also translated into a solid economic development for our bank. Consolidated net profit after tax for the year came to EUR 92.9 million (+20.0%), breaking a new record. Total assets rose by EUR 422.7 million to EUR 8.9 billion. The lending business also developed very positively. The volume of new lending was EUR 1.8 billion and the total lending volume was EUR 6.4 billion, showing that the anticipated economic slowdown did not discourage corporate spending to any relevant extent. Despite persistently low interest rates, the volume of primary deposits remained high and were EUR 6.7 billion (+7.2%) at the end of the year. We are especially pleased about the increase in customers, which went up to around 191,200 (16.4%). Most new customers came from the successful takeover of ALTA Invest, investicijske storitve d.d., a move that made us the largest investment services provider in Slovenia.

Digital innovation

We view our economic success as confirmation of our strategy: digitalisation and personal advisory services at our branches are the most promising channels for achieving success. The year 2019 can rightfully be referred to as the year of digital transformation. We launched a number of new digital products and solutions on the market, including a new BKS home loan product and digital onboarding. The basis of our digital world is an easy-to-use web interface. This platform makes it possible for us to communicate with our customers digitally and work together with them.

MyNet and BizzNet now have a new authentication procedure with the BKS security app and many new functionalities such as the option to individually define overdraft limits. A unique digital solution for corporate and business banking customers, "Guarantee online" was also launched on the market. However, we have not yet reached the end of our digital journey and are preparing more innovations for 2020.

Sustainability
The concepts of "sustainability" and "responsibility" are inseparably linked to the reputation of our bank today. We are confident that we will be able to maintain our competitive edge also when many other banks will only start discovering sustainability through the EU's "Action Plan: Financing Sustainable Growth". Our sustainability strategy has been an essential part of our corporate strategy for many years. Our sustainable products are an important contribution to climate protection. We take proactive measures to continuously reduce our carbon footprint. Since we first started measuring it in 2012, we have lowered our carbon footprint by 59% to 982t CO_2 equivalents. Special mention of this achievement was made by the environmental auditors during our EMAS certification procedure. The successful validation completed in December pursuant to Europe's best-known environmental management system "EMAS" marks a major milestone in our sustainability strategy for the years 2018 to 2022.

New branding strategy
In 2019, we also took a closer look at the BKS Bank brand and analysed if it adequately represents our immense achievements of the past years. We started a branding project in the course of which we conducted a series of analyses. The findings revealed that many of the corporate values in place up to now such as a sense of responsibility, strong regional ties and a future-oriented policy are values that employees and also customers clearly associate with BKS Bank. The findings also revealed a very strong perception among many customers and employees of the values we embrace: warm-heartedness and strong in relationships. We translated the new brand strategy into a new brand style, which we are presenting for the first time with the publication of this Annual Report.

As a shareholder you may know that in the year 2019 we had to deal with a rather unpleasant issue, namely, the legal action filed against us by UniCredit Bank Austria AG and one of its subsidiaries. The complaint concerns not only BKS Bank but also our partner banks. We still fail to see the reasoning behind the legal action and I would like to point out again that we consider all of the allegations to be completely unfounded.

The Regional Court Klagenfurt (Landesgericht Klagenfurt) has meanwhile rejected the special audit request of UniCredit Bank Austria AG (not yet legally binding). In the view of the Court, the mutual crossholdings and their financing do not stand in contradiction to learned opinion or to pertinent court rulings. The Court ascertained with definite certainty that there was no instance of dishonesty on the part of the governing bodies of BKS Bank as claimed by the plaintiff. An Arbitration Panel of renowned, independent Austria university professors also looked into the capital increases of BKS Bank. We received the arbitral ruling in February 2020. The arbitral ruling reinforces our standpoint that BKS Bank acted correctly in all past capital increases.

I would like to take this opportunity to thank everyone who helped us achieve success. First and foremost, I would like to express my appreciation to our highly committed employees for their excellent work in 2019. Finally, I would also like to thank the members of the Supervisory Board for their enormous support and backing. And my very special thanks go to you, my dear shareholders, for your trust and confidence in us.

Cordially,

Herta Stockbauer
Chairwoman of the Management Board

Warm-heartedness and empathy. Showing our responsibility towards customers and employees.

Herta Stockbauer
Chairwoman of the
Management Board

Corporate Governance Report

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Corporate Governance at BKS Bank

At BKS Bank, we are committed to the principles of good and responsible corporate governance 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 (ÖSTERREICHISCHER CORPORATE GOVERNANCE KODEX, ÖCGK)

The Austrian Code of Corporate Governance (ÖCGK) provides Austrian listed companies with a self-regulatory framework for the governance of their companies, supplementing existing legislation regarding joint-stock companies, stock exchanges and capital markets. The aim of 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) permit 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 needs 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 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 26 March 2019.

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 specific situation of BKS Bank AG and the 3 Banken Group. The table below explains and provides reasons for the departures from C Rules 2, 31 and 45.

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 the 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.

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 disproportionately large voting power. The decision to issue non-voting preference shares was reached in 1991.

C Rule 31
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.

C Rule 45
Because of the way our shareholder structure has evolved, representatives of the largest equity holders have been elected to the Supervisory Board. Since our principal equity holders are likewise banks, their representatives also hold positions on the boards of other banks that compete with BKS Bank. These persons have declared their independence in individual statements.

The Rules of the Code of Corporate Governance apply to all companies of the BKS Bank Group. All Group companies are included in the reporting of the BKS Bank Group. Additionally, the directors of these subsidiaries report regularly to their supervisory boards and to the management board of the parent company. They are 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. All provisions were complied with in the reporting year.

Apart from the new rules on the remuneration of members of management boards and supervisory boards (see page 29), the enactment of the Shareholder Rights Directive II of the EU in Austria law in 2019 introduced the following new provisions:

Exchange-listed joint-stock companies such as BKS Bank may demand from intermediaries such as custodians that hold company shares in custody for certain shareholders to identify shareholders that hold more than 0.5% of shares or voting rights. The purpose is to facilitate direct communication between the company and its shareholders, for example, regarding the Annual General Meeting or other corporate actions. Up to now, it had not been possible for a company that issued bearer shares to easily find out the identity of its shareholders.

Transactions of exchange-listed companies with related parties, so-called "related party transactions" must be approved by the Supervisory Board in advance if the value of the transaction exceeds 5% of total assets. These must also be published on the website of the company if the value exceeds 10% of the total assets.

Further obligations with the purpose of increasing transparency for shareholders were established for institutional investors, asset managers and proxy advisors.

INFORMATION ON THE INTERNET ON ÖCGK AND BKS BANK

	Websites:
Austrian Code of Corporate Governance (ÖCGK)	www.corporate-governance.at
The BKS Bank's 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 • BKS Bank's Report on the Code of Corporate Governance • Publications pursuant to § 65 Banking Act regarding Corporate Governance & 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 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, giving 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 appropriate measures to ensure compliance with all relevant laws and guarantees efficient risk management and risk control.

The Management Board member assigned to a specific business area is directly responsible for it. However, the other members of the Management Board are always kept fully informed about the enterprise as a whole, and fundamental decisions are submitted to the full Management Board for approval. In their own 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.

As a rule, Management Board decisions are reached unanimously. The principle of dual control applies to the signing of contracts and to risk-sensitive internal approvals. An extensive internal reporting system accompanies the careful preparation of the Management Board's decisions.

MEMBERS OF THE MANAGEMENT BOARD

In the reporting year, there were three jointly responsible members on the Management Board of BKS Bank. The areas of responsibility of the Management Board are presented on page 18.

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 commercial science at Vienna's University of Economics and Business Administration 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.

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 (until 1 June 2019)
- 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 Board of Directors 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
- Member of the Advisory Council of the Bank Deposit Protection Organisation (in liquidation)
- 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 2023

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.

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.

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

REMITS OF THE MANAGEMENT BOARD[1)]

HERTA STOCKBAUER	DIETER KRASSNITZER	ALEXANDER NOVAK

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
• Sales Austria • Private Banking • Customer-oriented Departments • Accounting and Sales Controlling • Human Resources • Social Media • Public Relations and Marketing • CSR and Sustainability • Subsidiaries and Investments in Austria • Investor Relations	• Risk Management • Risk Controlling • Credit Back Office, BKS Service GmbH • ICT and Business Organisation • 3 Banken IT Gesellschaft m.b.H. • Back Office Treasury, Back Office Securities • International Business: Back Office and Risk Management	• Sales International • Treasury and Banking Support • BCS Fiduciaria • Leasing and Real Estate Subsidiaries International • ICT International

1) Effective as of 4 December 2019

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 expert qualification, diversity and personal competence of its members.

The Supervisory Board of BKS Bank consists of ten shareholder representatives and four members delegated by the Works Council. The Supervisory Board provides consulting and monitors the work of the Management Board in both the plenary meetings and also in each of the Committees. The Supervisory Board reaches decisions autonomously on appointments to the Management Board and on the appointment of the chairperson of the Management Board, and 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, conduct exhaustive audits itself or commission experts to conduct such audits at any time. 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 the proposal of dividend distributions to the annual general meeting. 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 any 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 31.

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

Christina Fromme-Knoch
Independent*, born 1970
Initially elected: 15 May 2012, appointed until the 83rd Annual General Meeting (2022)

Franz Gasselsberger
Vice-Chairman, independent*, born 1959
Initially elected: 19 April 2002; appointed until the 85th Annual General Meeting (2024)
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 until 10 April 2019
- Member of the Supervisory Board of Lenzing Aktiengesellschaft
- Member of the Supervisory Board of voestalpine AG

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

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 85th Annual General Meeting (2024)

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

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

* In the meaning of the Guidelines for Independence of Members of the Supervisory Board on the following page.

REPRESENTATIVES OF THE SUPERVISORY AUTHORITY

Wolfgang Eder, born 1964
Date of initial appointment: 1 September 2017
Dietmar Klanatsky, 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 the members of the Supervisory Board elected at the Annual General Meeting have declared their independence in accordance with the guidelines below in an individual declaration. Moreover, with the exception of Franz Gasselsberger, Gerhard Burtscher, Karl Samstag and Gregor Hofstätter-Pobst, there are no members of governing bodies of shareholders with an interest of more than 10 per cent 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 assessing the independence of the members 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 (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.

A foundation of solid values for an optimistic outlook.

Dieter Kraßnitzer
Member of the Management Board

In addition to the independence criteria of these Guidelines, the Banking Act includes further, in some cases, more restrictive independence criteria for shareholder representatives on the individual committees of the Supervisory Board. The independence criteria are given in the descriptions of the respective committees. The full Supervisory Board must include at least two shareholder representatives that are completely in compliance with the independence criteria pursuant to § 28a (5a) 2 Banking Act. The full Supervisory Board was completely in compliance with these criteria in the reporting year (since the provisions entered into force).

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 seven 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 (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, in particular, as to whether the independence criteria pursuant to § 63a (4) Banking Act are met.

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 are reported afterwards to the full Supervisory Board. The Working Committee is not a committee required by law.

Risk Committee

The main tasks of the Risk 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 Committee reviews if the pricing policy is adequate for the business model and the risk strategy of the credit institution. The members of the Committee meet the independence criteria of § 39d (3) Banking Act.

Credit Committee

The Credit Committee decides on the granting of new loans and loan prolongations, and on leasing and guarantee transactions as of a certain volume of debt. It is not a committee required by law.

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. The law does not define any standardized independence criteria for this Committee.

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. The members of the Remuneration Committee meet the independence criteria of § 39c (4) Banking Act.

Legal Committee

Due to the dispute with the two minority shareholders UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H., which has been ongoing since mid-March of the reporting year and is now before a court of law, the Supervisory Board decided to establish a dedicated committee for this matter. The tasks of the Legal Committee are described as follows "Dealing with the legal dispute with the UniCredit Group and the Generali 3Banken Holding AG including all related proceedings" and also covers the related tasks of the Supervisory Board. These powers include the commissioning of external service providers, in particular lawyers, with the representation of the company by the Supervisory Board externally, making any required statements of the Supervisory Board in court proceedings or proceedings before authorities as well as taking decisions in these matters (decision-making power) unless it is mandatory for the full Supervisory Board itself to reach a decision. The chairperson of the Legal Committee reports regularly to the plenary meeting of the Supervisory Board on the work of the Committee. The Committee is not a committee required by law.

COMMITTEES ESTABLISHED BY THE SUPERVISORY BOARD

Name	Audit Committee	Working Committee	Risk Committee	Nominations Committee	Remuneration Committee	Credit Committee	Legal Committee
Gerhard Burtscher, Chairman	✓	✓	✓	✓	✓	✓	✓
Christina Fromme-Knoch							✓
Franz Gasselsberger	✓	✓	✓			✓	
Reinhard Iro		✓					✓
Heimo Penker		✓	✓	✓	✓	✓	✓
Sabine Urnik	✓						✓
Klaus Wallner	✓						
Maximilian Medwed	✓						
Herta Pobaschnig	✓				✓		✓
Hanspeter Traar		✓	✓			✓	✓
Ulrike Zambelli		✓	✓			✓	✓

The work of the committees is broadly diversified and oriented on the expertise and experience of the members.

MEETINGS AND MAIN ACTIVITIES OF THE SUPERVISORY BOARD

Four meetings of the Supervisory Board were held in the financial year 2019. At each 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 26 March 2019. 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 for the year 2018. 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 2018 and the consolidated financial statements and Group management report for the year ended on 31 December 2018 as well as the proposal for the distribution of the profit for 2018. The Chairperson of the Audit, Nominations and Remuneration Committees 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.

The second meeting of the Supervisory Board was held right after the 80th Annual General Meeting on 8 May 2019. At this meeting, the assembly dealt with the elections for the chairperson and vice chairperson as well as with the appointments to the committees of the Supervisory Board. The current appointments to the committees of the Supervisory Board are presented on page 25. The chairperson of the Supervisory Board also holds the position of chairperson on all committees. Furthermore, a report was made on the economic development and the development of the risk situation in the first quarter.

The third meeting took place on 12 September 2019. The Management Board reported on the development of business in the first half of 2019 and the outlook for the full year 2019 and also presented the risk report. Afterwards, there were detailed reports from the Audit Committee. Additionally, 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 was also approved. A special committee (Legal Committee) was also established to deal with matters relating to the legal dispute with UniCredit Bank Austria and CABO Beteiligungsgesellschaft m.b.H.; it also takes any decisions required in this context. 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 4 December 2019, the Management Board presented the further development and implementation of the Corporate Strategy 2023 to the full Supervisory Board. Furthermore, the outlook for 2019, the earnings, costs and investment budget for 2020 as well as the planned volume of own issues for 2020 were presented to the Supervisory Board for approval. The full Supervisory Board also discussed the annual report on major loans granted pursuant to § 28b Banking Act. Furthermore, the amendments to the business rules for the Management Board and for the Supervisory Board were adopted. On the proposal of the Nominations Committee, the resolution was adopted to prolong the mandate of Dieter Kraßnitzer on the Management Board for a further three years until 31 August 2023.

MEETINGS AND MAIN ACTIVITIES OF THE SUPERVISORY BOARD

Audit Committee

The Audit Committee met twice in the reporting year. At the first meeting on 26 March 2019, the consolidated financial statements including the Group management report 2018, the single-entity financial statements including the management report 2018, 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 80th Annual General Meeting to commission KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt with the audit of the single-entity financial statements 2020 of BKS Bank AG and the consolidated financial statements for 2020. Additionally, the decision was taken in agreement with the full Supervisory Board to propose KPMG Slovensko spol. s r.o. as auditor for the EU branch in Slovakia for the years 2019 and 2020 to the Annual General Meeting.

At the second meeting on 12 September 2019, the motion of the Management Board was adopted regarding the approval of any permissible non-audit services by the auditors. Twice a year, a report is made to the Audit Committee on the non-audit services actually provided. Pursuant to § 63a (4) 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 one resolution by circular vote.

Risk Committee

At the meeting of 4 December 2019, the Committee discussed BKS Bank's risk situation as well as the operational and other banking risks pursuant to § 39 (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.

Credit Committee

The 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 51 loan applications. The Committee reported in detail on these resolutions at the subsequent plenary meetings.

Nominations Committee

At its first meeting of 25 March 2019, the Nominations Committee conducted the fit and proper evaluation of all members of the Management Board and of the Supervisory Board as well as of the members of the second management level of BKS Bank. This comprehensive re-evaluation became necessary, because the Supervisory Board passed a new fit and proper policy due to the far-reaching amendments to the Banking Act on the topic and the procedures defined therein had to be applied for the first time. The fit and proper evaluation of the members of the Nominations Committee was conducted at the meeting of the full Supervisory Board on 26 March 2019. The Nominations Committee also dealt with the prolongation of the Supervisory Board mandates of Franz Gasselsberger and Heimo Penker.

At its second meeting of 23 November 2019, the Nominations Committee discussed the prolongation of the Management Board mandate of Dieter Kraßnitzer. The decision was taken to propose to the full Supervisory Board the prolongation of the mandate until 31 August 2023.

Remuneration Committee

The Remuneration Committee held its annual meeting on 25 March 2019. At the meeting, the Committee members discussed the principles of the remuneration policy and its implementation. To this end, the Head of Risk Management, among others, was available to the Committee members for consultation.

The Remuneration Committee adopted the amendments to the Remuneration Guidelines of BKS Bank AG and the 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 2017, for which provisions had been set aside, and to adjust the salaries of Management Board members.

Legal Committee

At its first meeting on 23 November 2019, the Legal Committee discussed the matters relating to the ongoing court proceedings of the legal action filed by the minority shareholders UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. Furthermore, the related inquiries from authorities were also discussed.

At its second meeting on 4 December 2019, reporting was mainly on the court hearing held on 26 November 2019 at the Regional Court Klagenfurt (Landesgericht Klagenfurt) at which the claims contesting several resolutions adopted at the 80th Annual General Meeting were heard.

SELF-EVALUATION PURSUANT TO 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 26 March 2019, 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 that were 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.

The 2019 Act Amending the Stock Corporation Act enlarged the possibilities for shareholders to exert an influence on the remuneration policy applicable to the Supervisory Board and the Management Board:

In accordance with the new provisions of the Stock Corporation Act §§ 78a to 78e and 98a, the Supervisory Board must define principles for the remuneration of the Management Board. The written remuneration policy is a binding framework for the next four years that defines the remuneration bandwidth for Management Board members. A remuneration policy must also be set up for the remuneration of the members of the Supervisory Board. The remuneration policy must include criteria for the definition of the fixed and variable components of the remuneration. It must also present how the employment conditions of employees influences the remuneration of the members of the Management Board and the Supervisory Board as well as the term of each contract of the Management Board members. If there are post-employment benefit schemes, these must also be presented. The remuneration policy and the remuneration report must be presented to the Annual General Meeting for a resolution. Any resolution taken by Annual General Meeting is only a recommendation. A rejection by the Annual General Meeting does not necessarily render the remuneration policy ineffective, but does impose an obligation on the Supervisory Board to explain how the views of the shareholders are taken into consideration in the remuneration policy. The auditor must audit the remuneration report with respect to the completeness of the contents and as to its proper publication. In the case of unusual circumstances, the remuneration policy may temporarily depart from it if this option is defined in the remuneration policy.

Details on the implementation of the remuneration policy 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».

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. Ever since, the Committee has been responsible for governing relations between the company and the members of the Management Board, and monitoring the 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 2019. 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 and the BKS Group 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 indicators 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 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 risk, interest rate risk, market risk, liquidity risk and operational risk 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/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 totalled €k 1,490 (pr. yr.: €k 1,460), of which some 84% was for fixed components and some 16% for the variable components. In accordance with the Remuneration Guidelines and based on a resolution of the Remuneration Committee, one-fifth of the variable remuneration set aside for 2013, 2014, 2015, 2016 and 2017 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 remuneration in the form of BKS Bank shares or options on these shares. Therefore, the variable remuneration paid out to the members of the Management Board do not provide any incentives to assume unreasonable risks.

The remuneration paid to the Management Board in the reporting year is presented in the 2019 Report on page 31. Provisions for termination payments and post-employment benefits for Management Board members were set aside in an amount of €k 194 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 of the Supervisory Board 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 who were appointed 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 a position on the Management Board comply with the provisions of C Rule 27a of ÖCGK. Agreements on termination payments take into account the conditions under which the member resigns from the Management Board and the economic situation of BKS Bank.

Termination payments are only permitted to cover the remaining term of the contract of the Management Board member. 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 €k 805.1 in the reporting year (pr. yr.: €k 865.2)

REMUNERATION PAID TO THE MANAGEMENT BOARD

in €k	2018	2019
Remuneration of active Management Board members	1,460	1,490
• thereof Herta Stockbauer	664	761
• thereof Dieter Kraßnitzer	407	455
• thereof Alexander Novak	84	274
Post-employment benefits for former Management Board members and their survivors	865	805
Allocation to termination and retirement provisions for active Board members	-367	194

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 not 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. The last adjustment was made at the Annual General Meeting of 9 May 2017. The payments are made only after the Supervisory Board has been discharged from liability by the Annual General Meeting.

No member of the Supervisory Board participated in fewer than half of the plenary meetings. The attendance rate of the shareholder and staff representatives was 94.6%.

REMUNERATION OF SUPERVISORY BOARD MEMBERS

Name	Fixed SB fees	Committee Work	Meeting fees	Total Remuneration 2019
Gerhard Burtscher	24,000	18,000	600	42,600
Franz Gasselsberger	20,000	14,000	450	34,450
Christina Fromme-Knoch	18,000	-	600	18,600
Gregor Hofstätter-Pobst[1)]	-	-	-	-
Reinhard Iro	18,000	5,000	600	23,600
Stefanie Lindstaedt	18,000	-	450	18,450
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[2)]	18,000	6,000	600	24,600

1) This member of the Supervisory Board does not receive any remuneration due to an internal rule of the UniCredit Group.
2) 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.

REMUNERATION OF THE BANK AUDITOR

At the 79th Annual General Meeting of 9 May 2018, the resolution was taken by unanimous vote to commission 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 2019. 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 2020. 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.

INFORMATION ON FEES PAID TO THE BANK AUDITOR

in €k	*2018*	***2019***
Fees for mandatory audits of the single-entity and consolidated financial statements	654	559
Fees for other auditing services	166	116
Fees for advisory services, including tax advice	61	85
Total	**881**	**760**

Diversity Policy 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. When selecting personnel, we always give preference to the person who best meets 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 relevant education in the theory of management, practical knowledge and several years of experience in management positions. Furthermore, the suitability for a mandate on the management board or supervisory board requires personal qualifications such as integrity and impartiality, personal reliability, a good reputation and the fulfilment of governance criteria.

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

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 or insurance sector or in industry. 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 different cultural practices or other legal systems. The management board and supervisory board members have excellent foreign language skills.

We have a special interest in employing 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, 30% of the shareholder representatives and half of the staff representatives were women, which corresponds to a total ratio of 36%. The share of women on the Management Board was 33% at the end 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, however, we 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 47 and 75 years, and on the Management Board between 48 and 60 years.

MEASURES TO PROMOTE WOMEN

At BKS Bank, we have 1,128 employees of which 637 are women. We are pleased that today 31.4% of management positions at our company are filled by women. In the reporting year, eight of the 20 new management positions appointees were women, which is a share of 40%.

The goal is to raise the share of women in management positions to 35% by the end of 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 careers in management or as experts. To date, 57 women have completed the women's career programme. Of these, 16 succeeded in starting a management career and 14 women switched to other fields of work. Four female employees are currently on leave of absence for childcare.

A good balance of career and family life plays a decisive role when considering a career move. 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 some of the measures for which funding is also made available. These initiatives were recognized by the certificate received 'berufundfamilie' (workandfamily), an audit programme of the Federal Ministry for Economy, Family and Youth, awarded in the years 2010, 2013, 2016 and 2019. In Slovenia, BKS Bank has held the corresponding local certificate since 2015. In Croatia, we have been certified under the "MAMFORCE©Standard" certification programme for family-friendly companies since 2017.

In accordance with the principle of "equal pay for equal work", we make every effort to continue to 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. Furthermore, more men have all-in remuneration contracts for additional work.

In 2019, we reduced the income gap from 17.0% to 16.5% which is a reduction by 0.5%-points. We aim to reduce the ratio of part-time work, which is currently 38.8%, 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 also possible for female 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. While the ratio was 59.8 years in 2018, in the year 2019 we reached the target at 60.01 years.

WOMEN IN MANAGEMENT POSITIONS

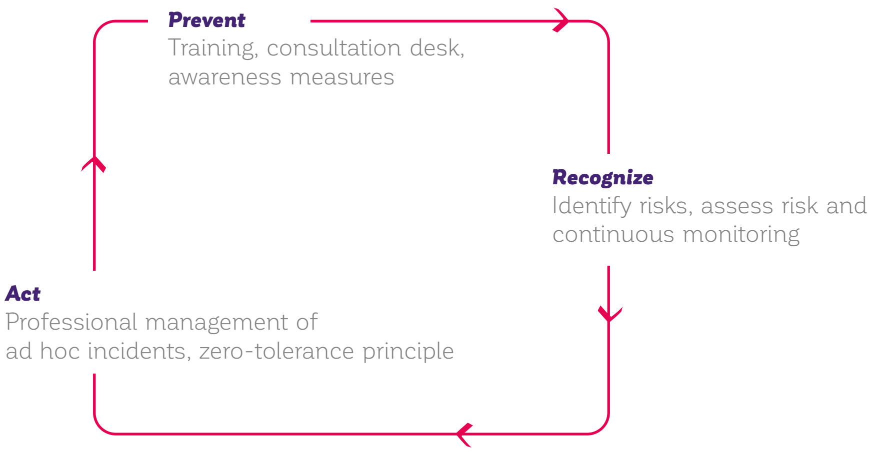
As at 31 December 2019	Number of women	Ratio	Number of men	Ratio
Management Board	1	33%	2	66%
Supervisory Board (shareholder representatives)	3	30%	7	70%
Supervisory Board (staff representatives)	2	50%	2	50%
Other management positions	56	32%	121	68%

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 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 secures 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 topics 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 extensive compliance topics 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 her team are responsible for 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.

Apart from the risk-based measures in ongoing business operations that are designed to prevent the abuse of BKS Bank for purposes of money laundering and terrorism financing, the preparatory work for the implementation of the Fifth EU Money Laundering Directive was also an important goal in the financial year 2019. Furthermore, the organisational measures had to be compared with several circulars issued by the FMA in the financial year 2019, and if necessary adjusted to comply with the provisions.

The Compliance Officer and the "Capital Market Compliance Team" created pursuant to the Securities Supervision Act is responsible for compliance matters that BKS Bank as a listed company and service provider for financial instruments must observe. These include, among other things, the definition of compliance rules and regulations, the development and implementation of communication and training measures, the prevention and combatting of inside dealings and market manipulation, as well as the periodical assessment of compliance risks. Processes, rules and regulations relating to anti-corruption supplement these tasks.

MiFID II including the extensive supplementary rules continued to pose a challenging task. The high density of legal acts and the different forms of soft law make the application of MiFID II especially complex and time-consuming. It is not always clear why the formal requirements required by law are a benefit for customers or market participants.

Moreover, a Compliance Officer pursuant to the Banking Act was also appointed at BKS Bank. Within the scope of regulatory compliance, this Compliance Officer together with a team of specialists is responsible for monitoring compliance with statutory provisions in the areas prescribed by law, for recognising amendments to the law and, if applicable, for initiating implementation measures at BKS Bank.

The staff members in the area of compliance under the Banking Act were faced with the task of maintaining an overview of the numerous legal amendments in the financial year 2019 and operating a system that minimizes the risk of violating these provisions.

They have a large number of supervisory, control, notification, reporting and information obligations. On the other hand, they also have extensive powers to give instructions, request information and conduct investigations. There is an independent reporting line to the Management Board, the Supervisory Board and the Financial Market Authority and also, if applicable, to other government authorities. A compliance management system is also in place at the foreign branches and subsidiaries.

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 2019, the members of the Management Board held a total of 3,243 ordinary shares and 4,279 preference shares on their securities accounts with BKS Bank; Supervisory Board members held 6,275 ordinary shares and 2,755 preference shares. In total, this is a percentage of around 0.04% of the shares issued. Purchases and sales by members of the Management Board and the Supervisory Board as well by related parties are reported to the Financial Market Authority (FMA) in accordance with the EU Market Abuse Regulation 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 no Directors' Dealings to report.

COMPLIANCE AND AML INFORMATION ON BKS BANK ON THE INTERNET

	Websites:
• Extract from registers • AML Declaration • Banking License • USA Patriot Act Certification • Wolfsberg Questionnaire of BKS Bank AG • W-8BEN-E, W-8IMY • Directors' Dealings Reports	www.bks.at/investor-relations/compliance-informationen

Independent Assessment of the Functionality of the Risk Management

KPMG Austria GmbH conducted an assessment of the functionality of risk management at BKS Bank pursuant to C Rule 83 of ÖCGK. 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 26 March 2019, 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 (4) Banking Act. A principal area of focus was the management of payment service risks. At the meeting of the Risk Committee on 4 December 2019, the objectives and implementation of the measures of the risk strategy were discussed. Risk management at BKS Bank is described in detail in the Annual Report 2019 starting on page 159.

BKS Bank has an internal audit system in accordance with C Rule 18 of ÖCGK 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 assesses 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). 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 a listed bank, BKS Bank AG prepares the consolidated financial statements and short interim financial statements, which are 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 the interim reports at the latest three months after the end of the reporting period. The reports are available to the public for at least ten years. We use the services of the Issuer Information Centre of Oesterreichische Kontrollbank AG (OeKB), which is the officially appointed system for the central storage of mandatory disclosures. 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. 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, 9 March 2020

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,

The year 2019 was again an extremely successful financial year for BKS Bank. The challenges are still daunting, but BKS Bank's impressive performance showed that it is possible to achieve excellent results despite harsh market conditions. BKS Bank yet again proved a reliable partner for customers, shareholders and employees alike – also in difficult times. The bank's successful digitalisation measures are evidence of its perseverance and innovative capacity.

Unfortunately, the relationship with the two minority shareholders belonging to the UniCredit Group has deteriorated. Our relationship is now very different to the one we had in the past. They contested valid resolutions of the last Annual General Meeting adopted by a majority vote by filing a complaint with a court of law and also requested a special audit of all financial years going back to 1994. Nonetheless, the Management Board of BKS Bank and I, as Chairman of the Supervisory Board, are still willing to discuss all of the questions and issues raised by these shareholders objectively in order to find a solution acceptable to all parties.

Close Coordination between Supervisory Board and Management Board

The Supervisory Board monitored the work of the Management Board and provided support for the management of BKS Bank and its Group companies. At the four regular meetings held in the reporting year, the members of the Supervisory Board and the Management Board deliberated and discussed the economic situation, including the risk situation and risk management, the further development of the Bank's strategy 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 communicated regularly with the Chairwoman of the Management Board and discussed and analysed the development of business, the risk management and the strategy jointly with her. The Supervisory Board was therefore involved all in key decisions taken by BKS Bank. The Supervisory Board met all of its responsibilities stipulated by law, the articles of association and the rules of the Austrian Code of Corporate Governance. The Supervisory Board confirmed the correctness, expediency and proper conduct of the company's management.

The Supervisory Board pools its areas of expertise in seven committees. This report provides a description of the main areas of work of these committees from page 27. The composition and independence of the Supervisory Board, the criteria for its independence, its working procedures and decision-making powers are explained in detail from page 19. In my report I fully agree with the information presented.

Changes to the Management Board and Supervisory Board

At the 80th Annual General Meeting held on 5 May 2019, Franz Gasselsberger and Heimo Penker were re-elected for the maximum period of office under the articles of association for another five years. All newly elected and reelected members of the Supervisory Board declared their independence and the relevant statements were made in accordance with § 87 (2) Stock Corporation Act. The Nominations Committee reviewed the qualifications of Franz Gasselsberger within the framework of the standardised procedures defined by BKS Bank's fit and proper policy. The fit and proper qualifications of Heimo Penker were reviewed by the plenary meeting of the Supervisory Board, as he is a member of the Nominations Committee.

At the plenary meeting of the Supervisory Board held immediately after the 80th Annual General Meeting, I was confirmed as Chairman and Franz Gasselsberger as Vice Chairman. The members of six committees were also appointed at this meeting. The members of the Legal Committee were elected at the third meeting of the Supervisory Board, after the establishment of this committee was also decided at this meeting.

Diversity

The ratio of women on the Supervisory Board was around 36% in the past financial year. The ratio of 30% for women and men defined in the Stock Corporation Act is complied with both by the shareholder representatives as well as by the employee representatives appointed pursuant to § 110 ArbVG. I would like to stress here 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 are all experienced leaders from the financial sector, IT sector, industry and universities. They help steer the course of BKS Bank with prudence and a forward-looking entrepreneurial outlook.

No member of the Supervisory Board failed to take part in more than half of the meetings. The attendance rate of all members of the Supervisory Board at the four Supervisory Board meetings was 92.9%.

Audit of the Financial Statements

The accounting records, the financial statements and management report of BKS Bank AG for 2019 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt branch. The audit was conducted in accordance with statutory provisions and did not give rise to any objections. The auditors confirmed this by awarding an unqualified audit certificate.

The following topics were identified as key audit matters in the audit of the financial statements for 2019, and the audit opinion presented the resultant risk as well as the relevant audit approach in detail:

- Impairment of receivables from customers
- Classification and measurement of companies accounted for using the equity method
- Legal dispute of the 3 Banken Group with UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H.

The Supervisory Board also agreed with the proposal of the Management Board to pay out a dividend of EUR 0.25 per share on the net profit for 2019 and to carry the remaining profit forward to a new account.

The IFRS consolidated financial statements for the year ended on 31 December 2019 and the Group management report were prepared in accordance with Austrian company law audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt branch. All statutory requirements were met, and this audit did not give rise to any objections either. 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 2019 as well as of the result of operations and cash flows for the period from 1 January to 31 December 2019. The auditors confirmed 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, thereby approving the financial statements 2019 of the company in accordance with § 96 (4) Stock Corporation Act. The consolidated financial statements, the Group management report, the annual risk report, the non-financial information report and the corporate governance report were also reviewed and approved by the Supervisory Board.

On behalf of the Supervisory Board, I would like to thank the Management Board, the management staff and all employees for their immeasurable personal commitment and hard work. I would particularly like to express my great appreciation to our customers and shareholders that place their trust in BKS Bank.

Klagenfurt am Wörthersee, March 2020

Gerhard Burtscher
Chairman of the Supervisory Board

Investor Relations

The BKS Bank's Shares **44**

The BKS Bank's Share

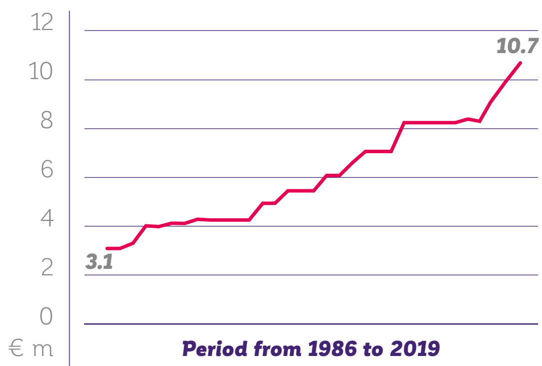
INVESTING IN THE FUTURE

Our shareholders appreciate the shares of BKS Bank as a promising investment with a long-term potential of an increase in value. Regional ties and economic strength are the pillars of our company. BKS Bank was not only able to perform satisfactorily compared to its peers, but proved its excellence even in difficult market phases. The independence of BKS Bank is its most valuable asset – it supports our success and is greatly appreciated by our shareholders.

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 in the segment 'standard market auction' of the Vienna Stock Exchange. Each share corresponds to an equal share of the subscribed capital. The nominal share capital is EUR 85,885,800 and breaks down into 41,142,900 ordinary shares and 1,800,000 preference shares. 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.

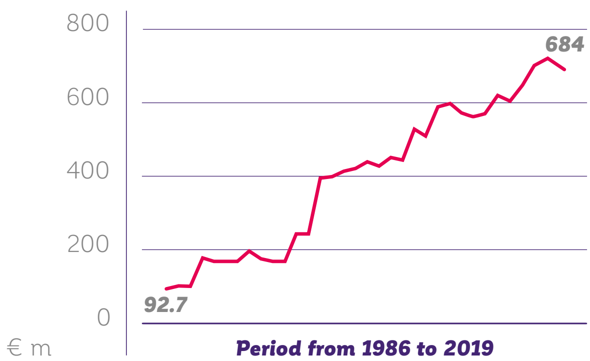
The closing price of the ordinary share at year-end 2019 was EUR 16.00 and the closing price of the preference share was EUR 14.30. Market capitalization was EUR 684 million.

DEVELOPMENT OF THE DIVIDEND OF THE BKS BANK SHARE



[1] Proposal to the 81st Annual General Meeting

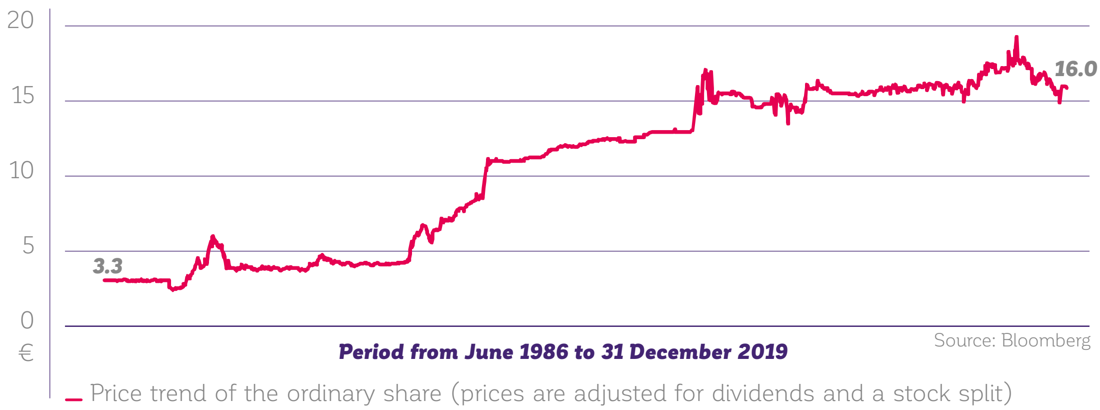
MARKET CAPITALIZATION OF BKS BANK



We are pleased about the excellent earnings in the financial year 2019. Our goal is to share our successful development with our shareholders and to further strengthen our capital base.

For the financial year 2019, the Management Board will propose the distribution of a dividend in an amount of EUR 10,735,725 at the 81st Annual General Meeting. This corresponds to EUR 0.25 per share, and based on the year-end price of 2019, to a return of 1.56% on ordinary shares and of 1.75% on preference shares.

PRICE TREND OF THE BKS BANK ORDINARY SHARE SINCE THE INITIAL PUBLIC OFFERING



Past price trends are merely informative in nature and are not indicative of future developments. The development of prices in the past does not permit any conclusions to be drawn on future trends.

Further information on the shareholder structure of BKS Bank is available in the Group management report from page 69 and on the website www.bks.at, »Über Uns » Investor Relations » Aktionärsstruktur.

RESULTS OF THE VOTING AT THE ANNUAL GENERAL MEETING OF 8 MAY 2019

Agenda item 2

Resolution on the use of the net profit for the financial year 2018:
- 'Yes' votes: 693 shareholders with 23,842,325 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 7 shareholders with 12,469,813 votes

Agenda item 3

Discharge from liability, Herta Stockbauer:
- 'Yes' votes: 685 shareholders with 23,834,060 votes
- 'No' votes: 7 shareholders with 12,469,813 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Dieter Kraßnitzer:
- 'Yes' votes: 685 shareholders with 23,834,060 votes
- 'No' votes: 7 shareholders with 12,469,813 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Alexander Novak:
- 'Yes' votes: 685 shareholders with 23,834,060 votes
- 'No' votes: 7 shareholders with 12,469,813 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Wolfgang Mandl:
- 'Yes' votes: 685 shareholders with 23,834,060 votes
- 'No' votes: 7 shareholders with 12,469,813 votes
- Voting abstentions: 0 shareholders with 0 votes

Agenda item 4

Discharge from liability, Gerhard Burtscher:
- 'Yes' votes: 685 shareholders with 23,834,060 votes
- 'No' votes: 7 shareholders with 12,469,813 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Franz Gasselsberger:
- 'Yes' votes: 685 shareholders with 23,834,060 votes
- 'No' votes: 7 shareholders with 12,469,813 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Christina Fromme-Knoch:
- 'Yes' votes: 692 shareholders with 36,303,873 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Gregor Hofstätter-Pobst:
- 'Yes' votes: 36 shareholders with 14,725,857 votes
- 'No' votes: 653 shareholders with 21,273,597 votes
- Voting abstentions: 4 shareholders with 304,479 votes

Discharge from liability, Reinhard Iro:
- 'Yes' votes: 691 shareholders with 36,303,623 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Josef Korak:
- 'Yes' votes: 691 shareholders with 36,303,623 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Stefanie Lindstaedt:
- 'Yes' votes: 691 shareholders with 36,303,623 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Heimo Penker:
- 'Yes' votes: 691 shareholders with 36,303,623 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Karl Samstag:
- 'Yes' votes: 34 shareholders with 15,097,247 votes
- 'No' votes: 69 shareholders with 316,138 votes
- Voting abstentions: 588 shareholders with 20,890,238 votes

Discharge from liability, Sabine Urnik:
- 'Yes' votes: 689 shareholders with 36,300,439 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Klaus Wallner:
- 'Yes' votes: 690 shareholders with 36,300,449 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Maximilian Medwed:
- 'Yes' votes: 690 shareholders with 36,300,449 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Herta Pobaschnig:
- 'Yes' votes: 690 shareholders with 36,300,449 votes
- 'No' votes: with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Hanspeter Traar:
- 'Yes' votes: 690 shareholders with 36,300,449 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Ulrike Zambelli
- 'Yes' votes: 690 shareholders with 36,300,449 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Discharge from liability, Gertrude Wolf:
- 'Yes' votes: 690 shareholders with 36,300,449 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Agenda item 5.1
Election, Franz Gasselsberger:
- 'Yes' votes: 693 shareholders with 23,844,326 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 7 shareholders with 12,469,813 votes

Agenda item 5.2
Election, Heimo Penker
- 'Yes' votes: 691 shareholders with 36,314,139 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Agenda item 6.1
Appointment of bank auditor for BKS Bank AG for financial year 2020:
- 'Yes' votes: 693 shareholders with 23,844,326 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 7 shareholders with 12,469,813 votes

Agenda item 6.2
Appointment of the bank auditor for the EU branch in Bratislava (BKS Bank AG, pobocka zahranicnej banky v SR) for FY2019 and FY 2020
- 'Yes' votes: 694 shareholders with 23,871,326 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 6 shareholders with 12,442,813 votes

Agenda item 7
Resolution on the amendment to the Articles of Association, § 22 (2), § 24 (1) and § 25 (1):
- 'Yes' votes: 700 shareholders with 36,314,139 votes
- 'No' votes: 0 shareholders with 0 votes
- Voting abstentions: 0 shareholders with 0 votes

Agenda item 8
Resolution on a special audit of the management of the company to be conducted as defined in § 130 Austrian Stock Corporation Act to determine whether:

(i) the decision taken by the Management Board on 23 November 2017, 22 January 2018 and 6 March 2018 to increase the share capital by EUR 6,606,600 (recorded in the Companies Register on 8 March 2018),

(ii) the decision taken by the Management Board on 8 September 2016 and 20 October 2016 to increase the share capital by EUR 7,207,200 (recorded in the Companies Register on 28 October 2016),

(iii) the decision taken by the Management Board on 26 September 2014 and 29 October 2014 to increase the share capital by EUR 6,552,000 (recorded in the Companies Register on 31 October 2014),

(iv) the decision taken by the Management Board on 24 September 2009 and 27 October 2009 to increase the share capital by EUR 9,360,000 (recorded in the Companies Register on 31 October 2009),

(v) the decision taken by the Annual General Meeting of the company on 26 April 2000 to increase the share capital by EUR 1,308,600 (recorded in the Companies Register on 11 May 2000),

(vi) the decision taken by the Management Board on 8 March 1994 to increase the share capital by ATS 6,000,000 (recorded in the Companies Register on 22 April 1994) for cash contributions with a view to the subscription of new ordinary shares by shareholders with mutual crossholdings in the company;

a) gave rise to payments or other inducements between the company and its shareholders, in particular, Generali 3Banken Holding AG, to be listed broken down by shareholder, date, legal basis, amount and allocation, if applicable;

b) met the requirements of what constitutes effectively raising capital, as a higher amount of capital was achieved based on the existing mutual crossholdings calculated in the amount of one hundred in mutually-held interests;

c) resulted in the shareholders having subscribed to the new shares fully and effectively meeting their contribution requirements, with the share in the own assets of the company being duly deducted;

d) gave rise to potential demands for the refunding of any funds mentioned in a) and, if so, in which amount, against whom and on which legal grounds;

e) gave rise to a (special) benefit not related to the company for individual shareholders;

f) gave rise to any (special) benefit pursuant to e) on account of the influence exercised on the company through inducing a member of the Management Board or of the Supervisory Board to act in a certain way;

g) resulted in loss or damage due to the possible constellations of the company and/or individual shareholders, what the amount of such loss or damage was, and whether claims for such loss or damage can be made against the Management Board, the Supervisory Board or (the other) shareholders.

- 'Yes' votes: 12 shareholders with 12,550,251 votes
- 'No' votes: 673 shareholders with 23,748,002 votes
- Voting abstentions: 0 shareholders with 0 votes

ONGOING PROCEEDINGS

On 6 June 2019, the two minority shareholders UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. filed a lawsuit with the Regional Court Klagenfurt (Landesgericht Klagenfurt) contesting several of the resolutions adopted by the Annual General Meeting by a majority vote and one resolution that was rejected by a majority vote. The resolutions contested were the ones discharging from liability the members of the Management Board of BKS Bank who were in office in the year 2018 and one resolution discharging individual members of the Supervisory Board from liability. Furthermore, one resolution rejected by a majority vote was contested that concerned a motion put forth to the Annual General Meeting by the two plaintiffs requesting a special audit going back to the year 1994.

On 18 June 2019, UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. filed a petition also with the Regional Court Klagenfurt (Landgericht Klagenfurt) requesting the appointment of a special court auditor pursuant to § 130 (2) Stock Corporation Act. The special audit requested was to cover all capital increases carried out since seit 1994.

The Regional Court Klagenfurt (Landesgericht Klagenfurt) has meanwhile rejected the special audit request of UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. The ruling is not yet legally binding.

At the end of February 2020, UniCredit filed requests with the Takeover Commission to review if the shareholders' syndicate of 3 Banken Group violated the mandatory bid requirement under the Takeover Act. The Takeover Commission announced on 6 March 2020 that it had initiated an ex-post investigation pursuant to § 33 Takeover Act. BKS Bank is directly affected by these proceedings as a member of the syndicates of the core shareholders Bank für Tirol und Vorarlberg AG (hereinafter: "BTV") and Oberbank AG (hereinafter: "OBK").

The Takeover Commission had reviewed the syndicates of the 3 Banken already in the year 2003 and did not find any grounds for objections. UniCredit claims that the composition and decision-making processes of the syndicates have changed since then and that the syndicates have expanded their voting weight to an extent of relevance under takeover legislation. The claim is that a mandatory bid has been triggered.

After a careful review of the matter jointly with external experts, the Management Board believes that a renewed audit under the Takeover Act will not result in the obligation to make a mandatory bid.

INVESTOR RELATIONS COMMUNICATION

In our financial communication, 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.

Our website www.bks.at, »Über Uns » Investor Relations contains extensive information on our bank and ensures continuous newsflows. We publish press releases on the website of BKS Bank under www.bks.at »Über Uns » News & Presse.

Since 2012, 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). 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 publish our Sustainability Report for 2019 at the same time as this Annual Report on our website at www.bks.at under »Über Uns » Investor Relations » Berichte und Veröffentlichungen.

FINANCIAL CALENDAR 2020

Date	Content
31 March 2020	Publication of the single-entity financial statements and the consolidated financial statements 2019 on the website and in the Official Gazette of the Republic of Austria "Wiener Zeitung"
6 May 2020	81st Annual General Meeting
11 May 2020	Dividend ex-day
12 May 2020	Record date
13 May 2020	Dividend payout day
29 May 2020	Interim report for the period ended 31 March 2020
28 August 2020	Half-year financial report 2020
27 November 2020	Interim report for the period ended 30 September 2020

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About us

Our roots are in the south of Austria, in Carinthia. Almost 100 years ago, we started helping entrepreneurs start their businesses in Carinthia. We have remained a reliable partner for the regional economy to this very day. The number of regions in which we do business has been steadily expanding since our foundation. We are proud to say that we have a total of 63 branches in five countries today. We offer 1,128 employees attractive and secure jobs.

The range of products and services has been continuously evolving over time. This has helped us reach new customer segments. In the 1960s, we started enlarging our business activities to include retail customers. The international expansion into neighbouring countries took place in the late 1990s. We are pleased to say that BKS Bank's customer base includes more than 190,000 retail and corporate banking customers. BKS Bank's ordinary shares have been listed on the Vienna Stock Exchange since 1986.

OUR CUSTOMERS

In the corporate segment, we focus on industrial, commercial and trade companies as well as property developers, municipalities and self-employed professionals. Our advisory services and products include finance for working capital, capital goods and export finance; advisory services for government lending schemes; payment services; leasing business, deposit-taking and products for investing excess liquidity and for building wealth. We are proud that we are able to offer our corporate banking customers an attractive digital range of products and services. We serve some 23,500 corporate and business customers.

In the retail banking segment, we provide services to private individuals and members of the healthcare professions. Our range of services cover all classical banking products as well as numerous 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 167,700 retail customers.

Detailed information on our retail and corporate business is provided in the segment report starting on page 90.

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. In Italy, we operate a BKS Bank representative office and the company BCS Fiduciaria Srl.

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. The mutual crossholdings secure our independence and joint subsidiaries create synergy effects. Our many years of partnership with the building society Wüstenrot and Generali Versicherung completes our range of offers.

What we stand for

As a bank that cares about people and has strong regional roots, warm-heartedness is a key value that guides our work to ensure the prosperity of our customers. We offer excellent advice, services and products, and promote networks that foster the values we stand for. Together, we work to shape the future and assure a high quality of life.

OUR MISSION

- Our deep regional roots give us stability and permit us to grow nationally and internationally.
- We see ourselves as a commercial 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 major bank.
- We pursue a self-determined path. We are progressing one step at a time towards the goal of 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 keeps us independent and autonomous.
- We understand the individual needs of our customers. We are the first choice for demanding customers and combine advisory excellence with modern technical solutions.
- Living sustainably means assuming responsibility for our region and our future.
- Our employees act responsibly and strive to provide high 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 adequacy.

OUR VALUES

Warm-hearted We foster personal relationships and treat our customers as equals: respectfully and with empathy.

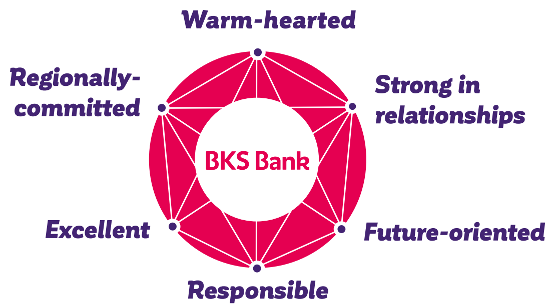
Strong in relationships We develop employees, customers and partners into real supporters and create networks that foster the values we stand for.

Future-oriented We are curious, recognize trends that fit our mission early on, and take advantege of these with a view to future benefits without losing sight of what is essential.

Responsible We are a flagship and multiplier for social responsibility; we work and invest to achieve healthy and long-term growth.

Excellent We do only what we are actually capable of, but better than our competitors and exceed the expectations of our counterparts.

Regionally-committed We are proud of our origins, we work across regions and contribute to our local

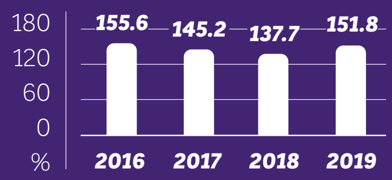


What we are proud of

OUR STRATEGY MODEL
To achieve our goals, we have modelled our corporate strategy on a Greek temple. We have defined three groups of measures as the three pillars of support of our future success. Our risk strategy is the basis on which we aim to shape and sustainably secure the future of our bank. Quality and sustainability provide a reliable foundation.

Our corporate strategy of sustainable growth has proven its worth many times over in the past years. Our earnings are stable, our own funds ratio is good, and we are winning new customers. We pay out a dividend to our shareholders every year. When it comes to sustainability, we are among the top players in the world. We are proud of this.

Liquidity coverage ratio



EQUITY

Solid capital cover
12.7% CET1 ratio
16.2% total capital ratio

Leverage ratio
7.8%

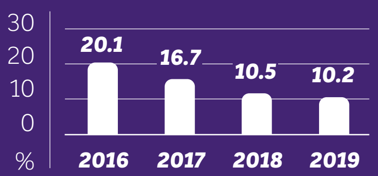
1.5
Grade on a scale of one to five

Customer satisfaction
91% of retail customers and 86% of corporate customers are satisfied or very satisfied with our services.

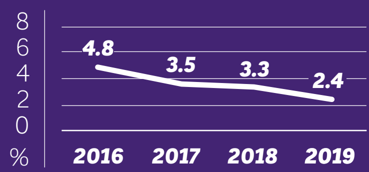
Vision and Mission

RISK

Trend risk/earnings ratio



Trend NPL ratio



EARNINGS AND COSTS

Net profit for the year
EUR 92.9 million

Number of customers
191,200

Cost/income ratio
50.7%

Digitalisation on course
- 1,700 BizzNet users
- 42,900 MyNet users

RESPONSIBILITY

Responsible management
Our management staff assumes responsibility and acts autonomously and professionally.

Target for net profit surpassed
126.8%

Turnover rate
6.6%

QUALITY AND SUSTAINABILITY

QUALITY AND SUSTAINABILITY
Our CSR activities were once again given prime status by Prime ISS-oekom.
BKS Bank's ordinary share is listed in the VÖNIX, the sustainability index of the Vienna Stock Exchange.

Award
In June 2019, BKS Bank was the first bank in Austria to receive the State Award for Business Excellence 2019.

communities.

Our strategy

We want to grow one step at a time on our own strength – and this remains our strategy for the future.

OUR KEY STRATEGIC GOALS

We are profitable, productive, and are therefore continuously achieving solid earnings.

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

We place the needs of our customers at the focus of our activities. This helps us win new retail and corporate customers.

We adequately limit (credit) risks.

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

We returned profitability in the retail segment.

We focus our growth in non-lending business areas.

Our image is that of a bank that acts responsibly.

We are transforming our organisation for the digital age.

Sustainability and quality is an integral part of our daily work.

We value and respect our employees.

We have management staff that assumes responsibility - autonomously and professionally.

The environment we work in is very demanding. Zero interest rates, swiftly changing technologies, regulatory issues, pressure from costs and highly competitive markets are the challenges we face every year. The issues confronting our industry are manifold. Nonetheless, we are still able to achieve solid economic success and steadily rising earnings. These achievements make us very proud and push us to continuously work on our advancement.

Our success is based on our approach of viewing change as an opportunity. We have developed the skills to adjust very fast to new situations and have proven time and again that we are very capable of innovation. Over the years, we have created a valuable brand. For our partners, we are a beacon of reliability that offers orientation and stability also in stormy times.

Strong brands create value. In the past few months, we have analysed our brand closely and reviewed our positioning from several different perspectives.

The outcome of our deliberations was a project in which we developed a new branding strategy together with our management staff and employees. In the course of this project, we also involved customers. On the basis of our history, our performance and services, and the features attributed to us, we distilled the key values of our brand. These values stand for the way we enter into relationships with our customers, employees, shareholders and business partners.

We transformed the brand strategy into a new brand style, which we are presenting for the first time with the publication of this Annual Report. In the coming months, we will be rolling out the new brand style throughout the entire Group.

The new brand positioning is like a breath of fresh air for the many initiatives we have launched to achieve our strategic goals. The strategic focus defined for the coming years is designed to strengthen our key brand values and to enable our customers, shareholders and employees to experience the new branding.

WARM-HEARTED

We are different from other banks, because we care about people. We care about the well-being of our customers and offer them first-class products and services. We care about our region, about nature and the effective stewardship of resources. Relationships with people and with our region are important to us, therefore, we remain a bank that provides individual advisory services and digital solutions. We are strict about placing the needs of our customers at the focus of our attention and work, and this makes healthy growth possible.

STRONG IN RELATIONSHIPS

Customers want to be able to conduct their banking transactions 24 hours a day regardless of where they are. Still, many customers want a competent partner at their side for complex banking transactions. Demand for personal services is thus still high. The branch is the most suitable place for providing personal services. We reinforced our commitment to branches by developing a concept for the future of our branches. We will modernize our branches successively and upgrade them to the standards of the digital age. In our growth regions – especially in Vienna and in our foreign markets – we plan to open new branches.

Proximity to customers should also be digitally perceptible, therefore, we are working to optimize our interfaces with our customers. Irrespective of whether customers prefer to contact us online or come to one of our branches. In all communication channels, we show that we care and value our customers. In the reporting year, we introduced a number of new digital solutions on the market that our customers and our staff can use across the different channels. And the digital journey is not over yet. In the coming months, we will be presenting products and services that can be acquired both online and at the branches.

EXCELLENT

The economic development of our bank is the story of our success. Our earnings have been increasing from year to year despite zero – and even negative – interest rates, large volumes of resources required for regulatory measures, and investments in the millions for digitalisation projects.

The main source of income is the lending business. However, we want to continuously decrease dependence on this business area by expanding into non-lending business fields. There are still enormous market opportunities in payment services. Our numerous achievements in this area make us optimistic about the future. Our competence for payment services solutions is outstanding and we plan to build on this.

Another successful business area is the securities business. In the last year, we completed the takeover of some 25,000 customers of ALTA Invest, investicijske storitve d.d., thus making us the largest investment services provider in Slovenia. The takeover was a major milestone in the implementation of our growth strategy. In Austria as well, the investment business still has earnings potential that we hope to exploit by strengthening our advisory competence and offering first-rate sales services.

REGIONALLY-COMMITTED

We aim to further strengthen our market position and expand our presence in our foreign markets. We already have concrete expansion plans, for example, for Croatia where we will be opening a second branch in Zagreb in the coming months. The Slovenian market developed very dynamically in the past few years due to acquisitions in the investment segment. We plan to strengthen our market position by increasing sales activities. Furthemore, we plan to continue to grow and acquire new customers in Slovakia as well. Digitalisation projects to expand our range of products and services are under way on all foreign markets. Additionally, we are preparing our market entry in the leasing business in Serbia.

FUTURE-ORIENTED

New technologies are changing how customers select and purchase products and services, and how companies organise their internal processes. This development calls for adjustments also to the qualification of our employees. Digital competencies are required today in all work areas. We are investing in training and further education measures to bring our employees up to speed on digital topics and accelerate the digital transformation. We are also looking at which new professions will emerge in connection with the digital transformation. What remains unchanged though is our aspiration to employ the best trained employees.

RESPONSIBLE

For many years, sustainability has been a key element of the corporate strategy of BKS Bank. We have defined a holistic sustainability strategy which we are constantly developing. For us, living sustainably means assuming responsibility for our region and our future. For this reason, we are continually enlarging the range of sustainable products and services, and taking a wide variety of measures for our staff, society, the environment and climate protection.

The EU's 2018 Action Plan: Financing Sustainable Growth and the related new directives shifted the focus towards sustainability for the entire banking industry in the reporting year. A growing number of investors are looking more closely at investments in ecological and sustainable projects that contribute to reducing the carbon footprint. Environmental and climate protection are also becoming central elements of corporate governance not least due to the more stringent environmental standards and general effects on the business model. These developments are good for us, because we started investing in sustainability early on and integrated sustainability aspects into our core business.

We were pioneers in many fields. For example, we were the first in the Austrian banking sector to issue a social bond. This early move is also why we are at the forefront of our industry in the area of sustainability. We are very proud of this and will make every effort to solidify this position. Therefore, in the coming years we will enlarge our range of sustainable products with further green and social bonds and continue to lower our carbon footprint.

OUR ACHIEVEMENTS IN THE YEAR 2019

In the reporting year, we achieved major milestones in the implementation of our corporate strategy. We have been very successful with innovative products and services especially in digital transformation. Below is an overview of the measures taken. Information on the strategic initiatives in the corporate and retail banking business is given in the segment report starting on page 90.

Major milestone of our digitalisation strategy achieved

In the past financial year, we dedicated ourselves fully to the implementation of our digitalisation projects. We launched some extremely useful and innovative products that perfectly meet the needs of our customers. The first one was the **digital guarantee module** developed specifically for our corporate and business banking customers. Since the summer of 2019, customers have been able to use the BizzNET portal to request and complete the procedures for bank guarantees completely online. And they can do this 24 hours a day, 7 days a week. This innovative offer has yet to be matched by our peers in the Austrian banking sector and we are pleased to be able to offer our customers a real benefit for their business.

Making it possible for individuals to fulfill their dreams of an own home is a core competence of ours. Supporting customers with the purchase of their own homes is one of the more agreeable aspects of the banking business. Usually, such decisions are not taken lightly. Customers compare, assess their options and when the decision for the dream home has been reached, they need a quick way to find the right financing solution. The best channel is online and with personal advice. The newly developed **digital BKS home loan** meets precisely these demands from customers. Customers choose if they want to apply for a home loan on their own or if they want to discuss the decision with a competent customer relationship manager. They can prepare the application together with the customer relationship manager through an online platform. The exchange between customers and a customer relationship manager is possible throughout the entire application process.

The digital home loan was very well received and by the end of the year, over 130 customers had already contacted us through this platform. A few weeks later after the start of the digital home loan module, we launched the **online consumer loan** module.

Just before the end of the year, we also finalized a further prestigious project. The **digital onboarding** functionality we created has enormously simplified how customers can open new accounts. We used the same innovative platform as for the digital home loan function on which potential customers can complete the identification and account-opening process autonomously or contact a customer relationship manager if necessary.

In 2019, we not only launched a number of innovative products on the market, but also added new features to our digital customer portals MyNet and BizzNET. Since the summer, we have also been offering our retail customers the option of individually and autonomously changing the overdraft facility on their accounts – provided their credit rating meets the required criteria. Conducting banking transactions in the **BKS Bank App** or through one of the customer portals was rendered more convenient by implementing a new authentication procedure. The new **BKS Security App** was well received by our customers from the very start, and therefore, we were able to finalize the replacement of the previous procedure over the summer.

A growing number of customers would like to use their smartphones to make payments. In 2019, we achieved good progress also in this area and started a cooperative venture with Blue Code. The **BKS Blue Code App** permits customers who use the Android operating system to pay via smartphone at 85% of food retail stores. The launch of this clever payment method has been extremely successful.

Market position in Slovenia strengthened

In Slovenia, we took a major expansion step in the last financial year. We acquired some 25,000 customers from the Slovenian investment services provider ALTA Invest, investicijske storitve, d.d. in the first quarter of 2019. This acquisition has made us the largest investment services provider on the Slovenian market. The takeover of the securities custody accounts went very smoothly. We are very pleased about the steady growth achieved in the past ten years since we started our securities services business and have substantially enlarged our market position. The focus now is mainly on offering our advisory services to our newly acquired customers to win their long-term loyalty to our bank. In order to achieve this, we are constantly investing in the further education and training of our employees to maintain our advisory services at a high level.

Successful validation under the environmental management system EMAS

The protection of the environment is a key topic of our sustainability strategy. Effective environmental and climate protection needs a strong driving force. In the reporting year, we decided to introduce EMAS, the EU Eco-Management and Audit Scheme at our company. EMAS is a sophisticated system for environmental management that helps companies improve environmental protection in their operations, responsibly and continuously. The preparation for the EMAS certification process took one year. We set up a dedicated environmental team with two company officers with responsibility for our environmental goals and their attainment.

In the course of the preparatory work for the audit, we conducted an intensive environmental review of our activities, products and services with respect to their impact on the environment with the support of external experts. We also prepared a first environmental statement. A key element of our environmental management is legal compliance with respect to environmental aspects. To this end, we created a separate legal register for the topics of environment, workplace safety, waste management and energy as well as a register of official notices.

We are very pleased that the audit conducted in December 2019 by Quality Austria gave us an excellent rating. We successfully completed the EMAS validation, thus achieving a major milestone in the implementation of our sustainability strategy. Our first environmental statement is scheduled to be entered into the EMAS Register in the course of the first quarter 2020, thereby officially confirming that we are EMAS certified.

Successful start of project to implement the EU's Action Plan: Financing Sustainable Growth

The European Union presented its action plan for financing sustainable growth in March of 2018. This action plan is designed to create impulses for a sustainable financial sector and support the attainment of the EU climate goals by 2030. We welcome the EU Action Plan as it addresses topics that we have long since included in our sustainability strategy and have been implementing vigorously. Nonetheless, we still have a great deal of work ahead of us, because the EU's Action Plan affects many aspects of our core business. We launched a project in the reporting year to deal with the new requirements. The project is progressing well and some first important measures have already been implemented, including the integration of ESG factors into risk management and the evaluation of the taxonomy.

Effective risk management as a guarantee for strategic success

A key element of our business is knowingly assuming risks. What is important in this respect is the early recognition of all relevant banking and operational risks and their active management and mitigation through effective risk management measures. In the past financial year, we succeeded in lowering our NPL ratio further and enlarging the Coverage Ratio III through our responsible risk management. As regards new business, we continue to pursue the quality criteria defined for our risk strategy and have attained growth in the best and good credit rating categories. Additionally, we continue to work on the further development of our risk management. Within the course of the project launched in 2019 to implement the EU Action Plan for Financing Sustainable Growth, we thoroughly analysed the ESG risks and integrated these into our risk strategy and risk management. In the fourth quarter of 2019, we started a new project to redefine the risk-bearing capacity analysis.

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Economic Environment

ECONOMY SLOWED IN 2019, BUT DID NOT SLIP INTO RECESSION

The global economy continued on the downturn that started at the end of 2018. While it had still been expanding in 2018 at a pace of 3.6% worldwide, for 2019 the International Monetary Fund (IMF) estimated the global growth rate at 2.9%.

In the US, the economy also grew at a slower pace in 2019 than in the year before. The fourth quarter failed to live up to expectations due to a slowing trend in spending by private households. In the US, GDP growth for the full year was 2.3% in 2019. The main reasons for the economic contraction were declining exports, less capital spending and slightly lower private consumption.

In China, the development of the economy slowed markedly. The Chinese economy grew in the previous year at a rate of 6.1%, which is the slowest rate of the past three decades. Economists attribute the sluggish Chinese economy to shrinking domestic demand and to the trade conflict with the US.

The economy in the euro area hardly expanded at all in the autumn of 2019 and posted a growth rate of 0.1%. GDP growth over the full year was 1.2%. Economic development was checked by another drop in industrial production. However, sentiment indicators indicate that the downtrend in the sector has bottomed out. Growth was weighed down in the fourth quarter especially by the sluggish developments in France and Italy, and in Q4 economic output shrunk in the two countries by 0.1% and 0.3%, respectively.

The economy in Austria also contracted in the recent past. A quick estimate by the Austrian Institute of Economic Research (WIFO) states that economic expansion in Austria slowed to 1.6% in 2019. The economic contraction in Austria was caused mainly by the weakness in global trade, because Austria is especially affected as an exporting nation. However, economic growth is still supported by public sector spending and by private household consumption.

SHIFT IN PARADIGM IN CENTRAL BANK POLICY

Mario Draghi ended his term as President of the European Central Bank (EC) in the autumn of 2019. His successor is Christine Lagarde who plans to continue the current policy of zero interest rates and bond buying for now. Around the end of 2018, the assumption had still been that the central bank would tighten policy after the phasing-out of the bond-buying programme, but just one year later, the ECB shifted course. The ECB has been buying bonds again every month for a volume of EUR 20 billion since November 2019. Interest on deposits was lowered to -0.5% in 2019. The US central bank took a similar course. After having raised key lending rates in several steps from 0.25% to 2.50% since 2015, in 2019 the Fed lowered rates for the first time in a decade, and repeated this move two more times. At the end of December, the US Federal Funds Rate was in a range of 1.50% to 1.75%.

GOOD YEAR FOR INVESTORS

The year 2019 turned out to be one of the best investment years of the past decade despite gloomy sentiment at the end of 2018. However, the year was not free of worry. Fears of recession, Brexit, growing populist trends in Europe, and not least, the trade dispute between the US and China kept investors on their toes. However, precisely this could be one of the reasons for the good performance of stock markets, as it kept investors from getting too enthusiastic and overeager. German stocks appreciated in value by around 25% in 2019, while Austrian stocks gained some 19%. European stocks gained 28.0%, and US stocks even climbed 31%.

Due to declining interest rates, bond prices also rose. Euro government bonds appreciated by around 6% in the preceding year. Among the best-performing bond segments were high-yield bonds that gained around 10% (EUR bonds) and 16% (USD bonds) as well as emerging market bonds denominated in hard currencies, which gained around 16%.

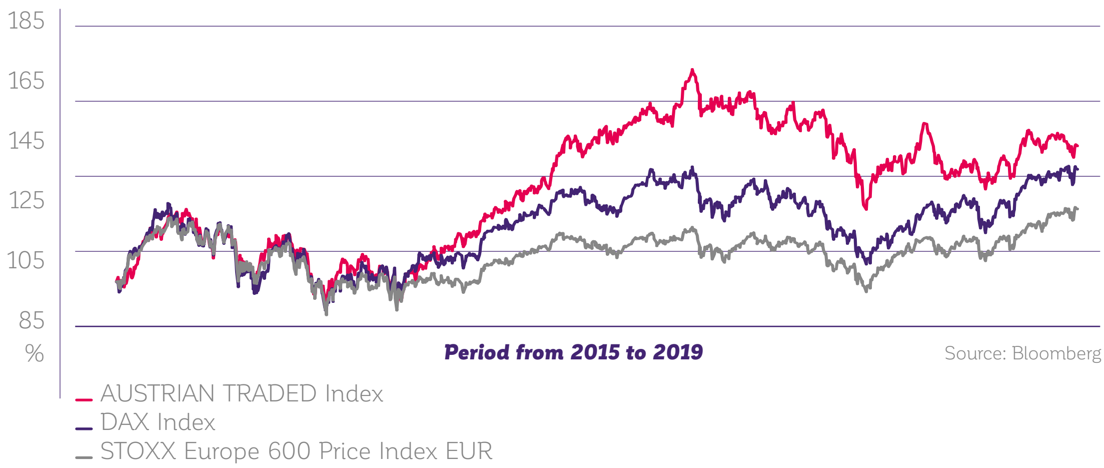
POSITIVE TREND ON COMMODITY MARKETS

Global demand for commodities recovered, especially in the last few months of the year 2019. Among the highlights was the gold trend that increased by approximately 21% and energy commodities with an appreciation of 32%. Other commodities such as industrial metals and agricultural commodities developed positively, though at a slower pace of around 5% and 2%, respectively. All performance figures are in euro.

EURO DEPRECIATED VERSUS MAJOR CURRENCIES

The euro depreciated against most major currencies last year. The exchange rate against the Swiss franc changed from 1.126 to 1.086, which is drop of around 4%. Compared to the Japanese yen, the euro decreased from 125.83 to 121.77, which is a loss of 3%. The euro also depreciated versus the US dollar from 1.147 to 1.121 EUR per US dollar, thus declining by 2%. Compared to the British pound, the euro became less expensive from 0.899 to EUR 0.846 EUR per GBP, which is a decline of 6.0%. Relative to the Chinese renminbi, the euro appreciated 1% from 7.867 to 7.815 EUR per CNY. The euro appreciated only versus the Croatian kuna - an important currency for our bank - by 0.4%, and at the end of December, it was trading at HRK 7.442 per EUR after HRK 7.411 per EUR at year-end 2018. Since 2020, Croatia has been part of the European exchange rate mechanism. The introduction of euro could take place at the earliest in 2023. Meanwhile, the Croatian kuna is expected to fluctuate in the range of 7.4 to 7.7 kuna per euro.

PERFORMANCE OF EUROPEAN STOCK INDICES



Management and Organisational Structure

RESPONSIBLE MANAGEMENT

The banking business has changed fundamentally in the past ten years. Mastering change calls for a management with courage and the ability to envisage the future, while at the same time ensuring stability and orientation. A look at the positive development of our bank shows that our management is highly capable and well able to lead our company and shape the future with a great sense of responsibility towards customers, employees and business partners.

Our management team consists of 57 women and 123 men throughout the Group. The share of women in management positions is 31.6% and still below our strategic target. Our goal is to achieve a share of women in management positions of 35.0% by the year 2022. We are taking a number of measures to attain this goal and make it easier to combine work and family life. We have established a women's career programme designed specifically to help women develop their personal career aspirations. For more details on the programme, please refer to page 33.

Developing responsible management is an important step towards securing the future of our bank. Therefore, we pursue active succession planning to fill vacancies in management and key positions from within the bank's own ranks. We offer ambitious employees extensive support and development programmes regardless of age, gender or socio-cultural background.

Our employees are very loyal to our company. This is also true of our management staff. Many of the staff have been part of the management team for a long time and have decades of experience in management positions. This continuity is also reflected in the age pyramid. A share of 47% of persons on our management team are over 50 years old, and 52% are between 30 and 49 years old.

NOMINATIONS 2019

There were no changes on the first management level in the reporting year. New management staff was appointed on the second level within the course of the restructuring of the central departments. Günther Offner, who had been head of Payment services, has been the head of the newly founded department Payments and Funds Transfers since 1 October. Günther Offner is an expert with deep knowledge of the very dynamic payment services business and served as leader for several prominent projects in this field in the past few years.

A new member on the management is Ronald Hassler who was appointed head of the newly founded department Finance & Investment on 1 December 2019. Ronald Hassler started his career at BKS Bank in 2002. He continued his career at other firms from 2005 to 2016. He then returned to BKS Bank where he worked as a customer relations manager at the Regional Head Office in Carinthia until he was appointed head of Finance & Investment.

There was a change to the management of the Austrian leasing company as of 1 December 2019. Silvia Gaber was appointed managing director of BKS-Leasing Gesellschaft m.b.H. after Wilma Kovačič resigned of her own accord from her position as managing director. Silvia Gaber worked in Accounting at BKS Bank before this appointment.

NEW POWERS OF ATTORNEY (PROKURISTEN)

On the proposal of the Management Board and with the consent of the Supervisory Board, the following persons were conferred the power of attorney in 2019:

- Renata Maurer-Nikolic, Head of Foreign Branches Group,
- Martina Štefančič Vrščaj, Head of Securities Business at the Slovenia Regional Head Office, and
- Jaroslav Zvolensky, Managing Director of BKS-Service GmbH

Therefore, for the first time, more than 10% of persons holding a power of attorney are women.

FOCUS ON CUSTOMER NEEDS

In the reporting year, we reorganised central sales and heightened our focus on customers. We created organisational structures based on areas of demand: finance and investment, securities and investments and payments services. This ensures that customer demands are optimally integrated along the entire value chain. An important aspect for ensuring a successful customer experience is the ideal interaction between branches and central units. For this interaction to work better, we set up a central sales department that functions as a hub between the regional head offices, branches and central departments. This department also steers the earnings development of the Austrian branches and is responsible for developing sales activities.

Young customers are increasingly alienated from traditional bank branches. To give this customer group access to BKS Bank, we are developing digital bank branches. Digital Sales is the new central department tasked with the establishment of digital banking at BKS Bank and responsible for online business and our digital channels.

FIT & PROPERNESS

BKS Bank organises regular further education and training courses to ensure the suitability of members of the Supervisory Board, Management Board, management staff and key employees. Further education measures for Supervisory Board members are usually held right after the meetings of the Supervisory Board.

ORGANISATIONAL STRUCTURE

As at 31 December 2019

MANAGEMENT BOARD

Chairwoman of the Management Board Herta Stockbauer
Dieter Kraßnitzer
Alexander Novak

CENTRAL STAFF UNITS

Office of the Management Board
Herbert Titze,
Dieter Kohl
(Banking Act - Compliance)
Christoph Pinter
(Securities Supervision Act - Compliance)
Fabia Orlandini (AML)

Accounts and Controlling
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

HEAD OFFICE

Securities and Investments
Georg Svetnik

Payments Services
Günther Offner

Finance and Investment
Ronald Hassler

Sales
Viktor König

Digital Sales
Gudrun Matitz

Credit Management
Michael Oberwalder

Treasury and International Operations
Josef Morak

Operations
Klaus Patterer

LEASING IN AUSTRIA

BKS-Leasing GmbH
Michael Meschnark
Silvia Gaber

ABROAD

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

Representation Offices
Italy (Padova)

REGIONAL HEAD OFFICES

Carinthia
Bernd Berger
Sabine Lax
Diethmar Wölle

Styria
Nikolaus Juhász

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

Shareholders of BKS Bank

The BKS Bank's shares are listed on the Standard Market Auction segment of the Vienna Stock Exchange. In accordance with the Articles of Association, the share capital breaks down into 41,142,900 no-par bearer ordinary shares and 1,800,000 no-par bearer preference shares with a calculated par value of EUR 2 per share. 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 by issuing up to 8,000,000 ordinary no-par bearer shares and to determine the offer price and the terms of issue in consultation with the Supervisory Board. After the resolution of the 79th Annual General Meeting, the amendments to the Articles of Association were registered in the Companies Register on 12 June 2018.

COMPOSITION OF THE CAPITAL

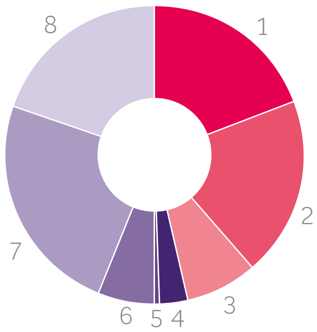
A share of 38.8% is held by the two partner banks Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft, and 7.8% by Generali 3Banken Holding AG. These three investors are related under a syndicate agreement. The purpose of the syndicate agreement is to guarantee the independence of BKS Bank AG through the joint exercise of voting rights at Annual General Meetings and mutual preemptive rights of the syndicate partners. After the capital increase, the voting share of the syndicate partners was 46.6%.

KEY DATA ON THE BKS BANK SHARE

	2018	2019
Number of ordinary no-par shares ISIN AT0000624705	41,142,900	41,142,900
Number of no-par preference shares ISIN AT0000624739	1,800,000	1,800,000
High (ordinary/preference share) in €	19.8/18.2	17.2/17.0
Low (ordinary/preference share) in €	16.5/16.9	15.0/13.4
Close (ordinary/preference share) in €	16.8/17.0	16.0/14.3
Market capitalisation in €m	721.8	684.0
IFRS result per share outstanding in €	1.82	2.15
Dividend per share	0.23	0.25[1)]
PER ordinary/preference share	9.2/9.3	7.4/6.7
Dividend yield ordinary share	1.37	1.56
Dividend yield preference share	1.35	1.75

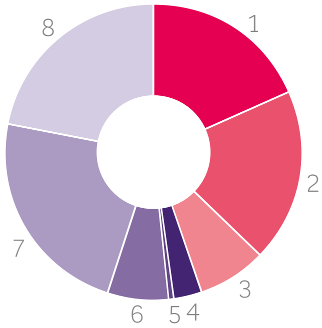
[1)] Proposal to the 81st Annual General Meeting on 6 May 2020

SHAREHOLDERS OF BKS BANK BY SHARE WITH VOTING RIGHTS AS AT 31 DECEMBER 2019



		in %
1	Oberbank AG	19.3
2	Bank für Tirol und Vorarlberg	19.5
3	Generali 3Banken Holding AG	7.8
4	Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	3.1
5	BKS-Belegschaftsbeteiligungsprivatstiftung	0.6
6	UniCredit Bank Austria AG	6.1
7	CABO Beteiligungsgesellschaft m.b.H.	24.2
8	Free float	19.4

SHAREHOLDERS OF BKS BANK BY SHARE AS AT 31 DECEMBER 2019



		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	1.0
6	UniCredit Bank Austria AG	6.6
7	CABO Beteiligungsgesellschaft m.b.H.	23.2
8	Free float	21.4

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

The portfolio of own shares was 614,614 ordinary shares as at 31 December 2019 and 164,698 preference shares, which corresponds to a ratio of around 1.5% of voting rights or 1.8% of the share capital.

SHARE BUYBACKS

In the year 2019, a share buyback programme was successfully carried out. In addition to the 14,000 shares from the share buyback programme of 2013, we repurchased some 100,000 ordinary shares on the stock exchange and over the counter through a publicly-announced stock buyback programme at price of EUR 17.1 per share. The buyback was carried out within the framework of the authorisation granted at the 79th Annual General Meeting in accordance with § 65 (1) nos 4 and 8 Stock Corporation Act. During the period from 3 April to 17 April 2019, a number of 17,989 shares were transferred to employees within the scope of the employee participation scheme at a market price of EUR 17 and – under certain conditions – paid out as part of the annual bonus. At the end of 2019, the number of ordinary shares attributable to the employee participation scheme programme was 96,011 compared to 14,000 shares in the preceding year.

ONGOING PROCEEDINGS

On 6 June 2019, the two minority shareholders UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. filed a lawsuit with the Regional Court Klagenfurt (Landesgericht Klagenfurt) contesting several of the resolutions adopted by the Annual General Meeting by a majority vote and one resolution that was rejected by a majority vote. The resolutions contested included the resolution discharging the members of the Management Board of BKS Bank who were in office in the year 2018 from liability and the resolution discharging individual members of the Supervisory Board from liability. A further resolution contested was one rejected by a majority vote that had requested the Annual General Meeting to approve a motion by the two plaintiffs requesting a special audit going back to the year 1994.

On 18 June 2019, UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. filed a petition also with the Regional Court Klagenfurt (Landgericht Klagenfurt) requesting the appointment of a special court auditor pursuant to § 130 (2) Stock Corporation Act. The request for the special audit specified a review of all capital increases carried out since 1994. The Regional Court Klagenfurt (Landesgericht Klagenfurt) has meanwhile rejected the special audit request of UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. The ruling is not yet legally binding.

These proceedings mentioned above are not expected to have any relevant effects on the financial statements.

At the end of February 2020, UniCredit filed requests with the Takeover Commission to review if the shareholders' syndicate of 3 Banken Group violated the mandatory bid requirement under the Takeover Act. The Takeover Commission announced on 6 March 2020 that it had initiated an ex-post investigation pursuant to § 33 Takeover Act. BKS Bank is directly affected by these proceedings as a member of the syndicates of core shareholders of Bank für Tirol und Vorarlberg AG (hereinafter: "BTV") and Oberbank AG (hereinafter: "OBK").

Already in 2003, the Takeover Commission had reviewed the syndicates of the 3 Banken and did not find any grounds for objections. UniCredit claims that the composition and decision-making processes of the syndicates have changed since then and that the syndicates have expanded their voting weight to an extent of relevance under takeover legislation. The claim is that a mandatory bid has been triggered.

After a careful review of the matter jointly with external experts, the Management Board believes that a renewed audit under the Takeover Act will not result in the obligation to make a mandatory bid. These proceedings are not expected to have any relevant effects on the balance sheet.

INFORMATION ON THE INTERNET ON ÖCGK AND BKS BANK

	Websites:
Austrian Code of Corporate Governance (ÖCGK)	www.corporate-governance.at
The BKS Bank's 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 • BKS Bank's Report on the Code of Corporate Governance • Publications pursuant to § 65 Banking Act regarding Corporate Governance & 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 CRR	www.bks.at/investor-relations/berichte-und-veroeffentlichungen
Press Releases of BKS Bank	www.bks.at/news-presse

Markets of BKS Bank

BKS Bank has been doing business successfully for almost 100 years. It was founded in 1922 as 'Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co' in Klagenfurt. Today, the BKS Bank Group has 63 branches and four leasing companies in Austria, Slovenia, Croatia and Slovakia as well as one representation office in Italy.

AUSTRIA

The origins of BKS Bank are in Carinthia. The bank's first expansion within Austria was in 1983 when it opened a branch in Graz. In 1990, we took the step to enter the market in Vienna and just celebrated our 30th anniversary there. The South-East axis was completed in 2003 with the acquisition of "Die Burgenländische Anlage & Kreditbank AG". Of our 49 branches in Austria, 20 are in Carinthia, 12 in Styria and 17 in the region of Vienna-Lower Austria-Burgenland. We concentrated our expansion in the regional capitals with solid economies. Today, our network of branches is not excessively wide and we have hardly had to close branches.

Carinthia remains our principal market. Some 41.7% of loans and 48.2% of deposits in the domestic market are managed through the branches in Carinthia. The organisational unit Corporate Banking, which also works from Carinthia, serves large corporates engaged in international business. This profit centre accounted for 12.5% of lending volume on the last tally. With 549.5 employees (FTE), BKS Bank is one of the largest employers in the region.

In Styria, we have 71.6 employees (in FTE) and serve some 24,400 customers. The province of Styria has traditionally been home to many industrial enterprises. Broad know-how and excellent advisory services for corporate customers make BKS Bank a highly sought-after banking partner for many companies, also in this market region.

We believe the greatest market opportunities for further growth are to be found in Vienna and surroundings. Forecasts estimate that Vienna's population will grow to two million by 2027. An increasing population also means growing demand for banking services. BKS Bank has gained a solid reputation as an alternative to the large established Viennese banks over the years. What sets us apart from our competitors is the excellent range of services we offer combined with our corporate philosophy of caring about people and strong relationships - two factors that are key to boosting growth. At the end of the year 2019, our 95.9 employees (FTE) served around 26,000 customers in the region of Vienna-Lower Austria-Burgenland.

SLOVENIA

Slovenia is one of the BKS Bank Group's most important markets. A large share of our new customers in 2019 came from this region. In 2018 and 2019, we acquired 34,000 customers with the takeover of two investment broker firms. In total, we have around 50,000 banking customers that place their trust in us and are served by 126.6 employees (FTE) at eight branches. The head office of our Slovenia Branch is located in Ljubljana.

We are very satisfied with the development of business in Slovenia. Lending volume rose by 13.9% to EUR 694.9 million and primary deposits by 12.4% to over EUR 1.1 billion. The aquisition of the customers from the two brokerage firms has made BKS Bank the largest investment service provider in the country. We are also pleased to have been named 'most active member' of the Ljubljana Stock Exchange in 2019.

Before we opened the first branch in Ljubljana in 2004, we acquired the firm in 1998 that is today's BKS-leasing d.o.o.. BKS-leasing d.o.o. has an excellent reputation on the Slovenian leasing market for outstanding advisory quality and fast processing, two factors behind the steadily growing business volumes. On 31 December 2019, BKS-leasing d.o.o. employed a staff of 18.7 (FTE), and the present value of leasing receivables stood at EUR 159.1 million.

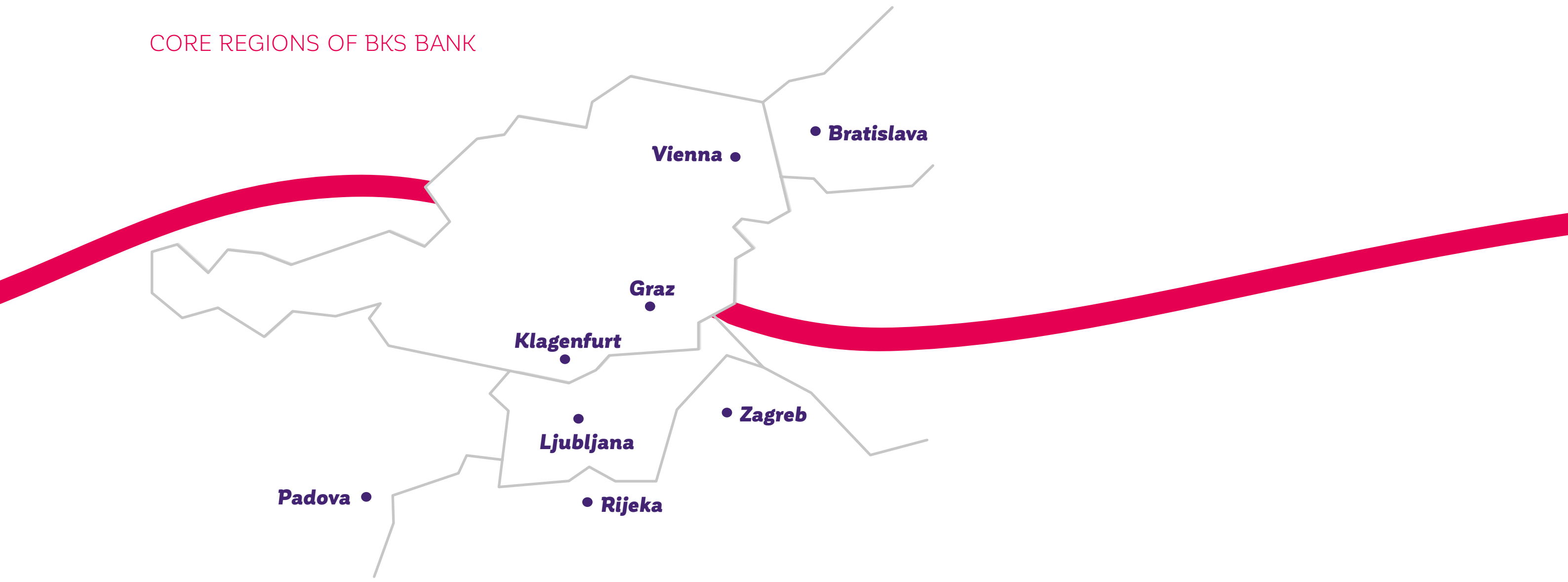
CROATIA

BKS Bank entered the market in Croatia in 1998 with the establishment of a representation office. Since 2001, we have operated BKS-leasing Croatia d.o.o. headquartered in Zagreb that is developing very well. We entered the banking market in 2007 with the acquisition of Kvarner banka d.d. located in Rijeka. Since the takeover, we have expanded the network of branches to include one in Zagreb and one in Split; in 2020, a further branch will be opened in Zagreb. The Croatia Branch serves 5,720 corporate and retail customers, and employs 59.5 persons (in FTE). It manages a lending volume before risk of EUR 276.7 million and the volume of payables to customers is EUR 118.6 million.

SLOVAKIA

In Slovakia, we have been engaged in the leasing business since 2007. The first bank branch in Slovakia was founded in 2011 and is located in Bratislava. We have two further branches in Banská Bystrica and Žilina. BKS-Leasing s.r.o. is also headquartered in Bratislava and has further branches at the same locations as the bank. In total, we employ 40.2 persons in FTE in Slovakia.

CORE REGIONS OF BKS BANK



Our commitment to a livable future opens the way to regions and people.

Alexander Novak
Member of the Management Board

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 pursuant to International Financial Reporting Standards.

The inclusion of affiliated companies in the consolidated financial statements is based on the application of uniform materiality principles for the entire Group as well as quantitative and qualitative parameters. Materiality criteria are, above all, the total assets of the subsidiaries, the pro rata equity in associated companies as well as the number of employees at the respective company.

GROUP OF CONSOLIDATED COMPANIES

Credit and financial institutions	Consoli-dation	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 supply banking-related services in which BKS Bank AG holds controlling interests. These consolidated financial statements are based on the uniformly prepared single-entity financial statements of all fully consolidated companies.

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 2019, 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 on a proportionate basis. This investment is classified as a joint operation pursuant 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 8.3 billion
Number of branches	63
Number of employees in FTE	912.9 in FTE

BKS-LEASING GESELLSCHAFT M.B.H.

Object of business	Sale and management of vehicles, movables and real estate leasing
Share in the capital	direct 99.75%, indirect 0.25%
Head office	Klagenfurt
Share capital	€k 40.0
Year of foundation	1989
Leasing volume	EUR 233.0 million
Number of employees in FTE	11.3 in FTE

BKS-LEASING D.O.O.

Object of business	Sale and management of vehicles, movables and real estate leasing
Share in the capital	100%
Head office	Ljubljana
Share capital	€k 260
Year of acquisition	1998
Leasing volume	EUR 159.1 million
Number of employees in FTE	18.7 in FTE

BKS-LEASING CROATIA D.O.O.

Object of business	Sale and management of vehicles, movables and real estate leasing
Share in the capital	100%
Head office	Zagreb
Share capital	EUR 1.2 million
Year of foundation	2002
Leasing volume	EUR 69.0 million
Number of employees in FTE	12.3 in FTE

BKS-LEASING S.R.O.

Object of business	Sale and management of vehicles, movables and real estate leasing
Share in the capital	100%
Head office	Bratislava
Share capital	EUR 15.0 million
Year of acquisition	2007
Leasing volume	EUR 53.2 million
Number of employees in FTE	12.4 in FTE

OBERBANK AG

Object of business	Credit institution
Share in the capital	14.21%
Head office	Linz
Year of foundation	1869
Total assets	EUR 21.6 billion
Number of branches	177
Average number of staff	2,150

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 11.9 billion
Number of branches	36
Average number of staff	1,455

ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT M.B.H.

Object of business	Hedging of large credit risks
Share in the capital	25%
Share capital	EUR 8.0 million
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	€k 36.4
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	€k 750
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	€k 35.0
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	€k 35.0
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	€k 35.0
Year of foundation	2011
Number of employees in FTE	52.9

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	€k 40.0
Year of foundation	1973
Number of employees in FTE	12.0

BKS 2000 - BETEILIGUNGSVERWALTUNGSGESELLSCHAFT MBH

Object of business	Investment company
Share in the capital	100%
Head office	Klagenfurt
Share capital	€k 40.0
Year of foundation	1995

FURTHER MATERIAL 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	99.0% direct; indirect 1.0%

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 was EUR 8.9 billion on 31 December 2019, which is much higher than in the financial year 2018 (+5.0%). The solid increase was driven mainly by higher loans and advances to customers. We also saw a steep rise in primary deposits.

ASSETS

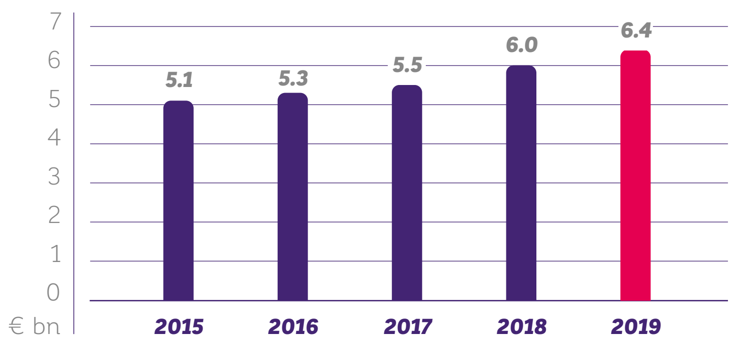
Demand for loans unbroken

We are a reliable and trusted finance partner for our domestic and foreign customers. Our competence in the lending business was demonstrated impressively once again in the past financial year by the volume of new business acquired of EUR 1.8 billion. Despite dimming economic prospects, the propensity to invest among corporates remained high and many retail customers also turned to loans to fulfill their dreams of a new home. Demand for loans was much stronger in Carinthia than in other regions. We granted a volume of roughly EUR 575 million in new loans in our home market, most of which went to corporate and business banking customers. The region of Vienna-Lower Austria-Burgenland is one of our growth markets where we plan to acquire more retail and corporate customers, and expand our presence. In the lending and leasing business, we are well-known market players in the region, and in the reporting year, we extended a volume of EUR 359 million in new loans. Businesses in Styria also invested in expansion, internationalisation and digitalisation, and trusted us as their finance partners. We granted a volume of roughly one quarter of a billion euro in loans to new customers from the corporate and retail segments.

27.9% of new business was generated in our foreign markets. In Slovenia and Croatia, we recorded steep increases in loans to retail customers and in the leasing business. The lending business in the corporate and business banking segment has been developing stably, but the propensity to invest among corporates was a bit more subdued than in the preceding year.

Total receivables from customers before impairment charges were EUR 6.4 billion as at 31 December 2019, which is a very satisfactory increase in lending of 5.9%. This item includes lending by the parent company BKS Bank AG as well lending by the domestic and foreign leasing companies.

DEVELOPMENT OF RECEIVABLES FROM CUSTOMERS



The trend of the previous years of charges on losses on loans and advances continued. These decreased by another EUR 17.1 million to EUR 90.8 million. The risk situation for the financial year 2019 remained relaxed thanks to our cautious lending policy. There were no major credit defaults. The NPL ratio also developed in the right direction and was 2.4%[1)] at the end of the year.

The share of foreign currency loans decreased again substantially in the reporting year 2019. The foreign currency ratio (FX ratio) – exclusive of EUR loans to customers of the Croatia Branch – was 1.9% on 31 December 2019, which is a decline by 0.5%-points.

Leasing as an attractive finance alternative

Demand for lease financing is still strong, because leasing has become established as an attractive alternative to traditional loans. At BKS Bank Group, we have four leasing companies.

The Austrian leasing company with its main office in Klagenfurt achieved a net cash value of EUR 233.0 million on at 31 December 2019. This is a rise of 11.3% year on year. The trend in Slovenia was similar. We have been present in Slovenia for over 20 years with a leasing subsidiary and have been posting steadily rising volumes every year. The development of business was excellent also in 2019. The net cash value of leasing receivables rose to EUR 159.1 million, which is a gratifying increase by 16.4%. In Croatia, the leasing business also developed very satisfactory. From January to June 2019, we granted a volume of EUR 38.6 million in new loans. In Slovakia, the leasing business also developed very dynamically and expanded year on year by EUR 10.3 million to EUR 53.2 million.

The portfolio of debt securities and other fixed-income securities decreased by -1.6% to EUR 890.1 million due to redemptions. By 31 December 2019, the volume invested was EUR 37.5 million compared with redemptions and sales of EUR 52.3 million. This position is a mainstay of our liquidity management.

The shares of companies accounted for using the equity method increased in the reporting year to EUR 635.9 million (+6.0%). The increase was triggered by the allocation of the pro rata net profits for the period from our partner banks Oberbank AG and Bank für Tirol and Vorarlberg.

Cash reserves, which consist of cash and balances with the central banks, were EUR 550.8 million. The high volume of cash reserves represents the good liquidity situation of our bank.

The new IFRS 16 standard for leasing was applied for the first time with the start of the financial year 2019. In accordance with the requirements of the new standard, we report right-of-use assets from rental contracts as assets and the related payment obligations as leasing liabilities at their respective present value on the balance sheet. Capitalised right-of-use assets are recognised under property, plant and equipment and depreciated over their useful life. Therefore, this item increased by 45.9%. The carrying amount of this right-of-use was EUR 22.3 million on the reporting date.

[1)] The calculation method of the NPL ratio was changed effective as of 30 June 2019 to the risk dashboard calculation method of the European Banking Authority (EBA). The value as of 31 December 2018 was adjusted.

EQUITY AND LIABILITIES

Primary deposits hit new record

Primary deposits broke a new record reaching EUR 6.7 billion. Only last year, we surpassed the threshold of EUR 6 billion, and in the financial year 2019, we again widened the very good level of the preceding year by almost half a billion euro.

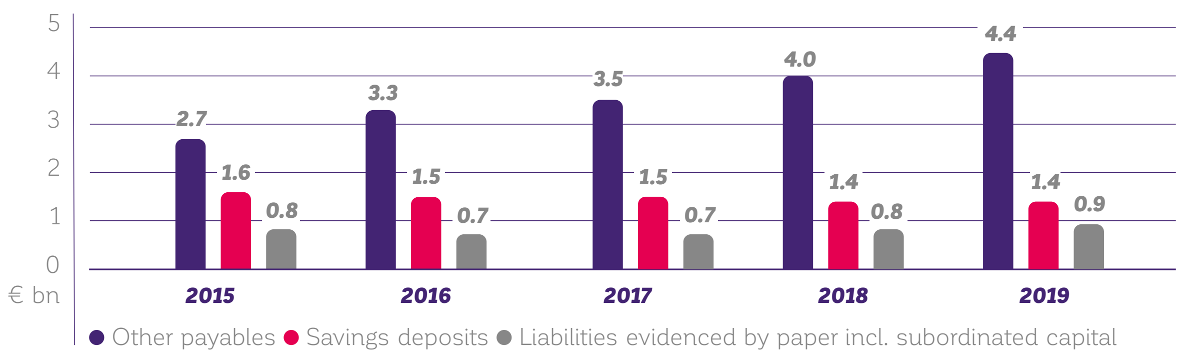
On the one hand, we are very pleased about the lively interest from customers, on the other hand, the high level of primary deposits weighs on earnings. We have to pay negative interest of 0.5% for short-term deposits of customer funds with central banks. In September, the European Central Bank (ECB) changed the interest rate for the deposit facility from -0.4% to -0.5%.

For some time, the predominant item among payables to customers have been sight deposits, which rose steeply by 7.6% to EUR 3.3 billion. Most sight deposits are from corporate and business banking customers that have high volumes of liquidity. Retail customers are also opting more frequently for sight deposits. The product "Mein Geld-Konto" has become a popular savings form, because a growing number of customers want access to their savings in a convenient, flexible and also digital form. Therefore, the volume on 'Mein Geld Konto' accounts that can also be accessed online rose from EUR 326.8 million to EUR 385.4 million, which is an increase of around 17.9% compared to year-end 2018.

Term deposits also increased in the reporting year by a gratifying 15.6% to EUR 1.1 billion. The increase is especially pleasing, because it improved the term structure of our refinancing. In total, the line item Other payables was EUR 4.4 billion, which is an increase of 9.0%. A look at the regional distribution of customer deposits shows that almost EUR 1.0 billion of sight and term deposits are from Slovenian retail and corporate customers.

In Austria, the savings passbook is still the favourite form of saving money, even though interest rates have been low for many years. However, recent news reports of several Austrian banks that want to eliminate the classical savings passbooks from the range of products does show that this traditional savings form will lose significance. Nonetheless, we will continue to offer the classic savings passbook in our range of products. We launched a "Green Savings Passbook" right on time for World Savings Day as our proactive contribution to the protection of the environment and climate. We will finance only environmentally-friendly projects with these deposits. We manage a total volume of EUR 1.4 billion in deposits on classical savings passbooks. This is a slight decline of 1.1% year on year.

DEVELOPMENT OF PRIMARY DEPOSITS



Enormous investor interest in BKS Bank issues

The issuance business developed excellently in the business year 2019. BKS Bank has proven a reliable and competent issuer especially for institutional investors. We issued EUR 100.9 million in private placements until 31 December 2019. To strengthen subordinated capital, we issued five new subordinated debt securities with varying maturities in the reporting year. Interest from investors was very lively on account of the attractive interest paid and the tranche was sold out within just a few days. We floated a volume of EUR 64.1 million in subordinated debt capital until 31 December 2019. A further tranche of EUR 11.7 million of the AT1 bond floated at the end of 2018 was placed on the market in the reporting year. For the first time, we issued senior non-preferred debt securities to strengthen the MREL ratio; these were purchased exclusively by institutional investors. This new class of bank bonds has terms that place it between conventional senior bonds and classical subordinated bonds in the event of insolvency and the "bail-in" of the issuer.

We are pleased to report that the volume of sustainable investments increased in the reporting year. We are successively enlarging the range of sustainable investments to meet increased customer demand. Thus, in the autumn we issued our third green bond with an issuing volume of EUR 5 million. The special features of the issue: The issuing volume will be used exclusively for the financing of projects that meet the general criteria of BKS Bank for exclusion as well as the ecological and social financing categories of the international Green and Social Bond Principles. In total, own issues including subordinated liabilities widened to EUR 854.4 million, which is a very pleasing increase of 13.8%.

Higher shareholders' equity

Consolidated equity as at 31 December 2019 increased by 7.5% to EUR 1.3 billion. The increase in equity is documented in detail in the Consolidated Statement of Changes in Equity in the Notes starting on page 122. Subscribed capital was unchanged at EUR 85.9 million.

BKS BANK DEBT SECURITIES IN 2019

ISIN	Designation	Nominal amount in €
AT0000A28032	0.676% BKS Bank Obligation 2019-2023/1/PP	20,000,000.00
AT0000A28792	4.54% BKS Bank Nachrangige Obligation 2019-2034/2/PP	8,000,000.00
AT0000A28J42	2.165% BKS Bank Obligation 2019-2039/3/PP	10,000,000.00
AT0000A2AXN1	3.85% BKS Bank Nachrangige Obligation 2019-2034/4/PP	3,400,000.00
AT0000A2AZ36	0.24% BKS Bank Obligation Senior Non-Preferred 2019-2021/5/PP	10,000,000.00
AT0000A2AZ44	0.40% BKS Bank Obligation Senior Non-Preferred 2019-2022/6/PP	10,000,000.00
AT0000A2B6A8	Variable BKS Bank Obligation 2019-2029/7/PP	15,500,000.00
AT0000A2C5M4	0.56% BKS Bank Obligation 2019-2024/8/PP	20,000,000.00
AT0000A2C5W3	1.40% BKS Bank Obligation 2019-2029/9/PP	4,000,000.00
AT0000A28KW9	0.60% BKS Bank Obligation 2019-2026/1	7,600,000.00
AT0000A28XQ4	0.375% BKS Bank Green Bond 2019-2024/2	3,995,000.00
AT0000A29T23	3 % BKS Bank Nachrangige Obligation 2019-29/3	20,000,000.00
AT0000A2AE49	3% BKS Bank Nachrangige Obligation 2019-30/4	20,000,000.00
AT0000A2B493	3.125% BKS Bank Nachrangige Obligation 2019-2031/5	12,655,000.00

Result of Operations

The development of business operations in the financial year 2019 was highly successful despite the very challenging situation in the banking sector. The excellent quality of our advisory services and the high degree of innovation, especially in the implementation of our digitalisation strategy, helped us achieve a substantial expansion in our core business.

EXCELLENT DEVELOPMENT OF BUSINESS

BKS Bank earned a consolidated profit after tax of EUR 92.9 million as at 31 December 2019. Compared to the previous year's profit, this is a solid increase of 20.0%. We even surpassed the sonic barrier for net profit for the year before tax of EUR 100 million. What is particularly pleasing is the fact that we gained ground in all key earnings components in the operating business. Supportive of earnings were also the good development of results from financial assets/liabilities and the moderate development of impairment charges for credit losses.

Net interest income before impairment charges increased from EUR 129.7 million to EUR 135.8 million, which is a rise of 4.7%. Above all, the good development of interest income from lending operations (+5.1%) was seen in the higher net interest income. Income from leasing receivables also developed very well thanks to the good performance of our leasing companies in Austria and abroad (+16.9%). Interest expenses were slightly lower at EUR 29.8 million (-2.0%).

Pressure on margins continued unabated and placed high demands on the negotiating skills of our customer relationship managers. In the lending business, margins narrowed from 1.87% to 1.82%. We have been confronted with negative margins for years in the deposit-taking business and these slipped further into negative territory with -0.13% versus 2018. After deducting impairment charges for losses on loans and advances of EUR 18.6 million, net interest income after risk was EUR 117.3 million, a pleasing gain of 5.3%.

KEY COMPONENTS OF THE INCOME STATEMENT

in € m	2018	2019	± in %
Net interest income	129.7	135.8	4.7
Impairment charges	-18.3	-18.6	1.6
Net fee and commission income	55.5	58.2	5.0
Profit/loss from investments accounted for using the equity method	44.8	45.9	2.4
Net trading income	0.3	1.2	>100
Profit/loss from financial assets/liabilities	-7.9	3.7	>100
General administrative expenses	-114.6	-121.0	5.6
Profit/loss for the year before tax	87.0	103.1	18.5
Income tax expense	-9.6	-10.2	6.1
Profit/loss for the year	77.4	92.9	20.0

IMPAIRMENT CHARGES AT MODERATE LEVEL

The financial year 2019 saw an easing of the risk situation in the lending business. Therefore, the need to allocate impairment charges on loans and advances developed moderately and almost reached the very good level of the preceding year on 31 December 2019. For financial instruments measured at amortised cost, impairment charges were set aside in an amount of EUR 18.9 million. Impairment charges on loans and advances have been allocated in three different stages since the introduction of IFRS 9 standards. For customer receivables classified to stage 3, the discounted cash flow method is used to determine the impairment charges for significant liabilities, and for non-significant liabilities, lump sum criteria are used. For receivables with good credit ratings – rating grades AA to 4b – the impairment charges are based on the ECL model. Impairment charges on loans and advances in stage 1 and 2 amounted to EUR 4.0 million, and for stage 3 the amount was EUR 14.6 million.

SOLID RESULT IN NET FEE AND COMMISSION BUSINESS

We are pursuing the strategic goal of becoming less dependent on the lending business. We are very pleased about the positive development of net fee and commission income (EUR 58.2 million; +5.0%), as it shows that our activities to expand our services business are already bearing fruit. We took important steps to expand business in 2019 especially in the securities business.

Robust increase in commissions from securities operations

Income from securities operations developed very positively and stood at EUR 15.8 million at year-end 2019 which is an increase by a gratifying 20% year on year. The steep increase in income is due mainly to two factors:

Largest investment services provider in Slovenia

In March 2019, we successfully acquired some 25,000 customers from the Slovenian investment services provider ALTA Invest, investicijske storitve, d.d. We enormously enlarged our market position in Slovenia with this acquisition and are now the largest investment services provider in Slovenia. Income from the securities business was increased by EUR 1.9 million by our successful expansion.

New focus in asset management

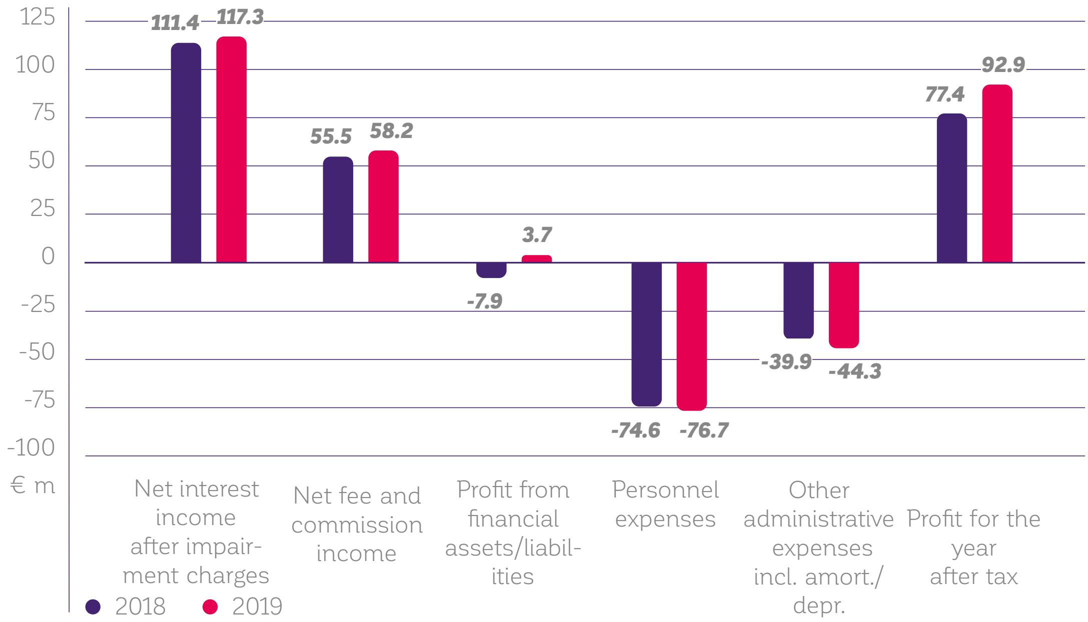
In the reporting year, we carried out a fundamental change to our asset management in Austria and founded two new asset management umbrella funds as a supplement to our range of products. The new focus was very well received by customers. The volume of assets under management increased from EUR 183.0 million to EUR 209 million, which is a rise of 14.2%. Furthermore, the positive development of financial markets had a stimulating effect on investor behaviour.

The rather moderate securities turnover rates at the beginning of the year developed dynamically, especially in the second half of the year and were behind the higher income from fees and commissions. The market value of the securities portfolios held by BKS Bank was EUR 11.9 billion at the end of 2019 compared to EUR 8.3 billion in the preceding year.

Outstanding investment advisory services

BKS Bank has received many awards as an advisory bank. It offers excellent advisory services as well as a first-class range of product and services that customers appreciate. We are very pleased that these quality achievements have been confirmed by independent external sources time and again. In January 2019, we won the national ÖGVS test of investment advisors conducted by Österreichische Gesellschaft für Verbraucherstudien (ÖGVS) and the business magazine 'trend'. Six supraregional and 14 regional bank branches in Austria were evaluated by so-called mystery shoppers with respect to the advice, transparency, services and ambiance the offer. We once again achieved top grades in all test categories and won first place.

COMPONENTS OF THE INCOME STATEMENT



Positive trend in payment services

Business with payment products and services developed very well again in the reporting year. Compared to the preceding year, income from payment services increased by 3.5% to EUR 21.5 million. The increase is due mainly to the growing number of new customers that rely on our many years of experience and expert knowledge in payment services.

The business of payment services is in a phase of fundamental change due to the advances of digitalisation. Although cash and conventional funds transfers still enjoy widespread use, these are increasingly being replaced by modern digital offers. We believe it is our duty to offer modern payment services solutions to our customers especially in this demanding setting and to respond to market developments. Decisive success factors are accessibility, and the fast and uncomplicated processing of inquiries and complaints.

Non-cash payments gaining ground

One trend that seems to be unstoppable is payments using cards. We have recorded the steepest increases in number of transactions in this segment. The contactless function has become one of the most popular payment methods within a short period of time. The next trend is already being emerging: payments via smartphone and smartwatch. With the launch of the BKS Bluecode app, we added another modern payment method via smartphone in the reporting year. The number of customers that use this smart payment method has been increasing since the start in October.

SOLID DEVELOPMENT OF BUSINESS AT PARTNER BANKS

The development of business at Oberbank and BTV was also very satisfactory in the previous year. Therefore, result of the companies accounted for using the equity method was positive and rose by 2.4% to EUR 45.9 million.

ROBUST STOCK MARKETS BOOST EARNINGS

International stock markets performed very well in the last financial year despite higher volatility. The positive development on stock markets was also seen in the much improved earnings from financial assets/liabilities.

The specific items developed as follows: The item “Profit/loss from financial instruments designated at fair value” improved compared to the preceding year, although it remained negative at EUR -1.6 million. By contrast, the item “Profit/loss from financial assets measured at fair value through profit or loss (mandatory)” developed quite satisfactorily and reached EUR 5.1 million. The item “Profit/loss from derecognition of financial assets measured at amortised cost” also improved year on year and rose to EUR 0.5 million as at 31 December 2019. Other profit/loss from financial assets/liabilities was negative at EUR -0.4 million. Overall, profit/loss from financial assets/liabilities was very positive and attained a level of EUR 3.7 million. In the preceding year, this item showed an expenses balance of EUR -7.9 million.

HIGHER STAFF EXPENSES AND ICT COSTS

General administrative expenses increased year on year by 5.6% to EUR 121.0 million. The largest item under general administrative expenses are staff costs, which increased slightly at EUR 76.7 million (+2.8%). The reasons for the increase were the steep rise in wages and salaries in Austria by an average of 3.0% under the collective agreement. Furthermore, the development of interest rates resulted in higher allocations to jubilee funds and survivor’s pensions. The average number of employees increased compared to 2018 from 932 to 962 full time equivalents, especially as the acquisition of the customers in Slovenia in securities business also entailed an expansion of personnel.

Large investments needed for modern information technology

Other administrative costs were higher in the reporting period at EUR 33.5 million, which is 2.1% higher year on year. This item includes, among other things, expenses for information and communications technology (ICT) and for our IT service company 3 Banken IT GmbH. BKS Bank makes investments in many ICT projects and in the upgrading of the hardware and network infrastructure directly or through 3 Banken IT GmbH. In 2019, the amount was around EUR 11.6 million.

The digital transformation was the predominant topic in 2019, as already mentioned. We launched a number of innovative digital products and services on the market to boost our earnings capacity, but this also entails high levels of spending in the first phase. 3 Banken IT GmbH is responsible for the implementation of such projects and for the everyday 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, and has its main office in Linz. It operates competence centres in Klagenfurt and Innsbruck and employs some 294 employees on the annual average.

In the reporting year, 154 projects were implemented or work was under way, some of which will take several years. These include several projects mandated by law or regulatory requirements such as PSD 2 and consumer payment services legislation. Apart from the digitalisation projects already mentioned, there were many further projects such as the integration of ALTA-Invest's customers into our core system, the introduction of new software for point-of-sale terminals and the renewal of the hardware infrastructure in Slovenia.

IMPROVED OTHER OPERATING INCOME

Other operating income/expenses amounted to EUR -2.2 million as at 31 December 2019. This item contains mainly regulatory costs that are a burden for banks. In the financial year 2019, we used EUR 4.8 million (pr.yr.: EUR 4.7 million) for contributions to the resolution fund and deposit insurance scheme and paid an amount of EUR 1.2 million for the stability charge (pr.yr.: EUR 1.1 million).

PROFIT FOR THE YEAR

As at 31 December 2019, BKS Bank earned a consolidated net profit before tax of EUR 103.1 million following EUR 87.0 million in the preceding year. After deducting taxes of EUR 10.2 million, the net profit after tax for the Group was EUR 92.9 million, which is an increase of 20.0%.

PROFIT DISTRIBUTION PROPOSAL

The distributable profit is based on the net profit of the parent company BKS Bank AG. From 1 January to 31 December 2019, BKS Bank AG earned an net profit of EUR 45.6 million compared to EUR 33.0 million in the preceding year. An amount of EUR 34.9 million from the net profit were allocated to reserves. Taking into account the profit carried forward of EUR 0.5 million, BKS Bank AG reports a net profit of EUR 11,138,720.09. At the 81st Annual General Meeting on 6 May 2020, we will propose the distribution of a dividend of EUR 0.25 per share, which is EUR 10,735,725, and to carry the remainder of EUR 0.4 million to the new account.

POSITIVE DEVELOPMENT OF PERFORMANCE INDICATORS

Taking into account the excellent net profit for the year, the key performance indicators as at 31 December 2019 developed as follows: return on equity (RoE) after tax increased by 0.6%-points to 7.4%; return on assets (RoA) after tax advanced to a very pleasing 1.1%.

The cost/income ratio was 50.7% and thus far below the banking industry average of 62.6% (09/2019). The risk/earnings ratio continued to decreased before the backdrop of the good risk situation and hit a new all-time best value of 10.2%. The calculation of the non-performing loans ratio (NPL ratio) was changed effective 30 June 2019 to the calculation method of the European Banking Authority (EBA). The NPL ratio measured by the EBA method was 2.4% at the end of 2019.

The leverage ratio was 7.8% as at 31 December 2019, while the liquidity coverage ratio (LCR ratio) improved by an impressive 14.1%-points to 151.8%. Both the leverage ratio as well as the LCR ratio were well above the regulatory requirements of 3% and 100%, respectively.

We need a strong level of capital adequacy to be able to continue our successful growth strategy aimed at sustainability. We are pleased to have achieved stronger capital ratios in 2019 based on the excellent results and the various capital measures taken. The tier 1 capital ratio improved by 0.5%-points to 12.7% and the total capital ratio reached 16.2%. IFRS earnings per share was EUR 2.15 as at 31 December 2019.

KEY PERFORMANCE INDICATORS

in %	2018	2019	± in %-points
RoE after tax (net profit/Ø equity)	6.8	7.4	0.6
RoA after tax (net profit/loss / Ø equity)	1.0	1.1	0.1
Cost/income ratio (cost/income coefficient)	50.3	50.7	0.4
Risk/earnings ratio (credit risk/net interest income)	10.5	10.2	-0.3
NPL ratio[1)]	3.3[1)]	2.4	-0.9
Leverage ratio	7.5	7.8	0.3
Liquidity coverage ratio (LCR ratio)	137.7	151.8	14.1
Net stable funding ratio (NSFR)	110.2	112.4	2.2
Tier 1 capital ratio	12.2	12.7	0.5
Total capital ratio	14.8	16.2	1.4
			in %
IFRS result per share outstanding in €	1.82	2.15	18.1

1) The calculation method of the NPL ratio was changed effective as of 30 June 2019 to the risk dashboard calculation method of the European Banking Authority (EBA). The value as of 31 December 2018 was adjusted.

Segment Report

The segment report has four parts: Corporate and Business Banking, Retail Banking, Financial Markets and Other. Corporate and Business Banking is BKS Bank Group's most successful segment by far. The segment Financial Markets has developed into a reliable source of earnings despite volatility on the markets. Profitability in the Retail Banking segment is steadily improving.

CORPORATE AND BUSINESS BANKING

In the financial year 2019, we served some 23,500 customers in the Corporate and Business Banking segment, an increase of 9.9% versus 2018. The strong rise is due mainly to the successful acquisition of ALTA's customers. However, we acquired new customers also in other growth regions with the appeal of our products and services and the solid know-how we offer.

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

Segment result significantly higher

The financial year 2019 was a very successful one for the Corporate and Business Banking segment. Net interest income developed very positively reaching EUR 105.8 million despite the challenging low-interest rate environment. It increased by 3.4% compared to the preceding year. The higher credit volume and our strict policy for loan terms resulted in a solid level of net interest income. Net fee and commission income, which is the second main source of earnings, increased by 5.2% to EUR 32.1 million. The higher income from payment services and securities operations were the main factors behind the solid results.

CORPORATE AND BUSINESS BANKING

in € m	*2018*	*2019*
Net interest income	102.3	105.8
Impairment charges	-18.9	-18.7
Net fee and commission income	30.6	32.1
General administrative expenses	-50.0	-51.8
Other operating income/expenses	1.2	0.4
Profit/loss for the year before tax	**65.2**	**68.4**
RoE before tax	17.4%	16.7%
Cost/income ratio	37.3%	37.5%
Risk/earnings ratio	18.5%	17.7%

The sound risk situation of BKS Bank is revealed very clearly in this segment. In the financial year 2019, we did not have any major cases of insolvency and our stringent approach to the reduction of risk cases had a positive impact on the development of risk expenses. Compared to 31 December 2018, impairment charges remained stable at EUR 18.7 million.

General administrative expenses increased by 3.7% to EUR 51.8 million. The increase results from higher IT expenses and from the rise in provisions for jubilee bonuses and death benefits due to the hike in salaries and wages under the collective agreement and the interest rate trends. Net profit for the year before tax was very satisfactory at EUR 68.4 million as at 31 December 2019 which was EUR 3.2 million or 4.9% higher year on year.

The segment-specific management benchmarks developed very positively supported by the excellent segment results. Return on equity decreased slightly from 17.4% to 16.7% due to the higher level of allocated own funds. The cost/income ratio reached a new top performance level at 37.5% and the risk/earnings ratio decreased by 0.8%-points to a satisfactory 17.7%.

Lots of praise from corporate customers

In the reporting year, we conducted a customer satisfaction survey for the third time in a row. We are happy about the generally higher participation rate and that many corporate customers took the opportunity to give us feedback. A share of 86% of corporate customers are satisfied or very satisfied with our services. We are particularly happy that the recommendation rate of corporate customers has risen to the double-digit range. The competence of our customer relationship managers and the speed at which we take decisions and provide services was rated as very good and good by our corporate customers. We are very happy about the good ratings and are working on improving customer satisfaction further.

Finance transactions important to customers

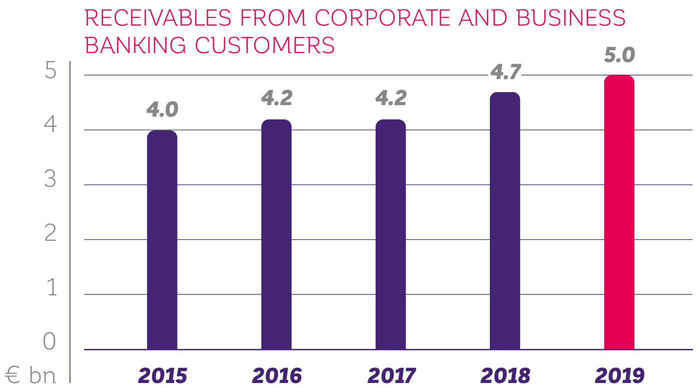
Finance and investing are important fields for corporate and business banking customers. In this field, we have excellent advisory skills and many years of experience. Our high level of competence, especially in the field of finance transactions, is also illustrated by the fact that three quarters of all loans granted by the Group are to corporate and business banking customers.

In the reporting year, demand for loans was up again. Despite the slowing economy, we saw substantial increases and credit volumes rose by 5.3%. From January to December 2019, we granted EUR 1.5 billion in new loans to corporate and business banking customers throughout the Group. Receivables from customers including lease finance rose from EUR 4.7 billion to EUR 5.0 billion. The high demand in the leasing business was also unabated. Throughout the Group, we closed new lease contracts for a volume of EUR 216.1 million.

In Slovenia, apart from the leasing business we are also active in the area of finance for municipalities. The outstanding volume of loans to Slovenian municipalities was EUR 91.5 million. Around 17.5% of total finance volume granted in Slovenia in the Corporates and Business Banking segment goes to municipalities.

Special loans and advisory services for financial assistance schemes

Export finance and the related advisory services for financial assistance schemes is a field that has developed extremely well over the past few years. In the past financial year, we provided support for around 30 new export projects and extended a total of EUR 44.2 million in new loans. By the end of the year 2019, the total export finance volume was EUR 184.5 million, which a very gratifying increase of 21%. We also saw an increase in the subsidised investment finance. We provided support for 96 subsidised investment projects with a volume of some EUR 82.8 million. In total, the lending volume managed in this product segment was EUR 176.6 million, which is an increase of 15.0% over 2018.



In Corporate Banking we serve large corporates with sales revenues of over EUR 75.0 million as well as institutional customers, larger municipalities and we also provide structured finance. The trend in this business area was also very satisfactory in 2019. In total, we managed a finance volume in Corporate Banking of around EUR 670.0 million.

Several years ago, we started looking more closely at the needs of farmers. We have customer relationship managers in every region specialised in the area of agriculture. The acquisition of new customers developed positively and today, we provide our services to around 700 farmers and manage a lending volume of over EUR 110.0 million.

Sustainable finance is rapidly gaining ground in the Corporate and Business Banking segment. We are very proud that sustainability and offering sustainable loans have been established as part of our core business for many years. For example, the green bond we issued in 2019 was the third one. The issuing proceeds of green bonds are used to finance sustainable investments. We expanded the share of loans with an ecological or social purpose in the reporting year to EUR 137.8 million.

Robust rise in other liabilities again

We have an excellent reputation on the market and our services as an investment partner are also in high demand thanks to our excellent credit rating. In the reporting year, the volume of other liabilities in Corporate Banking increased considerably by 7.1% to EUR 3.2 billion. The term deposits included in this item even increased by 13.6%.

Successful diversification

Our strategic goal is to reduce dependence on the lending business and expand other business areas that do not burden equity. The sales measures taken to this end started bearing fruit in the reporting year and we saw an increase of 5.2% in the services business. We are pleased about the higher results especially in payment services (+7.0%) and in the securities business (+20.7%).

The challenges in the business segment of payment services are manifold. The market is highly competitive and rapidly developing technologies are adding to the pressure. Regulatory requirements become much more stringent, especially with the implementation of the Payment Services Directive 2 (PSD 2). Despite this demanding environment, income from payment services have developed into a major source of income. We opened 3,700 new corporate accounts with features that specifically match customers' needs and help guarantee transparent and plausible pricing. In total, we earned EUR 12.0 million from account and payment services in Corporate Banking, which is a highly satisfactory increase of 7.0%.

Proven digital innovation capability

The digital transformation has arrived in traditional corporate and business banking with full force. Corporate and business banking customers regardless of their size want to be able to carry out their banking transactions conveniently and securely. In the previous year, we achieved major milestones of our digitalisation strategy with the launch of the corporate customer portals BizzNet and BizzNetPlus. BizzNet is greatly appreciated by our customers.

Over 1,700 customers used the modern easy-to-use portal in the financial year 2019. One of its successful features is the easy separation of private banking transactions from business transactions with just a few clicks, as our corporate customers have assured us in talks time and again.

In 2019, we concentrated on developing further digital services and products for corporate customers. We were the first bank to introduce the possibility of requesting guarantees online for corporate customers, with the highly innovative app 'Guarantee online'. The BizzNet corporate customer portal permits customers to request domestic and foreign guarantees with all details, simply and conveniently, regardless of when or where they are.

Higher earnings on investments

Although traditionally we have been more engaged in lending than in investments in the Corporate Banking segment, we achieved substantial gains in the securities operations in 2019. The 20% increase achieved to EUR 5.4 million was also due to the successful acquisition of the Slovenian firm, ALTA Invest, investicijske storitve, d.d.

In the insurance business, company retirement schemes are an important focus of our advisory services. In 2019, the premium volume for retirement products was EUR 6.5 million, which is a rise by 16.1%.

Outlook for Corporate and Business Banking

Personal services and reliability are key elements of our success in Corporate and Business Banking. We are an advisory bank that offers customers a broad range of innovative digital products and services. Offering a combination of personal advice and digital services has proven sound policy.

We are constantly winning new corporate customers and we plan to continue this trend in 2020. We expanded our presence in the region Vienna-Lower Austria-Burgenland and in our foreign markets, while also working to enhance our digital competence.

In a few months, we plan to introduce the next online product to the market. We are planning to go live in the spring with an application for our corporate customers that will permit them to conduct leasing transactions completely online. Another important topic is the digitization of the customer onboarding process and the opening of accounts. In the course of the year, we plan to offer new digital options also for these functions. Furthermore, we are also working on a corporate finance management functionality to support our corporate customers with the planning of their finance and liquidity needs.

Another major theme that we will be looking at more closely in the coming months is the implementation of the EU Action Plan: Financing Sustainable Growth. The purpose of the Action Plan is to steer the lending business and funding in the direction of environmentally-sustainable project financing.

RETAIL CUSTOMERS

In retail banking, we provide services to private individuals and members of the healthcare professions. There were roughly 167,700 customers in this segment on 31 December 2019, which is 17.4% more than in the preceding year. The majority of new customers were acquired through the successful takeover of the Slovenian investment firm ALTA Invest, investicijske storitve, d.d.

Higher earnings in retail

In the financial year 2019, retail banking developed positively again and the net profit in the segment was EUR 1.6 million, an increase of 24.6% over 2018. The increase in earnings was driven by net interest income and net fee and commission income. Despite the historically low interest rates, net interest income rose by 7.8% to EUR 27.6 million year on year. The increase of 4.1% in the net fee and commission income of EUR 25.7 million was supported mainly by the positive trend in the securities business. Furthermore, the relaxed risk situation in retail lending resulted in the reversal of provisions in an amount of EUR 0.3 million. General administrative expenses increased by 4.5% to EUR 53.5 million due to higher wages and salaries. Other operating income was EUR 1.6 million.

The segment-specific benchmark indicators as at 31 December 2019 improved due to the positive segment results as follows: Return on equity reached 1.9%, while the cost/income ratio improved to 97.3%.

RETAIL BANKING

in € m	*2018*	*2019*
Net interest income	25.6	27.6
Impairment charges	0.5	0.3
Net fee and commission income	24.7	25.7
General administrative expenses	-51.2	-53.5
Other operating income/expenses	1.7	1.6
Profit/loss for the year before tax	**1.3**	**1.6**
RoE before tax	2.1%	1.9%
Cost/income ratio	98.4%	97.3%
Risk/earnings ratio	-	-

Top ratings for customer satisfaction and top grades on ÖGVS tests

We have a well-established reputation as an excellent advisory bank. Our mission is to guarantee high quality advice, products and services throughout the entire Group. In the autumn of 2019, we invited our customers to rate our performance. We are very pleased with our performance: we improved in all areas such as overall satisfaction, recommendation rate, competence of relationship managers and speed. A share of 91% of retail customers are satisfied or very satisfied with our services. Our performance is regularly evaluated by independent third parties. In the last financial year, Österreichische Gesellschaft für Verbraucherstudien (ÖGVS) together with 'trend' magazine tested BKS Bank branches multiple times using the mystery shopping method. The test results were also very good. We were named the best supra-regional bank with branches that offer the best advisory services for investments and private retirement provisioning and for which we received a service award.

Demand for retail loans rises steeply

Providing finance solutions is one of our core areas of competence, also for the retail segment. In this segment, demand for residential loans rose especially steeply in 2019. Lending to private individuals has expanded throughout the Group by 7.8% to EUR 1.4 billion. Particularly pleasing is the fact that the volume of new business in our foreign markets nearly doubled. On the domestic market, the volume of new business was especially high in Carinthia.

Sustainable finance products have been a fixed component of our range of offers for many years. In the reporting year, we increased the share of loans dedicated to environmental protection and social purposes. In total, we issued EUR 158.7 million in sustainable loans in the retail segment. The trend in demand for green loans in Slovenia, which were introduced there in 2015, was very satisfactory. These loans are used for investments supportive of climate protection. The volume of loans granted went up in the reporting year to EUR 29.2 million (+46.9%).

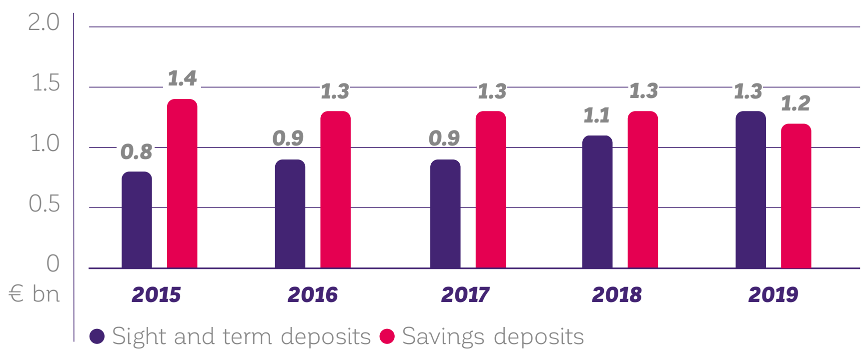
In the segment of residential loans, we achieved a major milestone in the implementation of our digitalisation strategy in 2019. We launched the digital BKS residential loan, which, apart from offering easy usability and interaction with the relationship manager, also features the benefits of transparent and fair fees. With the new digital residential loan, we also significantly simplified the loan process and shortened the time to finalization by 40%. In the autumn, we started offering online consumer loans that feature easy processing and digital processing.

The reduction of foreign currency loans in Swiss franc is also progressing at a brisk pace. The volume of loans in Swiss franc decreased by 11.9% to EUR 75.3 million. The FX ratio as at 31 December 2019 (excluding EUR loans to customers of the Croatia Branch) was 5.9% versus 7.2% in 2018.

Retail customers are investing more into sight deposits

Low interest rates have been with us for many years, but the volume of retail customer deposits have nonetheless been growing steadily. As at 31 December 2019, the volume was up by 6.1% to EUR 2.5 billion. Another emerging trend is that retail customers are showing a preference to access their savings online 24/7 from wherever they happen to be. Volumes on sight deposits increased accordingly and stood at EUR 963.1 million, a steep rise of 13.9%. Together with the volume of term deposits of EUR 287.3 million, other liabilities surpassed the volumes on classical savings passbooks. There was a slight decline in savings deposits of 0.8% to EUR 1.2 billion. Building society savings contracts are still a very popular savings form. In the reporting year, we finalised 3,778 building society savings contracts, which we sell as a long-year distribution partner of Wüstenrot.

PAYABLES TO RETAIL CUSTOMERS



Successful expansion of fee and commission business

We also aim to grow in the retail segment in business areas of little impact on equity. The increase of 4.1% in net fee and commission income clearly shows that the measures taken to boost the services business are effective. In the retail segment, net fee and commission income is also influenced by fees and commissions from payment services and the good performance of the securities business.

Digital transformation in payment services

The rapidly changing technologies are affecting many areas of life. These changes are affecting our customers as well as the banking business. The progress of digitalisation and the changes to customer behaviour are especially remarkable in the field of payment services. However, were are not fazed by these challenges, but rather believe they are a great opportunity for further growth. We are investing large amounts into the expansion of the range of digital products and services to keep up with the pace of innovation. Income from payment services shows we were successful again in the past financial year: income increased by 3.4% to EUR 10.2 million.

In the reporting year, we implemented the European Payment Services Directive 2 (PSD 2). The objectives of PSD 2 are to define uniform regulations for digital payment services, to increase competition, to guarantee the security of payment services, and to strengthen consumer protection. We met the key requirements by 14 September 2019 including the implementation of 'strong customer authentication'. This new authentication process improves security standards in the use of electronic payment services and remote electronic payments. With the BKS security app, we introduced a modern, secure and, above all, user-friendly solution. The changeover was completed on schedule over the summer months.

As regards traditional accounts, we acquired 7,000 new retail customers in the reporting year. We offer our customers a modern and user-friendly customer portal, MyNet, to which we added new functions in the reporting year, including the option of being able to individually adjust the overdraft limit. MyNet was well-received by our customers and the number of active users is growing from year to year. As at 31 December, 42,900 customers were actively using the MyNet customer portal.

Just before the end of 2019, we significantly enlarged digital functionalities by adding an online onboarding process. At the same time, we also digitized, simplified and accelerated the account-opening process. In the autumn, we started a cooperative venture with Blue Code. Customers that use Android smartphones are now able to pay securely with the Blue Code app in a large number of stores.

Good stock market year boosts earnings from securities operations

For investors, the reporting year was one of the best stock market years of the past decade. Stock markets were friendly throughout the year, and this motivated many private investors to invest on the capital market. In Slovenia, we expanded our market position with the acquisition of investment customers, and are now the largest investment services provider in the country. Income from the securities business with retail customers increased by 15.7% from EUR 9.2 million to EUR 10.6 million compared to 2018.

Customer relationship managers with special training provide tailored services for wealthy clients at three locations in Vienna, Carinthia and Styria. In the reporting year, we saw satisfactory increases both in the number of private banking customers as well as in volumes. Our core areas of competence in Private Banking include asset management and brokerage services.

Asset management offered to Austrian retail customers developed excellently in the reporting year. We increased volumes in the three variants: BKS portfolio strategy, individual asset management and BKS investment mix. We are pleased that the innovations introduced in asset management brought new momentum to the investment business.

Sustainable investments gaining ground

The volume of sustainable investments increased again in the reporting year. We have been focusing on sustainable investment products for many years and with the issuance of green bonds and social bonds, we were pioneers on the Vienna Stock Exchange. For responsible investors, we issued the third green bond in August 2019 with an outstanding volume of EUR 5.0 million. The proceeds of the issue will be used exclusively for the financing of projects that meet the general exclusion criteria of BKS Bank as well as the environmental and social financing categories of the international Green and Social Bond Principles.

As a responsible bank, we also offer our retail customers a broad range of products from the insurance sector. We act as point of sale for our long-year insurance partner, Generali Versicherung AG. We broker mainly endowment insurance policies with regular premium payments and also with one-off payments as well as risk and accident insurance. We were very pleased with the development of the investment business in the reporting year. Endowment insurance policies measured by premium volumes increased by 3.3%, while annual net premiums for risk insurance rose by 18.1%. Sales of accident insurance policies developed stably compared to the preceding year.

Outlook for Retail Banking

Establishing stable earnings in the retail segment will remain an important theme in the coming months. A mix of various measures will help us achieve the earnings targets. First, we want to anchor our digital competence more firmly in the perception of our customers and employees in order to stimulate sales of digital products and services. Second, we are working to optimise internal processes, especially branch and sales processes in order to attain higher cross-selling and up-selling ratios. In this context, we will also consider new role models for sales and streamline the branch organisation with respect to bank tellers and customer service areas. The excellent advisory quality provided by our customer relationship managers will be further improved through education and training courses.

In the current financial year, we will continue to refurbish further branches and put into practice our concept of the bank branch of the future as well as our new branding. In the spring, we are also planning to implement the whitecard system for cash transactions at branch.

FINANCIAL MARKETS

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

Interest rates persisted at very low levels also in 2019 so that it was only possible to earn limited additional returns on the basis of maturity transformation. By contrast, the positive development on financial markets resulted in a steep increase in income from financial assets/liabilities, improving the segment result significantly year on year.

FINANCIAL MARKETS

in € m	2018	2019
Net interest income incl. profit/loss from investments accounted for using the equity method	43.7	44.9
Impairment charges	0.1	-0.1
Net fee and commission income	-0.2	-0.3
Net trading income	0.3	1.2
General administrative expenses	-7.4	-8.4
Other operating income/liabilities	0.5	0.2
Profit from financial assets	-7.8	3.2
Profit/loss for the year before tax	**29.2**	**40.8**
RoE before tax	4.3%	5.6%
Cost/income ratio	16.7%	18.2%
Risk/earnings ratio	-	0.2%

Excellent segment result

In the Financial Markets segment, we earned a net profit for the period before tax of EUR 40.8 million as at 31 December 2019, which is a remarkable increase of 39.7%. The much-improved net result from financial assets/liabilities of EUR 3.2 million influenced the outstanding segment result. Net interest income, which includes income from investments accounted for using the equity method, increased by EUR 1.3 million to EUR 44.9 million. The item also includes income from investments that amounted to EUR 6.3 million as at 31 December 2019. Our portfolio of investments includes Oesterreichische Kontrollbank (OeKB), 3 Banken KFZ-Leasing, 3 Banken Generali Investment GmbH and CEESEG AG.

In the past financial year, the exposure in interbank transactions developed very positively. Our banking partners all have first-class credit ratings in the range from AA to A3. Therefore, the allocations to impairment charges were accordingly low. In the reporting year, we allocated only EUR 0.1 million for impairment charges. General administrative expenses rose from EUR 7.4 million to EUR 8.4 million.

The ALM Committee manages long-term liquidity and structural liquidity. The NSFR is a regulatory ratio that must be observed starting as of 28 June 2021 and represents the long-term liquidity situation. We took steps to strengthen the net stable funding ratio (NSFR) in the reporting year by issuing long-term bonds with an outstanding volume of EUR 185.8 million and using the option of carrying out a so-called targeted longer-term refinancing operation within the framework of the TLTRO III series in an amount of EUR 150 million. The net stable funding ratio (NSFR) thus increased to 112.4%.

The management indicators developed as follows in the Financial Markets segment: Return on equity improved from 4.3% to 5.6%. The cost/income ratio increased from 16.7% to 18.2% due to the higher administrative expenses, which is an excellent level.

Outlook for Financial Markets

Our aim is to continue to serve as a solid and reliable issuer of securities and we plan to float own issues in the current year as well. This permits us to offer our customers attractive investment opportunities. An active issuance policy also helps us meet the new MREL ratio (minimum requirement for eligible liabilities) and keep the net stable funding ratio (NSFR) at a sustainable basis. Our investment activities in 2020 will continue to be guided by the avoidance of market risks. We will not change our conservative investment strategy and continue to invest primarily in high quality liquid assets. We will also continue our collaboration with our strategic partners, Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft.

OTHER

The segment Other includes items of income and expenses that cannot be unambiguously allocated to the other segments and those contributions to profit that cannot be attributed to any other operation. In our calculations for the segment, we set great store by allocating only those income and expense items to the business segments in which these have been earned or incurred.

Net profit/loss for the year before tax was EUR -7.7 million compared to EUR -8.6 million in the preceding year. The negative result was mainly due to the high regulatory costs that have been weighing down the banking sector for years. The costs for the deposit protection scheme of EUR 2.2 million and the contributions to the resolution fund of EUR 2.7 million are allocated to this segment. General administrative expenses rose from EUR 6.0 million to EUR 7.3 million.

Consolidated Own Funds

BKS Bank calculates the own funds ratio and assessment basis according to the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). The standardised approach is applied to the calculation of the own funds requirements with respect to credit risk, market risk and operational risk.

The Supervisory Review and Evaluation Process (SREP) conducted by the Austrian Financial Market Authority (FMA) specified that BKS Bank was to meet the following minimum requirements excluding a capital conservation buffer as a percentage of total risk exposure effective as of 31 December 2019:
- 5.5% for common equity tier 1 capital (CET1)
- 7.3% for tier 1 capital, and
- 9.7% for the total capital ratio

Improved capital adequecy
The solid level of consolidated net profit and the successful placement of an AT-1 bond significantly improved own funds. Therefore, CET1 increased by EUR 35.9 million to EUR 629.6 million, which is a rise of 6.0%. The CET1 ratio improved from 11.2% to 11.6%. Additional tier 1 capital rose by EUR 9.7 million to EUR 61.2 million. Including tier 2 capital of EUR 190.6 million, the bank's own funds came to EUR 881.4, a pleasing increase of 13.1%. Therefore, the total capital ratio reached an excellent level of 16.2%.

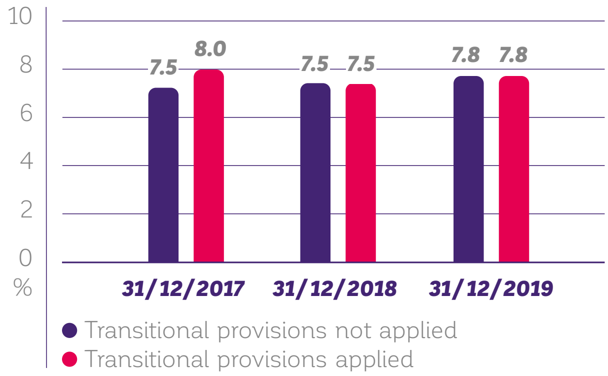
BKS BANK GROUP OF CREDIT INSTITUTIONS: OWN FUNDS PURSUANT TO CRR

in € m	31/12/2018	31/12/2019
Share capital	83.7	83.4
Reserves net of intangible assets	1,061.8	1,134.0
Deductions	-551.8	-587.8
Common equity tier 1 capital (CET1)	593.7	629.6[1)]
Common equity tier 1 ratio	11.2%	11.6%
Hybrid capital	8.0	6.0
AT1 note	43.5	55.2
Additional tier 1 capital	51.5	61.2
Tier 1 capital (CET1 + AT1)	645.2	690.8
Tier 1 capital ratio	12.2%	12.7%
Supplementary capital (tier 2)	134.0	190.6
Total own funds	779.2	881.4
Total capital ratio	14.8%	16.2%
Total risk exposure amount	5,283.1	5,449.6

[1)] Includes profit for the year 2019. Formal adoption is still outstanding.

Positive development of the leverage ratio
The leverage ratio is the ratio of tier 1 capital to the unweighted exposure of BKS Bank including off-balance sheet risk positions. The leverage ratio was 7.8% as at 31 December 2019. Therefore, we were well above the regulatory minimum ratio of 3.0% and the internal benchmark of > 5%.

LEVERAGE RATIO



MREL ratio requirements met
The MREL ratio stands for the minimum requirement for own funds and eligible liabilities and its purpose is to ensure the proper winding up of banks should this become necessary. The minimum requirement for the MREL ratio is made up of the loss-absorbing amount (LAA) and the recapitalisation amount (RCA), and is supplemented by the premium for maintaining market confidence (MCC).

The Financial Market Authority (FMA) defined a minimum amount for BKS Bank for own funds and eligible liabilities of 15.69% of the total liabilities and own funds (total liabilities and own funds, TLOF) on a consolidated level. The MREL ratio is calculated on a monthly basis and reported to OeNB. We complied with the minimum monthly ratio requirements.

Risk Management

The description of the risk management objectives and methods as well as explanations on the material risks are contained in the Notes as of page 159 in the Chapter Risk Report.

FINANCIAL REPORTING AND THE INTERNAL CONTROL SYSTEM

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

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

The quality of the main controls are classified according to the maturity grade model. Depending on the category assigned in the risk-control matrix, the individual work activities and positions are allocated to specific 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 conducted, checklists used and the dual-control principle rigorously 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. An important control procedure concerns the restrictive granting and monitoring of IT authorisations for SAP. 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

BKS Bank publishes non-financial information pursuant to § 243b Business Code and § 267a Business Code (Sustainability Report and Diversity Improvement Act (NaDiVeG)) together in a separate Sustainability Report 2019. This report is available for downloading at www.bks.at/Nachhaltigkeit . The information on the following pages presents only a partial view of selected developments of our non-financial performance indicators.

HOLISTIC SUSTAINABILITY STRATEGY

BKS Bank has been pursuing a holistic sustainability strategy for many years and has also been constantly working on its further development. BKS Bank's leading position in the banking sector is shown by the many awards received in the reporting year: "Global Role Model for Sustainability" conferred by the jury of Quality Austria; "Austria's Most Sustainable Bank" awarded by the magazine "Der Börsianer"; the return of the BKS Bank ordinary share to VÖNIX, the sustainability index of the Vienna Stock Exchange.

Our sustainability strategy breaks down into five areas of action for which we have defined measurable targets to be achieved by 2020:
- Strategy and governance
- Employees
- Products and innovation
- Environment and climate protection
- Society and social engagement

STRATEGY AND GOVERNANCE

The area of action 'strategy and governance' covers the management of our sustainability measures. Our sustainability management ensures the further development of our CSR activities on the basis of international standards such as the UN Global Compact and the Sustainable Development Goals as well as the implementation of planned measures and the attainment of our goals.

In the year 2019, we dealt intensely with the EU's Action Plan: Financing Sustainable Growth. Although we have many years of experience as experts for sustainability, the implementation of the many new directives is a challenge as it affects almost all of our core business areas. To ensure that we meet all requirements on schedule, we started an extensive implementation project. We made good progress with the integration of ESG factors into risk management in 2019. We also evaluated the new taxonomy. We ascertained that the criteria we use to assess the sustainability of financing projects are largely in compliance with the drafts. Our green bonds also correspond to the current draft of the standard for green bonds.

Regular talks with stakeholders are a valuable building block of our sustainabilty work. In the reporting year, we organised a workshop with experts at which the topic of discussion was "What are the opportunities and risks of climate change for Austria's economy?". The event was attended by representatives of cities and municipalities from Carinthia, the federal state of Carinthia and representatives of companies as well as interest group representatives and NGOs. In a survey of customer satisfaction, our customers gave us excellent ratings. Furthermore, a survey of our employees showed that they are very satisfied with the improvement measures taken based on the last employee survey and with our company health promotion scheme.

EMPLOYEES

After a steady increase in number of employees, we have 1,128 employees from ten different countries today. Treating people with respect and appreciation are the standard at BKS Bank. Our management staff defines clear targets for their employees, gives them adequate scope for action and enables them to act flexibly and with a view to future developments. Entrepreneurial thinking and accountability are a matter of course for our staff and this contributes enormously to our success.

Further education and training play a key role for personnel development at BKS Bank and the offers are open to all employees. Our goal is to qualify our employees to ensure that they can keep pace with the changes in their job requirements. In the year 2019, our employees spent 36,049 hours in further education and training courses; 18,499 of these hours were attended by women. The promotion of women is very important to us. We aim to achieve a share of women in management positions of 35% by 2022. A proven instrument is our women's career programme "Frauen.Perspektiven.Zukunft" which was completed by 12 participants in the reporting year. Of the 15 employees that completed our talent programme, six were women.

Apart from adequate income, many social benefits and good collaboration with the Works Council, we offer numerous measures that enable our employees to achieve a good work-life balance. BKS Bank has been certified since 2010 in Austria with the quality seal "berufundfamilie" and completed recertification in the reporting year. We also obtained national certification as a family-friendly enterprise in Slovenia and Croatia. There is no corresponding certification programme in Slovakia. The most popular family-friendly programmes are the free childcare facilities for our employees' children during holidays and on school holidays, the breakfast event for parents on childcare leave, and family day. A presentation on the topic of adult protection law and on inheritance and wills was also very well-received.

OVERVIEW OF EMPLOYEES

Employees by number of persons	**2017**	**2018**	**2019**
Total	1,099	1,119	1,128
· thereof in Austria	860	861	851
· thereof in Slovenia	121	137	150
· thereof in Croatia	73	74	76
· thereof in Slovakia	40	42	46
· thereof in Italy	4	4	4
· thereof in Hungary	1	1	1
· thereof women	623	619	637
· thereof men	476	500	491
· thereof employees with disabilities	28	27	29

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 lists the employees of the non-consolidated companies.

The measures to improve employee workplace health are also popular with our staff. In 2019, the annual programme "Durch die Bank gesund" was held under the motto "Air-holen in der BKS Bank" and attended by 313 employees in Austria, Slovenia and Croatia. We plan to hold the annual programme 'healthy digestive system' for the first time in Slovakia in 2020.

PRODUCTS AND INNOVATION

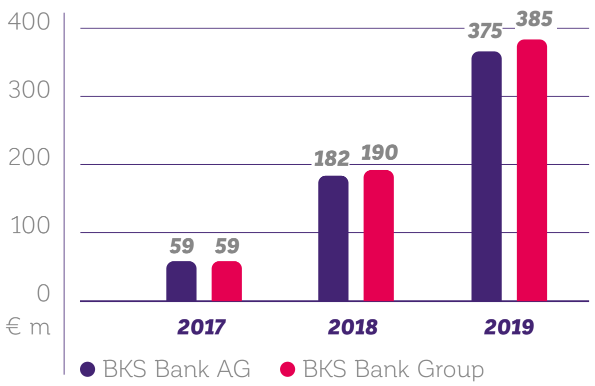
Since we launched the BKS Portfolio-Strategie nachhaltig fund on the market in 2013, we have also been successively enlarging the range of sustainable products to include green and social bonds, sustainable savings passbooks, the 'Silberkredit' loan product, green leasing in Austria as well as green loans in Slovenia. In 2019, we issued a green bond with an issuing volume of EUR 5.0 million and introduced the "Grüne Sparbuch" (green savings passbook). We invest customer assets sustainably also in other investment modules such as in individual asset management mandates. In Austria, we have been issuing loans with a social or ecological purpose since 2018.

An enlarged range of products, higher demand as well as improved data input resulted in a clear increase in volumes invested in sustainable products by 103.1% to EUR 385.4 million. The big jump from 2017 to 2018 shown in the chart below is due, among other things, to the improved data base for sustainable loans. We have been recording the present value of green leasing since 2018. Since the reporting year, we have included in this indicator also green savings passbooks and sustainably invested customer funds from all BKS Portfolio-Strategie fund variants as well as individual asset management positions and the volumes of sustainable funds of 3 Banken-Generali Investment-Gesellschaft held on customer custody accounts with BKS Bank.

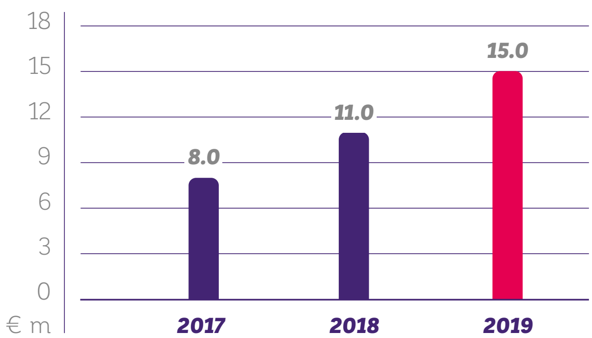
Pioneer in green and social bonds

The EU Action Plan: Financing Sustainable Growth and the Green Deal presented by the President of the European Commission Ursula von der Leyen attracted the attention of both offerors and investors to green bonds in 2019. In Austria, BKS Bank is a pioneer in the issuance of green bonds. We issued our third green bond in the reporting year. The issuing volume was EUR 5 million. To ensure the transparent reporting of green and social bonds, the firm rfu – Mag. Reinhard Friesenbichler Unternehmensberatung was commissioned to prepare a second party opinion for all green and social bonds. This expert opinion states that all green and social bonds issued by BKS have a clear positive effect on the environment and society.

VOLUME OF SUSTAINABLE PRODUCTS



ISSUING VOLUME OF GREEN AND SOCIAL BONDS



BKS Portfolio-Strategie nachhaltig offers customers an asset management that is ecological and socially sustainable. The BKS Portfolio-Strategie nachhaltig funds are actively managed by BKS Bank portfolio managers and invest exclusively in sustainable, ethical and environmental investment funds. The performance trend was very good in the reporting year reaching 10.8%. In the year 2019, the volume invested in the BKS Portfolio-Strategie nachhaltig rose from EUR 16.3 million to EUR 17.6 million (+8.0%).

Sustainable lending

Our lending products were also in high demand in the reporting year. The volume of sustainable loans rose to EUR 296.5 million. Of these loans, EUR 158.7 million were granted to retail customers and EUR 137.8 million to corporate customers. More than two thirds (EUR 220.2 million) of these loans were extended for environmental and sustainable purposes. The leasing present value of BKS-Leasing Gesellschaft m.b.H. increased from EUR 7.6 million to EUR 10.5 million. In order to increase awareness for sustainable mobility, a green leasing marketing campaign was launched for the first time, which contributed enormously to raising the number of leased hybrid and e-vehicles by 128.8%. The volume of green loans granted in Slovenia also increased from EUR 19.8 million to EUR 29.2 million. Higher demand for our environmental finance products reveals the encouraging trend of a growing number of companies and private individuals that want to contribute to climate protection and are investing accordingly.

With the ‘Silberkredit’, BKS Bank has been offering a socially sustainable loan since 2016. The ‘Silberkredit’ is designed for older persons who due to their age have limited access to the credit market. The excellent development of volumes in this product is evidenced by the positive trend in demand in the market. Demand increased from EUR 27.4 million to EUR 37.4 million year on year.

SOCIETY AND SOCIAL ENGAGEMENT

BKS Bank takes its responsibility as a reliable partner for the region very seriously. In 2019, we supported 302 initiatives with EUR 210 thousand including the flagships of Carinthian culture: the German literature days and the Carinthian Summer. We supported the Opera “Koma” - an internationally highly acclaimed performance - at Stadttheater Klagenfurt as principal sponsor. Our largest social sponsoring project is the long-year partnership with ‘Kärntner in Not’, an association that has been helping people in Carinthia who have fallen into hard times since 2000. The association has held the quality seal for donations since 2010. In 2019, the volume of donations surpassed the one-million euro threshold, and reached EUR 1.3 million for the first time.

ENVIRONMENT AND CLIMATE PROTECTION

BKS Bank wants to make a contribution to environmental and climate protection that counts. Therefore, we have been establishing and expanding our environmental management steadily over the past years. We introduced the environmental management system, EMAS, to advance the professionalisation of our environmental activities. EMAS stands for Eco-Management and Audit Scheme and is one of the most widely applied and demanding environmental management systems in Europe. The evaluation was conducted by two environmental experts from Quality Austria. The feedback report of the environmental experts pointed out our many strengths but also contained recommendations for improvements. Positive mention was made, among other things, of the professional context analysis, measures to raise awareness through so-called "pop-ups", environmental poster presentations for our locations and the commitment of our employees.

Substantial decrease in carbon footprint

Our achievements in reducing our carbon footprint received special mention. Since 2012, when we first starting measuring it, we have lowered our carbon footprint by 59%. At the time, our carbon footprint was 2,390t CO_2 equivalents. The main reason for the decrease is that we use environmentally-friendly electricity in Austria and in Croatia. In 2019[1)], we reduced our carbon footprint by 219 t CO_2 equivalents to 982 t CO_2 equivalents. Our carbon footprint per employee in full-time equivalents is now 1.0 t CO_2 equivalents (-0.3 t CO_2 equivalents).

Mobility and construction: high potential for decarbonisation

Decarbonisation is the exit from fossil fuels and a key factor for achieving climate neutrality in the EU and Austria. We believe the potential for decarbonisation at our bank is to be found especially in the core business through our sustainable products, in mobility and construction. Therefore, we are successively upgrading our vehicle fleets to alternative motor systems and reducing the number of vehicles. In 2019, 34 of the 71 vehicles were classified in emissions class six of which six were hybrid vehicles and one an e-vehicle. We also took measures for the first time to motivate our employees to travel to work using sustainable mobility means. Employees record their travel to work by sustainable means of transport in the "EcoPoints" system and are rewarded with gifts. By the end of the year, some 100 employees had registered in the system.

BKS Bank owns 65 properties with a total surface area of 84.9 thousand m^2. Of this area, 42.6 thousand m^2 are used for banking operations, and 34.1 thousand m^2 are rented out to third parties. When restoring buildings, we replace outdated oil-fueled or gas heating systems by climate-friendly heating systems as a rule. In the case of new buildings, we also endeavour to install environmentally-friendly heating systems.

1) The data published for 2019 are based on projections, because we do not receive all of the environmental data in time for our properties such as electricity and heat consumption from the building managers. The exact calculation method is explained in the Sustainability Report on page 110.

Punctually at the end of the year 2019, construction work at BKS-Wohnpark (Residential Park) on the premises of the BKS Bank Main Office was completed. BKS Wohnpark has 50 rental flats in an excellent central location in Klagenfurt of which 23 were designed in cooperation with 'Hilfswerk Kärnten' as assisted-living residences. Heating is environmentally-friendly based on a ground water heat pump system. A photovoltaic plant produces the electricity needed to run the heat pump and for the common areas.

In 2019, we obtained a building permit for the project BKS Holzquartier, which comprises 16 small homes with living spaces of 40 to 60 m$^{2.}$ Construction is to start at the beginning of 2020. This project is the first for which we obtained ÖGNI certification. Depending on the degree of compliance, the certificates are awarded in platinum, gold and silver. The BKS-Holzquartier is aiming for a gold certification. Certification was granted on the basis of the sustainable timber construction as well as the ground water heat pump, the central location in the city and the very good accessibility to public transport.

OVERVIEW OF PROPERTIES IN AUSTRIA

	2017	2018	2019
Number of properties	60	59	59
Total surface area of properties managed in m²	68,247	68,495	68,689
– thereof for banking operations in m²	36,737	37,561	37,908
– thereof rented to third parties	26,673	25,817	23,093
Rental occupancy ratio in %	92.9	92.5	88.8
Net rental income from third party rentals in EUR m	2.6	2.6	2.5

OVERVIEW OF PROPERTIES ABROAD 2019[1)]

	Slovenia 2018	Slovenia 2019	Croatia 2018	Croatia 2019
Number of properties	4	4	2	2
Total surface area of properties managed in m²	14,460	14,460	1,724	1,724
– thereof for banking operations in m²	2,653	3,144	1,499	1,499
– thereof rented to third parties	11,035	10,544	225	-
Rental occupancy ratio in %	94.7	94.7	100	87
Net rental income from third party rentals in EUR m	1.4	1.4	0.03	0.03

1) In Slovakia, BKS Bank does not manage any properties.

Non-financial Performance Indicators

NON-FINANCIAL PERFORMANCE INDICATORS (STRATEGY AND GOVERNANCE)

	Indicators **2017**	Indicators **2018**	Indicators **2019**
Sustainability rating by ISS ESG (scale from A+ to D-)	C "Prime"	C+ "Prime"	C+ "Prime"
Company quality rating	R4E 5*[1]	R4E 5*	R4E 5*
Number of complaints, Group	667	761	2,237

1) EFQM Recognised for Excellence 5 Star

NON-FINANCIAL PERFORMANCE INDICATORS (EMPLOYEES)

	Indicators **2017**	Indicators **2018**	Indicators **2019**
Number of employees, Group	1,099	1,119	1,128
Share of women on the Management Board (in %)	33.3	25	33.3
Share of women on the Supervisory Board (in %)	33.3	35.7	35.7
Share of women in management positions (in %)	32.4	32.4	31.6
Average days of training per employee	4.2	4.2	4.5
Adjusted fluctuation rate (in %)[1]	5.2	6.3	6.6
Participants in the yearly project promotion of workplace health	266	379	313
Sick leave ratio in %[2]	3.1	2.8	2.7
Average parenthood leave in years	2.3	1.8	2.0
Return rate from parenthood leave in %[3]	92	96	73
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	✓	✓	✓
– Carinthian International Club	✓	✓	✓
– Charta der Vielfalt	✓	✓	✓

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. It refers only to Austria.
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 SOCIAL ENGAGEMENT)

	Indicators **2017**	Indicators **2018**	Indicators **2019**
Number of sponsored projects	405	505	302
Sponsoring in €k	254	294	210
Participants in corporate volunteering projects	108	101	117
Hours worked in corporate volunteering projects	658	442	670
Entries for TRIGOS Styria (2017, 2019) / Carinthia (2018)	24	22	37
Memberships in CSR networks (selection):			
– UN Global Compact	✓	✓	✓
– respACT	✓	✓	✓
– Verantwortung zeigen!	✓	✓	✓
– WWF CLIMATE GROUP		✓	✓

NON-FINANCIAL PERFORMANCE INDICATORS (PRODUCTS AND INNOVATION)

	Indicators 2017	Indicators 2018	Indicators 2019
Number of customers	152,800	164,400	191,200
Number branches	63	63	63
Volume of sustainable products in € m[1)]	58.6	189.9	385.4
Sustainable lending in € m[2)]	-	164.9	296.5
Investment volume in BKS Portfolio-Strategie nachhaltig in € m	19.7	16.3	17.6
Volume of green and social bonds issues in € m	8.0	11.0	15.0
Ratio of green climate bonds in %[3)]	-	-	1.25
Sustainable assets of 3 Banken KAG in public investment funds in € m	142.7	165.4	406.7
Sustainable assets of 3 Banken KAG in special funds in € m	450.0	611.9	648.9
Deposits on sustainable savings passbooks in € m	8.2	8.6	14.6
Share of suppliers who have agreed to the Code of Conduct for Suppliers (in %)	100	100	100

1) The presentation comprises volumes in BKS Portfolio-Strategie nachhaltig, issuances of green bonds and social bonds, sustainable investment components in the BKS Portfolio Strategy Varianten, Öko-Sparbuch, Grüne Sparbuch, sustainable finance, green loans and gree leasing. In 2017, sustainable lending was not yet included; therefore, the values for 2018 and 2019 can only be compared under certain conditions.
2) The recording of sustainable loans in Austria was started at the beginning of 2018. The value refers to the volume of new loans granted since then. A review of the input logic applied by system revealed that some loans were not recorded as sustainable in 2018. This was corrected in the reporting year. Therefore, the value given for 2018 differs from the one given in the Sustainability Report 2018.
3) The EU Commission introduced this ratio in 2019 when it published the "Guidelines on non-financial reporting: Supplement on reporting climate-related information". It is computed on the total amount of green bonds outstanding at year-end divided by a five-year rolling average of the total amount of bonds outstanding.

NON-FINANCIAL PERFORMANCE INDICATORS (ENVIRONMENT AND CLIMATE)[1)]

	Indicators 2017	Indicators 2018	Indicators 2019
Carbon footprint, total in t CO_2 equivalents	1,297	1,201	982
Carbon footprint per employee in t CO_2 equivalents	1.4	1.3	1.0
Total energy consumption[2)]	7.6	7.5	7.6
Electricity consumption in GWh[3)]	3.5	3.6	3.6
Share of electricity from renewable sources (in %)	n.a.	92	93
Distance heating consumption in GWh	2.3	2.2	2.2
Fuel in 1,000 l[4)]	138	122	127

	Indicators 2017	Indicators 2018	Indicators 2019
Reduction in km of travel replaced by video conferences	274,440	290,820	362,964
Kilometres travelled by rail in 1,000 km	107	129	176
Paper consumption in t	46	47	43
Paper consumption per employee (FTE) in kg[5)]	50	50	45
Units of hardware recycled by AfB in units	661	305	428

1) As we have considered the own electricity production of our photovoltaic plants and changes to fuel and paper consumption in the carbon footprint and energy consumption, the values given here differ from those in the Sustainability Report 2018.
2) We defined the reduction of total energy consumption as a goal for the first time in 2019, and therefore, included this value in the table.
3) In past years, this table only included the share of electricity from renewable energy sources in Austria and now we have switched to Group-wide reporting.
4) As we replaced several Diesel vehicles in our fleet by hybrid vehicles, consumption of gasoline increased while Diesel consumption decreased. Therefore, we are presenting total fuel consumption here and not only Diesel consumption as in previous years.
5) In the past, we presented consumption per employee per capita.

Outlook

ECONOMIC RECOVERY DELAYED

The forecasts for the global economy were very promising at the start of the year. Economists around the world had reached a consensus that the signs for the economy were again pointing towards growth. However, the global spread of the Covid-19 virus made it necessary to revise current economic expectations for the year 2020.

The global economy – starting out from China – will be weaker than had been expected at the beginning of the year, especially in the first half of 2020. It is most unlikely that the global economic growth rate previously estimated of 3.3% will be reached. The International Monetary Fund announced at the beginning of March that it expects economic growth to slow due to the spread of the coronavirus. However, the IMF did not mention any concrete growth figures, because the effects on the global economy cannot yet be estimated. An assessment is difficult also because the impact of the coronavirus varies from sector to sector.

The Organisation for Economic Cooperation and Development (OECD) lowered its initial growth forecast for global GDP from 2.9% to 2.4%. The economic dynamic is being negatively affected by the temporary interruption of supply chains and the closing of factories and shops for periods of time. Should the situation stabilise, the economy will probably continue on its growth path where it left off. Should this fail to happen, global economic growth will decrease by half to 1.5% and some countries, including the US, will slip into economic recession according to the estimates of the OECD published at the start of March 2020. The World Trade Organisation (WTO) also expects the coronavirus pandemic to have a substantial impact on the global economy.

Initially, stock markets were not really affected by the general hysteria. This changed suddenly in the last week of February when stock markets all over the world underwent a hefty correction. The New Yorker Stock Exchange suffered the worst plunge in stock prices since the outbreak of the financial crisis. Stock markets have meanwhile stabilised again, but there is great uncertainty prevailing among investors. We expect higher volatility on international stock markets in the coming months.

Governments and central banks around the world are signalling willingness to take all support measures necessary to contain the economic effects of the coronavirus. Market observers expect the major central banks to act in concert and take concentrated measures. The US Federal Reserve already responded by lowering interest rates by 0.5%.

The short-term economic outlook is being overshadowed by the rapid spread of the coronavirus throughout the world. However, the medium to long-term prospects are positive. As the monetary policy measures will be supportive of the global economy, the current situation will probably only cause a dent in the economic upswing.

CHALLENGES FOR BANKS REMAIN DAUNTING

The tense situation regarding interest rates will continue to weigh down earnings in the lending business. Any possibility of a significant reversal of interest rate policy has become remote – exacerbated by the latest economic worries. However, we expect interest income levels to remain stable in the coming financial year. We will also continue to focus on the expansion of the services business in order to reduce dependence on the lending business.

We hope to earn higher profits in the securities business especially on the back of our stronger market position in Slovenia even though sentiment on stock markets in the current financial year will be generally more volatile than last year. We have lots of plans for strengthening our earnings capacity also in the field of payment services. In just a few weeks, we will present further innovations and smart payment methods to the market. Apart from the new digital products and services, our goal is to win new customers and increase deployment of our sales experts.

In the lending business, we expect demand for loans to be more sluggish due to the delayed economic recovery in the two customer segments. As regards impairment charges, we believe these will develop moderately due to our responsible lending policy. In the primary deposits business, we plan to grow through bond issues and attract institutional investors.

We are focusing not only on running our business operations, but also working hard on the implementation of our strategic initiatives. The project portfolio for the coming months includes a large number of initiatives that we plan to put into practice. These include projects such as implementation of the requirements of the EU Action Plan for Financing Sustainable Growth and redefining the risk-bearing capacity analysis. However, our primary focus is on the further development of our digital products and services. In a few months, we will present a new application to the market that permits customers to complete leasing transactions digitally. We are planning the next expansion steps in our foreign markets: The opening of a second branch in Zagreb will be finalised before the summer and we are working intensely on the preparations for entering the Serbian market with the leasing business.

UNCERTAINTIES IN EARNINGS TRENDS FOR 2020

It is possible that the attainment of our goals will be hampered by the coronavirus pandemic and the entailing market turmoil as well as by regulatory changes or changes in the competitive situation. The development of business in the first weeks was stable, and therefore, we presently still assume that we will achieve our goals. We hope to pay out a dividend that adequately reflects our profits and own funds also in the current financial year.

As regards the court proceedings of the complaints filed by UniCredit Bank Austria AG, the courts have concurred with our standpoints up to now, as we assumed. However, we expect the legal disputes to last longer and tie up resources.

Klagenfurt am Wörthersee, 9 March 2020

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Alexander Novak
Member of the Management Board

Consolidated Financial Statements pursuant to IFRS

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Consolidated Statement of Comprehensive Income for the Financial Year 2019

INCOME STATEMENT

in €k	Notes	2018	2019	± in %
Interest income applying the effective interest rate method		139,308	140,803	1.1
Other interest income and other similar income		20,839	24,882	19.4
Interest expenses and other similar expenses		-30,454	-29,843	-2.0
Net interest income	**(1)**	**129,693**	**135,842**	**4.7**
Impairment charges	(2)	-18,293	-18,582	1.6
Net interest income after impairment charges		**111,400**	**117,260**	**5.3**
Fee and commission income		59,906	63,213	5.5
Fee and commission expenses		-4,439	-4,993	12.5
Net fee and commission income	**(3)**	**55,467**	**58,220**	**5.0**
Profit/loss from investments accounted for using the equity method	(4)	44,848	45,915	2.4
Net trading income	(5)	280	1,244	>100
General administrative expenses	(6)	-114,577	-120,956	5.6
Other operating income	(7)	6,467	6,856	6.0
Other operating expenses	(7)	-8,992	-9,084	1.0
Profit/loss from financial assets/liabilities		**-7,852**	**3,663**	**>100**
• Profit/loss from financial instruments designated at fair value	(8)	-2,841	-1,586	44.2
• Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	(9)	-5,125	5,072	>100
• Profit/loss from derecognition of financial assets measured at amortised cost	(10)	179	540	>100
• Other profit/loss from financial assets/liabilities	(11)	-65	-363	>-100
Profit/loss for the year before tax		**87,041**	**103,118**	**18.5**
Income tax expense	(12)	-9,621	-10,211	6.1
Profit for the year		**77,420**	**92,907**	**20.0**
Non-controlling interests		-3	-2	-19.2
Profit for the year after non-controlling interests		**77,417**	**92,905**	**20.0**

OTHER COMPREHENSIVE INCOME

in €k	2018	2019	± in %
Profit for the year	**77,420**	**92,907**	**20.0**
Other comprehensive income	**-6,883**	**-207**	**97.0**
Items not reclassified to profit or loss for the year	**-5,360**	**-2,883**	**46.1**
± Actuarial gains/losses in conformity with IAS 19	-3,444	-4,782	-38.9
± Deferred taxes on actuarial gains/losses in conformity with IAS 19	860	1,188	38.2
± Changes in the fair value of equity instruments measured at fair value	-1,339	5,720	>100
± Deferred taxes on changes in fair value of equity instruments measured at fair value	412	-1,410	>-100
± Fair value changes due to the default risk of financial liabilities measured at fair value through profit/loss (designated)	-56	355	>100
± Deferred taxes on fair value changes of financial liabilities designated at FV PL attributable to own credit risk	14	-89	>-100
± Share of income and expenses of associates in OCI and accounted for using the equity method	-1,807	-3,866	>-100
Items reclassified to profit or loss for the year	**-1,523**	**2,676**	**>100**
± Exchange differences	16	-20	>-100
± Changes in the fair value of debt instruments measured at fair value	-1	2,134	>100
± Net change in fair value	75	2,134	>100
± Reclassified to profit or loss	-76	-	-
± Deferred taxes on changes to the fair value of debt instruments measured at fair value	18	-533	>-100
± Share of income and expenses of associates reported in OCI and accounted for using the equity method	-1,556	1,097	>100
Total comprehensive income	**70,537**	**92,700**	**31.4**
Non-controlling interests	-3	-2	-19.2
Total comprehensive income after non-controlling interests	**70,534**	**92,698**	**31.4**

EARNINGS AND DIVIDEND PER SHARE

	2018	2019
Average number of shares in issue (ordinary and preference shares)	41,476,708	42,073,075
Dividend per share in euro (ordinary and preference shares)	0.23	0.25
Earnings per ordinary and preference share in EUR (diluted and undiluted)	1.82	2.15

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 2019 of €k 3,396 (pr.yr.: €k 2,333) on additional equity instruments was deducted from net profit for the year taking into account the tax effect.

QUARTERLY REVIEW 2019

in €k	Q1/**2019**	Q2/**2019**	Q3/**2019**	Q4/**2019**
Interest income and similar income	43,383	42,034	39,137	41,131
Interest expenses and similar expenses	-7,554	-7,401	-7,677	-7,211
Net interest income	**35,829**	**34,634**	**31,459**	**33,920**
Impairment charges	-8,194	-4,997	-3,259	-2,132
Net interest income after impairment charges	**27,635**	**29,636**	**28,200**	**31,788**
Fee and commission income	15,225	16,250	15,936	15,802
Fee and commission expenses	-1,029	-1,230	-1,291	-1,442
Net fee and commission income	**14,196**	**15,020**	**14,645**	**14,360**
Profit/loss from investments accounted for using the equity method	8,773	11,800	14,949	10,394
Net trading income	229	486	462	66
General administrative expenses	-29,324	-32,080	-31,255	-28,297
Other operating income	1,471	1,850	1,207	2,329
Other operating expenses	-6,108	-720	-1,279	-978
Profit/loss from financial assets/liabilities	**2,985**	**761**	**697**	**-781**
• Profit/loss from financial instruments designated at fair value	-206	-1,100	-207	-73
• Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	3,238	909	843	82
• Profit/loss from derecognition of financial assets measured at amortised cost	-38	856	299	-577
• Other profit/loss from financial assets/liabilities	-9	97	-238	-213
Profit for the period before tax	**19,857**	**26,753**	**27,628**	**28,880**
Income tax	-2,544	-1,951	-3,145	-2,571
Profit for the period	**17,312**	**24,802**	**24,483**	**26,310**
Non-controlling interests	-2	-1	-	-
Profit for the period after non-controlling interests	**17,311**	**24,801**	**24,483**	**26,310**

QUARTERLY REVIEW 2018

in €k	Q1/**2018**	Q2/**2018**	Q3/**2018**	Q4/**2018**
Interest income and similar income	39,041	42,560	38,606	39,940
Interest expenses and 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 entities 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	-203	-2,909	315	-44
• Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	-1,819	561	826	-4,693
• Profit/loss from the derecognition of financial assets measured at amortised cost	-143	49	501	-228
• Other comprehensive income 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**

Consolidated balance sheet for the period ended 31 December 2019

ASSETS

in €k	Notes	31/12/2018	31/12/2019	± in %
Cash and balances with the central bank	(13)	571,963	550,752	-3.7
Receivables from other banks	(14)	177,248	200,333	13.0
– Impairment charges on receivables from other banks	(15)	-322	-118	-63.4
Receivables from customers	(16)	6,025,858	6,378,787	5.9
– Impairment charges on receivables from customers	(17)	-107,879	-90,735	-15.9
Trading assets	(18)	8,045	8,755	8.8
Debt securities and other fixed-interest securities	(19)	904,421	890,116	-1.6
• Impairment charges on debt securities	(20)	-258	-337	30.7
Shares and other non-interest-bearing securities	(21)	135,609	135,878	0.2
Investments in entities accounted for using the equity method	(22)	599,668	635,931	6.0
Intangible assets	(23)	3,859	10,960	>100
Property, plant and equipment	(24)	53,336	77,842	45.9
Investment property	(25)	34,530	37,374	8.2
Deferred tax assets	(26)	6,363	7,404	16.4
Other assets	(27)	22,497	14,654	-34.9
Total assets		**8,434,938**	**8,857,596**	**5.0**

EQUITY AND LIABILITIES

in €k	Notes	31/12/2018	31/12/2019	± in %
Payables to other banks	(28)	836,489	689,224	-17.6
Payables to customers	(29)	5,467,463	5,813,967	6.3
• thereof savings deposits		1,429,395	1,413,530	-1.1
• of which other payables		4,038,068	4,400,437	9.0
Liabilities evidenced by paper	(30)	571,052	623,792	9.2
• of which at fair value through profit or loss		84,744	84,237	-0.6
Trading liabilities	(31)	8,362	10,848	29.7
Provisions	(32)	134,485	138,743	3.2
Other liabilities	(33)	26,699	48,913	83.2
Subordinated debt capital	(34)	179,667	230,584	28.3
Shareholders' equity		1,210,721	1,301,525	7.5
• Group equity	(35)	1,210,696	1,301,498	7.5
• Non-controlling interests		25	27	9.7
Total equity and liabilities		**8,434,938**	**8,857,596**	**5.0**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2019

in €k	Subscribed capital	Capital reserves	Exchange differences	Fair value reserves	Retained earnings	Profit/loss for the year	Additional equity instruments [1]	Equity
As at 01/01/2019	**85,886**	**241,416**	**-335**	**21,338**	**741,475**	**77,417**	**43,500**	**1,210,696**
Distribution						-9,677		-9,677
Coupon payments on additional equity instruments						-3,396		-3,396
Taken to retained earnings					64,343	-64,343		-
Profit for the year						92,905		92,905
Other comprehensive income			218	6,993	-7,418			-207
Capital increase								-
Effect of the equity method					23			23
Change in treasury shares					-452			-452
Issuance of additional equity instruments							11,700	11,700
Other changes					-94			-94
As at 31/12/2019	**85,886**	**241,416**	**-117**	**28,331**	**797,877**	**92,905**	**55,200**	**1,301,498**

Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity method)	19,941
Deferred tax reserve	-4,985

[1] All additional tier 1 bonds issued are classified as equity in conformity with IAS 32.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2018

in €k	Subscribed capital	Capital reserves	Exchange differences	Fair value reserves	Retained earnings[1]	Profit/loss 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	**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 method)	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] All additional tier 1 bonds issued are classified as equity in conformity with IAS 32.

Please refer to Note (35) Shareholders' equity.

Consolidated statement of cash flows

CASH FLOWS

in €k	2018	2019
Profit for the year after tax	**77,420**	**92,907**
Non-cash items in profit/loss for the year and reconciliation to net cash flow from operating activities		
• Depreciation, amortisation and impairment charge on receivables, and property, plant and equipment	22,393	26,517
• Changes in provisions	12,732	6,700
• Gains and losses on disposals	-641	-223
• Changes in other non-cash items	3,953	-3,704
• Profit/loss shares in entities accounted for using the equity method	-44,848	-45,915
• Net interest income	-129,693	-135,842
• Tax expenses	9,622	10,211
Subtotal	**-49,062**	**-49,349**
Change in assets and liabilities from operating business activities after correction for non-cash items:		
• Receivables from banks and customers	-628,120	-409,462
• Trading assets	1,792	-710
• Other assets	-1,412	1,432
• Payables to banks and customers	655,567	198,207
• Trading liabilities	-6,245	2,486
• Provisions and other liabilities	-13,966	-5,428
• Interest received	156,612	159,721
• Interest paid	-33,477	-28,641
• Dividends received	4,260	7,609
• Income tax paid	-4,078	-7,237
Cash flow from operating activities	**81,871**	**-131,371**
Cash inflow from sales of:		
• Debt securities and other fixed-interest securities	67,312	52,350
• Shares and other non-interest-bearing securities	13,081	29,891
• Fixed assets owned	1,556	201
Cash outflow for purchases of:		
• Debt securities and other fixed-interest securities	-110,859	-37,519
• Shares and other non-interest-bearing securities	-30,024	-20,362
• Fixed assets owned	-12,884	-20,509
• Entities accounted for using the equity method	-8,501	-
Dividends from entities accounted for using the equity method	5,846	6,906
Cash flow from investing activities	**-74,473**	**10,958**
Capital increase	54,991	-
Dividend distributions	-8,935	-9,677
Proceeds from issues of additional equity components	7,300	11,700
Coupon payments on additional equity instruments	-2,333	-3,396
Repurchased treasury shares	-2,815	-3,725
Inflows from the sale of treasury shares	1,005	3,273
Cash inflow from subordinated liabilities and other financing activities	112,912	204,952
Cash outflow on subordinated liabilities and other financing activities	-74,300	-101,700
Payouts for lease liabilities	-	-2,591
Cash flow from financing activities	**87,825**	**98,836**
Cash and cash equivalents at end of previous year	**476,589**	**571,963**
Cash flow from operating activities	81,871	-131,371
Cash flow from investing activities	-74,473	10,958
Cash flow from financing activities	87,825	98,836
Effect of exchange rates on cash and cash equivalents	151	366
Cash and cash equivalents at end of reporting year	**571,963**	**550,752**

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 2019 financial year as exempting consolidated financial statements within the meaning of § 59a Banking Act. Additionally, the Bank meets the requirements of § 245a (1) UGB (Austrian Business Code).

BKS Bank was founded in Klagenfurt in 1922 as Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co. Years of efforts to transform the limited partnership into a stock corporation resulted in the formation of "Bank für Kärnten" in 1928. The move to enter the Styrian market took place in 1983. BKS Bank AG's ordinary no-par shares have been listed on the Vienna Stock Exchange since 1986, the no-par preference shares since 1991. The share classes are traded in the segment 'standard market auction' of the Vienna Stock Exchange. BKS Bank has had a presence in Vienna since 1990. In 2003, it began developing the markets in Burgenland and Lower Austria. Outside of Austria, it also operates in Slovenia, Croatia, Slovakia, and northern Italy. BKS Bank AG together with Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft (BTV AG) constitute 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 9 March 2020 and approved them for forwarding to the Supervisory Board. The Supervisory Board has the task of examining the consolidated financial statements and stating whether it approves these. Up to the time of signing, there were no reasons to doubt that the entity would continue as a going concern.

II. EFFECTS OF NEW AND AMENDED STANDARDS

With the exception of the revised standards and interpretations that were effective for the financial year under review, the financial reporting policies applied in the 2018 financial year were also applied in 2019. The comparative figures for the previous year are also based on the same requirements. Standards announced but not yet effective for the financial year under review were not applied.

APPLICABLE STANDARDS/AMENDMENTS FROM 01/01/2019

Standard/Amendment	Effective for financial years beginning on or after this date	Endorsement by the EU
IFRS 9 – Financial Instruments (Amendment)	01/01/2019	March 2018
IFRS 16 – Leases	01/01/2019	October 2017
IAS 19 – Employee Benefits (Amendment)	01/01/2019	March 2019
IAS 28 – Investments in Associates and Joint Ventures (Amendment)	01/01/2019	February 2019
IFRIC Interpretation 23 – Uncertainty regarding income tax treatment	01/01/2019	October 2018
Annual improvements to IFRS standards, 2015-2017 cycle	01/01/2019	March 2019

IFRS 9 – Prepayment features with negative compensation

Generally, IFRS requires that the SPPI criterion (cash flow terms) are met when measuring at amortised cost or at fair value through other comprehensive income (FVOCI). This means that financial assets are only permitted to include payment flows that represent exclusively redemption and interest payments on outstanding capital amounts. A contract clause that permits premature repayment must be taken into account in the SPPI test to ascertain if this SPPI has a negative effect.

Up to now, IFRS 9 had included the exception stating that the SPPI criterion was not breached when, in the case of premature repayment by a debtor, an adequate fee is paid (compensation payment in the event of termination).

The new supplement to IFRS 9 now states that the exception in force up to now may also apply if the reasonable fee mentioned for premature termination is negative, i.e., the party terminating the contract receives the fee. This may be the case, for example, if a loan agreement includes a clause stating that in the event of termination of the contract by the debtor, a prepayment compensation is due that is determined on the basis of market interest rates at the time of termination, and may be both positive or negative. In the case of negative compensation, it must be paid by the lender to the borrower terminating the contract. Under the rules in place to date, the SPPI criterion would not have been met in such case. This amendment does not have any effect on the BKS Bank Group, because there are no contracts with such terms.

IFRS 16: The BKS Bank Group applied IFRS 16 for the first time as of 1 January 2019. IFRS 16 specifies how lessors and lessees must recognise and measure the information given in the Notes regarding lease contracts. The application of IFRS 16 comes with numerous new rules especially for lessees. As regards accounting for lease contracts by the lessor, the regulations applicable under IAS 17 remain in force and are now contained in IFRS 16.

The differentiation under IAS 17 between finance leases and operating leases has been abolished; IFRS 16 only specifies the right-of-use model. In this model, the lessee must recognise upon lease commencement a right-of-use assets 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 uses both options. IFRS 16 also 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 the balance sheet refer to right-of-use assets from real estate leases. The number of capitalised 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.

During the transition phase, lessees can also elect the method of transition to IFRS 16 they wish 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 retroactive application from the time of initial application with recognition of the changeover effects in equity at the beginning of the current period. Prior-year figures are therefore not 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 right-of-use assets in the same amounts as the corresponding lease liabilities 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 during transition are not of relevance for the BKS Bank Group.

The operating lease obligations as at 31 December 2018 can be reconciled to the opening balance sheet value of the lease liabilities pursuant to IFRS 16 as follows:

TABLES OF TRANSITIONS

in €k

Lease liabilities pursuant to IAS 17 as at 31/12/2018	**27,752**
minus discounting	-1,519
Discounted lease liabilities as at 01/01/2019	**26,233**
minus short-term leases	-4
minus low-value leases	-102
minus prolongation options in rental contracts	1,555
plus/minus other	-17
Leasing liabilities as at 01/01/2019	**27,665**

The weighted average of the incremental borrowing rate was 0.91% at the time of calculation of the leasing liabilities recognised for the first time as at 1 January 2019.

IAS 19 – Plan amendments, curtailments or settlements

The amendment to IAS 19 states that in the event of a plan amendment, curtailment or settlement of a defined benefit plan, it is now mandatory that the current service cost and the net interest for the remaining period of the financial year be remeasured based on the current actuarial assumptions. Furthermore, the amendment clarifes the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. This amendment does not have any effect on the BKS Bank Group, because it does not have any defined post-employment benefit plans.

IFRIC Interpretation 23 – Uncertainty regarding income tax treatment

IFRIC 23 clarifies the recognition and measurement of income tax under IAS 12 when there is uncertainty regarding tax treatment, i.e., tax risk position. A tax risk position is given when the application of the relevant tax law on a specific transaction is not clear and, therefore, (also) depends on the interpretation by the tax authorities and this interpretation is not known to the company at the time of preparation of the financial statements. An assessment must be based on the assumption of complete information on the part of the tax authorities. If there is uncertainty as to whether the tax treatment will be accepted by the tax authorities, this uncertainty must be recognised accordingly in the period it is ascertained, for example, by recognising addtional tax debt. This amendment does not have any effect on the BKS Bank Group.

IAS 28 – Long-term interests in associates and joint ventures

The amendment to IAS 28 clarifies which standard (IAS 28/IFRS 9) applies to the recognition of long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. In future, this is to be done in accordance with IFRS 9. This amendment does not result in any effects on the BKS Bank Group.

Annual improvements to IFRS standards, 2015-2017 cycle

The annual improvements to IFRS include amendments to the following standards:
- IFRS 3 Business combinations – Treatment of shares held in a joint venture
- IFRS 11 Joint arrangements – Treatment of shares held under a joint arrangements (joint venture)
- IAS 12 Income taxes – Tax consequences of payments from financial instruments that qualify as equity
- IAS 23 Borrowing costs – Capitalisation of borrowing costs

These amendments to not have any material impact on BKS Bank's consolidated financial statements.

STANDARDS/AMENDMENTS APPLICABLE FROM 01/01/2020

Standard/Amendment	Effective for financial years beginning on or after this date	Endorsement by the EU
IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendment)	01/01/2020	November 2019
IFRS 3 – Business Combinations (Amendment)	01/01/2020*	Outstanding
IFRS 9 – Financial Instruments, IAS 39 – Financial Instruments: Recognition and mesurement and IFRS 7 - Financial Instruments: Information (Amendment)	01/01/2020	January 2020
Amendments to References to the Conceptual Framework in IFRS Standards (Amendment)	01/01/2020	November 2019

* Assuming endorsement by the EU

IAS 1 and IAS 8 – Amendment to the definition of materiality

The amendments to IAS 1 and IAS 8 create a precisely defined and uniform defintion of materiality in the IFRS standards. This definition will be part of IAS 1 only in future and IAS 8 will only include a reference to IAS 1. The amendments are effective as of 1 January 2020. These amendments do not have any effects on the BKS Bank Group.

IFRS 3 – Business combinations

The amendments concern the definition of a business. The amendments clarify if the acquisition of a business is to be treated as an acquired group of assets or as the purchase of a business in the preparation of the financial statements. This amendment does not have any effects on the BKS Bank Group.

IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform

The amendements to IFRS 9, IAS 39 and IFRS 7 are the IASB's response to current uncertainties in connection with the reform of reference interest rates (socalled IBOR reform). The amendments refer to certain hedge accounting rules and have the purpose of guaranteeing the current continuation of financial reporting for hedge transactions.
The amendments are effective as of 1 January 2020. These amendments to not have any material impact on BKS Bank's consolidated financial statements:

References to the conceptual framework

IASB published amendments to references in the IFRS standards to the conceptual framework. These amendments originated in the revision of the conceptual framework and refer to the following standards and interpretations: IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRS 2, IFRS 3, IFRS 6, IFRS 14, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC-32.
Existing references to the conceptual framework are forumated in concrete terms either by explicit references to the IASC conceptual framework of 2001 or to the new IASB conceptual framework. The amended standards are effective as of 1 January 2020. These amendments do not have any effects on the BKS Bank Group.

STANDARDS/AMENDMENTS TO BE APPLIED FROM 01/01/2021 OR LATER

Standard/Amendment	Effective for financial years beginning on or after this date	Endorsement by the EU
IAS 1 – Presentation of the financial statements	01/01/2022	Outstanding
IFRS 17 - Insurance Contracts	01/01/2021	Outstanding

The standards and amendments mentioned above do not result in any material changes for the consolidated financial statements.

III. RECOGNITION AND MEASUREMENT

General

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 included in the consolidated financial statements and controlled by BKS Bank AG, and provided the influence on that entity's assets, financial position and profit and loss is not of minor significance.

Control is deemed given where BKS Bank AG is exposed, or has rights, to variable returns from its engagement 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.

Otherwise there were no changes in the group of consolidated companies compared to the preceding year.

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%	31/12/2019
BKS-leasing d.o.o.	Ljubljana	100.00%	-	31/12/2019
BKS-leasing Croatia d.o.o.	Zagreb	100.00%	-	31/12/2019
BKS-Leasing s.r.o.	Bratislava	100.00%	-	31/12/2019
IEV Immobilien GmbH	Klagenfurt	100.00%	-	31/12/2019
Immobilien Errichtungs- und Vermietungs GmbH & Co KG	Klagenfurt	100.00%	-	31/12/2019
BKS 2000 – Beteiligungs- und Verwaltungs GmbH	Klagenfurt	100.00%		31/12/2019
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	-	100.00%	31/12/2019
BKS Hybrid beta GmbH	Klagenfurt	100.00%	-	31/12/2019
BKS Immobilien-Service GmbH	Klagenfurt	100.00%	-	31/12/2019
BKS Service GmbH	Klagenfurt	100.00%	-	31/12/2019

Entities accounted for using the equity method

The following entities were classified as associates within the meaning of IAS 28, because we could exercise a significant influence on those entities' financial and business policy decisions:

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Company	Head office	Direct equity interest	Date of financial statements
Oberbank AG	Linz	14.2%	30/09/2019
BTV AG	Innsbruck	13.6%	30/09/2019

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 those two banks' financial and business policy decisions within the scope of the 3 Banken Group without having a controlling interest in them. Because of the circular shareholdings that exist between BKS Bank AG, Oberbank AG and BTV AG and also considering that the consolidated financial statements of the partner 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) required classification as a joint operation and was, therefore, accounted for on a proportionate basis.

ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

Company	Head office	Direct equity interest	Date of financial statements
ALGAR	Linz	25.0%	31/12/2019

Other entities not included in the consolidation

Based on our own discretion, the following entities in which BKS Bank held stakes of over 20% were not included in the consolidated financial statements on the grounds of the aforementioned immateriality provisions.

OTHER ENTITIES NOT INCLUDED IN THE CONSOLIDATION

Company	Head office	Direct equity interest	Indirect equity interest	Date of financial statements
3 Banken IT GmbH	Linz	30.0%	-	31/12/2019
VBG Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.0%	-	31/12/2019
E 2000 Liegenschaftsverwaltungs GmbH	Klagenfurt	99.0%	1.0%	31/12/2019
Pekra Holding GmbH	Klagenfurt	100.0%	-	31/12/2019
3 Banken Versicherungsmakler Gesellschaft m.b.H.	Innsbruck	30.0%	-	31/12/2019
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.0%	-	31/12/2019

Performance of the foreign subsidiaries and branches

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 DECEMBER 2019

in €k	Net interest income	Operating income	Number of employees (FTE)	Net profit before Tax	Income tax expense	Profit/loss for the year after tax
Branches abroad						
Slovenia Branch (banking branch)	12,079	18,457	126.6	6,167	-986	5,181
Croatia Branch (banking branch)	9,980	10,922	59.5	4,019	-807	3,212
Slovakia Branch (banking branch)	2,305	2,657	27.8	223	-	223
Subsidiaries						
BKS-leasing d.o.o., Ljubljana	5,097	5,577	18.7	2,466	-468	1,998
BKS-leasing Croatia d.o.o., Zagreb	2,170	2,364	12.3	864	-166	698
BKS-Leasing s.r.o., Bratislava	1,583	1,746	12.4	524	-124	400

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 DECEMBER 2018

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit/loss for the year before tax	Income tax expense	Profit/loss for the year after tax
Branches abroad						
Slovenia Branch (banking branch)	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 currency translation

Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates valid at the balance sheet date. The financial statements of subsidiaries that were not prepared in euro were translated using the closing rate method. Within the Group, there is just one Croatian company that did not prepare its financial statements in euro, but in Croatian kuna (HRK). 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

These items consist of cash and balances with central banks. They were measured at amortised cost.

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. Cash transactions are recognised/ 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
- designated at fair value through other comprehensive income (FVOCI)
- fair value through profit or loss (FVPL)

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 terms - SPPI test).

BKS Bank uses a benchmark test to ascertain if a contractual cash flow 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 check compliance with the SPPI criteria for 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 necessarily result in a failure to pass the SPPI test.
Based on the quantitative benchmark test, the contractual cash flows at the time of inflow of the financial instrument

to be classified are compared with the cash flows of a socalled 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 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 designated at fair value through other comprehensive income (FVOCI)

A financial asset is classified as at fair value through other comprehensive income (FVOCI) 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 sell the financial assets. In this case as well, the SPPI test requires that in the case of financial assets designated as FVOCI (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 (FVOCI with recycling). At BKS Bank, debt instruments are reported in this category.

Equity instruments must generally be recognised at fair value through profit or loss (FVPL) under IFRS 9, as these 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 (FVOCI without recycling). If there is no market price, the main method applied to determine the fair value is the discounted cash flow method. 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.

Financial instruments recognised at fair value through profit or loss (FVPL)

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/trading liabilities on the balance sheet. Revaluation 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 in the measurement class FVPL. 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). Revaluation gains net of revaluation losses are recognised in Profit/loss from financial assets/liabilities in the subitem Profit/loss from financial instruments designated at fair value in the income statement.

The presentation of balance sheet items, measurement benchmark and category pursuant to IFRS 9 for the assets side is presented below for BKS Bank AG:

ASSETS	Fair value	Amortised cost	Other	Category
Cash and balances with the central bank		✓	-	At amortised cost
Receivables from other banks		✓	-	At amortised cost
Receivables from customers		✓	-	At amortised cost
	✓		-	Designated at FVPL (fair value option)
	✓		-	FVPL mandatory
Trading assets	✓		-	FVPL mandatory
Debt securities and other fixed-interest securities		✓	-	At amortised cost
	✓		-	FVOCI mandatory (with recycling)
	✓		-	Designated at FVPL (fair value option)
	✓		-	FVPL mandatory
Shares and other non-interest-bearing securities	✓		-	Designated at FVOCI (without recycling)
	✓		-	FVPL mandatory

Pursuant to IFRS 9 ***financial liabilities*** are measured as follows upon initial recognition:
- at amortised costs
- fair value through profit or loss (FVPL)

Financial liabilities in the trading portfolio (held for trading) are measured at fair value through 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	Fair value	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 FVPL (fair value option)
Trading liabilities	✓		-	FVPL mandatory
Subordinated debt capital		✓	-	At amortised cost

Impairment charges for financial instruments pursuant to IFRS 9

BKS Bank recognises impairment charges for debt securities measured at amortised at cost or designated at fair value through other comprehensive income (FV OCI mandatory) as well as for loan commitments and financial guarantees. 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 mandatory 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 liabilities, and in the case of non-significant liabilities, lump sum criteria are used (the basis being the exposures not covered by collateral).

Instruments are reclassified from stage 1 to stage 2 as soon as the default risk increases 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 has a credit-impaired (rating in the default classes 5a to 5c) (credit impaired). 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 more than 1 rating stage	2
Forbearance	2
Forbearance for non-performing loans	3

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 market 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 loss amount at the time of the credit default. The loss ratio is measured by the unsecured portion of the EAD, which, should the amount of the liability 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.
(Unconditional) marginal (m) PD	This is derived from the point-in-time PD and provides the annual change of life-time PD.

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

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

The collateral and the potential loss from the open risk position 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 given in the risk report.

Expected credit loss is calculated on the basis of several scenarios. BKS Bank uses three rating scenarios: The starting scenario is the base scenario. There is also an upside and a downside scenario for calculating the ECL. 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, a worst-case or 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 in the default probability (PD). BKS Bank uses the following factors as indicators for forecasts: GDP (gross domestic product), inflation rate, unemployment rate, 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.

In stage 3, impairment charges are determined using the discounted cash flow method for significant receivables that exceed EUR 1.5 million. Impairment losses in this case result from the difference between the carrying value of the receivable and the present value of future expected cash flows from the receivables and the collateral to be realised. If there are objective indications for allocating impairment losses in stage 3 and the debt is not significant (debt < EUR 1.5 million), the customers are allocated to a separate portfolio for corporate customers and/or retail customers and impaired pursuant to lump sum criteria. The pEWB is based on the following formula: pEWB (specific impairment allowances calculated on a portfolio basis) = shortfall x pEWB factor.

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 FVOCI, 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 when 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 may result in derecognition of the financial asset prior to contract modification in recognition of the modified value of the 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 recognition and/or derecognition, the amount of the difference between the gross carrying amount before contract modification and the gross carrying amount after contract modification is reported as a change to profit or loss in the income statement.

Investments in entities accounted for using the equity method

Entities in which BKS Bank holds a stake of over 20%, but which are not under 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%. Syndicate agreements are in place that allow participation in those banks' financial and business policy decisions within the 3 Banken Group alliance without requiring a controlling interest in these entities. If there is objective evidence (triggering events) for impairment of an investment accounted for using the equity method, a value-in-use is calculated on the basis of the estimated future cash flows that are to be expected from the associate. The present value (value-in-use) is calculated on the basis of the equity method/dividend discount model. There were no impairment losses in this category in the year 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 that is based mainly on estimates by certified appraisers. Depreciation rates were between 1.5% and 2.5%. Depreciation was linear.

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 is 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).

Right of use for properties are depreciated over the useful life of the lease contract. Impairment allowances are recognised 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 recognised during the period under review.

Intangible assets

Intangible assets have all been purchased and have limited useful lives. Essentially, this item consists of customer base acquisitions and software. Amortisation is linear based on an asset's usual useful life. 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 recognised as assets leased under finance leases (the risks and rewards belong to the lessee for the purposes of IAS 16). Leased assets are recognised as receivables in the amount of the present values of the agreed payments taking into account any residual values.

For contracts under which BKS Bank Group companies have the role of lessee, a right-of-use and corresponding leasing liability is recognised. Upon initial recognition, lease liabilities are recognised at the present value of leasing payments not yet made over the life of the leasing contract as at the start of the lease. These payments are discounted at the interest rate used as basis of the lease contract. If this interest rate cannot be ascertained, the incremental borrowing rate is used. The subsequent measurement of lease liabilities is done by raising the carrying value by the interest on lease liabilities (constant effective interest) and by reducing the carrying value by the lease installments paid. The right-of-use corresponds to the lease liability at the time of its initial recognition. Additionally, leasing payments already made at the time of initial recognition and initial direct costs are taken into account. The subsequent measurement of rights-of-use is done at cost less cumulated amortisation and impairment. Lease liabilities are recognised under Other liabilities, and rights-of-use under property, plant and equipment.

Other assets and other liabilities
Deferred items and other assets/other liabilities are reported in Other assetss/liabilities. Measurement is done at amortised cost. Furthermore, lease liabilities are reported under Other liabilities; for details on measurement, please refer to the Chapter Leasing.

Liabilities evidenced by paper
Liabilities evidenced by paper comprise bonds in circulation, debt securities and other liabilities evidenced by paper (own issues). Generally, liabilities evidenced by paper are recognised at amortised cost. However, based on decisions by the ALM Committee, the fair value option is used for liabilities evidenced by paper and measurement is at fair value.

Subordinated debt capital
Subordinated debt capital and subordinated obligations are liabilities that, by contractual arrangement, are settled only after the claims of other creditors in the event of BKS Bank's liquidation or bankruptcy. Generally, 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 for each taxed entity is carried out applying the tax rates that, under applicable legislation, are to be applied in the tax period in which a temporary difference is going to reverse. Deferred taxes are computed on the basis of differences between the tax base and the carrying amounts of assets or liabilities for the purposes of IFRSs. This will probably have the future effect of creating tax burdens or reducing tax burdens.

Provisions
In accordance with IAS 37, provisions are recognised if there is a reliably determinable current obligation to a third party arising from an event in the past likely to cause an outflow of resources. BKS Bank 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 of IAS 19. The AVÖ 2018-P mortality table as published in August 2018 was used for the actuarial calculation of the provisions for social capital.

Equity
Equity consists of paid-in and earned capital (capital reserves, retained earnings, revaluation reserve, foreign exchange differences and profit for the period). BKS Bank strives to strengthen its capital base on a sustainable basis by reinvesting its profits. Additional tier 1 notes were issued in 2015, 2017, 2018 and 2019. Under IAS 32, such notes must be classified as equity.

NOTES TO INDIVIDUAL LINE ITEMS IN THE INCOME STATEMENT

Net interest income
Net interest income contains interest income from credit operations, from securities in the treasury portfolio, from equity investments (in the form of dividend payments), from lease receivables and from investment property less interest expenses on deposits from other banks and from customers, liabilities evidenced by paper and investment property. Interest income and interest expenses are accounted for on an accrual basis. The historically low interest rates led to negative interest earnings. According to the IFRIC Interpretations Committee (IC), these must be presented in an 'appropriate expense classification'. As a result, negative interest income is recognised as an interest expense. Likewise, positive interest expenses are recognised 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 recognizes such charges for financial assets measured at amortised 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

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 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.

Other comprehensive income from financial assets/liabilities

This item reports - apart from profit/loss on financial instruments designated at fair value - also the profit/loss from financial assets measured at fair value through profit/loss (mandatory). This comprises net profits/losses from equity instruments for which the fair value OCI option was not selected as well as financial assets whose contractual cash flows are not exclusively interest and redemption payments on outstanding principal. Furthermore, this item reports profits/losses from the derecognition of financial assets measured at amortised cost. Direct write-offs and recoveries on receivables previously written off are accounted for in this line item. Modification gains/losses from changes to contractual terms that do not trigger derecognition of an asset as well as profit/loss from the derecognition of financial assets recognised at fair value through other comprehensive income (FV OCI) are reported in other comprehensive income from financial assets/liabilities.

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. Potential uncertainties in the estimates mean that adjustments to the carrying amounts of assets and liabilities may be necessary in future periods. BKS Bank is present on the markets of Austria, Croatia, Slovenia, northern Italy, and Slovakia with subsidiaries and one representation office. In areas in which discretionary decisions, assumptions and estimates are made, a precise analysis is conducted of the economic environment in the aforementioned markets and considered in the decision-making process. Material discretionary decisions, assumptions and estimates were made in the following areas:

Ongoing proceedings

On 6 June 2019, the two minority shareholders UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. filed a lawsuit with the Regional Court Klagenfurt (Landesgericht Klagenfurt) contesting several of the resolutions adopted by the Annual General Meeting by a majority vote and one resolution that was rejected by a majority vote. The resolutions contested included the resolution discharging all members of the Management Board in office in the year 2018 from liability and the resolution discharging individual members of the Supervisory Board from liability. A further resolution contested was one rejected by a majority vote that had requested the Annual General Meeting to approve a motion by the two plaintiffs requesting a special audit going back to the year 1994.

On 18 June 2019, UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. filed a petition also with the Regional Court Klagenfurt (Landgericht Klagenfurt) requesting the appointment of a special court auditor pursuant to § 130 (2) Stock Corporation Act. The request for the special audit specified a review of all capital increases carried out since 1994. The Regional Court Klagenfurt (Landesgericht Klagenfurt) has meanwhile rejected the special audit request of UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. The ruling is not yet legally binding.

The proceedings mentioned above are not estimated to have any effects of relevance on the financial statements.

At the end of February 2020, UniCredit filed requests with the Takeover Commission to review if the shareholders' syndicate of 3 Banken Group violated the mandatory bid requirement under the Takeover Act. The Takeover Commission announced on 6 March 2020 that it had initiated an ex-post investigation pursuant to § 33 Takeover Act. BKS Bank is directly affected by these proceedings as a member of the syndicates of core shareholders of Bank für Tirol und Vorarlberg AG (hereinafter: "BTV") and Oberbank AG (hereinafter: "OBK").

Already in 2003, the Takeover Commission had reviewed the syndicates of the 3 Banken Group and did not find any grounds for objections. UniCredit claims that the composition and decision-making processes of the syndicates have changed since then and that the syndicates have expanded their voting weight to an extent of relevance under takeover legislation. The claim is that a mandatory bid has been triggered.

After a careful review of the matter jointly with external experts, the Management Board believes that a renewed audit under the Takeover Act will not result in the obligation to make a mandatory bid. These proceedings are not expected to have any relevant effects on the balance sheet.

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 the points in time of future cash flows. The identification of an impairment trigger and the determination of the need to recognize impairments contain substantial assessment uncertainties and room for discretion resulting from the economic situation and development of the borrower, and entail effects on the amount and point in time of expected future cash flows. Impairment charges on loans and advances are calculated based on statistical methods, and in cases for which no impairment has been identified, models and parameters are used such as probability of default, scenarios regarding the development of the economy and loss given default, and these also leave room for discretion and assessment uncertainties.

SENSITIVITY ANALYSIS

Sensitivity scenario in €k	Explanations	***2018***	***2019***
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	-16,808
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	3,718
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	-2,494
Macroeconomic assess-ment: 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	2,494
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 normal scenario is weighted 5% lower.	-1,344	-1,960
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	534
Probability of default: negative scenario	The probability of default in the migration matrix increases by a factor of 1.1.	-5,122	-3,215
Probability of default: positive scenario	The probability of default in the migration matrix decreases by a divisor of 1.1.	2,117	2,922

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 the measurement to fair value, with validity for all standards, 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 measurement 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 assets and liabilities at fair value). The fair value option serves to avoid measurement mismatches when measuring assets and liabilities that are related to each other.

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, termination, jubilee and death benefits. The discount rate is particularly important because any change to the interest rate has a material effect on the amount of the provision. See note 32 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 flows from financing activities showed the following changes:

2019	01/01	Cash outflow	Cash inflow	Non-cash accrued interest and other changes	31/12
Subordinated liabilities and other financing activities	**750,719**	**-101,700**	**204,952**	**405**	**854,377**
• Liabilities evidenced by paper	571,052	-81,700	134,143	297	623,792
• Subordinated debt capital	179,667	-20,000	70,809	109	230,584

2018	01/01	Cash outflow	Cash inflow	Non-cash accrued interest and other changes	31/12
Subordinated liabilities and other financing activities	**712,574**	**-74,300**	**112,912**	**-467**	**750,719**
• Liabilities evidenced by paper	553,952	-54,300	72,057	-657	571,052
• Subordinated debt capital	158,622	-20,000	40,855	190	179,667

DETAILS OF THE INCOME STATEMENT

(1) NET INTEREST INCOME

in €k	2018	2019	± in %
Lending operations measured at amortised cost	113,068	118,876	5.1
Fixed-interest securities measured at amortised cost	14,856	13,202	-11.1
Fixed-interest securities measured at FV OCI	687	529	-23.0
Positive interest expenses[1)]	10,698	8,196	-23.4
Total interest income applying the effective interest rate method	**139,308**	**140,803**	**1.1**
Lending operations measured at fair value	3,513	2,740	-22.0
Fixed-interest securities at fair value through profit or loss	451	451	-
Leasing receivables	9,485	11,088	16.9
Shares and other non-interest-bearing securities	4,260	7,609	78.6
Investment property	3,129	2,995	-4.3
Total other interest income and other similar income	**20,839**	**24,882**	**19.4**
Total interest income	**160,147**	**165,685**	**3.5**
Interest expenses and other similar expenses:			
Deposits from customers and other banks	4,620	5,831	26.2
Liabilities evidenced by paper	19,146	17,955	-6.2
Negative interest income[1)]	6,056	5,140	-15.1
Investment property	632	685	8.3
Lease liabilities	n/a	232	-
Total interest expenses and other similar expenses	**30,454**	**29,843**	**-2.0**
Net interest income	**129,693**	**135,842**	**4.7**

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

(2) IMPAIRMENT CHARGES

in €k	2018	2019	± in %
Financial instruments measured at amortised cost			
– Allocation (+)/reversal (-) of impairment charges (net)	18,904	18,945	0.2
Financial instruments measured at fair value OCI			
– Allocation (+)/reversal (-) of impairment charges (net)	70	9	-86.5
Loan commitments and financial guarantee contracts			
– Allocation (+)/reversal (-) of provisions (net)	-681	-372	-45.4
Impairment charges	**18,293**	**18,582**	**1.6**

This line item contains a reversal on impairment charges on lease receivables in the amount of €1.4 million (pr.yr.: reversal €0.1 million).

(3) NET FEE AND COMMISSION INCOME

in €k	2018	2019	± in %
Net fee and commission income:			
Payment services	23,002	23,937	4.1
Securities operations	14,479	17,643	21.8
Lending operations	18,356	17,799	-3.0
Foreign exchange operations	2,877	2,571	-10.6
Other services	1,191	1,263	6.0
Total fee and commission income	**59,906**	**63,213**	**5.5**
Net fee and commission expenses:			
Payment services	2,233	2,443	9.4
Securities operations	1,284	1,803	40.4
Lending operations	701	490	-30.2
Foreign exchange operations	178	197	10.6
Other services	44	60	37.3
Total fee and commission expenses	**4,440**	**4,993**	**12.5**
Net fee and commission income	**55,467**	**58,220**	**5.0**

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

in €k	2018	2019	± in %
Profit/loss from investments accounted for using the equity method	44,848	45,915	2.4
Profit/loss from investments accounted for using the equity method	**44,848**	**45,915**	**2.4**

(5) NET TRADING INCOME

in €k	2018	2019	± in %
Price-based transactions	61	-22	>-100
Interest rate and currency contracts	219	1,266	>100
Net trading income	**280**	**1,244**	**>100**

(6) GENERAL ADMINISTRATIVE EXPENSES

in €k	2018	2019	± in %
Staff costs	74,628	76,687	2.8
• Wages and salaries	55,068	56,650	2.9
• Social insurance costs	12,724	13,322	4.7
• Costs of retirement benefits	4,046	4,255	5.2
• Other social expenses	2,790	2,460	-11.8
Other administrative costs	32,845	33,533	2.1
Depreciation/amortisation	7,103	10,736	51.1
General administrative expenses	**114,577**	**120,956**	**5.6**

The cost of retirement benefits contain contribution plan payments of EUR 1.5 million (pr.yr.: EUR 1.3 m) to a pension fund. Depreciation/amortisation increased by EUR 2.7 million due to the first-time application of IFRS 16, thus other administrative expenses decreased accordingly.

(7) OTHER OPERATING INCOME/EXPENSES

in €k	**2018**	**2019**	± in %
Other operating income	6,467	6,856	6.0
Other operating expenses	-8,992	-9,084	1.0
Other operating income/expenses	**-2,525**	**-2,228**	**-11.8**

The main sources of other operating income are non-interest bearing lease income of EUR 1.2 million (pr.yr.: EUR 1.4 million), fee and commission income from the insurance business of EUR 1.4 million (pr.yr.: EUR 1.2 million) as well as rental income of EUR 0.2 million (pr.yr.: 0.1 million).

The expenses include the payment of EUR 1.2 million for stability contribution (pr.yr.: EUR 1.1 million), the contributions to the resolution fund of EUR 2.7 million (pr.yr.: EUR 2.8 million) and the contributions to the deposit insurance scheme of EUR 2.2 million (pr.yr.: EUR 1.9 million).

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

in €k	**2018**	**2019**	± in %
Profit/loss from the fair value option	-2,841	-1,586	44.2
Profit/loss from financial instruments designated at fair value	**-2,841**	**-1,586**	**44.2**

Fixed-interest loans to customers of EUR 79.1 million (pr.yr.: EUR 85.3 million), bonds in the active portfolio of EUR 21.6 million (pr.yr.: EUR 22.0 million) and own issues of EUR 84.2 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 to market risk.

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

in €k	**2018**	**2019**	± in %
Profit/loss from measurement	-5,130	4,752	>100
Profit/loss on disposal	5	320	>100
Profit/loss from financial assets measured at fair value through profit or loss (mandatory)	**-5,125**	**5,072**	**>100**

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

in €k	**2018**	**2019**	± in %
Receivables from other banks	-104	-	-
• thereof profit	-	-	-
• thereof loss	-104	-	-
Receivables from customers	-35	540	>100
• thereof profit	1,080	1,887	74.8
• thereof loss	-1,115	-1,348	20.8
Debt securities	319	-	-
• thereof profit	319	-	-
• thereof loss	-	-	-
Profit/loss from derecognition of financial assets measured at amortised cost	**179**	**540**	**>100**

(11) OTHER PROFIT/LOSS FROM FINANCIAL ASSETS/LIABILITIES

in €k	2018	2019	± in %
Modification gains/losses	-128	-306	>-100
• from financial assets measured at amortised cost	-128	-306	>-100
• from financial assets measured at FV OCI	-	-	-
• from financial liabilities measured at amortised cost	-	-	-
Derecognition gains/losses	63	-58	>-100
• from financial assets measured through OCI	63	-58	>-100
• from financial liabilities measured at amortised cost	-	-	-
Other profit/loss from financial assets/liabilities	**-65**	**-363**	**>-100**

Amortised cost before contract amendments amount to € 53.8 million (pr.yr.: € 149.2). The loss from contract amendments is €k -305.7 (pr.yr.: €k -128.1).

(12) INCOME TAX EXPENSE

in €k	2018	2019	± in %
Current taxes	-10,092	-12,128	20.2
Deferred taxes	471	1,917	>100
Income tax expense	**-9,621**	**-10,211**	**6.1**

RECONCILIATION

in €k	2018	2019
Profit for the year before tax	87,041	103,118
Applicable tax rate	25%	25%
Computed tax expense	21,760	25,780
Effect of differing tax rates	-560	-861
Tax savings		
• From tax-exempt income from investments	-841	-2,007
• Effects of investments in entities accounted for using the equity method	-11,212	-11,479
• From other tax-exempt income	-19	-36
• From other valuation adjustments	-170	-892
Additional tax incurred		
• as a result of non-deductible expenses	339	449
• from other tax effects	48	39
Aperiodic tax expenses/income	276	-782
Income tax expense in period	**9,621**	**10,211**
Effective tax rate	11.1%	9.9%

DETAILS OF THE BALANCE SHEET

(13) CASH AND BALANCES WITH THE CENTRAL BANK

in €k	31/12/2018	31/12/2019	± in %
Cash in hand	85,576	88,253	3.1
Credit balances with central banks	486,387	462,499	-4.9
Cash and balances with the central bank	**571,963**	**550,752**	**-3.7**

(14) RECEIVABLES FROM OTHER BANKS

in €k	31/12/2018	31/12/2019	± in %
Receivables from domestic banks	123,532	93,585	-24.2
Receivables from foreign banks	53,716	106,748	98.7
Receivables from other banks	**177,248**	**200,333**	**13.0**

RECEIVABLES FROM OTHER BANKS BY REMAINING TIME TO MATURITY

in €k	31/12/2018	31/12/2019	± in %
Due on demand	25,531	29,004	13.6
Up to 3 months	45,391	52,346	15.3
From 3 months to 1 year	82,265	97,797	18.9
From 1 year to 5 years	24,061	21,185	-12.0
From 5 years and over	-	-	-
Receivables from other banks by remaining time to maturity	**177,248**	**200,333**	**13.0**

(15) IMPAIRMENT CHARGES ON RECEIVABLES FROM OTHER BANKS

in €k	Stage 1	Stage 2	Stage 3	2019
At the start of the reporting period	318	4	-	322
Additions due to new business	58	-	-	58
Change within stage:				
– Allocation/reversal	-106	2	-	-104
• 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 default risk				
- Reclassification from stage 1 to stage 2	-2	7		5
- Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-163	-	-	-163
At the end of the reporting period	**105**	**13**	**-**	**118**

Gross carrying amounts changed as follows in the reporting year 2019:

GROSS CARRYING AMOUNTS FOR RECEIVABLES FROM OTHER BANKS

in €k	Stage 1	Stage 2	Stage 3	***2019***
At the start of the reporting period	170,183	7,065	-	177,248
Additions due to new business	129,051	-	-	129,051
Change within stage:				
– Increase/reduction of receivables	3,329	-2,293	-	1,036
• Disposals due to usage	-	-	-	-
Reclassification from one stage to another:				
• Decrease due to default 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 default risk				
- Reclassification from stage 1 to stage 2	-3,441	1,989	-	-1,452
- Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-105,550	-	-	-105,550
At the end of the reporting period	**193,572**	**6,761**	**-**	**200,333**

(16) RECEIVABLES FROM CUSTOMERS

(16.1) RECEIVABLES FROM CUSTOMERS BY CUSTOMER GROUP

in €k	***31/12/2018***	***31/12/2019***	± in %
Corporate and Business Banking	4,727,697	4,978,964	5.3
Retail Banking	1,298,161	1,399,823	7.8
Receivables from customers by customer group	**6,025,858**	**6,378,787**	**5.9**

(16.2) RECEIVABLES FROM CUSTOMERS BY MEASUREMENT CATEGORY

in €k	***31/12/2018***	***31/12/2019***	± in %
Financial assets measured at amortised cost	5,885,821	6,241,353	6.0
Financial assets measured at fair value through profit or loss (designated)	85,287	79,078	-7.3
Financial assets measured at fair value through profit or loss (mandatory)	54,750	58,356	6.6
Receivables from customers by measurement category	**6,025,858**	**6,378,787**	**5.9**

Receivables from customers include receivables from lease transactions of EUR 498.4 million (pr.yr.: EUR 422.7 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	***31/12/2018***	***31/12/2019***	± in %
Due on demand	203,503	207,939	2.2
Up to 3 months	1,090,238	1,098,030	0.7
From 3 months to 1 year	429,586	641,015	49.2
From 1 year to 5 years	1,812,321	1,031,316	-43.1
From 5 years and over	2,490,210	3,400,487	36.6
Receivables from customers by remaining time to maturity	**6,025,858**	**6,378,787**	**5.9**

FINANCE LEASE RECEIVABLES BY REMAINING TIME TO MATURITY - IFRS 16

in €k	***31/12/2019***
< 1 year	157,082
One to two years	127,581
Two to three years	92,081
Three to four years	61,107
Four to five years	51,347
Over five years	42,457
Total amount of non-discounted lease receivables	**531,656**
Unearned finance income	33,297
Net investment in lease	**498,359**

There were no guaranteed residual values as at 31 December 2019.

FINANCE LEASE RECEIVABLES BY REMAINING TIME TO MATURITY - IAS 17

in €k	< 1 year	1 to 5 years	> 5 years	***31/12/2018***
Gross investment in the lease	109,693	239,997	97,738	447,428
Unearned finance income	7,909	13,690	3,103	24,702
Net investment value	**101,784**	**226,307**	**94,635**	**422,726**

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

(17) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €k	Stage 1	Stage 2	Stage 3	***2019***
At the start of the reporting period	8,670	13,763	85,445	107,878
Additions due to new business	5,862	839	-	6,701
Change within stage				
• Allocation/reversal	1,538	-70	6,354	7,822
• Disposals due to usage	-	-	-33,051	-33,051
Reclassification from one stage to another:				
• Decrease due to default risk				
– Reclassification from stage 2 to stage 1	374	-3,995	-	-3,621
– Reclassification from stage 3 to stage 1	70	-	-279	-209
– Reclassification from stage 3 to stage 2	-	69	-531	-462
• Increase due to default risk				
- Reclassification from stage 1 to stage 2	-475	3,597	-	3,122
- Reclassification from stage 1 to stage 3	-27	-	2,893	2,866
– Reclassification from stage 2 to stage 3	-	-427	4,396	3,969
Disposals due to repayment	-901	-2,524	-856	-4,281
At the end of the reporting period	**15,111**	**11,252**	**64,371**	**90,734**

Impairment charges includes loan loss provisions for lease receivables of EUR 4.6 million (pr.yr.: EUR 3.6 million).

Gross carrying amounts changed as follows in the reporting year 2019:

GROSS CARRYING AMOUNTS OF RECEIVABLES FROM CUSTOMERS

in €k	Stage 1	Stage 2	Stage 3	***2019***
At the start of the reporting period	4,914,212	749,719	221,890	5,885,821
Additions due to new business	1,380,727	73,147	-	1,453,874
Change within stage				
• Increase/reduction of receivables	-301,484	-26,276	-10,643	-338,403
• Disposals due to usage/direct write-off	-	-	-34,399	-34,399
Reclassification from one stage to another:				
• Decrease due to default risk				
– Reclassification from stage 2 to stage 1	158,100	-177,088	-	-18,988
– Reclassification from stage 3 to stage 1	10,830	-	-11,412	-582
– Reclassification from stage 3 to stage 2	-	3,752	-5,057	-1,305
• Increase due to default risk				
- Reclassification from stage 1 to stage 2	-167,766	155,912	-	-11,854
- Reclassification from stage 1 to stage 3	-12,165	-	10,813	-1,352
– Reclassification from stage 2 to stage 3	-	-16,062	14,935	-1,127
Disposals due to repayment	-511,379	-164,251	-14,702	-690,332
At the end of the reporting period	**5,471,075**	**598,853**	**171,425**	**6,241,353**

18) TRADING ASSETS

in €k	***31/12/2018***	***31/12/2019***	± in %
Positive fair values of derivative financial products	8,045	8,755	8.8
• Currency contracts	1,464	1,515	3.5
• Interest rate contracts	2	-	-
• Fair value option	6,580	7,240	10
Trading assets	**8,045**	**8,755**	**8.8**

(19) DEBT SECURITIES AND OTHER FIXED-INTEREST SECURITIES

in €k	***31/12/2018***	***31/12/2019***	± in %
Financial assets measured at amortised cost	813,421	797,761	-1.9
Financial assets measured at fair value through profit or loss (designated)	21,978	21,586	-1.8
Financial assets measured at fair value OCI	68,977	70,720	2.5
Financial assets measured at fair value through profit or loss (mandatory)	45	50	11.8
Debt securities and other fixed-interest securities	**904,421**	**890,116**	**-1.6**

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

in €k	***31/12/2018***	***31/12/2019***	± in %
• Up to 3 months	43,927	16,860	-61.6
• From 3 months to 1 year	16,600	16,909	1.9
• From 1 year to 5 years	315,356	376,715	19.5
• From 5 years and over	528,537	479,632	-9.3
Debt securities and other fixed-interest securities by remaining time to maturity	**904,421**	**890,116**	**-1.6**

(20) IMPAIRMENT CHARGES ON DEBT SECURITIES

in €k	Stage 1	Stage 2	Stage 3	***2019***
At the start of the reporting period	258	-	-	258
Additions due to new business	75	-	-	75
Change within stage				
– Allocation/reversal	15	-	-	15
– Disposals due to usage	-	-	-	-
Reclassification from one stage to another:				
• Decrease due to default 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 default 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	-11	-	-	-11
At the end of the reporting period	**337**	**-**	**-**	**337**

Gross carrying amounts changed as follows in the reporting year 2019:

GROSS CARRYING AMOUNTS FOR DEBT SECURITIES

in €k	Stage 1	Stage 2	Stage 3	***2019***
At the start of the reporting period	813,421	-	-	813,421
Additions due to new business	36,128	-	-	36,128
Change within stage	-33	-	-	-33
Reclassification from one stage to another:				
• Decrease due to default 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 default 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	-51,755			-51,755
At the end of the reporting period	**797,761**	**-**	**-**	**797,761**

(21) SHARES AND OTHER NON-INTEREST BEARING SECURITIES

in €k	***31/12/2018***	***31/12/2019***	± in %
Financial assets measured at fair value through profit or loss (mandatory)	45,780	43,687	-4.6
Financial assets measured at fair value OCI	89,829	92,190	2.6
Shares and other non-interest-bearing securities	**135,609**	**135,878**	**0.2**

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

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

in €k	31/12/2018	31/12/2019	± in %
Oberbank AG	385,277	407,340	5.7
Bank für Tirol und Vorarlberg AG	214,391	228,591	6.6
Investments in entities accounted for using the equity method	**599,668**	**635,931**	**6.0**

(23) INTANGIBLE ASSETS

in €k	31/12/2018	31/12/2019	± in %
Intangible assets	3,859	10,960	>100
Intangible assets	**3,859**	**10,960**	**>100**

The increase in intangible assets is attributable to the capitalisation of a customer base of around 25,000 customers of ALTA Invest, investicijske storitve, d.d. in Slovenia. The acquisition completed in the first half-year 2019 raised intangible assets by EUR 6.9 million.

(24) PROPERTY, PLANT AND EQUIPMENT

in €k	31/12/2018	31/12/2019	± in %
Land	8,024	8,777	9.4
Buildings	37,647	37,764	0.3
Other property, plant and equipment	7,665	9,031	17.8
Right-of-use assets	n/a	22,269	-
Property, plant and equipment	**53,336**	**77,842**	**45.9**

The right-of-use assets reported refer mainly to rental contracts for branches and office space in Austria and abroad. Depreciation/amortisation of capitalised right-of-use assets was EUR 2.7 million in financial year 2019. Moreover, interest expenses of EUR 0.2 were recognised for lease liabilities. In the financial year 2019, there were no additions of right-of-use assets. Total cash outflow for lease contracts were EUR 2.8 million.

(25) INVESTMENT PROPERTY

in €k	31/12/2018	31/12/2019	± in %
Land	8,422	7,978	-5.3
Buildings	26,108	29,396	12.6
Investment property	**34,530**	**37,374**	**8.2**

At 31 December 2019, the fair values of our investment properties totalled EUR 59.0 million (pr.yr.: EUR 56.3 million). Rental income during the year under review was EUR 3.0 million (pr.yr.: EUR 3.1 m). Expenses associated with earning this rental income came to EUR 0.7 million (pr.yr.: EUR 0.6 million).

PROPERTY, PLANT AND EQUIPMENT OWNED, INTANGIBLE ASSETS AND INVESTMENT PROPERTY 2019

in €k	Property, plant and equipment	Assets[1]	Property[2]	Total
Acquisition cost at 01/01/2019	**132,588**	**15,444**	**58,485**	**206,517**
Additions	6,577	9,156	4,776	20,509
Disposals	339	863	247	1,449
Exchange differences	-	-	-	-
Reclassification	1,460	-	-1,460	-
Acquisition costs at 31/12/2019	**140,286**	**23,737**	**61,554**	**225,578**
Accumulated depreciation/amortisation	84,714	12,777	24,180	121,671
Carrying amount at 31/12/2019	**55,572**	**10,960**	**37,374**	**103,907**
Carrying amount at 31/12/2018	53,336	3,859	34,530	91,725
Depreciation/amortisation in 2019	**4,918**	**2,124**	**973**	**8,015**

[1] Intangible assets
[2] Investment property

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

in €k	Property, plant and equipment	Assets[1]	Property[2]	Total
Acquisition costs 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 costs 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

(26) DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES 2019

in €k	***31/12/2018***	***31/12/2019***	Deferred taxes assets	Deferred tax liabilities
Receivables from customers	3,859	4,150	4,150	-
Impairment charges	2,300	3,387	3,387	-
Trading assets/trading liabilities	-104	172	1,794	1,622
Debt securities and other fixed-interest securities	-967	-1,447	-	1,447
Shares and other non-interest-bearing securities	-8,474	-9,943	-	9,943
Property, plant and equipment	-660	-5,446	-	5,446
Other assets and liabilities	601	5,311	5,311	-
Liabilities evidenced by paper	2,334	2,363	2,363	-
Provisions/social capital	7,682	9,069	9,069	-
Equity - issue	-208	-212	-	212
Tax assets (liabilities) before netting	**6,363**	**7,404**	**26,074**	**18,670**
Netting of taxes	-	-	-18,670	-18,670
Net deferred tax assets/liabilities	**-**	**-**	**7,404**	**-**

DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES 2018

in €k	***31/12/2017***	***31/12/2018***	Deferred taxes receivables	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/liabilities	**-**	**-**	**6,363**	**-**

Deferred tax assets and liabilities are netted pursuant to IAS 12.71.

Deferred tax assets were mainly the result of impairment allowances 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 1.2 million (pr.yr.: EUR 0.9 million).

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.

The application of IFRS 16 results in both deferred tax assets/liabilities that offset each other almost completely.

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

(27) OTHER ASSETS

in €k	*31/12/2018*	*31/12/2019*	± in %
Other assets	19,037	9,905	-48.0
Deferred items	3,459	4,748	37.3
Other assets	**22,497**	**14,654**	**-34.9**

(28) PAYABLES TO OTHER BANKS

in €k	*31/12/2018*	*31/12/2019*	± in %
Payables to domestic banks	732,544	611,321	-16.5
Payables to foreign banks	103,945	77,903	-25.1
Payables to other banks	**836,489**	**689,224**	**-17.6**

PAYABLES TO OTHER BANKS BY REMAINING TIME TO MATURITY

in €k	*31/12/2018*	*31/12/2019*	± in %
Due on demand	49,629	61,883	24.7
Up to 3 months	193,273	121,906	-36.9
From 3 months to 1 year	247,551	225,200	-9.0
From 1 year to 5 years	308,724	233,405	-24.4
From 5 years and over	37,312	46,830	25.5
Payables to banks by remaining time to maturity	**836,489**	**689,224**	**-17.6**

(29) PAYABLES TO CUSTOMERS

in €k	*31/12/2018*	*31/12/2019*	± in %
Savings deposits	**1,429,395**	**1,413,530**	**-1.1**
• Corporate and business banking customers	178,506	172,047	-3.6
• Retail banking customers	1,250,889	1,241,483	-0.8
Other liabilities	**4,038,068**	**4,400,437**	**9.0**
• Corporate and business banking customers	2,940,119	3,150,069	7.1
• Retail banking customers	1,097,949	1,250,368	13.9
Payables to customers	**5,467,463**	**5,813,967**	**6.3**

PAYABLES TO CUSTOMERS BY REMAINING TIME TO MATURITY

in €k	31/12/2018	31/12/2019	± in %
Due on demand	3,959,195	4,289,263	8.3
Up to 3 months	298,621	258,840	-13.3
From 3 months to 1 year	560,116	703,261	25.6
From 1 year to 5 years	606,757	506,258	-16.6
From 5 years and over	42,774	56,344	31.7
Payables to customers by remaining time to maturity	**5,467,463**	**5,813,967**	**6.3**

(30) LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2018	31/12/2019	± in %
Bonds issued	499,690	552,404	10.5
Other liabilities evidenced by paper	71,362	71,388	-
Liabilities evidenced by paper	**571,052**	**623,792**	**9.2**

Liabilities evidenced by paper include bonds issued in an amount of EUR 84.2 million (pr.yr.: EUR 84.7 million) measured at fair value (use of fair value option). The carrying amount of liabilities evidenced by paper measured at fair value is EUR 10.3 million (pr.yr.: EUR 10.2 million) above the repayment amount.

LIABILITIES EVIDENCED BY PAPER BY REMAINING TIME TO MATURITY

in €k	31/12/2018	31/12/2019	± in %
Up to 3 months	5,436	10,615	95.3
From 3 months to 1 year	47,714	45,356	-4.9
From 1 year to 5 years	188,135	248,122	31.9
From 5 years and over	329,767	319,699	-3.1
Liabilities evidenced by paper by remaining time to maturity	**571,052**	**623,792**	**9.2**

(31) TRADING LIABILITIES

in €k	31/12/2018	31/12/2019	± in %
Negative fair values of derivative financial instruments	8,362	10,848	29.7
• Currency contracts	2,369	3,077	29.9
• Interest rate contracts	2	-	-
• Fair value option	5,991	7,771	29.7
Trading liabilities	**8,362**	**10,848**	**29.7**

(32) PROVISIONS

in €k	31/12/2018	31/12/2019	± in %
Provisions for post-employment benefits and similar obligations	72,702	75,604	4.0
Provisions for taxes (current taxes)	5,233	3,622	-30.8
Provision for guarantees and credit facilities	1,384	1,773	28.1
Other provisions	55,166	57,744	4.7
Provisions	**134,485**	**138,743**	**3.2**

Provisions for post-employment benefits obligations contain provisions for termination benefits in the amount of EUR 27.3 million (pr.yr.: EUR 25.4 million), provisions for post-employment benefits in the amount of EUR 41.2 million (pr.yr.: EUR 40.7 million) and provisions for jubilee benefits in the amount of EUR 7.1 million (pr.yr.: EUR 6.6 million). Other provisions contain a provision in the amount of EUR 40.7 million (pr.yr.: EUR 39.3 million) resulting from the proportionate consolidation of ALGAR. The other material provisions included provisions for death benefits in the amount of EUR 4.8 million (pr. yr.: EUR 4.2 million) and provisions for remuneration in the amount of EUR 1.8 million (pr.yr.: EUR 1.7 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 promises 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 %	2018	2019
Financial assumptions		
Interest rate	2.01%	1.30%
Salary trend of active staff	2.76%	2.99%
Pensions trends	2.10%	2.00%
Career trends	0.25%	0.25%
Demographic assumptions		
Retirement age	65 years	65 years
Mortality table	AVÖ 2018	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	31/12/2018	31/12/2019	± in %
Provisions as at 01/01	69,693	72,702	4.3
+ Interest expense	2,582	1,846	-28.5
+ Service costs	1,575	1,468	-6.8
- Payments during the reporting year	-4,592	-5,195	13.1
± Actuarial profit/loss[1]	3,444	4,782	38.9
Provisions as at 31/12	**72,702**	**75,603**	**4.0**

[1] Based on changed actuarial assumptions

DEVELOPMENT OF PROVISIONS

in €k	Total **2018**	Post-employment benefits and similar obligations	Taxes and other	Total **2019**	± in %
Provisions as at 01/01	123,631	72,702	61,783	134,485	8.8
± Currency change	-1	-	-	-	-
+ Additions	21,250	6,031	8,806	14,837	-30.2
- Usage	-6,588	-1,751	-5,474	-7,225	9.7
- Reversal	-3,807	-1,379	-1,976	-3,355	-11.9
Provisions as at 31/12	**134,485**	**75,603**	**63,139**	**138,743**	**3.2**

SENSITIVITY ANALYSIS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

Sensitivity analysis of DBO/present value of obligations in €k	Termination benefits **31/12/2018**	Post-employment benefits **31/12/2018**	Termination benefits **31/12/2019**	Post-employment benefits **31/12/2019**
Discount rate +0.5% (pr.yr.: +1.0%)	-2,936	-3,868	-1,058	-2,092
Discount rate -0.5% (pr.yr.: +1.0%)	1,131	4,666	1,124	2,302
Wage increase +0.5%	-12	174	1,097	175
Wage increase -0.5%	-2,018	-166	-1,044	-167
Pension increase +0.5%	-	1,846	-	1,894
Pension increase -0.5%	-	-1,721	-	-1,765
Increase in life expectancy by around 1 year	-	2,504	-	2,674

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 2019.

MATURITY ANALYSIS

Cash flows in €k	Termination benefits **31/12/2019**	Post-employment benefits **31/12/2019**
Expected payments 2020	2,566	2,959
Expected payments 2021	1,497	2,770
Expected payments 2022	1,718	2,585
Expected payments 2023	1,873	2,407
Expected payments 2024	3,328	2,227
Total expected payments 2020 to 2024	**10,982**	**12,948**
Weighted average maturity	8.48	10.88

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 2019 amounted to EUR 4.8 million (pr.yr.: EUR 4.3 million).

(33) OTHER LIABILITIES

in €k	**31/12/2018**	**31/12/2019**	± in %
Other liabilities	21,960	21,854	-0.5
Deferred items	4,739	4,661	-1.7
Leasing liabilities	n/a	22,398	-
Other liabilities	**26,699**	**48,913**	**83.2**

Other liabilities include, among other things, liabilities to tax authorities. The leasing liabilities reported pursuant to IFRS 16 are mostly rental contracts for branches and office premises and fall due as follows:

in €k	**31/12/2018**	**31/12/2019**	± in %
Up to 1 year	-	2,454	-
From 1 year to 5 years	-	9,214	-
From 5 years and over	-	10,730	-
Lease liabilities	**-**	**22,398**	**-**

(34) SUBORDINATED DEBT CAPITAL

in €k	**31/12/2018**	**31/12/2019**	± in %
Supplementary capital	159,667	210,584	31.9
Hybrid capital	20,000	20,000	-
Subordinated debt capital	**179,667**	**230,584**	**28.3**

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 227.7 (pr.yr.: EUR 176.9 million).

SUBORDINATED DEBT CAPITAL BY REMAINING TIME TO MATURITY

in €k	***31/12/2018***	***31/12/2019***	± in %
Up to 3 months	3,044	3,035	-0.3
From 3 months to 1 year	20,000	31,000	55.0
From 1 to 5 years	73,375	42,331	-42.3
From 5 years and over	83,248	154,218	85.3
Subordinated debt capital by remaining time to maturity	**179,667**	**230,584**	**28.3**

Tier 2 capital notes in the amount of EUR 31.0 million will mature in 2020 (pr.yr.: EUR 20.0 million). In conformity with CRR Article 484, EUR 20 million in hybrid capital was counted towards consolidated own funds (pr.yr.: EUR 20.0 million). It does not constitute a component of consolidated shareholders' equity.

DETAILS ON SUBORDINATED DEBT CAPITAL (NOMINAL VALUES)

in €k	***31/12/2018***	***31/12/2019***	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
Stufenzins-Ergänzungskapital-Obligation 2010-2020/2	16,000	16,000	10 years
4 ¾% Ergänzungskapital-Obligation 2011-2019/3	20,000	-	8 years
6% Hybridanleihe der BKS Hybrid beta GmbH 2010	20,000	20,000	unlimited
5% Nachrangige Obligation 2014-2023/2	20,000	20,000	9 years
4% Nachrangige Obligation 2015-2025/2	20,000	20,000	10 years
2 ¾% Nachrangige Obligation 2016-2024/2	20,000	20,000	8 years
3% Nachrangige Obligation 2017-2027/4	20,000	20,000	10 years
3.43% Nachrangige Obligation 2018-2028/3/PP	13,000	13,000	10 years
2 ¼% Nachrangige Obligation 2018-2026/3	10,533	17,287	8 years
4.54% Nachrangige Obligation 2019-2034/2/PP	-	8,000	15 years
3% Nachrangige Obligation 2019-2029/3	-	20,000	10 years
3% Nachrangige Obligation 2019-2030/4	-	20,000	11 years
3.85% Nachrangige Obligation 2019-2034/4/PP	-	3,400	15 years
3 ⅛% Nachrangige Obligation 2019-2031/5	-	12,655	11.5 years
Total subordinated capital (tier 2)	**176,883**	**227,692**	

Expenditure on subordinated obligations in the financial year came to EUR 7.5 million (pr.yr.: EUR 8.4 million).

(35) SHAREHOLDERS' EQUITY

in €k	***31/12/2018***	***31/12/2019***	± in %
Subscribed capital	85,886	85,886	-
• Share capital	85,886	85,886	-
Capital reserves	241,416	241,416	-
Retained earnings and other reserves	839,919	919,023	9.4
Additional equity instruments (AT 1 bond)	43,500	55,200	26.9
Shareholders' equity before non-controlling interests	**1,210,721**	**1,301,525**	**7.5**
Non-controlling interests	-25	-27	9.7
Shareholders' equity	**1,210,696**	**1,301,498**	**7.5**

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

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 2019 (nominal amount EUR 11.7 million), which are classified as equity under IAS 32. The liability reserve required by § 57 (5) Banking Act in the amount of EUR 84.5 million (pr.yr.: EUR 83.3 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 (2019: EUR 26.9 thousand; pr.yr: EUR 24.5 thousand). These result from excluding a non-material subsidiary.

SHARES IN ISSUE 2019

Number of shares	Ordinary no-par shares	Preference no-par shares
As at 01/01/2019	**40,468,228**	**1,624,510**
Regular capital increase	-	-
Change in treasury shares	-35,953	10,792
As at 31/12/2019	**40,432,275**	**1,635,302**
Treasury shares in the Group's portfolio	**710,625**	**164,698**
Shares issued	**41,142,900**	**1,800,000**

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**

The item Other comprehensive income in retained earnings is due to the following changes to provisions:

in €k	***2018*** Remeasurement from defined-benefit plans	Reserves for own credit risk	***2019*** Remeasurement from defined-benefit plans	Reserves for own credit risk
As at 01/01	**-20,213**	**-**	**-23,329**	**-42**
Other comprehensive income	-3,116	-42	-7,684	266
• Change from remeasurement pursuant to IAS 19	-2,584	-	-3,594	-
• Reserves for own credit risk	-	-42	-	266
• Effect of the equity method (IAS 19)	-532	-	-4,090	-
As at 31/12	**-23,329**	**-42**	**-31,013**	**224**

CAPITAL MANAGEMENT

(36) 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	***31/12/2018***	***31/12/2019***
Share capital	83.7	83.4
Reserves net of intangible assets	1,061.8	1,134.0
Deductions	-551.8	-587.8
Common equity tier 1 capital (CET1)[1)]	**593.7**	**629.6**
Common equity tier 1 ratio	11.2%	11.6%
Hybrid capital	8.0	6.0
AT1 note	43.5	55.20
Additional tier 1 capital	**51.5**	**61.2**
Tier 1 capital (CET1 + AT1)	**645.2**	**690.8**
Tier 1 capital ratio	12.2%	12.7%
Supplentary capital (tier 2)	134.0	190.6
Total own funds	**779.2**	**881.4**
Total capital ratio	14.8%	16.2%
Total risk exposure amount	5,283.1	5,449.6

[1)] Includes profit for the year 2019. 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 BKS Bank was to meet the following minimum requirements without a capital conservation buffer as a percentage of the total risk exposure amount as at 31 December 2019: 5.5% for the common equity tier 1 capital, and 9.7% for the total capital ratio. The capital ratios recorded at the end of December 2019 were markedly above these requirements.

RISK REPORT

(37) RISK POLICY AND RISK STRATEGY

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.

At BKS Bank, a solid risk culture is established throughout the Group based on 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.

ICAAP

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

ILAAP

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.

(38) 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.

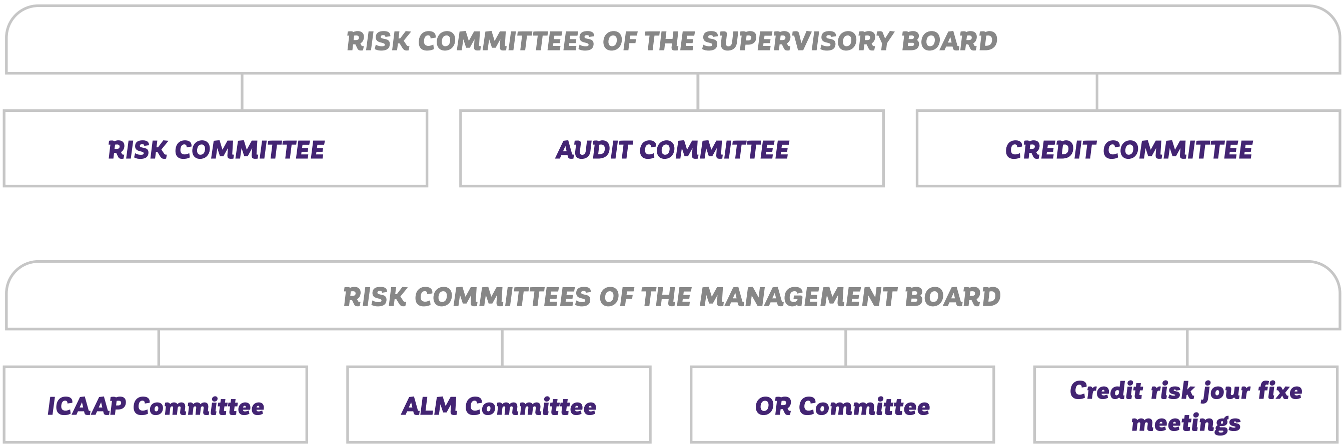
In accordance with § 39 para 5 Banking Act, risk controlling is a central unit independent of operations at BKS Bank that is responsible for identifying, measuring and analysing risks. This unit reports regularly to the Management Board and to the operational units responsible for risk, and evaluates 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.

The limits and targets defined in the risk strategy are adapted once a year commensurate with the risk assessment and business strategy or, if necessary, amended. As an independent internal unit, the internal audit department of BKS Bank reviews all operating and business procedures, the appropriateness and efficacy of the measures taken by the risk management and risk controlling as well as the internal control systems.

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

RISIKOGREMIEN



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 planning for funding, 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 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 the 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.

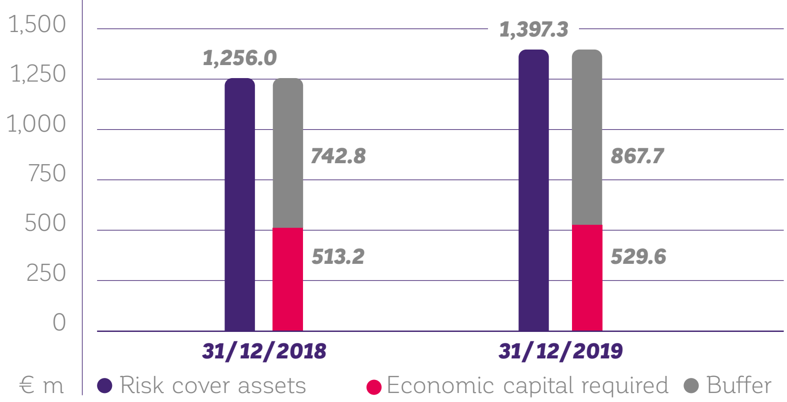
(39) INTERNAL CAPITAL ADEQUACY AND RISK-BEARING CAPACITY (ICAAP)

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 into 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.
When a capital adequacy target is set on a going concern basis, the potential risk and risk-bearing capacity and the limits derived therefrom were balanced in such a way so as to put the bank in a position to absorb an adverse event and continue to conduct business in an orderly manner. The capital adequacy target defined on a liquidation basis is a regulatory requirement. It serves to protect creditors.

At BKS Bank, unexpected losses in the liquidation approach are calculated for a period of observation of one year with a confidence level of 99.9%. As at 31 December 2019, the economic capital requirement was determined at EUR 529.6 million after EUR 513.2 million in the preceding year. The corresponding cover assets were EUR 1,397.3 million compared with EUR 1,256.0 million at year-end 2018. The increase in the risk cover assets was due mainly to the net profit for the year earned and the issuance of subordinated capital.

RISK-BEARING CAPACITY BY LIQUIDATION APPROACH



BREAKDOWN OF RISKS IN THE LIQUIDATION APPROACH

in %	**2018**	**2019**
1 Credit risk	64.7	63.5
2 Interest rate risk in the banking book[1)]	14.0	16.6
3 Equity price risk[1)]	1.0	1.5
4 Foreign currency risk[1)]	0.4	0.4
5 Credit spread risk	7.7	6.0
6 Operational risk	5.1	4.9
7 Liquidity risk	0.8	0.9
8 Macroeconomic risk	3.6	3.6
9 Other risks	2.7	2.6

[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 banking Group. Credit risks account for about 63.5% (2018: 64.7%) of the total loss potential.

(40) STRESS TESTS IN THE OVERALL BANKING RISK STRATEGY

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.

(41) CREDIT RISK

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

Managing credit risk

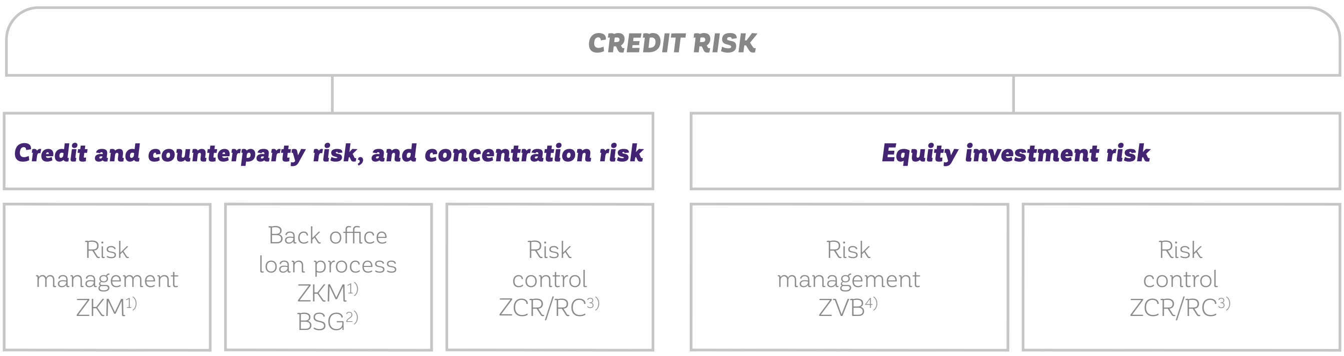
The management of credit risk is based on the principle of granting loans only a know-your-customer basis. Therefore, loans are granted only after a thorough check of the person and creditworthiness and – if relevant – in compliance with the dual control principle (front office and back office). Collateral 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. Real estate collateral is appraised and regularly reviewed by an independent expert from Credit Management. Lending in markets outside of Austria is governed by special guidelines that are specific to the features of the country concerned, in particular, the economic environment and the higher realization risk of the collateral.

The Credit Management Department is responsible for risk analysis and risk management for individual customers. At portfolio level, the extended credit risk jour fixe is responsible for the management of risk on the basis of reports prepared 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.

Concentrations of credit risk are managed at the portfolio level, with the aim being to achieve a balanced distribution of credit exposures by size, and limits being set for individual geographical regions, sectors and industries, as well as the foreign currency portion of the loan portfolio. As a subsidiary of the 3 Banken Group, ALGAR serves to provide security for the large exposures.

Equity investment risk include 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 of BKS Bank. 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.

CREDIT RISK MANAGEMENT



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

To manage and control individual financial risks, we prepare annual budgets for subsidiaries as well as budgets and projections for the returns on investees. Monthly reports on operating subsidiaries are part of our Group reporting system. The quantitative information in the reports pursuant to IFRS 7.31 to 7.42 is based on the internal reporting for overall bank risk management.

Internal risk management is done at portfolio level and is presented below.

(41.1) CREDIT RISK ACCORDING TO ICAAP

in €k	*31/12/2018*	*31/12/2019*
Receivables from customers	6,454,514	6,804,265
Promised credit lines[1]	158,822	162,111
Receivables from banks	190,037	214,936
Securities and funds	887,814	874,020
Equity investments	685,307	724,068
Exposure volume	8,376,493	8,779,400

[1] Based on internally calculated withdrawal patterns

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

in €k	*31/12/2018*	*31/12/2019*
Consolidated receivables from customers pursuant to note (16.1)	6,025,858	6,378,787
+ Contingent liabilities pursuant to Note (60)	428,023	467,093
+ Corporate bonds	66,577	63,837
+ Exposure from derivative contracts with customers/other	13,036	-14,419
- Receivables from customers pursuant to Note (60) with guarantee by main bank	-78,981	-91,034
Receivables from customers according to internal risk management	**6,454,514**	**6,804,265**
Other exposures as per note (60)	1,337,235	1,324,057
Promised credit lines based on internally calculated withdrawal patterns	**158,822**	**162,111**
Receivables from other banks pursuant to Note (14)	177,248	200,333
+ Exposure from derivative contracts with other banks	12,789	14,603
Receivables from other banks pursuant to internal risk management	**190,037**	**214,936**
+ Debt securities and other fixed-interest securities pursuant to Note (19)	904,421	890,116
- Corporate bonds/other (reclassification to other customer receivables)	-66,577	-63,837
+ Investment funds in the item shares and other non-interest bearing securities pursuant to Note (21)	45,780	43,687
+ Shares and other non-interest bearing securities purs. to Note (21)	4,190	4,053
Securities and funds according to internal risk management figures	**887,814**	**874,020**
Investments from the item Shares and other non-interest bearing securities pursuant to Note (21)	85,639	88,137
+ Investments in entities accounted for using the equity method purs. to Note (22)	599,668	635,931
Investments pursuant to ICAAP	**685,307**	**724,068**
Credit risk according to ICAAP	**8,376,493**	**8,779,400**

Credit ratings in credit risk

A major component 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

(41.3) LOAN QUALITY BY CLASS OF RECEIVABLE 2019

Risk position by rating in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating
Receivables from customers	57,122	1,712,863	2,505,442	2,066,875	286,915	173,019	2,029
Credit lines promised	6,997	45,021	62,778	44,712	1,827	759	16
Receivables from banks	116,228	88,325	4,848	5,537	-	-	-
Securities and funds	740,058	116,264	13,402	4,247	50	-	-
Equity investments	697,379	16,801	8,193	164	-	-	1,532
Total	**1,617,784**	**1,979,273**	**2,594,662**	**2,121,535**	**288,792**	**173,778**	**3,576**

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
Credit lines promised	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**

Credit quality improved again substantially in the reporting year. This is shown by pleasing increase in the rating classes 2b and better, as well as the decline in exposures 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 provided in CRR Article 178. Receivables were therefore deemed to be in default if they were more than 90 days overdue and the overdue amount was at least 2.5 per cent of the agreed line and at least € 250. Furthermore, BKS Bank also classified receivables as in default if it assumed that the debtor would not be able to repay the full amount of the loan to the bank.

This is assumed when one of the following applies:
- 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 2.4% (2018: 3.3%[1)]). The calculation is based on non-performing loans in the rating classes 5a to 5c of the BKS Bank rating system (default classes) and the accounting receivables from sovereigns, central banks, credit institutions and customers. Cover for the loss potential of non-performing loans is indicated by the coverage ratio. Coverage Ratio I is the relation between risk provisions to the total risk position and was 37.2% on 31 December 2019 (2018: 38.3%). Additionally, we use Coverage Ratio III as an internal benchmark which also includes internal collateral in the calculation. The cover ratio was 88.2% at year-end (2018: 85.5%).

(41.4) EXPOSURES CLASSIFIED AS FORBORNE 2019

in €k	Corporate and Business Banking	Retail Banking	Total
Performing exposure	26,592	1,188	27,780
• of which with concessions regarding instalments	17,287	895	18,182
• of which rescheduled	9,305	293	9,598
Non-performing Exposures	48,715	2,519	51,234
• of which with concessions regarding instalments	47,389	1,963	49,352
• of which rescheduled	1,326	556	1,882
Total	**75,307**	**3,707**	**79,014**

EXPOSURES CLASSIFIED AS FORBORNE 2018

in €k	Corporate and Business Banking	Retail Banking	Total
Performing exposure	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**

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 involve, for instance
- Extending the term of the loan
- Concessions compared with the loan instalments that had originally been agreed
- Concessions regarding the terms and conditions of the loan
- Completely reconfiguring the loan (restructuring)

(41.5) CARRYING AMOUNTS BY RATING CLASS AND STAGE/OFF-BALANCE 2019

	Carrying amounts				Provisions			
in €k	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
AA	3,473	-	-	3,473	-	-	-	-
A1	143	-	-	143	-	-	-	-
1a	150,495	1,023	-	151,518	31	10	-	41
1b	270,981	234	-	271,215	38	5	-	43
2a	522,352	48,497	-	570,849	147	29	-	176
2b	296,065	28,048	-	324,113	135	44	-	179
3a	301,501	47,422	-	348,923	205	142	-	347
3b	91,835	69,583	-	161,418	115	446	-	561
4a	10,457	30,984	-	41,441	22	91	-	113
4b	3,315	5,336	-	8,651	25	62	-	87
5a – 5c	-	-	2,817	2,817	-	-	226	226
OR	138	22	-	160	1	-	-	1
Total	**1,650,755**	**231,149**	**2,817**	**1,884,721**	**719**	**829**	**226**	**1,774**

CARRYING AMOUNTS BY RATING CLASS AND STAGE/OFF-BALANCE 2018

	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 2019

	Carrying amounts				Impairment allowances			
in €k	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
AA	710,475	-	-	710,475	129	-	-	129
A1	96,241	-	-	96,241	32	-	-	32
1a	848,121	41,661	-	889,782	207	195	-	402
1b	865,597	25,720	-	891,317	764	214	-	978
2a	1,076,259	19,091	-	1,095,350	1,738	296	-	2,034
2b	1,101,527	50,817	-	1,152,344	2,758	866	-	3,624
3a	1,038,873	135,714	-	1,174,587	2,954	1,927	-	4,881
3b	560,580	199,759	-	760,339	3,149	3,545	-	6,694
4a	92,543	87,904	-	180,447	550	2,129	-	2,679
4b	48,040	44,499	-	92,539	1,157	2,074	-	3,231
5a – 5c	-	-	171,425	171,425	-	-	64,371	64,371
OR	24,152	449	-	24,601	2,115	19	-	2,134
Total	**6,462,408**	**605,614**	**171,425**	**7,239,447**	**15,553**	**11,265**	**64,371**	**91,189**

CARRYING AMOUNTS BY RATING CLASS AND STAGE/ON-BALANCE 2018

in €k	Carrying amounts				Impairment allowances			
	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**

(41.6) LOAN COLLATERAL 2019[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	6,804,265	4,188,318	131,603	139,779	3,085,233	831,703	2,615,947
• of which, at fair value through profit or loss (designated)	79,078	43,368	–	19,609	23,760	–	35,710
• of which, at fair value through profit or loss (mandatory)	58,356	48,181	81		41,966	5,525	10,175
Credit lines promised	162,111	–	–	–	–	–	162,111
Receivables from banks	214,936	–	–	–	–	–	214,936
Securities and funds	874,020	145,168	-	80,231	-	64,937	728,852
• of which, debt securities at fair value through profit or loss (designated)	21,588	–	–	–	–	–	21,588
• of which, funds at fair value through profit or loss (mandatory)	43,687	–	–	–	–	–	43,687
• of which, equity shares at fair value OCI	4,053	–	–	–	–	–	4,053
Equity investments	724,068	–	–	–	–	–	724,068
• of which, equity investments at fair value OCI	88,137	–	–	–	–	–	88,137
• of which, investments in entities accounted for using the equity method	635,931	–	–	–	–	–	635,931
Total	**8,779,400**	**4,333,486**	**131,603**	**220,010**	**3,085,233**	**896,640**	**4,445,913**

1) Lien value of the loan collateral measured pursuant to internal rules
2) Exposure minus collateral

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
Credit lines promised	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 accounted 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) Liend value of the loan collateral measured pursuant to internal rules
2) Exposure less collateral

(41.7) RECEIVABLES FROM CUSTOMERS BY ECONOMIC ACTIVITY

Economic activity classification in conformity with ÖNACE (Statistik Austria)	***2018*** in €k	***2018*** in %	***2019*** in €k	***2019*** in %
Private households	1,170,307	18.1	1,239,302	18.2
Real estate activities	1,056,818	16.4	1,345,474	19.8
Construction	879,749	13.6	740,963	10.9
Manufacturing	742,159	11.5	765,241	11.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	555,120	8.6	564,414	8.3
Financial and insurance activities	354,868	5.5	349,758	5.1
Professional, scientific and technical activities	353,205	5.5	385,250	5.7
Transport and storage	250,204	3.9	235,912	3.5
Accommodation and food service activities	203,428	3.2	200,784	3.0
Human health and social work activities	174,010	2.7	239,521	3.5
Administrative and support service activities	149,760	2.3	136,979	2.0
Public administration and defence; compulsory social security	148,000	2.3	174,679	2.6
Electricity, gas, steam and air conditioning supply	78,648	1.2	87,817	1.3
Agriculture and forestry, fishery	101,737	1.6	98,880	1.5
Mining and quarrying	55,139	0.9	29,395	0.4
Other service activities	46,134	0.7	51,835	0.8
Information and communication	55,729	0.9	57,181	0.8
Water supply; sewerage, waste management and remediation activities	35,671	0.6	56,722	0.8
Arts, entertainment and recreation	26,893	0.4	23,098	0.3
Education and instruction	16,937	0.3	21,058	0.3
Total	**6,454,514**	**100.0**	**6,804,265**	**100.0**

(41.8) RECEIVABLES FROM CUSTOMERS IN FOREIGN CURRENCIES BY COUNTRY AND CURRENCY 2019

in €k	EUR[1]	CHF	USD	JPY	Total
Austria	–	110,125	2,996	1,605	114,725
Slovenia	–	3,999	-	–	3,999
Croatia	452,885	304	-	–	453,190
Hungary	8,310	–	-	690	9,000
Switzerland	25,010	206	–	–	25,216
Other	13,457	2,120	1	–	15,578
Total	**499,662**	**116,754**	**2,997**	**2,295**	**621,708**

[1] EUR loans to customers from non-euro states

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

(41.9) RECEIVABLES FROM CUSTOMERS BY COUNTRY 2019

in €k	Receivables[1]	Past due[2]	Specific impairment allowance[3]	Collateral for past due receivables
Austria	4,934,820	85,560	31,141	45,097
Slovenia	913,973	47,115	15,775	28,150
Croatia	524,539	24,091	12,033	14,120
Hungary	20,909	3,899	1,830	1,949
Slovakia	164,417	10,802	3,525	6,806
Italy	10,628	1,452	32	1,111
Germany	173,144	40	6	33
Other	61,835	60	29	22
Total	**6,804,265**	**173,019**	**64,371**	**97,288**

[1] See table Risk Volumes purs. to ICAAP page 161
[2] Past due purs. to BKS Bank's default definition
[3] Stage 3 Impairment charges

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 2018

in €k	Receivables[1]	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	21,175	5,424	3,686	1,518
Slovakia	158,318	13,369	6,011	6,418
Italy	12,639	1,922	530	1,371
Germany	193,694	75	1	74
Other	62,355	1	-	-
Total	**6,454,514**	**222,101**	**85,445**	**113,430**

[1] Risk volumes purs. to internal risk management
[2] Past due purs. to BKS Bank's default definition
[3] Stage 3 Impairment charges

(41.10) SECURITIES AND FUNDS BY DOMICILE OF ISSUER

in €k Regions	At amortised cost 2018	2019	Carrying amount purs. to IFRS[1] 2018	2019
Austria	411,608	369,874	411,021	372,033
Germany	93,551	99,407	98,409	105,179
Belgium	34,727	34,727	35,041	35,067
Finland	15,137	15,137	15,158	15,144
France	41,073	41,544	41,194	41,789
Greece	-	–	45	50
Ireland	26,085	26,085	26,411	26,403
Croatia	5,100	10,122	5,200	10,239
Lithuania	3,052	3,052	3,043	3,036
Luxembourg	114,432	114,484	116,631	117,559
Netherlands	14,946	14,946	14,991	14,997
Norway	24,829	25,869	24,982	31,332
Poland	10,057	5,083	10,180	5,092
Portugal	10,141	10,141	10,199	10,185
Slovakia	24,782	24,782	25,285	25,308
Slovenia	9,812	9,812	9,941	9,959
Spain	19,829	29,955	20,020	30,168
Sweden	20,000	20,000	20,062	20,481
Total	**879,162**	**855,020**	**887,814**	**874,020**

[1] Including accrued interest

There were no impairments on positions in the securities and fund portfolio in the years 2018 and 2019.

(42) INVESTMENT RISK

EQUITY INVESTMENTS

in €k	31/12/2018	31/12/2019
Listed banks	599,668	635,931
Unlisted banks	15,762	17,098
Other unlisted equity investments	69,877	71,039
Total	**685,307**	**724,068**

(43) 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 interest rate risk and the relevant limits is based on a combination of indicators and methods such as value-at-risk (VAR), modified duration, volume analysis, scenario analysis pursuant to the rules for the determination of interest rate risk in the banking book (IRRBB) and stress tests of the economic capital. Managing interest rate risk in the banking book is the responsibility of the Asset/Liability Management Committee. The interest rate change risk is the remit of Proprietary Trading and International Operations.

INTEREST RATE RISK MANAGEMENT

INTEREST RATE RISK

Risk management		**Risk control**	
Banking book ALM[1]	Trading book ZEA[2]	Banking book ZCR/RC[3]	Trading book ZCR/RC[3]

[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 interest rate management instrument.

(43.1) REGULATORY INTEREST RATE RISK IN % OF OWN FUNDS

Currency	31/12/2018	31/12/2019
EUR	3.43	2.46%
CHF	0.02	0.25%
USD	-	-0.03%
JPY	-	-
Other	0.03	-
Total	**3.48**	**2.68%**

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

in €k	31/12/2018	31/12/2019
EUR	26,690	21,576
CHF	160	2,235
USD	13	-221
JPY	4	-
Other	216	-
Total	**27,084**	**23,590**

(43.3) INTEREST RATE GAPS (EUR AND FX)

in €k	31/12/2018	31/12/2019
< 1 Monat	-102,962	278,803
1 to 3 months	552,123	317,612
3 to 6 months	781,369	552,899
6 to 12 months	-883,985	-1,626,335
1 to 2 years	-559,952	149,219
2 to 3 years	-461,205	246,738
3 to 4 years	156,824	-402,712
4 to 5 years	128,624	80,313
>5 years	425,000	425,876

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.

(43.4) VALUE-AT-RISK FIGURES - INTEREST RATE RISK[1)]

in €K	2018	2019
Minimum values	21,746	25,030
Maximum values	24,944	30,890
Average values	23,136	26,696
Values at year-end	**24,944**	**30,890**

[1)] Including 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%.

(44) CREDIT SPREAD RISK

Credit spread risk 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 port folio 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.

(45) 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. Once a month, equity price risk is quantified using a historical simulation as value-at-risk.

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

EQUTY PRICE RISK MANAGEMENT

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

VALUE-AT-RISK FIGURES - EQUITY PRICE RISK

in €K	2018	2019
Minimum values	1,366	2,351
Maximum values	1,708	3,104
Average values	1,523	2,834
Values at year-end	**1,366**	**2,351**

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

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

VALUE-AT-RISK FIGURES - FOREIGN CURRENCY PRICE RISK

in €K	2018	2019
Minimum values	581	437
Maximum values	699	731
Average values	640	595
Values at year-end	**673**	**699**

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	31/12/2018	31/12/2019
HRK	-2,901	-1,429
USD	-4	42
GBP	80	78
JPY	-16	18
CHF	2,134	2,194

(47) LIQUIDITY RISK AND LIQUIDITY RISK MANAGEMENT IN ILAAP

Liquidity risk is associated with the danger 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. The management of liquidity risk is governed by clearly defined principles that were anchored in our Risk Strategy and in our liquidity management manuals (ILAAP).

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 Decree on Risk Management) 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 determined, analysed and reported daily.

Medium-term and longer-term liquidity and the liquidity buffer are managed by the ALM Committee. The Risk Controlling Group was responsible for liquidity risk control, ensuring adherence to the principles, procedures and limits 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.

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

	2018	***2019***
Deposit concentration	0.38	0.38
Loan-to-deposit ratio (LDR)	91.7%	91.2%
Liquidity coverage ratio (LCR)	137.8%	151.8%
Net stable funding ratio (NSFR)	110.2%	112.4%

(47.1) COLLATERAL ELIGIBLE FOR REFINANCING

in €k	***31/12/2018***	***31/12/2019***
Securities deposited with OeNB	763,667	736,658
Securities deposited with Clearstream	47,372	47,081
Securities deposited with Euroclear	60,753	71,854
Credit claims ceded to OeNB	302,531	336,629
Credit claims ceded to the Slovenian national bank	3,077	41,396
Total collateral eligible with the ECB	**1,177,400**	**1,233,618**
Minus OeNB tender block	-296,943	-297,863
Minus EUREX repo	-3,225	-3,148
Total available ESCB-eligible collateral	**877,232**	**932,607**
Cash and cash equivalents	85,619	88,005
Credit balance with OeNB	426,223	376,717
Liquidity buffer	**1,389,074**	**1,397,329**
Other securities	51,989	50,918
Counterbalancing capacity	**1,441,063**	**1,448,247**

(47.2) DEVELOPMENT OF FUNDING STRUCTURES

in €k	*31/12/2018*	*31/12/2019*
Savings deposits	1,429,395	1,413,530
Other payables	4,038,068	4,400,437
Liabilities evidenced by paper	571,052	623,792
Subordinated debt capital	179,667	230,584
Payables to other banks	836,489	689,224

(47.3) DERIVATIVE AND NON-DERIVATIVE LIABILITIES 2019 (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	**7,357,567**	**7,463,082**	**913,028**	**2,758,542**	**932,203**	**2,859,309**
• Deposits from banks	689,224	699,927	177,548	281,159	192,751	48,469
• Deposits from customers	5,813,967	5,811,358	733,661	2,358,585	406,145	2,312,967
• Liabilities evidenced by paper	623,792	673,607	1,819	59,454	268,265	344,068
• Subordinated liabilities	230,584	278,190	-	59,343	65,042	153,804
Derivative liabilities	**10,848**	**3,841**	**294**	**1,785**	**1,190**	**572**
• Derivatives in the banking book	10,848	3,841	294	1,785	1,190	572
Total	**7,368,415**	**7,466,923**	**913,322**	**2,760,327**	**933,393**	**2,859,880**

1) Not discounted

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

(48) OPERATIONAL RISK AND ICT RISKS BY EVENT CATEGORY

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

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.

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

We deal with information and communications technology risks (ICT risks) by means of professional IT security management run by 3 Banken IT GmbH, 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.

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 placeto 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.

OPERATIONAL RISK AND ICT RISKS

OPERATIONAL RISK AND ICT RISKS	
Risk management	***Risk control***
Risk-taking units	ZCR/RC[1] and OR Committee-Gremium[2]

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

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 26.2 million (pr.yr.: EUR 25.9 million). This compared with actual operational risk losses net of amounts recovered of EUR 1.9 million (2018: EUR 1.9 million). The total loss was only 7% of the regulatory own funds requirement for operational risk.

OPERATIONAL RISK AND ICT RISKS BY EVENT CATEGORY

in €k	**31/12/2018**	**31/12/2019**
Fraud	60	67
Employment practices and workplace safety	47	68
Customers, products, business practices	1,576	1,453
Property damage	9	27
System failures	33	10
Settlement, sales and process management	142	315

(49) MACROECONOMIC RISK

Macroeconomic risk describes the risk of adverse negative macroeconomic changes and the resulting risks that may arise for BKS Bank. The development of macroeconomic conditions is continuously monitored based on a set of indicators, discussed by the committees and incorporated into our risk models.

(50) RISK OF OVER-INDEBTEDNESS

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 7.8% at year-end (pr.yr.: 7.5%). Therefore, the leverage ratio is much better than the minimum ratio of 3% planned.

(51) 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 the application of models to quantify market price risks (interest rate risk, foreign currency risk, equity price risk) and credit risks
- ESG risks

ADDITIONAL INFORMATION

(52) FAIR VALUES

Financial assets and debt measured at fair value

31/12/2019

in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measure-ment method'	Total fair value
Assets				
Receivables from customers				
• at fair value through profit or loss (mandatory)	-	-	58,356	58,356
• at fair value through profit or loss (designated)	-	-	79,078	79,078
Trading assets (derivatives)	-	8,755	-	8,755
Debt securities and other fixed-interest securities				
• at fair value through profit or loss (mandatory)	50	-	-	50
• at fair value through profit or loss (designated)	21,586	-	-	21,586
• at fair value OCI	69,701	-	1,018	70,720
Shares and other non-interest-bearing securities				
• at fair value through profit or loss (mandatory)	43,687	-	-	43,687
• at fair value OCI	4,053	4,094	84,042	92,190
Equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss (designated)	-	-	84,237	84,237
Trading liabilities	-	10,848	-	10,848

In the reporting year, there were no reclassifications between the levels.

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 - at fair value through profit or loss (designated)	-	-	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.

LEVEL 3: MOVEMENTS IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE 2019

in €k	Receivables from customers at fair value through profit or loss (designated)	Receivables from customers at fair value through profit or loss (mandatory)	Debt securities and other interest-bearing securities at fair value through OCI	Shares and other non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper - at fair value through profit or loss
At 01/01/2019	85,287	54,750	-	81,973	84,744
Income Statement[1]	442	-740	-	-	-507
Reclassification	-	-	-	-	-
Other comprehensive income	-	-	-	4,827	-
Purchased/added	-	12,988	1,018	700	-
Sold/redeemed	-6,651	-8,642	-	-3,458	-
At 31/12/2019	**79,078**	**58,356**	**1,018**	**84,042**	**84,237**

[1] Measurement changes in profit/loss; financial instruments reported in the item Profit/loss from financial instruments designated at fair value and in the item Profit/loss from financial assets measured at fair value through profit or loss (mandatory).

LEVEL 3: MOVEMENTS IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE 2018

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
At 01/01/2018	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	-
At 31/12/2018	**85,287**	**54,750**	**81,973**	**84,744**

[1] Measurement changes in profit/loss; financial instruments reported in the item Profit/loss from financial instruments designated at fair value and in the item Profit/loss from financial assets measured at fair value through profit or loss (mandatory).

Measurement principles and classification
The fair values shown in Level 1 'Market values' were determined using prices quoted on active markets (stock exchange).

If market values are 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 were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). In general, items in Level 2 were measured using the present value method.

In Level 3 'internal measurement method', the values of individual financial instruments were measured on the basis of special generally accepted valuation methods. In general, liabilities evidenced by paper in Level 3 were measured on the basis of market data that were observable for these liabilities (e.g. yield curves, foreign exchange rates). The factors affecting the values of positions in Level 3 that were not observable in the market were adjustments on the basis of internal rating procedures to the credit ratings of customers and of BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in 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. an IPO).

Changes in the ratings of assets and liabilities measured at fair value
Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of the financial instrument and the 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 2019 reporting year, the changes in the credit ratings of the receivables from customers measured at fair value had an effect on the fair value of EUR-0.9 million (pr.yr.: EUR -1.1 million). In the 2019 reporting year, the change in BKS Bank's credit standing had an effect on the fair value of the liabilities evidenced by paper of -0.4 million (pr.yr.: EUR 0.1 million).

Sensitivity analysis
The result of the sensitivity analysis of receivables from customers measured at fair value, assuming an improvement or deterioration in credit ratings of 10 basis points in the credit spread was an accumulated change in value of EUR 0.4 million (pr.yr.: EUR 0.5 million). 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 fair value of the liabilities evidenced by paper designated at fair value of EUR 0.4 million (pr.yr.: EUR 0.4 million).

For level 3 equity instruments in an amount of EUR 21.7 million, the material non-observable parameter is the interest rate. An interest rate increase by 50 basis points reduces the fair value by EUR 1.4 million (pr.yr.: EUR 1.2 million). An interest rate decrease by 50 basis points raises the fair value by EUR 1.6 million (pr.yr.: EUR 1.4 million). For level 3 shares (equity investments) in an amount of EUR 52.4 million, a change to external prices by 10% results in a change to fair value by EUR 4.0 million (pr.yr.: 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

31/12/2019

in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value	Carrying amount 31/12/2019
Assets					
Receivables from other banks[1]	-	-	200,272	200,272	200,215
Receivables from customers[1]	-	-	6,237,762	6,237,762	6,150,619
Debt securities and other fixed-interest securities	853,379	-	-	853,379	797,761
Equity and liabilities					
Payables to other banks	-	-	686,495	686,495	689,224
Payables to customers	-	-	5,815,920	5,815,920	5,813,967
Liabilities evidenced by paper	174,003	301,079	81,163	556,244	539,555
Subordinated debt capital	207,211	3,428	26,519	237,158	230,584

[1] Reduced by spec. impair. allow./ECL

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

(53) FINANCIAL INVESTMENTS IN EQUITY INSTRUMENTS

With the exception of the investment fund shares in the Treasury portfolio of the BKS Bank Group, all equity instruments pursuant to IFRS 9 are measured at fair value through other comprehensive income (FVOCI), because the fair value OCI option is applied to these. Apart from a minor number of shares with a carrying amount on the balance sheet date of EUR 4.1 million (pr.yr.: 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 that are intended to be held for the long term.

There were no material effects from the sale of equities or derecognition of other investments in the reporting year 2019.

PRESENTATION OF OTHER INVESTMENTS OF MATERIAL SIGNIFICANCE

in €k	Fair value at 31/12/2018	Dividend income recognised in 2018	Fair value at 31/12/2019	Dividend income recognised in ***2019***
Beteiligungsverwaltung Gesellschaft m.b.H.	15,118	231	11,479	3,900
Generali 3Banken Holding AG	33,712	465	38,556	379
Wienerberger AG	1,420	32	1,292	39
3-Banken Beteiligung Gesellschaft mbH	2,187	-	1,048	-
Oesterreichische Kontrollbank AG	14,531	1,000	15,866	1,000
BWA Beteiligungs- und Verwaltungs-Aktiengesellschaft	3,665	-	4,094	-
PEKRA Holding GmbH	4,326	-	5,843	-
VBG Verwaltungs- und Beteiligungs GmbH	3,371	-	4,188	-
Drei Banken Versicherungsagentur GmbH (in liquidation)	1,694	-	-	-
3 Banken Kfz-Leasing GmbH	1,551	404	2,251	662
3 Banken IT GmbH	1,050	-	1,050	-
Other strategic investments	3,013	742	2,468	287

(54) PROFIT/LOSS BY MEASUREMENT CATEGORY

in €k	***2018***	***2019***
Interest income	2,284	1,789
Profit/loss recognised in the income statement	-4,845	6,316
Profit/loss from financial assets[1] measured at fair value through profit or loss (mandatory)	**-2,561**	**8,105**
Interest income	3,214	2,391
Interest expense	-2,010	-2,010
Profit/loss recognised in the income statement	-2,841	-1,586
Profit/loss recognised in other comprehensive income	-56	355
Profit/loss from FI[2] measured at fair value through profit or loss (designated)	**-1,693**	**-850**
Interest income	148,586	151,676
Net fee and commission income	41,123	41,177
Profit/loss recognised in the income statement	51	234
Profit/loss from FA measured at amortised cost	**189,760**	**193,087**
Interest income	3,311	6,708
Profit/loss recognised in other comprehensive income	-1,763	5,638
Profit/loss from FA measured at fair value in other comprehensive income (designated)	**1,547**	**12,346**
Interest income	687	529
Profit/loss recognised in the income statement	64	-58
Profit/loss recognised in other comprehensive income	-70	2,124
Profit/loss from FA measured at fair value in other comprehensive income	**680**	**2,595**
Interest expense	-28,875	-27,320
Profit/loss recognised in the income statement	-	-
Profit/loss from financial liabilities measured at amortised cost	**-28,875**	**-27,320**

[1] FA = financial assets
[2] FI = financial instruments

(55) INFORMATION ON SHARES IN OTHER ENTITIES

Of the entities accounted for using the equity method, Oberbank AG and BTV AG were included in the consolidated financial statements for the following reasons, even though they fall short of the 20% threshold: For the investment in Oberbank AG, there is a syndicate agreement between BKS Bank, BTV AG and Wüstenrot Wohnungswirtschaft reg. reg. Genossenschaft mbH and for the investment in BVT AG there is a syndicate agreement between BKS Bank AG, Oberbank AG, Generali 3Banken Holding AG and Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H. These permit participation in those two banks' financial and business policy decisions within the scope of the 3 Banken Group without having a controlling interest in them.

Oberbank AG and BTV AG have been included in the consolidated financial statements as of 30 September 2019, because the figures in the IFRS consolidated financial statements for year-end are not available due to the tight timeframe.

ASSOCIATES

Values as at 31/12	Type of relationship with the company	Head office	Voting rights in % 2018	Voting rights in % 2019	Equity interests in % 2018	Equity interests in % 2019	Fair value of the share 2018	Fair value of the share 2019
Oberbank AG	Strategic investment to secure autonomy	Linz	15.2	15.2	14.2	14.2	449,828	477,959
BTV AG	Strategic investment to secure autonomy	Innsbruck	14.7	14.7	13.6	13.6	110,065	133,305

FINANCIAL INFORMATION ON SIGNIFICANT ASSOCIATES

in € m	Oberbank AG 31/12/2018	Oberbank AG 31/12/2019	BTV AG 31/12/2018	BTV AG 31/12/2019
Net interest income	345.2	345.8	123.0[1)]	139.9
Net fee and commission income	159.2	163.0	51.8	49.4
Consolidated profit for the year after tax	225.6	216.1	107.1	126.7
Total assets	22,212.6	22,829.0	11,630.1	12,549.2
Receivables from customers after impairment charges	15,633.0	16,570.2	7,753.5	7,938.3
Equity	2,797.9	2,960.5	1,639.0	1,749.3
Primary funds	14,244.0	14,166.0	8,162.3	8,936.6
• thereof savings deposits	2,684.1	2,697.4	1,260.0	1,390.7
• thereof liabilities evidenced by paper incl. subordinated capital	2,098.3	2,185.4	1,356.5	1,420.7
Dividends received (in €k)	4,515	5,519	1,261	1,387

1) Prior-year values were adjusted

Joint arrangement, joint operation

Under the provisions of IFRS 11, ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H. (ALGAR) is classified as a joint operation and was included in the 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.

(56) 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 the authority and responsibility for planning, directing and supervising the activities of the entity, whether directly or indirectly, including members of the Management Board and Supervisory Board of BKS Bank AG and also the managing directors of subsidiaries.

RELATED PARTY DISCLOSURES

in €k	Outstanding balances as at 31/12/2018	Outstanding balances as at 31/12/2019	Guarantees received as at 31/12/2018	Guarantees received as at 31/12/2019	Guarantees provided as at 31/12/2018	Guarantees provided as at 31/12/2019
Non-consolidated subsidiaries			-	-	-	-
• Receivables	2,927	24,529				
• Liabilities	2,287	4,003				
Associates			-	-	-	-
• Receivables	2,451	4,425				
• Liabilities	669	3,690				
Members of the Management Board			-	-	-	-
• Receivables	235	1,113				
• Liabilities	1,417	2,361				
Other related parties			-	-	-	-
• Receivables	117	173				
• Liabilities	827	805				

Transactions with related parties were conducted on arm's length terms. During the reporting period, no provisions for doubtful receivables and no expenses on irrecoverable or doubtful receivables were recognised in connection with related parties.

RELATED PARTY DISCLOSURES

in €k	2018	2019
Average number of staff	**1,001**	**1,032**
• of which blue collar	54	55
• of which white collar	947	977
Average number of people employed by entities accounted for on a proportionate basis	**3,540**	**3,605**
Remuneration paid to the Management Board		
• Remuneration paid to active members of the Management Board	1,460	1,490
• Remuneration paid to former members of the Management Board and their surviving dependents	865	805
Remuneration paid to Supervisory Board members		
• Remuneration paid to active members of the Supervisory Board	236	230
• Remuneration paid to former members of the Supervisory Board and their surviving dependents	-	-
Management compensation pursuant to IAS 24	**1,880**	**1,721**
• Short-term employee benefits	1,503	1,519
• Post-employment benefits	377	202
• Other long-term benefits	-	-
• Termination benefits	-	-
• Share-based payment benefits	-	-
Loans and advances granted		
• Loans and advances granted to members of the Management Board	25	20
• Loans and advances granted to members of the Supervisory Board	210	184
Expenditure on termination and post-employment benefits		
• Expenditure on termination and post-employment benefits for management board members	-367	194
• Expenditure on termination and post-employment benefits for other employees	5,322	5,561

All advances, loans and deposits to and from members of the Management Board and Supervisory Board were granted at usual market conditions.

(57) SEGMENT REPORT

Segment reporting is based on the organisational structure of the Group that underlies its internal management reporting system.

SEGMENT RESULTS 2019

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	27,646	105,754	44,935	3,423	181,758
• of which profit/loss from investments accounted for using the equity method	-	-	45,915	-	45,915
Impairment charges	268	-18,739	-111	-	-18,582
Net fee and commission income	25,671	32,148	-278	680	58,221
Net trading income	-	-	1,244	-	1,244
General administrative expenses	-53,462	-51,838	-8,402	-7,254	-120,956
Other operating income/expenses	1,643	417	219	-4,506	-2,227
Profit/loss from financial assets/liabilities	-125	628	3,159	-	3,662
Profit/loss for the year before tax	**1,641**	**68,369**	**40,766**	**-7,658**	**103,118**
Average risk-weighted assets	727,159	3,390,382	782,898	110,908	5,011,347
Average allocated equity	88,089	409,917	730,120	27,997	1,256,123
Segment liabilities	2,971,204	4,167,239	1,492,342	226,811	8,857,596
ROE based on profit for the year	**1.9%**	**16.7%**	**5.6%**	**-**	**8.2%**
Cost/income ratio	**97.3%**	**37.5%**	**18.2%**	**-**	**50.7%**
Risk/earnings ratio	**-**	**17.7%**	**0.2%**	**-**	**10.2%**

SEGMENT RESULTS 2018

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	25,636	102,306	43,660	2,939	174,541
• of which profit/loss from investments 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%**

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 in net interest income as return on equity invested. 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 in detail:
- Monthly reporting of results at the profit centre level
- Quarterly reports for all relevant risk types
- Ad-hoc reports of exceptional events

Corporate and Business Banking
In Corporate and Business Banking, some 23,500 corporate and business banking customers were served as at the end of 2019. This business segment is still the bank's most source of income, as BKS Bank was originally conceived as a bank for corporate and business customers. Today, corporate and business banking customers still account for a large part of the loan portfolio and contribute substantially to profits. Also reported in this segment - apart from the income and expense components of BKS Bank AG from business with corporates and business customers - are income and expenses of the leasing companies provided they relate to transactions with corporate and business 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 in Retail Banking. At the end of December 2019, this segment served some 167,700 customers.

Financial Markets
The financial markets segment includes the profits from BKS Bank AG's proprietary trading activities, from treasury securities, from equity investments, from derivatives in the banking book and from interbank transactions as well as from income from interest-rate term structure management.

The segment **Other** includes 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.

(58) NON-INTEREST BEARING ASSETS

in €k	31/12/2018	31/12/2019	± in %
Non-interest bearing assets	**146,868**	**152,097**	**3.6**

Non-interest bearing receivables from customers net of impairment came to EUR 0.9 million (pr.yr.: EUR 0.2 million).

(59) TOTAL RETURN ON EQUITY

Total return on equity was 1.07% (pr.yr.: 0.96%) as at 31 December 2019.

(60) SUBORDINATED ASSETS

in €k	31/12/2018	31/12/2019	± in %
Receivables from customers	40	-	-
Debt securities and other fixed-interest securities	-	-	-
Shares and other variable-yield securities	-	-	-

(61) FOREIGN CURRENCY BALANCES

in €k	31/12/2018	31/12/2019	± in %
Assets	314,891	293,997	-6.6
Liabilities	288,913	293,279	1.5

(62) ADMINISTRATION AND AGENCY SERVICES

in €k	31/12/2018	31/12/2019	± in %
Administration and agency services	**1,770**	**1,953**	**10.3**

(63) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2018	31/12/2019	± in %
Guarantees	426,642	463,620	8.7
Letters of credit	1,381	3,473	>100
Contingent liabilities and commitments	**428,023**	**467,093**	**9.1**
Other commitments	1,337,235	1,324,057	-1.0
Commitments	**1,337,235**	**1,324,057**	**-1.0**

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 withdrawal being analysed on a regular basis.

(64) EVENTS AFTER THE BALANCE SHEET DATE

In the reporting year, a decision was handed down in the arbitration proceedings regarding the dispute between Generali 3Banken Holding AG (G3BH) and BKS Bank in February 2020. In the arbitration proceedings, the Court of Arbitration analysed the legal claims made by UniCredit Bank Austria (UCBA) in its lawsuit against BKS Bank, which BKS Bank presented in detail during the arbitration proceedings, and also looked closely at BKS Bank's legal standpoint and that of G3BH.

The Court of Arbitration handed down the following ruling:
- G3BH is not under the obligation to repay the indirect contributions (Grossmutterzuschüsse) made to BKS Bank in connection with the capital increases of 3 Banken;
- With respect to the participation of G3BH in the capital increases of BKS Bank, the capital was raised in each case correctly;
- Therefore, BKS Bank is under the obligation to refund to G3BH the contributions made in April 2019 including interest to G3BH; and finally,
- The past capital increases of BKS Bank were carried out in accordance with the law, and therefore, the hypothesis of UCBA claiming surcharges has no legal foundation.

As regards the proceedings for the special audit requested by UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. against BKS Bank, the Regional Court Klagenfurt (Landesgericht Klagenfurt) dismissed this request for a special audit in February 2020. In the view of the Court, the mutual shareholdings and their financing do not stand in contradiction to learned opinion or to pertinent court rulings. The Court ascertained with definite certainty that there was no instance of dishonesty on the part of the governing bodies of BKS Bank as claimed by the plaintiff.

With respect to the legal disputes of 3 Banken with UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H., we refer the reader to 2.5. Discretionary decisions, assumptions and estimates.

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.

(65) ASSETS SERVING AS COLLATERAL FOR LIABILITIES

Liabilities	Assets	31/12/2018	31/12/2019
Money held in trust pursuant to § 230a Austrian Civil Code	Securities	11,894	11,906
Clearing system deposit for stock exchange trading in Vienna	Securities	1,588	1,590
Deposit for trading through EUREX	Receivables from other banks	757	3,987
Collateral for trading through Xetra	Securities	3,969	3,975
Euroclear pledge	Securities	10,090	10,077
EUREX Repo (GC Pooling)	Securities	3,552	3,458
Margin for futures contracts	Receivables from other banks	4,135	6,127
Accounts receivable assigned to Oesterreichische Kontrollbank (OeKB)	Loans	56,502	76,356
Collateral for OeNB funding	Loans	296,943	297,863
Cover pool of mortgage loans for covered bonds	Loans	261,049	293,161
Cover pool of public sector debt for covered bonds	Loans	9,920	8,540
Pledge for OeKB CCPA clearing pool	Receivables from other banks	60	75

Trust money savings deposits were secured in conformity with the legal requirements of § 68 Banking Act. The cover pool for covered bonds is governed by the Austrian Covered Bonds Act (FBSchVG). In addition, the Group had pledged assets as collateral for liabilities arising from derivative transactions.

(66) FEES PAID TO THE BANK AUDITOR

in €k	2018	2019	± in %
Fees for mandatory audits of the single-entity and consolidated financial statements	654	559	-14.5
Fees for other auditing services	166	116	-30.1
Fees for advisory services, including tax advice	61	85	39.3
Total fees	**881**	**760**	**-13.7**

(67) DERIVATIVES TRANSACTION VOLUME: BANKING BOOK

in €k	Nominal amount by time to maturity < 1 year	1 to 5 years	> 5 years
Interest rate contracts	**40,000**	**107,664**	**191,330**
Interest rate swaps	40,000	107,664	191,330
• Calls	20,000	53,832	95,665
• Puts	20,000	53,832	95,665
Interest rate options	-	-	-
• Calls	-	-	-
• Puts	-	-	-
Currency contracts	**842,872**	**184,010**	**-**
Currency forwards	506,066	-	-
• Calls	252,209	-	-
• Puts	253,857	-	-
Capital market swaps	-	184,010	-
• Calls	-	91,878	-
• Puts	-	92,132	-
Money market swaps (currency swaps)	336,806	-	-
• Calls	168,779	-	-
• Puts	168,027	-	-
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	**10,090**	**-**	**872**
Interest rate swaps	-	-	-
• Calls	-	-	-
• Puts	-	-	-
Interest rate options	10,090	-	872
• Calls	5,045	-	436
• Puts	5,045	-	436
Currency contracts	**-**	**-**	**-**
Currency options	-	-	-
• Calls	-	-	-
• Puts	-	-	-

FINANCIAL INSTRUMENTS (TRADING BOOK)

in €k	*31/12/2018*	*31/12/2019*
Interest-bearing securities	-	-
Treasury shares	-	-

Nominal amount		Fair value (positive)		Fair value (negative)	
31/12/2018	***31/12/2019***	***31/12/2018***	***31/12/2019***	***31/12/2018***	***31/12/2019***
352,064	**338,994**	**5,964**	**6,558**	**5,544**	**7,316**
352,064	338,994	5,964	6,558	5,544	7,316
176,032	169,497	-	-	5,544	7,198
176,032	169,497	5,964	6,558	-	118
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,079,776	**1,026,882**	**1,464**	**1,516**	**2,377**	**3,077**
509,497	506,066	935	139	987	2,639
255,230	252,209	909	130	960	2,594
254,267	253,857	26	9	27	45
177,317	184,010	-	-	257	234
88,578	91,878	-	-	-	-
88,739	92,132	-	-	257	234
392,962	336,806	529	1,377	1,133	204
195,910	168,779	13	-	10	95
197,052	168,027	516	1,377	1,123	109
-	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Nominal amount		Fair value (positive)		Fair value (negative)	
31/12/2018	***31/12/2019***	***31/12/2018***	***31/12/2019***	***31/12/2018***	***31/12/2019***
13,274	**10,962**	**2**	**-**	**2**	**-**
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
13,274	10,962	2	-	2	-
6,637	5,481	2	-	-	-
6,637	5,481	-	-	2	-
-	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Positions (securities and derivatives) entered into by our Money, Foreign Exchange and Securities Trading unit to achieve price gains or take advantage of interest rate fluctuations were reported in the trading book. Market value is the amount that can be obtained on the sale of a financial instrument in an active market or that would have to be paid to purchase it. If a market price was available, this price was used as a position's fair value. Where market prices were unavailable, we used internal valuation models, including the present value method.

The Company's Boards and Officers

Management Board
Herta Stockbauer, Chairwoman
Dieter Kraßnitzer, Member
Alexander Novak, Member

Shareholder representatives on the Supervisory Board
Gerhard Burtscher, Chairman
Franz Gasselsberger, Vice Chairman
Christina Fromme-Knoch
Gregor Hofstätter-Pobst
Reinhard Iro
Stefanie Lindstaedt
Heimo Penker
Karl Samstag
Sabine Urnik
Klaus Wallner

Staff representatives on the Supervisory Board
Maximilian Medwed
Herta Pobaschnig
Hanspeter Traar
Ulrike Zambelli

Klagenfurt am Wörthersee, 9 March 2020

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 PURSSUANT TO § 82 (4) STOCK EXCHANGE ACT

The Management Board of BKS Bank AG declares that these annual financial statements have been 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 Report of the Management Board presents the development of business, profit or loss, and situation of the BKS Bank Group in such a way so as to give a true and fair view of the assets, financial position and result of operations as well as of the material risks and uncertainties to which the Group is exposed.

Klagenfurt am Wörthersee, 9 March 2020

The 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, BKS Service GmbH, ICT and Business Organisation, Treasury Back Office, Back Security Services, Intnernational Business: Back Office and Risk Management

Chairwoman of the Management Board with responsibility for Sales Austria, Private Banking, Customer-oriented Departments, Accounting and Sales Controlling, Human Resources, Public Relations and Marketing, CSR and Sustainability, Investor Relations, Subsidiaries and Investments in Austria

Member of the Management Board with responsibility for Sales International, Treasury and Banking Support, BCS Fiduciaria, Leasing and Real Estate Subsidiaries International, ICT International

Profit distribution proposal

The financial year 2019 of BKS Bank AG closed with a net profit of EUR 11,138,720.09. We propose that a dividend of EUR 0.25 per share be distributed out of the reported net profit as at 31 December 2019. The resulting distribution on 42,942,900 shares is EUR 10,735,725. Subject to § 65 para 5 Stock Corporation Act, we propose the remainder to be carried forward to a new account.

Klagenfurt am Wörthersee, 9 March 2020

The 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 at 31 December 2019, the Consolidated Statement of Comprehensive Income 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 at 31 December 2019 and its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements of § 245a Business Code as well as § 59a Banking Act.

BASIS FOR OUR OPINION

We conducted our audit in accordance with EU Regulation 537/2014 (hereinafter AP Regulation) and the Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs).

Our responsibilities under these regulations and 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 company and banking law as well as professional regulations, and we have fulfilled our other professional responsibilities in accordance with these 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 for the reporting year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and taken into account when reaching our audit opinion; 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
- Legal disputes of 3 Banken with UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H.

MEASUREMENT OF RECEIVABLES FROM CUSTOMERS

Risk for the consolidated financial statements

Receivables from customers are presented in the balance sheet in an amount of TEUR 6,378,787. Impairment charges amount to TEUR 90,735. We refer to the description of the accounting and measurement methods in the "Notes on individual items on the balance sheet)" as well as in "Discretionary decisions and estimates (subitem "Impairment of financial assets: impairment charges").

Within the scope of the monitoring of the lending process, the Bank checks whether impairment triggers on receivables occurred and therefore impairment charges must be recognised. Under IFRS 9, receivables – depending on their credit quality (rating) – are classified to three stages, with performing loans being classified to stage 1 and stage 2, and non-performing loans to stage 3. Depending on the stage, impairment allowances are calculated for the expected credit loss (ECL). The calculation of the expected credit loss is based on past experience, current market conditions, and forward-looking estimates.

Impairment charges for receivables classified to 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 risks in respect of the financial statement consists mainly of impairment triggers not being recognized in time and the fact that the determination 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 response

We assessed the impairment of receivables from customers as follows:

- We examined the processes and key controls applied

when determining impairment charges for the expected credit loss and assessed if the ECL model is consistent with the requirements of IFRS 9 and suitable for adequately representing the impairment charges needed for the loan receivables. We tested the key controls of material significance with regard to design and implementaion and based on samples with regard to effectiveness.
- 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 measurement 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. We also analysed the selection and measurement of forward-looking information and scenarios. Additionally, we verified the correctness of the calculations.
- 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 impairments 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.
- Moreover, we assessed if the qualitative and quantitative information given in the Notes regarding impairment charges on loans and advances were complete and adequate.

CLASSIFICATION AND MEASUREMENT OF COMPANIES RECOGNISED USING THE EQUITY METHOD

Risk for the consolidated 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 635,931. The most important investments concern Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft. We refer to the description of accounting and measurement methods in the Notes "Notes on individual items on the balance sheet (subitem Companies recognised using the equity method)".

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 response
We assessed the classification and measurement of companies recognised using the equity method as follows:
- We inspected the documents and contracts made available to us to ascertain if the requirements for classification as associates 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 projected in the preceding year.
- We also assessed whether the disclosures in the Notes regarding the companies reported using the equity method are adequate.

LITIGATION OF 3 BANKEN WITH UNICREDIT BANK AUSTRIA AG AND CABO BETEILIGUNGSGESELLSCHAFT M.B.H.

Risk to the financial statements
The management of describes the status of the legal disputes in the Notes of 3 Banken (BKS Bank AG, Oberbank AG und Bank für Tirol und Vorarlberg Aktiengesellschaft) with UniCredit Bank Austria AG and der CABO Beteiligungsgesellschaft m.b.H. as well as its current assessment of the situation (see Note "Discretionary decisions and estimates"). UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. submitted petitions with the Takeover Commission requesting a review of compliance with takeover regulations (mandatory bid).

The management prepared an evaluation of the legal risks and effects on the financial statements based on the assessment of external legal experts and legal opinions.

The risk to the financial statements results from the assessment of the aforementioned factors, especially regarding further decisions in the ongoing proceedings and the assessment of any claims from shareholders as to whether the Bank (as a member of the syndicates of Oberbank and BTV) would have been under the obligation to make a mandatory bid. This results in estimation uncertainties regarding potential provisions for the legal disputes with UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H.

Our response

We assessed the legal risks in this context as follows:

- Within the scope of our audit, we inspected relevant documents, verified the estimates for provisions and checked the presentation in the financial statements.
- We analysed the management's assessment, especially the estimates included and the conclusions drawn for the financial statements. To this end, we obtained and analysed the expert opinions and statements of the disputing parties made available by the attorneys representing the Bank in the proceedings to evaluate if the assessments of the management are consistent with the current status of the proceedings.
- Finally, an assessment was made to ascertain if the pertinent information in the Notes to the financial statements is appropriate.

RESPONSIBILITIES OF THE MANAGEMENT AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The management is responsible for the preparation of the consolidated financial statements and for their compliance with International Financial Reporting Standards (IFRS) as adopted by the EU as well as with the additional requirements of § 245a UGB (Austrian Business Code) and § 59a BWG (Austrian Banking Act) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intents to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance but provides no guarantee that an audit conducted in accordance with the AP 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 AP 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 controls.
- 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 by the management and the reasonableness of their accounting estimates and related disclosures made by management.
- We derive 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 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 Austria's 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 company law and other legal or regulatory 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 § 243a UGB (Austrian Business Code) are appropriate.

STATEMENT

Based on the 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 AP REGULATION

We were elected auditors for the financial statements at the Annual General Meeting on 9 May 2018 and were were appointed by the Supervisory Board on 11 June 2018 to audit the financial statements of the company for the financial year ended on the cutoff date.

On 8 May 2019, we were appointed as auditors of the financial statements for the financial year ending on 31 December 2020, and on 19 June 2019, the Supervisory Board commissioned us with audit of the financial statements.

We have been the auditors of the company without interruption since the financial statements for the year ended on 31 December 1991.

We declare that our opinion expressed in the Report on the Consolidated Financial Statements" is consistent with our additional report to the Audit Committee in accordance with Article 11 AP Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 (1) AP Regulation) and that we have ensured our independence from the audited group throughout the course of the audit.

Engagement partner

The engagement partner is Mr. Christian Grinschgl.

Klagenfurt am Wörthersee, 9 March 2020

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Signed by:
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. § 281 (2) UGB (Austrian Business Code) applies.

Additional Notes

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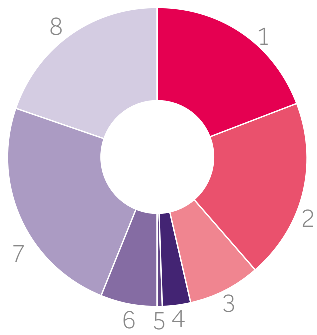
Shareholders of 3 Banken Group

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	0.6	1.0
6 UniCredit Bank Austria AG	6.1	6.6
7 CABO Beteiligungsgesellschaft m.b.H.	24.2	23.2
8 Free float	19.4	21.4

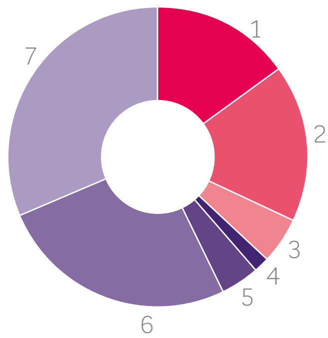
Share capital in €	85,885,800
Number of ordinary no-par shares	41,142,900
Number of no-par preference shares	1,800,000



SHAREHOLDERS OF OBERBANK AG

in %	by voting share	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.	4.9	4.5
4 Generali 3Banken Holding AG	1.8	1.6
5 Staff shares	4.1	4.0
6 CABO Beteiligungsgesellschaft m.b.H.	26.0	23.8
7 Free float	31.0	35.8

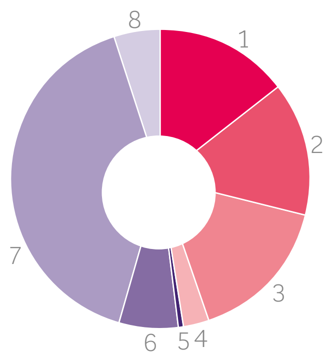
Share capital in €	105,921,900
Number of ordinary no-par shares	32,307,300
Number of no-par preference shares	3,000,000



SHAREHOLDERS OF BANK FÜR TIROL UND VORARLBERG AG

in %	by voting share	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	0.9
6 UniCredit Bank Austria AG	6.3	9.9
7 CABO Beteiligungsgesellschaft m.b.H.	40.5	37.5
8 Free float	4.9	7.6

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.

1928 The efforts to transform the limited partnership into a stock corporation result in the establishment of "Bank für Kärnten".

1939 The company's name is changed from "Bank für Kärnten" to "Bank für Kärnten Aktiengesellschaft".

1964 Work on the branch network commenced.

1983 With the expansion into Styria, the company name is changed to "Bank für Kärnten und Steiermark Aktiengesellschaft" (abbreviation: BKS).

1986 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 partner banks as the 3 Banken Group.

2003 Acquisition of a majority stake in Die Burgenländische Anlage & Kredit Bank AG (Die Bank) .

2004 First branch opens in Slovenia and representation office established in Italy.

2005 A representation office is set up in Hungary. The company name is adapted to the expansion of the past few years and is renamed BKS Bank AG.

2007 Acquisition of Kvarner banka d.d. and entry into the Croatian banking market. Acquisition of "KOFIS Leasing" in Slovakia.

2011 Market entry in the Slovak banking market.

2015 The renowned rating agency oekom research AG confirmed BKS Bank's "prime" status for the first time.

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.

2019 In June 2019, BKS Bank becomes the first bank in Austria to receive the State Award for Business Excellence. We achieved major milestones in the implementation of our corporate strategy. In Slovenia, we are now the largest investment services company after the acquisition of a further brokerage firm.

Glossary

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.

Amendment: When changes, additions or improvements are made to existing IFRS standards, they are issued in the form of so-called amendments.

The ***banking book*** contains all on-balance sheet and off-balance sheet items recognized in a bank's financial statements that are not assigned to the trading book.

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 ***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.

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.

Consolidated entities are material, controlled entities whose assets, equity, liabilities, income and expenses net of consolidation items are accounted for in their entirety in consolidated financial statements.

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 is the total of net interest income, net fee and commission income, net trading income and other operating profit or loss. 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.

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.

Counterbalancing capacity (CBC) in the name of the liquidity buffer made up of assets that are easily liquidated or eligible for repo transactions.

Credit spread: The credit spread is the risk premium and the difference in yield between an interest-bearing security and a risk-free reference interest rate with the same maturity. The credit spread risk is the risk of changes to the creditworthiness and/or risk premium-induced changes in the market price of the securities portfolio with a reference to the interest rate.

DBO: 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.

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.

Derivatives are financial instruments whose own value changes in response to changes in the market prices or expected prices of other financial instruments. They can therefore be used both to hedge against a drop in value or to speculate on gains in the value of the underlying. Options, futures and swaps are the most common types of derivatives.

Endorsement: 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.

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 recognized according to the equity interest held.

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*** (the Foreign Account Tax Compliance Act) on 18 March 2010 to ensure that US subjects with accounts abroad meet their tax obligations. Under the act, all banks are obliged to identify customers with US ties and, if they consent, to report their names to the US tax authorities.

FATF (Financial Action Task Force on Money Laundering) is an international anti-money laundering body based at the OECD in Paris. Its task is to analyze money laundering and terrorism financing methods and develop measures to combat them.

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.

GDP: Gross domestic product (GDP) is the total value of all goods (i.e. goods and services) produced in an economy in a year less all inputs. In order to view GDP without the effect of changes in prices, one uses 'real' GDP, where all good and services are valued at the prevailing prices in a base year.

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.

Hedging is used to protect existing or future positions against the exposure to risks such as currency and interest rate risks. It involves taking a counter-position to another position so as to completely or partially offset risk.

Historical simulation is a statistical method for measuring value at risk using historical time series data.

ICAAP (the Internal Capital Adequacy Assessment Process) is the name of the extensive process and associated strategy 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 (e.g. AT for Austria), a nine-character national code and a one-digit control key. The ISIN of the ordinary BKS Bank AG share is AT0000624705; that of the preference share is AT0000624739.

ISS-oekom (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.

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 ***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.

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.

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 ***price/earnings ratio*** (P/E) is important to investors when assessing shares. To calculate it, the share's stock market price is divided by the per-share earnings recorded or expected in the respective period. If the P/E ratio is relatively low, the stock is felt to be cheaply priced; if it is relatively high, it is seen as expensive.

The ***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. On each valuation date, one only measures the part of the obligation that has already been earned. The present value of the earned part of the obligation is known as the defined benefit obligation.

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 and 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 test 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.

The ***trading book*** contains all positions held by a bank within the scope of its proprietary trading in financial instruments that it holds for re-sale or has acquired so as to exploit, on a short-term basis, existing or expected differences between buying and selling prices or movements in prices or interest rates. Positions not included in the trading book are assigned to the banking book.

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.

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
AK	Anschaffungskosten (amortised cost)
AktG	Aktiengesetz AktG (Austrian Stock Corporation Act)
ALGAR	ALPENLÄNDISCHE GARANTIE – GESELLSCHAFT m.b.H.
AML	Anti-Money Laundering
APM	Aktiv-Passiv-Management (ALM - Asset/liability management)
APRÄG 2016	Abschlussprüfungsrechts-Änderungsgesetz 2016 (Austrian Act Amending Audit Regulations of 2016)
AR	Aufsichtsrat (Supervisory Board)
ArbVG	Arbeitsverfassungsgesetz (Austrian Labour Act)
ATX	Austrian Traded Index (Österreichischer Aktienindex)
AT1	Additional Tier 1 Capital
AVÖ	Aktuarvereinigung Österreichs
BIP	Bruttoinlandsprodukt (GDP, gross domestic product)
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
CCPA	California Consumer Privacy Act
CET1	Common Equity Tier 1 Capital
CHF	Swiss franc
CIA	Certified Internal Auditor
CNY	International currency symbol for the Chinese renminbi (yuán)
CO_2	Carbon dioxide
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRD	Capital Requirements Directive
C-Regeln	“Comply or Explain” Rules (ÖCGK)
CRR	Capital Requirements Regulation
CSR	Corporate Social Responsibility
D	Diskontsatz (discount rate)
DAX	Deutscher Aktienindex (German stock index)
DBO	Defined Benefit Obligation
DCF-Methode	Discounted-Cash-Flow-Methode (discounted cash flow method)
EAD	Exposure at Default
EBA	European Banking Authority
ECL	Expected Credit Loss
EMAS	Eco-Management and Audit Scheme
ESG	Environmental, Social, Governance
ESMA	European Securities and Markets Authority
EESCB	European System of Central Banks
EUREX	European Exchange (derivatives exchange)
EWB	Einzelwertberichtigung (individual impairment allowance)
ECB	European Central Bank
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)
FI	Finanzinstrumente (financial 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	foreign exchange ratio

GBP	British pound
GDP	Gross Domestic Product
GL	Guidelines
GRI	Global Reporting Initiative
GWh	Gigawatt hour
GuV	Gewinn- und Verlustrechnung (profit/loss account)
G3BH	Generali 3Banken Holding AG
HRK	Croatian kuna
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IBOR	Inter-Bank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ICS	ICS internal control system
ICT	(ICT, information and communications technology)
ILAAP	Internal Liquidity Adequacy Assessment Process
ISAs	International Standards on Auditing
ISIN	International Securities Identification Number
IMF	International Monetary Fund
JPY	Japanese yen
n.a.	not available
KGV	Kurs-Gewinn-Verhältnis (Price/earnings ratio, P/E ratio)
KV	Kollektivvertrag (collective agreement)
LAA	Loss absorption amount
LCR	Liquidity coverage ratio
LDR	Loan/deposit ratio
LGD	Loss given default
L-Regeln	”Legal Requirements” Rules (Code of Corporate Governance)
MCC	Aufschlag zur Aufrechterhaltung des Marktvertrauens (premium for maintaining market confidence)
MiFID II	Markets in Financial Instruments Directive
MiFIR	Regulation on Markets in Financial Instruments
MREL	Minimum Requirement for Eligible Liabilities
n/a	not applicable
NaDiVeg	Nachhaltigkeits- und Diversitätsverbesserungsgesetz (Sustainability and Diversity Improvement Act)
NGOs	Non-governmental Organizations
NPL-Quote	Non-performing Loan-Quote
NSFR	Net Stable Funding Ratio
ÖCGK	Österreichischer Corporate Governance Kodex (Austrian Code of Corporate Governance)
OCI	Other Comprehensive Income
OECD	Organisation for Economic Cooperation and Development
OeKB	Oesterreichische Kontrollbank AG
OeNB	Oesterreichischen Nationalbank
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
PD	Probability of Default
PJ	Personaljahre (person-years, full-time equivalents)
PSD 2	EU Payment Services Directive
RCA	Recapitalization Amount
RER	Risk/earnings ratio

ROA	Return on assets
ROE	Return on equity
R-Regeln	“Recommendations” Rules
SIC	Standing Interpretations Committee
SPPI criterion	Solely Payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
TLOF	Total Liabilities and Own Funds
TLTRO	Targeted Longer-Term Refinancing Operation
UCBA	UniCredit Bank Austria
UGB	Unternehmensgesetzbuch (Austrian Business Code)
USD	US dollar
VAR	Value-at-risk
VJ	preceding year
WAG	Wertpapieraufsichtsgesetz (Austrian Securities Supervision Act)
WIFO	Österreichisches Institut für Wirtschaftsforschung (Austrian Institute of Economic Research)
WTO	World Trade Organization
Xetra	Exchange Electronic Trading of the Vienna Stock Exchange
ZCR/RC	Controlling und Rechnungswesen/Risikocontrolling (Controlling Department / Risk Controlling)
ZEA	Abteilung Eigenhandel und Auslandsgeschäft
ZEA/GDH	Abteilung Eigen- und Auslandsgeschäft/Geld- und Devisenhandel (Proprietary Trading and International Operations Department)
ZKM	Abteilung Kreditmanagement (Credit Management Department)
ZVB	Abteilung Vorstandsbüro (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 9 March 2020. Should the assumptions on which the forecasts are based fail to materialize or the risks occur, the actual results may differ from those currently expected. This Annual Report does not constitute any recommendation to buy or sell shares of BKS Bank AG.

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