5

Annual Report 2015

BKS Bank
3 Banken Gruppe

Contents

PRIOR-YEAR COMPARISON

INCOME ACCOUNT, €m	2014[1]	2015	+/(–) Change, %
Net interest income	157.3	166.4	5.8
Impairment charge on loans and advances	(49.5)	(48.5)	(2.0)
Net fee and commission income	47.6	53.0	11.4
General administrative expenses	(105.8)	(105.1)	(0.7)
Profit for the year before tax	54.1	60.7	12.3
Profit for the year after tax	48.7	53.6	10.0

BALANCE SHEET DATA, €m			+/(–) Change, %
Assets	6,854.6	7,063.4	3.0
Receivables from customers after impairment charge	4,815.8	4,920.1	2.2
Primary deposit balances	5,013.0	5,109.8	1.9
– Of which savings deposit balances	1,705.5	1,629.8	(4.4)
– Of which liabilities evidenced by paper, including subordinated debt capital	789.1	758.1	(3.9)
Equity	795.8	860.2	8.1
Customer assets under management	12,972.0	13,212.1	1.9
– Of which in customers' securities accounts	7,959.0	8,102.3	1.8

OWN FUNDS FOR THE PURPOSES OF CRR, €m			+/(–) Change, % or ppt[2]
Risk-weighted assets	4,846.6	4,883.4	0.8
Own funds	580.9	599.9	3.3
– Of which common equity Tier 1 capital (CET1)	543.7	575.6	5.9
– Of which total Tier 1 capital (CET1 and AT1)	543.7	575.6	5.9
Surplus own funds	193.2	209.2	8.2
Common equity Tier 1 capital ratio, %	11.2	11.8	0.6
Total capital ratio, %	12.0	12.3	0.3

PERFORMANCE			+/(–) Change, ppt
Return on equity before tax	7.2	7.3	0.1
Return on equity after tax	6.5	6.5	—
Cost:income ratio	51.9	48.7	(3.2)
Risk:earnings ratio (credit risk in % of net interest income)	31.5	29.2	(2.3)

RESOURCES			+/(–) Change
Average number of staff	915	923	8
Branches	57	59	2

BKS BANK'S SHARES		
No. of ordinary no-par shares (ISIN AT0000624705)	34,236,000	34,236,000
No. of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000
High: ordinary/preference share, €	17.8/15.6	17.5/15.7
Low: ordinary/preference share, €	16.9/14.9	16.5/14.8
Close: ordinary/preference share, €	17.3/15.3	16.9/15.1
Market capitalization at 31 December, €m	619.8	605.8
Dividend per share, €	0.23	0.23[3]
P/E: ordinary/preference share	12.8/11.3	11.4/10.2

[1] In all the relevant tables in the Management Report, amounts for 2014 as a whole have been restated in conformity with IAS 8.
[2] Percentage points.
[3] Proposal to the 77th Ordinary General Meeting of *BKS Bank AG* on 19 May 2016.

Preface by the Chairwoman of the Management Board

We are writing THE FUTURE

ENTERPRISE QUALITY

Herta Stockbauer
Chairwoman of the Management Board

Dear Shareholder,

Banks are still facing big challenges. The industry's profitability is being affected by extremely strict legal regulations, low interest rates, the huge burdens created by the bank tax and contributions to the deposit guarantee scheme and resolution mechanism, the economy's restrained growth and, not least, intense competition. New competitors like FinTechs and non-banks are pushing their way into the market, and digitization means that one has to invest even more to stay competitive.

That notwithstanding, we can look back on a successful year in 2015. We demonstrated the success of our strategy in even a difficult landscape.

BKS Bank enlarges its branch network

According to *Oesterreichische Nationalbank* statistics, roughly 80,300 people were still working in banking in 2008. At the end of 2014, only about 75,700 were, and the numbers have continued to drop since. Bank branch density in Austria at the end of 2014 was one branch per 2,012 inhabitants, which was still just above the equivalent eurozone figure of roughly 2,100. In other words, here too there is still scope for savings. It is therefore not really surprising that a number of Austrian banks have put branch closures relatively high on their list of priorities in addition to announcing plans to lay off employees.

Fortunately, we at BKS Bank do not have to make those kinds of cuts. We have always been very selective when enlarging the branch network and have limited our growth to economically strong cities. We had 38 branches in 2000 and 59 at the end of 2015. Counter to the trend, we intend to grow to 70 branches by the end of 2020. We will prioritize opening new branches in Vienna's strong downtown districts and in Slovenia. We have already had a new branch operating in Žilina, Slovakia, since February 2016. At the same time, we intend to keep the size of our workforce stable. We have achieved a significant increase in productivity in recent years. Our total assets per employee have grown from €5.3 million at the end of 2000 to €7.7 million at the end of the year under review.

Our goal: increasing market share

Our primary goal over the next few years will be to achieve a steady increase in market shares by enlarging the customer base and intensifying our sales efforts. We were again very successful in doing so in a number of our market territories in 2015. For instance, the customer base in Slovenia grew by about 5 per cent. The pleasing number of new customers was also reflected by our assets. Our balance sheet total of €7.06 billion (up 3.0 per cent) took our assets past the €7 billion mark. The loan portfolio grew by 2.1 per cent to €5.11 billion, and primary deposit balances increased from €5.01 billion to €5.11 billion.

Outstanding consolidated profit

53.6m

We are very satisfied with our consolidated profit for the year after tax, which was up 10.0 per cent to €53.6 million. This was the best result in BKS Bank's corporate history. In the course of the year, the fall in interest expenses only made up for part of the drop in interest income caused by low interest rates. However, non-recurring factors at our sister banks, which we account for using the equity method, contributed to an increase in our net interest income after the impartment charge of 9.3 per cent to €117.9 million. Fortunately, we were able to reduce our credit risk costs. We undertook an ambitious project during which we worked intensively on improving portfolio quality, and we completely revamped our training system for staff working in that area. Our net fee and commission income came to €53.0 million, which was 11.4 per cent up on the previous year, and there was earnings growth in every area of our fee and commission operations.

A good own funds position

12.3%

BKS Banks's own funds continued to rest on stable foundations. Our own funds totalled €599.9 million at the end of the year. The own funds ratio of 12.3 per cent, Tier 1 ratio of 11.8 per cent and common equity Tier 1 ratio of likewise 11.8 per cent were well above the legal minima. The *BKS Bank Additional Tier 1-Anleihe 2015* note[1], which was opened for subscription in the autumn, made an important contribution to those ratios, with investors subscribing for a total of €23.4 million.

Giving quality advice pays off

BKS Bank's customers know that they won't normally get the cheapest offer from us. We are not a cut-price bank and do not want to become one. Our strength lies in the skilled advice provided by our staff. Customers particularly value our investment and financing know-how and are also willing to pay for it. External company assessments too reflect our expertise.

Our branches in Vienna were named 'best credit advisors' by *Österreichische Gesellschaft für Verbraucherstudien* and *Format*. *EFQM-Austria* added BKS Bank—to date the only bank—to its list of excellent austrian enterprises (*Exzellente Unternehmen Österreichs*). Quality is the most important thing setting us apart from our rivals as we compete for new customers, which means that it will be a decisive factor in our future success. We have therefore appointed a Quality Management Officer who, together with her team, will take the lead in carrying out improvements within the bank.

Sales restructured

We achieved our successes thanks to our employees' high level of commitment and readiness to share with us the burden of changes within the bank. We restructured our sales activities in Austria in the year under review. We cut the number of regional sales offices from six to three and created an organizational unit called New Banking. Among other things, this unit is working on more effectively dovetailing BKS Bank's stationary and digital sales. The New Banking Team is also responsible for our new digital customer portal, which is called *BKS Bank-Online*. Customers have been using it for a number of months and it has been very well received.

[1] This is a marketing message. The information contained in this text is intended solely as customer information. It is not binding and does not under any circumstances replace advice regarding the buying or selling of securities. It does not constitute an offer or invitation to buy or sell the investment mentioned here. Nor does it constitute a recommendation to buy or sell. The offering of the product described here took place on the basis of *BKS Bank AG's Informationsmemorandum* (information memorandum) of 28 August 2015 and the final terms and conditions contained therein.

Since the summer, we have for the first time been using a 'Sales Cockpit' dashboard to better manage our sales activities. It has already proven very valuable. Our strategic motto for the next few years will be *Triple E! – Ertrag, Eigenkapital, Eigenverantwortung* (Earnings, Equity, Self-responsibility). In the chapter on *Corporate Strategy*, we will be telling you in detail about what these catchphrases mean and which projects and initiatives we will be undertaking in the months and years to come.

Unerringly on course

Your BKS Bank stands not just for quality advice and efficiency but also for a responsible business policy. This is why we are so committed to sustainability. We believe that a bank needs to have a solid reputation if is it to succeed. For us, CSR is not just 'greenwashing' PR. It is an integral part of our corporate strategy. Our responsible behaviour is directed equally at our customers, our employees and our shareholders. Sustainability is anchored in our core operations, and environmental and climate protection too are elements of our strategic thinking. In 2015, *oekom research AG*—a rating agency that specializes in sustainability—awarded us 'prime' status in recognition of our sustainability activities. This makes BKS Bank one of the world's leaders in its rating category.

Remembering Herbert Kaiser

It was with deep sadness that we heard about the passing of our former Management Board member Herbert Kaiser in November 2015. He joined the then *Bank für Kärnten* back in 1937 after graduating from high school. After a break of seven years caused by the war, he resumed his career in 1946. He managed our branch in Spittal an der Drau for ten years before being appointed to the Management Board, of which he was to be a member for the following 25 years. Herbert Kaiser was a highly respected representative of our bank. He gained public recognition in the form of a number of major awards for his wide-ranging activities. We will remember him with great fondness.

There were once again changes in the Supervisory Board during 2015. Waldemar Jud and Dietrich Karner left the Supervisory Board. We would like to thank them both for their many years of service and for the expertise and prudence with which they worked for BKS Bank.

Finally, we would like to extend our warm thanks to our employees. They are the key contributors to our success. One must not take such high levels of loyalty and dedication for granted—and we greatly value both. We also extend our special personal thanks to our employees' representatives. We are on good terms with them, and on that basis, we always manage to find solutions together that serve our employees and the company alike.

Herta Stockbauer
Chairwoman of the Management Board

Corporate Governance Report

DIVERSITY

We believe that diversity will play a decisive role in our future success. Consequently, when filling vacant posts on the Supervisory Board, we will take care to ensure balance and diversity in the knowledge, capabilities and experience of all its members. The same will apply when we are re-filling management positions. We will particularly focus on the advancement of women in management positions. In all, we will take care to achieve adequate representation of both sexes, a balanced age structure, a mix of nationalities and a wide variety of skills and experience.

See page 38 for more details.

Corporate Governance at BKS Bank

THE CRITERIA OF RESPONSIBLE CORPORATE GOVERNANCE AND CONTROL

We believe that effective corporate governance should go without saying. It ensures responsible management and control of the bank that is geared towards the sustainable creation of value added. We are committed to the principles of good and responsible corporate governance that are anchored in Austria's Code of Corporate Governance (*ÖCGK*). We complied with all the recommendations and suggestions contained therein with the exception of those that could not be applied word for word because of the particular circumstances of *BKS Bank AG* or the *3 Banken Group* or the legal provisions governing banks.

We live out our corporate social responsibility (CSR) throughout the Group. It commits us to social and ecological responsibility. Our Sustainability Report elucidates our bank's business performance within the context of the social and ecological environment and outlines approaches to solving problems that will ensure BKS Bank's preparedness for the future. We want to create lasting value added for every customer and employee, for our shareholders and for society. This means that business performance, social responsibility vis-à-vis our employees and the public and the sparing use of resources must be inseparable and inalienable cornerstones of our business activities.

Notes on the Austrian Code of Corporate Governance

The *Österreichische Corporate Governance Kodex* (*ÖCGK*: Austrian Code of Corporate Governance; see www.corporate-governance.at) is a set of rules for responsible corporate governance and management that meets international standards. It bears the signature of the prestigious *Österreichischer Arbeitskreis für Corporate Governance* (Austrian Working Group for Corporate Governance). It was first published in October 2002 and has since been regularly amended in accordance with international and national experience and practice and in consultation with all the relevant interest groups. The last amendment took effect in January 2015. As an instrument for self-regulation, the *ÖCGK* builds on the provisions set out in Austrian equity, stock exchange and capital markets law and on EU-wide and internationally propagated standards for exemplary corporate governance. The goal is to promote confidence in the company's management and supervision among investors, in the financial markets, and among business associates, employees and the public.

Good corporate governance is built on five core elements:
– trust-based relations with one's stakeholders;
– regular and open communication between the supervisory board and the management board;
– a performance-based remuneration system;
– transparent financial reporting;
– transparent corporate governance.

Other important principles of this voluntary code of behaviour with its comply-or-explain basis include the equal treatment of all the shareholders of listed stock corporations, the declared independence of members of supervisory boards, the minimization of conflicts of interest and extensive control by the supervisory board and auditors.

The standards for responsible corporate governance developed by the *Österreichischer Arbeitskreis für Corporate Governance* are subdivided into three categories. There are L Rules (*Legal Requirements*), which are based on mandatory legal standards, and C Rules (*Comply or Explain*), where non-compliance is permitted but must be explained. In addition, the Code contains R Rules (*Recommendations*), which are mere proposals and do not require any disclosures or explanations in the event of non-adherence. Special rules governing banks and insurers are not affected by the Code. The Code's rules do not require the disclosure of business and trade secrets.

The principal features of the 2015 revision of the Code were the implementation of the EU Commission's recommendation of 9 April 2014 on the quality of corporate governance reporting (*Comply or Explain* rule) and provision for the new AFRAC opinion on preparing and auditing a corporate governance report in conformity with *§ 243b UGB* (Austrian enterprises code). It was stressed that corporations are acting in conformity with the Code if, although not adhering to all the rules, they specify why they are deviating from the Code.

Declaration of Conformity by the boards and officers of BKS Bank

As a listed corporation, BKS Bank has issued and issues declarations of conformity in accordance with *§ 243b UGB* through its boards and officers. The *ÖCGK* is a valuable aid to orientation when designing the bank's internal processes and regulations. Close cooperation between the Management Board and the Supervisory Board, a remuneration system that is performance-orientated and reflects the bank's financial situation, respect for equity holders' interest and open and transparent corporate communication are essential characteristics of this basic consensus. It goes without saying that we paid special attention to ensuring—on the basis of a mature compliance management system—integrity and behaviour on the part of every member of staff and all management personnel that conformed to the law and the rules and regulations in the spirit of the zero-error principle. Acceptance of this code was not just lip service for BKS Bank; we continuously re-propagated it and lived it out.

The members of the Supervisory Board and Management Board of BKS Bank therefore expressly and comprehensively affirmed their commitment to the principles, goals and intentions set forth in the *ÖCGK* in accordance with C Rule 61. BKS Bank thus conformed to the comply-or-explain principle, which obliged it to publicly disclose departures from the rules in the *ÖCGK* that could not be applied word for word because of the specific circumstances of *BKS Bank AG* or the *3 Banken Group* or the legal provisions governing banks. The corresponding declarations by the Management Board and Supervisory Board were published on the website at www.bks.at. Click on Investor Relations » Corporate Governance. By disclosing and explaining any departures from C Rules 2, 31 and 45, BKS Bank conformed to the *ÖCGK* during the 2015 financial year.

Internet links to all the relevant information about the *ÖCGK* and BKS Bank are provided on page 43 of this report. The *ÖCGK*, the guidance regarding the independence of the members of the Supervisory Board and the Memorandum and Articles of Association (*Satzung*) of BKS Bank can also be accessed on our website at any time.

During its meeting on 25 March 2015, the Supervisory Board of BKS Bank voted to adopt the Austrian Code of Corporate Governance as amended in January 2015 as the code applicable at BKS Bank from April 2015 and declared its intention to comply with the rules contained therein. It also declared its agreement with the instances of non-compliance described here.

BKS BANK'S EXPLANATIONS OF NON-COMPLIANCE WITH C RULES

Rule	Explanation
C Rule 2	('One share, one vote'): Besides ordinary shares, BKS Bank has also issued non-voting preference shares. The preferred dividend right offers shareholders an attractive alternative investment opportunity. Each of the ordinary no-par shares issued by BKS Bank carried just one vote. No equity holder had a disproportionately large voting power. The decision to issue non-voting preference shares was made in 1991.
C Rule 31	The remunerations of the members of the Management Board are disclosed in accordance with the legal requirements. For data protection reasons and out of respect for the individual Management Board members' rights to privacy, the remuneration of each member of the Management Board was not broken down into fixed and variable components. The remuneration rules that have been established at BKS Bank ensured—in conformity with the *Bankwesengesetz* (Austrian banking act)—that the variable components of the remunerations of the members of the Management Board took account of the personal performance of each particular member. In addition, suitable account was taken of the bank's profit or loss, risk and liquidity positions.
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 held positions on the boards of other banks that compete with BKS Bank. Each declared his or her independence in a personal declaration.

This report looks at the modes of operation of the Management Board and Supervisory Board, the remuneration policy and the measures for the advancement of women taken in compliance with L Rule 60. In addition, it looks at the effectiveness of BKS Bank's risk management system (C Rule 83) and its financial reporting and disclosure policies (L Rules 63, 65 and 69; C Rules 64, 66, 67, 68 and 70). Other topics of relevance in connection with the *ÖCGK* such as the shareholder structure and General Meeting, corporation communication and the dissemination of information, the Internal Control System, compliance and anti-money laundering activities are addressed in the Consolidated Management Report, in the chapter on *Investor Relations* and in the Notes to the Consolidated Financial Statements.

The rules of the Code of Corporate Governance also applied to all the other companies in the BKS Bank Group. Within those companies, the management board and management roles and any requisite supervisory board roles were—except in the case of the leasing companies and *BKS Bank d.d.*, which were managed by separate management teams—assumed by acting Management Board members, heads of department and former management personnel of BKS Bank. All the members of the Group were integrated into the BKS Bank Group's reporting system. In addition, the executives of those subsidiaries reported regularly to their supervisory boards and to the parents' management board. They too were extensively integrated into the BKS Bank Group's anti-money laundering, risk and compliance management system regardless of whether or not they themselves had set up such a system within their company. Our remuneration principles also applied to their management personnel. The parent's Supervisory Board received regular reports on the performance of material operational subsidiaries.

The Management Board and Supervisory Board

The Management Board's mode of operation

As the BKS Bank Group's executive body, the Management Board was required to uphold the enterprise's interests and managed its operations on the basis of the law, the Memorandum and Articles of Association and its rules of procedure. The Management Board's rules of procedure governed the allocation of remits, cooperation within the Management Board and reciprocal representation. In addition, they contained a catalogue of the measures that required approval by the Supervisory Board and set out the Management Board's duties to inform and report. The Management Board cooperated on a trusting basis with BKS Bank's other boards and the representatives of its employees. The Supervisory Board was informed without delay about any material events.

The Management Board concerned itself primarily—on the basis of an extensive reporting system—with the bank's strategic orientation and with the definition of corporate goals within each area of responsibility and for the BKS Bank companies group as a whole. In doing so, it was required to protect the interests of equity holders, customers, employees and other groups that were related parties of the bank with the goal in mind of creating sustainable value added. It took appropriate precautions to ensure that the relevant legal provisions were adhered to and ensured efficient and effective risk management and risk controlling.

The member of the Management Board responsible for a remit was directly responsible for that field of activity. However, the other members of the Management Board were always kept fully informed about the enterprise as a whole, and fundamental decisions were submitted to the Management Board as a whole for approval. Within their own fields of activity, the members of the Management Board were embedded into day-to-day operations and kept continuously informed about the business situation and specific transactions. Matters of importance to the enterprise, strategic issues and measures that were to be taken were discussed during scheduled meetings and meetings held for a specific reason or by means of circulated information. Measures were put into effect by each member of the Management Board within his or her sphere of activity or by the Management Board as a whole.

As a rule, Management Board decisions were made unanimously. The dual-control or 'four-eyes' principle applied whenever contracts were signed or in the event of internal approvals that involved risks. An extensive internal reporting system accompanied the careful preparation of Management Board decisions.

The members of the Management Board

In the year under review, the Management Board of BKS Bank—a body that shares collective responsibility—had three members.

Herta Stockbauer
Chairwoman of the Management Board; born in 1960; initially appointed to the board on 1 July 2004; present term of office to end on 30 June 2019.
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. She joined BKS Bank in 1992, working in corporate and business banking and securities operations before moving to the Controlling and Accounts Department. She became Head of Department in 1996 and was appointed to the Management Board in 2004. She was made Chairwoman of the Management Board in March 2014. Her remits encompassed Corporate and Business Banking, Treasury and Proprietary Trading, Human Resources, Public Relations, Marketing, Social Media, Investor Relations, Accounts and Sales Controlling, Real Estate and Construction as well as the bank's subsidiaries and equity investments in Austria and abroad.

Posts and functions at entities accounted for in the Consolidated Financial Statements:
– Member of the supervisory board of *BKS Bank d.d.*
– Member of the supervisory board of *BKS-leasing Croatia d.o.o.*
– Vice-chairwoman of the supervisory board of *Bank für Tirol und Vorarlberg Aktiengesellschaft*
– Vice-chairwoman of the supervisory board of *Oberbank AG*
– Vice-chairwoman of the supervisory board of *Drei-Banken Versicherungs-Aktiengesellschaft*

Posts and functions at other entities in Austria that are not accounted for in the Consolidated Financial Statements:
– Member of the supervisory board of *Oesterreichische Kontrollbank Aktiengesellschaft*
– Member of the supervisory board of *SW-Umwelttechnik Stoiser & Wolschner AG*
– Member of the supervisory board of *Österreichische Post Aktiengesellschaft*

Other posts and functions:
– Member of the management board of *Verband österreichischer Banken und Bankiers*
– Member of the management board of *Industriellenvereinigung Kärnten*
– Member of the management board of *Österreichische Bankwissenschaftliche Gesellschaft*
– Chairwoman of the banking and insurance section of *Wirtschaftskammer Kärnten*
– Member of the advisory board of *Einlagensicherung der Banken und Bankiers*
– Vice-president of *respACT – austrian business council for sustainable development*
– Member of the advisory board of *Wirtschaftsethik Institut Stift St. Georgen GmbH – "Weiss"*
– Honorary Consul of Sweden in the province of Carinthia

Dieter Krassnitzer
Member of the Management Board; born in 1959; initially appointed to the board on 1 September 2010; present term of office to end on 31 August 2020.

Having graduated in business studies, he worked as a journalist at the stock market magazine *Börsenkurier* and gained a variety of work experience with firms of accountants and tax consultants. He has been working for 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. Within the Management Board of BKS Bank, Dieter Krassnitzer was responsible for Risk Management, Risk Controlling, the Credit Back Office, IT, Business Organization, Technical Services and the Treasury Back Office and for cooperation with *DREI-BANKEN-EDV Gesellschaft m.b.H.* Within the scope of international operations, he was responsible for the Back Office, Risk Management and IT.

Posts and functions at entities accounted for in the Consolidated Financial Statements:
– Chairman of the supervisory board of *BKS-leasing Croatia d.o.o.*
– Vice-chairman of the supervisory board of *BKS Bank d.d.*
– Member of the professional advisory board of *DREI-BANKEN-EDV Gesellschaft m.b.H.*

Wolfgang Mandl
Member of the Management Board; born in 1969; initially appointed to the board on 1 January 2013; present term of office to end on 31 December 2018.

Wolfgang Mandl began his career in 1990 as a retail customer account manager at our Spittal branch. He graduated in applied business administration at the Alpen-Adria University in Klagenfurt in 1997. He then held various positions in corporate and business customer care at our Klagenfurt Regional Head Office. In 2003, he was made Head of that Regional Head Office and assumed responsibility for retail customer operations. Within BKS Bank's Management Board, Wolfgang Mandl was responsible for Retail Banking, Private Banking and New Banking as well as Securities and Custodian Operations. In addition, he was responsible for cooperation with sales partners like *Wüstenrot*, *card complete Service Bank AG* and *3 Banken-Generali Investment-Gesellschaft m.b.H.* (the *3 Banken Group*'s joint asset management company). Within the scope of BKS Bank's international operations, he was responsible for the Italy Region.

Other posts and functions:
– Honorary Consul of Italy in the province of Carinthia

MANAGEMENT BOARD REMITS

Herta Stockbauer	**Dieter Krassnitzer**	**Wolfgang Mandl**
Internal Audit	Internal Audit	Internal Audit
Compliance	Compliance	Compliance
Anti-Money Laundering	Anti-Money Laundering	Anti-Money Laundering
Duty of Care and Risk Responsibility for the Purposes of the Rules of Procedure, ÖCGK and Supervisory Law	Duty of Care and Risk Responsibility for the Purposes of the Rules of Procedure, ÖCGK and Supervisory Law	Duty of Care and Risk Responsibility for the Purposes of the Rules of Procedure, ÖCGK and Supervisory Law
Corporate and Business Banking	Risk Management	Retail Banking and the Healing Professions
Treasury and Proprietary Trading	Risk Controlling	Private Banking, Securities Operations
Human Resources	Credit Back Office	Asset Management and Custodian Operations
Public Relations, Marketing, Social Media and Investor Relations	IT, Business Organization, Technical Services	New Banking
Accounts and Sales Controlling	*BKS Service GmbH (BSG)*	Sales Partners
Property Services and Construction	*DREI-BANKEN-EDV Gesellschaft m.b.H.*	International Operations: Italy
Subsidiaries and Equity Investments	Treasury Back Office	
International Operations: Slovakia, Slovenia, Croatia, Hungary	International Operations: Back Office, Risk Management and IT	

The number and nature of all the additional posts and functions of the members of the Management Board conformed to the guidance contained in C Rule 26 of the ÖCGK and to the provisions of § 28a BWG.

The Supervisory Board's mode of operation

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

The Supervisory Board of BKS Bank consisted of 10 representatives of the equity holders and five members delegated by the Staff Council on a one-third basis. It provided advisory support for and supervised the bank's management. It performed its role both during plenary meetings and within the scope of individual committees. The Supervisory Board made autonomously its decisions regarding the appointment of members of the Management Board and a chairperson of the Management Board. It carried out long-term succession planning in collaboration with the Management Board. It supervised the enterprise's management as required by law, the Memorandum and Articles of Association and its rules of procedure. It discussed the realization of strategic plans and projects with the Management Board and made the decisions on Group matters that were referred to it. In addition, the Supervisory Board was able at any time to carry out itself extensive audit actions or have them carried out by experts. In particular, it examined the annual financial statements of *BKS Bank AG* and the BKS Bank Group in conformity with international auditing standards (ISAs) and was, therefore, directly involved in the decision on the dividend distribution. The Chairman of the Supervisory Board was responsible for organization of the Supervisory Board, making preparations for meetings and interaction with the Management Board. In addition, he chaired BKS Bank's General Meeting.

The rights and obligations of the staff representatives were basically the same as those of the representatives of the equity holders. This applied, in particular, to their rights to information, their supervisory rights, their duties of care, their obligations of secrecy and any liability in the event of a breach of duty. Like the representatives of the equity holders, the staff representatives were required to abstain from voting if they had a personal conflict of interest. No member of the Supervisory Board declared a conflict of interest within the meaning of C Rule 46 of the *ÖCGK* during the year under review. The remunerations of the members of the Supervisory Board are detailed from page 33 of the Remuneration Report.

The Members of the Supervisory Board of BKS Bank AG

HONORARY PRESIDENT

Hermann Bell
Hermann Bell was elected Honorary President for life during the Supervisory Board's second meeting, which took place on 15 May.

REPRESENTATIVES OF THE EQUITY HOLDERS

Peter Gaugg, Chairman
Independent; born in 1960; first elected on 29 April 1998; appointed until the 77th Ordinary General Meeting (2016).
Supervisory board posts and comparable functions at listed companies in Austria and abroad:
– Vice-Chairman of the supervisory board of *Oberbank AG*

Franz Gasselsberger, Vice-Chairman
Independent; born in 1959; first elected on 19 April 2002; appointed until the 81st Ordinary General Meeting (2020).
Supervisory board posts and comparable functions at listed companies in Austria and abroad:
– Chairman of the supervisory board of *Bank für Tirol und Vorarlberg Aktiengesellschaft*
– Member of the supervisory board of *AMAG Austria Metall AG*
– Member of the supervisory board of *Lenzing Aktiengesellschaft*
– Member of the supervisory board of *voestalpine AG*

Waldemar Jud
Independent; born in 1943; first elected on 19 May 2010; left the Supervisory Board as of the end of the 76th Ordinary General Meeting on 20 May 2015.
Supervisory board posts and comparable functions at listed companies in Austria and abroad:
– Member of the supervisory board of *DO & CO Aktiengesellschaft*

Dietrich Karner
Independent; born in 1939; first elected on 22 May 1997; left the Supervisory Board as of the end of the 76th Ordinary General Meeting on 20 May 2015.
Supervisory board posts and comparable functions at listed companies in Austria and abroad:
– Member of the supervisory board of *Bank für Tirol und Vorarlberg Aktiengesellschaft*

Christina Fromme-Knoch
Independent; born in 1970; first elected on 15 May 2012; appointed until the 79th Ordinary General Meeting (2018).

Peter Hofbauer
Independent; born in 1964; first elected on 20 May 2015; appointed until the 81st Ordinary General Meeting (2020).
Supervisory board posts and comparable functions at listed companies in Austria and abroad:
– Member of the supervisory board of *Oberbank AG*
– Member of the supervisory board of *Bank für Tirol und Vorarlberg Aktiengesellschaft*

Reinhard Iro
Independent; born in 1949; first elected on 26 April 2000; appointed until the 79th Ordinary General Meeting (2018).

Josef Korak
Independent; born in 1948; first elected on 26 April 2005; appointed until the 80th Ordinary General Meeting (2019).

Heimo Penker
Independent; born in 1947; first elected on 15 May 2014; appointed until the 80th Ordinary General Meeting (2019).

Karl Samstag
Independent; born in 1944; first elected on 19 April 2002; appointed until the 77th Ordinary General Meeting (2016).
Supervisory board posts and comparable functions at listed companies in Austria and abroad:
– Member of the supervisory board of *Bank für Tirol und Vorarlberg Aktiengesellschaft*
– Member of the supervisory board of *Oberbank AG*
– Member of the supervisory board of *SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft*

Sabine Urnik
Independent; born in 1967; first elected on 15 May 2014; appointed until the 80th Ordinary General Meeting (2019).

Klaus Wallner
Independent; born in 1966; first elected on 20 May 2015; appointed until the 81st Ordinary General Meeting (2020).

STAFF REPRESENTATIVES DELEGATED BY THE STAFF COUNCIL

Maximilian Medwed: born in 1963; first delegated on 1 December 2012
Herta Pobaschnig: born in 1960; first delegated on 1 June 2007
Manfred Suntinger: born in 1966; first delegated on 1 November 2011; to 15 June 2015
Hanspeter Traar: born in 1956; first delegated on 1 January 2003
Gertrude Wolf: born in 1960; first delegated on 1 November 2013
Ulrike Zambelli: born in 1972; first delegated on 15 June 2015

The quantity and types of the additional posts and functions of all the members of the Supervisory Board were in conformity with the restrictions on additional posts and functions laid down in *§ 28a Bankwesengesetz*. These entered into force on 1 July 2014.

REPRESENTATIVES OF THE REGULATORY AUTHORITY

Alois Schneebauer: born in 1954; first appointed on 1 August 1999
Richard Warnung: born in 1950; first appointed on 1 August 1999; to 31 December 2015
Peter Ladislav: born in 1962; first appointed on 1 January 2016

Self-evaluation in accordance with C Rule 36
In the year under review, the Supervisory Board carried out a self-evaluation of its activities in accordance with C Rule 36 of the *ÖCGK*. During its meeting on 25 March 2015, it examined the efficiency of its activities, including, in particular, its organization and mode of operation. It decided to retain its existing organization and efficient mode of operation.

The Supervisory Board's Committees and their Decision-Making Powers

As a rule, the Supervisory Board as a whole performed its duties during its plenary meetings. However, it delegated certain specialized matters to five expert committees. The setting up of those committees and their decision-making powers were regulated in the Supervisory Board's rules of procedure. The Audit Committee and the Working Committee consisted, respectively, of four and three representatives of the equity holders. The Risk and Credit Committee and the Remuneration Committee each consisted of three representatives of the equity holders and the Nominations Committee consisted of two representatives of the equity holders. We note the following regarding the Risk and Credit Committee: The Supervisory Board had already installed the Risk Committee required by *§ 39d BWG* during its fourth meeting in the year 2013 and also assigned to this committee the erstwhile responsibilities of the Credit Committee.

Nominations of members of committees from among the members of the Staff Council took place in accordance with the provisions of the *Arbeitsverfassungsgesetz* (Austrian works constitution act). All nominations of persons for membership of a Supervisory Board committee made during the year under review were carried unanimously.

Audit Committee
As a rule, the Audit Committee meets twice a financial year to perform the tasks assigned to it by *§ 63a Abs. 4 BWG*.

Its material audit actions, which it completed in full, were:
– monitoring the financial reporting process;
– monitoring the effectiveness of the company's internal control system (ICS), internal auditing system and risk management system;
– monitoring the audits of the Annual Financial Statements and Consolidated Financial Statements;
– checking and monitoring the independence of the Auditor, including, in particular, with regard to the additional services rendered for the audited company;
– examining the Annual Financial Statements and preparing their adoption, examining the Profit Appropriation Proposal, Management Report and Corporate Governance Report and reporting the results of those examinations to the Supervisory Board;
– examining the Consolidated Financial Statements and the Consolidated Management Report and reporting the results of those examinations to the supervisory board of the parent;
– making a proposal to the Supervisory Board regarding the choice of Auditor.

In the year under review, the members of the Audit Committee were as follows:
Peter Gaugg (Chairman); Franz Gasselsberger; Peter Hofbauer (from 20 May); Waldemar Jud and Dietrich Karner (both to 20 May); Sabine Urnik (from 20 May); Maximilian Medwed; Herta Pobaschnig.

Working Committee
As laid down in the rules of procedure, the Working Committee was responsible for making decisions (as a rule by circular resolution) on matters whose urgency meant that they could be referred neither to the plenary meeting nor to the Credit Committee. This committee was convened as required. It was in close contact with the Management Board, giving it a sound basis for

monitoring the enterprise's management. Applications made to it and the results of its ballots had subsequently to be brought to the attention of the Supervisory Board as a whole.

In the year under review, the members of the Working Committee were as follows:
Peter Gaugg (Chairman); Franz Gasselsberger; Heimo Penker; Herta Pobaschnig (to 15 June); Hanspeter Traar; Ulrike Zambelli (from 15 June).

Risk and Credit Committee
The Risk and Credit Committee made decisions (as a rule on the basis of circular resolutions) on new loans, leases and guarantees and on extending loans, leases and guarantees from a certain exposure size in accordance with the Management Board's rules of procedure.

In addition, *§ 39d BWG* gave it the following tasks:
– advising management on the bank's current and future risk appetite and risk strategy;
– monitoring and putting into effect that risk strategy within the context of the management, monitoring and limiting of risks in conformity with § 39 Abs. 2b Z 1 bis 14 and of the bank's own funds position and liquidity;
– checking whether the pricing of the services and products offered by the bank adequately took into account the bank's business model and risk strategy;
– irrespective of the duties of the Remuneration Committee, assessing whether the incentives offered within the scope of the internal remuneration system allowed for the bank's risks, capital and liquidity and the likelihood and timing of realized gains.

The Supervisory Board as a whole was informed about the decisions made by the Risk and Credit Committee during its next plenary meeting.

In the year under review, the member of the Risk and Credit Committee were as follows:
Peter Gaugg (Chairman); Franz Gasselsberger; Heimo Penker; Herta Pobaschnig (to 15 June); Hanspeter Traar; Ulrike Zambelli (from 15 June).

Nominations Committee
This committee made recommendations to the Supervisory Board regarding the filling of soon-to-be vacant positions on the Management Board and Supervisory Board in accordance with the legislative requirements (*§ 29 BWG*) and subject to the Remuneration Committee's jurisdiction. It set a target ratio of members of the underrepresented sex on the Management Board and Supervisory Board and developed a strategy for meeting that target. It undertook assessments of the structure, size, composition and performance of the Management Board and Supervisory Board both regularly and whenever events indicated that re-assessment was required. If need be, it proposed changes to the Supervisory Board. It also assists the Supervisory Board at least annually during assessments of the knowledge, capabilities and experience of the members of the Management Board and Supervisory Board and of each of those boards as a whole. In addition, it evaluated the Management Board's policies when selecting and appointing members of the top tier of management. Like all the other committees, the Nominations Committee reported in detail to the plenary meeting of the Supervisory Board that followed any decision it made.

In the year under review, the members of the Nominations Committee were as follows:
Peter Gaugg, (Chairman); Heimo Penker.

Remuneration Committee
The Remuneration Committee dealt with the contents of the employment contracts of members of the Management Board and monitored remuneration policy, the applied practices and remuneration-related incentives in accordance with *§ 39b BWG* and the annex thereto. Among other things, it also approved changes to the guidance regarding remuneration policy at BKS Bank and within the *Kreditinstitutsgruppe* (credit institution group).

In the year under review, the members of the Remuneration Committee were as follows:
Peter Gaugg (Chairman); Reinhard Iro (from 20 May); Dietrich Karner (to 20 May); Heimo Penker; Herta Pobaschnig.

COMMITTEES SET UP BY THE SUPERVISORY BOARD

Name	Audit Committee	Working Committee	Risk and Credit Committee	Nominations Committee	Remuneration Committee
Peter Gaugg, Chairman	✓	✓	✓	✓	✓
Franz Gasselsberger	✓	✓	✓		
Peter Hofbauer [1]	✓				
Waldemar Jud [2]	✓				
Reinhard Iro [1]					✓
Dietrich Karner [2]	✓				✓
Heimo Penker		✓	✓	✓	✓
Sabine Urnik [1]	✓				
Maximilian Medwed	✓				
Herta Pobaschnig [3]	✓				✓
Hanspeter Traar		✓	✓		
Ulrike Zambelli [4]		✓	✓		

[1] From 20 May 2015. [2] To 20 May 2015. [3] Member of the Working and Risk and Credit Committees to 15 June. [4] From 15 June.

Independence of the Supervisory Board

C Rule 53 of the Code of Corporate Governance requires the majority of the delegates on the Supervisory Board to be independent. A member of the Supervisory Board is deemed to be independent if he or she does not maintain any business or personal relationship with BKS Bank or its Management Board that could give rise to a material conflict of interest and could therefore influence that member's conduct.

The Supervisory Board and/or the Nominations Committee took care when making proposals to the General Meeting regarding the filling of soon-to-be vacant posts to ensure this board's diversity. The focus was on adequate representation of both sexes, achieving an international mix, its age structure and achieving a wide variety of knowledge and capabilities.

All the representatives of the equity holders on BKS Bank's Supervisory Board were highly qualified banking and business experts with relevant experience in strategic matters and in the financial reporting and finance fields. All of them had, in a personal statement, declared their independence in line with the guidelines quoted below. Moreover, with the exception of Franz Gasselsberger (*Oberbank AG*), Peter Gaugg (*Bank für Tirol und Vorarlberg Aktiengesellschaft*), Karl Samstag, Waldemar Jud (to 20 May 2015) and Peter Hofbauer (from 20 May 2015), all of the members of the Supervisory Board who had been elected by the General Meeting were members who were not shareholders with an interest of more than 10 per cent or representing the interests of such shareholders.

Outside the scope of its usual banking activities, BKS Bank did not have any business dealings with related entities or persons (including the members of the Supervisory Board) that could have affected their independence.

INDEPENDENCE GUIDELINES FOR THE SUPERVISORY BOARD OF BKS BANK

A member of the Supervisory Board shall not in the previous three years have been a member of the management board or the senior management personnel of the company or of a subsidiary of BKS Bank. A prior activity as a member of such a management board shall not be deemed to mean that that person is not independent if, above all, the requirements of *§ 87 Abs. 2 AktG* having all been satisfied, there are no doubts that the office is being exercised independently.

A member of the Supervisory Board shall not maintain any business relationship with BKS Bank or one of its subsidiaries to an extent that is material to that Supervisory Board member or have done so in the past year. The same applies to business relationships with entities in which the member of the Supervisory Board has a considerable economic interest. The approval by the Supervisory Board of individual transactions as described in L Rule 48 shall not automatically be deemed to mean that that person is not independent. The conclusion or existence of normal banking agreements with the company shall not be deemed to affect that member's independence.

A member of the Supervisory Board shall not in the past three years have been BKS Bank's auditor or a shareholder in or member or employee of the auditing firm performing the audit.

A member of the Supervisory Board shall not be a member of the management board of another entity in which a member of BKS Bank's Management Board is a supervisory board member unless the one company is associated with the other within the scope of a group or has a business interest in it.

A member of the Supervisory Board shall not be a close relative (direct descendent, spouse, partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the Management Board or of a person in one of the positions described in the above points.

Meetings of the Supervisory Board and the Main Focuses of its Activities

Four meetings of the Supervisory Board took place during the 2015 financial year. During each ordinary meeting of the Supervisory Board, the members of the Management Board reported on the current development of BKS Bank's financial position, profit or loss and assets and liabilities as well as its risk position and that of the entities in which it held equity investments. In addition, current supervisory regulations and their impact on BKS Bank were discussed during every meeting. The Management Board submitted to the Supervisory Board in good time for approval all matters that required approval.

The first meeting took place on 25 March. The Supervisory Board examined *BKS Bank AG*'s Annual Financial Statements and Management Report for 2014, the Consolidated Financial

Statements and Consolidated Management Report for 2014 and the Corporate Governance Report for 2014. The audit reports were discussed in detail with the representatives of the Auditors *KPMG Austria GmbH*. As recommended by the Audit Committee, the Annual Financial Statements and Management Report as of and for the year ended 31 December 2014 were adopted by the Supervisory Board and the Consolidated Financial Statements and Consolidated Management Report as of and for the year ended 31 December 2014 and the Profit Appropriation Proposal for 2014 were approved. The Chairman of the Audit, Nominations and Remuneration Committees talked about important topics dealt with by the committees. Based on a proposal by the Nominations Committee, the Supervisory Board extended Dieter Krassnitzer's membership of the Management Board for another five years. In addition, the plenary meeting's attention was drawn to reports on developments during the current financial year, credit matters and transactions with board members and employees. As in prior years, it was decided to operate a staff share ownership scheme within the scope of end-of-year bonuses. The agenda and motions for the 76th Ordinary General Meeting were also prepared during this meeting.

The second meeting of the Supervisory Board was held immediately after the 76th Ordinary General Meeting on 20 May. During this plenary meeting, the board elected the Chair and chose the members of the Supervisory Board's five committees. The Supervisory Board confirmed Peter Gaugg as Chairman of the Supervisory Board and elected Franz Gasselsberger as his Vice-Chairman. The current members of the Supervisory Board's committees are set out in detail on page 26. The Chairman of the Supervisory Board chaired every committee. This meeting's agenda also included reports on the current financial year, the Risk Report and Audit Report on the first quarter of 2015, credit and personnel matters, the Compliance Activities Report for 2014, the Anti-Money Laundering Report for 2014, the Anti-Corruption Report for 2014, other subjects that the Supervisory Board was required to deal with and other matters. Among other things, the Supervisory Report received a detailed report on the progress made in the implementation of the *Bundesgesetz über die Sanierung und Abwicklung von Banken* (*BaSAG*: the Austrian bank recovery and resolution act).

Two meetings took place between the second and third meeting of the Supervisory Board during which the Management Board presented to the member of the Supervisory Board the draft of the *BaSAG*-compliant recovery plan. During these meetings, suggestions from members of the Supervisory Board were also discussed and integrated into the Recovery Plan. The Supervisory Board as a whole approved the plan as of 4 September 2015 by circular resolution.

The third meeting took place on 25 September. The Management Board reported on the current financial year and presented the outlook for 2015 as a whole and the Risk Report. This was followed by detailed reports from the Audit Committee on monitoring of the financial reporting process and the effectiveness of the internal control system, internal auditing system and risk management system. The Supervisory Board was also informed in detail about the results of the audit by the *Österreichische Prüfstelle für Rechnungslegung* (*OePR*). That was followed by presentations of the loans approved by the Risk and Credit Committee. Within the scope of the agenda item called 'Management Board Matters', the Management Board membership of Wolfgang Mandl was extended by three years based on a proposal by the Nominations Committee. The plenary meeting took note of and approved the reports on the successful realization of a number of important projects, including above all the *Move – neue Vertriebsstruktur* (Move – A New Sales Structure) project. The members of the Supervisory Board then took part in a fit and proper training session that dealt with the automated exchange of information, account registers and the *Kapitalabflussmeldegesetz* (Austrian capital outflow reporting act) together with capital inflow reporting.

During the Supervisory Board's fourth meeting, which was held on 25 November, the Management Board gave a presentation of the BKS Bank Group's performance with reference to the Balance Sheet and Income Statement and the Segmental Report and Risk Report. It presented to this plenary meeting of the Supervisory Board the enterprise's strategy, the measures that had been devised to put it into effect and the goals for 2016. In addition, it presented to the Supervisory Board for approval the Outlook for 2015, the income, costs and investment budget for 2016 and the planned volume of issuances of the bank's own securities during 2016. Moreover, the plenary meeting examined the loans approved by the Risk and Credit Committee and the annual large investments reports prepared in conformity with *§ 28b BWG*. Similarly, the contents and results of the previously held meetings of that committee were discussed. Furthermore, the plenary meeting attested to the fitness and properness of the members of the Nominations Committee in accordance with *§ 29 BWG* in conjunction with the FMA's circular and BKS Bank's 'Fit & Proper' guidance.

Meetings of the Committees and the Main Focuses of their Activities

Audit Committee

The Audit Committee met twice during the year under review. During the first meeting, it examined in detail the Consolidated Financial Statements together with the Consolidated Management Report for 2014, the Annual Financial Statements together with the Management Report for 2014, the report by the Chairman of the Supervisory Board and the Profit Appropriation Proposal, the Corporate Governance Report and the Risk Report. This was followed by Internal Audit's report on the audit actions taken in the fourth quarter of 2014 and the Audit Plan for 2015. The results of the most recent audit by *Oesterreichische Nationalbank* (*OeNB*) and a report on the progress of the audit by *Österreichische Prüfstelle zur Rechnungslegung* were also on the list of topics to be discussed. Furthermore, it was decided to recommend to the Supervisory Board and therefore, in turn, to the 76th Ordinary General Meeting that *KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt*, be tasked with auditing the Annual Financial statements of *BKS Bank AG* for 2016 and the Consolidated Financial Statements for 2016.

The second meeting, which was held on 25 September, discussed the Group's performance during the ongoing financial year, its risk position and the preparation of the audit of the Annual Financial Statements for 2015. In conformity with *§ 63a Abs. 4 Ziffern 1 und 2 BWG*, the Management Board reported in depth on monitoring of the financial reporting process and the effectiveness of the internal control system, the internal auditing system and risk management activities. Representatives of the auditing firm *KPMG Austria GmbH* took part in both meetings as expert informants.

Working Committee

The Working Committee approved a number of proposals during the year under review. Among other things, it approved the reshaping of our sales organization within the scope of the *Move – neue Vertriebsstruktur* project, participation in increases in share capital at *Bank für Tirol und Vorarlberg Aktiengesellschaft* and *Oberbank AG*, the first ever issuance of an Additional Tier 1 note, the sale of two properties not used for banking operations and the audit in accordance with *§ 2 Abs. 1 Z 2 RL-KG* by *österreichische Prüfstelle für Rechnungslegung*.

Risk and Credit Committee
Because of the need for prompt decisions, the Risk and Credit Committee made virtually all of its decisions during the year under review by circular resolution. It dealt with 43 loan applications and reported in detail on each of them during the next plenary meeting. During its meeting on 25 November, this committee looked at BKS Bank's risk position and the operational and other banking risks listed in *§ 39 Abs. 2b BWG*. It addition, it examined whether pricing was in line with the bank's business model and risk appetite and whether BKS Bank's variable remuneration system might be creating unwanted incentives.

Nominations Committee
The Nominations Committee met twice in the year under review. On 24 March, it verified the knowledge, capabilities and experience of the members of the Management Board and Supervisory Board in the course of the annual fit and proper evaluation. The Nominations Committee came to the conclusion that BKS Bank's fit and proper policy should, following its amendment in conformity with the FMA's new regulations, be put into effect. The corresponding suitability of the members of the Nominations Committee had already been assessed and unanimously confirmed during the Supervisory Board's meeting in November 2014.

The members of the Nominations Committee also dealt with filling soon-to-be vacant posts on the Supervisory Board. The Nominations Committee assessed the suitability of the candidates proposed for fresh election or re-election. Based on the fit and proper specifications, it recommended to the Supervisory Board that it ask the General Meeting to elect Peter Hofbauer and Klaus Wallner and re-elect Franz Gasselsberger to the Supervisory Board. In addition, the Nominations Committee assessed the structure, size, make-up and performance of the Management Board and Supervisory Board and examined the Management Board's policy when appointing senior management personnel in conformity with *§ 29 Ziffern 4, 5, 6, 7 und 8 BWG*. The Nominations Committee also spoke out in favour of recommending that the plenary meeting of the Supervisory Board extend Dieter Krassnitzer's membership of the Management Board for another five years until 31 August 2020.

The second meeting of the Nominations Committee took place on 25 September. The core topic at that meeting was the extension for another three years of Wolfgang Mandl's membership of the Management Board, which expired at the end of 2015. The members of the Nominations Committee spoke out in favour of recommending to the plenary meeting of the Supervisory Board that it extend his membership of the board accordingly.

Remuneration Committee
The Remuneration Committee met once during the 2015 financial year, on 24 March. During the meeting, the four members of the committee examined the principles underlying the remuneration policy and its application. On the basis of the report by Group Audit, the Remuneration Committee established that remuneration practice conformed to the legal requirements and the guidance issued by the Remuneration Committee. This was followed by approval of the changes to the remuneration guidance for *BKS Bank AG* and the *Kreditinstitutsgruppe*. It also addressed the remuneration of senior management personnel working in risk management and compliance roles and the calculation of the variable components of the remuneration of the members of the Management Board in respect of the 2014 financial year.

Remuneration Report

Below, the Remuneration Report states the criteria applied when setting the remuneration of the members of BKS Bank's Management Board and Supervisory Board and explains the amount and structure of payments to the members of the Management Board and Supervisory Board as well as the Auditor's auditing fees and auditing services.

Details of the application of the remuneration policy are provided in the report published on BKS Bank's website at www.bks.at. Click on Investor Relations » Berichte und Veröffentlichungen.

Remuneration of the members of the Management Board

During its meeting on 25 November 2010, the Supervisory Board transferred responsibility for everything to do with remuneration of the members of the Management Board to the Remuneration Committee. Since then, that committee has handled the relationship between the company and the members of the Management Board and has supervised remuneration policy, remuneration practice and remuneration-related incentives in accordance with *§ 39b BWG* and the associated annex. The Remuneration Committee put the *Vergütungsrichtlinie der BKS Bank und der BKS Kreditinstitutsgruppe* (remuneration guidance for BKS Bank and the BKS *Kreditinstitutsgruppe*) into effect and adopted an amended version during its meeting on 24 March 2015. Besides establishing the principles underlying the remuneration policy, this body of rules and regulations also requires a thorough complexity analysis that must be documented in writing as well as setting out parameters for the calculation and review of the variable components of remuneration. BKS Bank's remuneration policy conformed to all the principles defined in the annex to *§ 39b BWG*, and this was documented in a proportionality analysis presented to the Remuneration Committee. By conforming to these detailed bank regulatory provisions regulating the design of remuneration policies in banks, we also conformed fully to the requirements of *§ 78 Abs. 1 AktG*.

The remunerations paid to the active members of the Management Board of BKS Bank depended on their areas of activity and responsibility, their contributions to business performance and reasonable standards in the industry for entities of a similar size. We aimed for a balance of fixed and variable components of remuneration, with a guide value of 25 per cent of the total remuneration being set for the variable component. The variable component was limited to a maximum of 40 per cent of the total remuneration.

The fixed component of remuneration depended on the particular person's remits. The variable components were linked to the sustainable, long-term fulfillment of BKS Bank's business and risk strategy and its business performance. Failure to meet such requirements was taken into account in the calculation of the current variable components of annual remuneration. The criteria applied when calculating the variable components were consolidated net profit for the year, the return on equity before tax, the cost:income ratio, the risk:earnings ratio, the staff fluctuation rate, the growth of the customer base and the Tier 1 capital and own funds ratios as gauges of the enterprise's overall operational business performance and its performance by business segment. In addition, risk bearing capacity and credit, market, liquidity, operational and over-indebtedness risk targets were also used as yardsticks when awarding variable components of remuneration.

In detail, they encompassed:
– the level of utilization of economic capital;
– gauges of concentration risk in credit operations (for instance, the proportions of large loans, foreign borrowers and foreign currency loans);
– interest rate risk expressed as a percentage of own funds;
– the loan:deposit ratio;
– the amount of operational risk.

Both the joint and the personal performance of the members of the Management Board were taken into account, and non-financial factors were also brought into the calculation. Should it later turn out that variable components of remuneration were paid out on the basis of data that were clearly wrong, BKS Bank may insist that they be returned.

In the year under review, remunerations paid to the active members of the Management Board totalled €1,058.8 thousand (2014: €1,193.7 thousand). Roughly 87 per cent of the total consisted of fixed components and roughly 13 per cent of variable components. In line with the remuneration guidance, one fifth of the variable components of remuneration for 2012 and 2013 for which provisions had been made was paid out. Variable components of remuneration in the form of instruments were not awarded. BKS Bank did not have a stock option scheme. Consequently, not even part of the variable components of remuneration took the form of BKS Bank shares or options for them.

The rules laid down among other things on the basis of the FMA's updated circular on *Grundsätze der Vergütungspolitik und -praktiken* (principles of remuneration policy and practice) regarding the variable components of remuneration were essentially unchanged compared with the previous year. Consequently, neither the variable components of remuneration of members of the Management Board nor the compensation system for employees in the second tier of management who had controlling roles or were risk buyers were deemed to create incentives to assume inappropriately high banking risks.

The remunerations paid to the members of the Management Board in the year under review are also presented in note 30 to the Annual Financial Statements from page 209. In the year under review, just €73 thousand was allocated to the provisions for termination and post-employment benefits for members of the Management Board.

TOTAL REMUNERATIONS OF THE MEMBERS OF THE MANAGEMENT BOARD

€k	2014	2015
Total emoluments of active members of the Management Board during the year under review	1,194	1,059
– Of which of Heimo Penker[1]	169	—
– Of which of Herta Stockbauer	456	461
– Of which of Dieter Krassnitzer	291	316
– Of which of Wolfgang Mandl	277	282
Retirement pensions paid to former members of the Management Board and their surviving dependants	726	1,037
Provisions for termination and post-employment benefits for members of the Management Board	(4,689)	73

[1] To 28 February 2014.

To prevent any conflicts of interest and curtail any unwanted financial incentives, the rules of procedure of the Management Board required additional functions of members of the Management Board to be approved by the Supervisory Board with the exception of posts held in subsidiaries of BKS Bank, for which no remuneration was paid.

The company pensions of active members of the Management Board were being accumulated in a pension fund on a monthly basis. In addition, upon termination of their employment, they shall receive a termination benefit on the basis of the *Angestelltengesetz* (Austrian salaried employees act) and the *Banken-Kollektivvertrag* (collective agreement for bank employees) applied *mutatis mutandis*. The arrangements for a Management Board member leaving the board prematurely conformed to C Rule 27a of the *ÖCGK*. Severance payment agreements took into consideration the circumstances in which the respective member of the Management Board leaves the board and the bank's financial position. Should there be no compelling reasons for premature termination of that member's membership of the Management Board, severance payments were only payable in respect of the remaining term of the Management Board membership agreement. These severance payments—which were limited to two years' total remuneration—were not to be paid at all should a member of the Management Board terminate the agreement prematurely for reasons for which he or she is responsible.

A former member of the Management Board is entitled to an old-age pension. The amount of company pension as promised contractually to a member of the Management Board will depend on his or her duration of service and will be based on his or her pensionable received fixed remuneration component. Surviving dependents are entitled to pension benefits after the death of the entitled member of the Management Board. Retirement pensions paid to former members of the Management Board and their surviving dependents came to €1,037 thousand (2014: €726 thousand).

BKS Bank had taken out directors and officers liability insurance for the members of the Management Board and the Supervisory Board, for the members of the second tier of management, for the company's authorized representatives (*Prokurist*) and for directors of subsidiaries, and it paid the cost of that insurance.

Within the consolidated entities (see the chapter of the Management Report entitled *Notes on the Scope of Consolidation*), salaried directors only existed at the leasing companies in Austria, Slovenia and Croatia and at *BKS Bank d.d.* These management personnel were covered by the remuneration guidance and classified as risk buyers. The Remuneration Committee regularly reviewed the variable components of their remuneration. Moreover, directors were subject to BKS Bank's fit and proper rules.

Remuneration of the members of the Supervisory Board

The annual remunerations of the members of the Supervisory Board are regulated in the Memorandum and Articles of Association of BKS Bank. If necessary, they are adjusted by the General Meeting. This most recently took place on the basis of a decision taken on 15 May 2014. In the 2015 financial year, the Chairman of the Supervisory Board was awarded €21,000 *per annum*; his deputies were each awarded €17,000; and the other representatives of the equity holders were each awarded €15,000. The attendance fee paid to each member of the Supervisory Board was €120 per meeting attended by that member. Supervisory Board members belonging to one or more Supervisory Board committees received fees for the additional time and effort associated with their work in the respective committee(s). Each member of the Audit Committee and Risk and Credit Committee was compensated with a fee of €4,000 *per annum*; each member of the Working Committee was compensated with a fee of €2,000 *per annum*; and each member of the Remuneration Committee and Nominations Committee was compensated with a fee of €1,000 *per annum*. Peter Hofbauer, the member of the Supervisory Board nominated by *UniCredit Bank Austria AG*, did not receive any fees. The company had asked us not to pay him remuneration because of existing internal arrangements regarding the activities of managers of the *UniCredit Group* within supervisory boards.

As before, members of the Supervisory Board acting on an honorary basis and staff representatives performing their function within the scope of their job did not receive any financial reward other than attendance fees.

The members of the Supervisory Board (including the Staff Council delegates and representatives of the regulatory authority) were awarded remuneration comprising member's fees and expenses totalling €192.8 thousand (2014: €207.0 thousand). Payment only took place after the General Meeting had discharged the members of the Supervisory Board from liability for the respective financial year.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

Name	Fixed Supervisory Board Member's Fee	Committee Work	Attendance Fees and Expenses	Total Remuneration in 2015
Peter Gaugg	21,000	12,000	480	33,480
Franz Gasselsberger	17,000	10,000	480	27,480
Christina Fromme-Knoch	15,000	—	360	15,360
Peter Hofbauer [1]	—	—	—	—
Reinhard Iro	15,000	—	480	15,480
Waldemar Jud [2]	5,712	2,000	120	7,832
Dietrich Karner [2]	5,712	3,000	120	8,832
Josef Korak	15,000	—	360	15,360
Heimo Penker	15,000	8,000	480	23,480
Karl Samstag	15,000	—	240	15,240
Sabine Urnik	15,000	2,000	480	17,480
Klaus Wallner [3]	9,288	—	360	9,648
Maximilian Medwed	—	—	480	480
Herta Pobaschnig	—	—	480	480
Manfred Suntinger [4]	—	—	240	240
Hanspeter Traar	—	—	480	480
Gertrude Wolf	—	—	360	360
Ulrike Zambelli [5]	—	—	240	240
Alois Schneebauer	—	—	480	480
Richard Warnung	—	—	360	360
Total, €	**148,712**	**37,000**	**7,080**	**192,792**

[1] From 20 May 2015 (because of internal arrangements within the *UniCredit Group*, this member of the Supervisory Board did not receive any member's or attendance fees.) [2] To 20 May 2015. [3] From 20 May 2015. [4] To 15 June 2015. [5] From 15 June 2015.

No member of the Supervisory Board attended fewer than half of its plenary meetings. Just four people apologized for their absence from a meeting. The attendance rate of the representatives of the equity holders and staff thus came to 92 per cent. At the end of the 2015 stock market year, the members of the Management Board held a total of 2,228 ordinary no-par shares and 4,665 no-par preference shares in their custody accounts at BKS Bank. The members of the Supervisory Board held 3,191 ordinary no-par shares and 2,980 no-par preference shares. The total was less than 0.04 per cent of the shares in issue. Purchases and sales by members of the Management Board and Supervisory Board were reported to the Austrian Financial Market Authority (FMA) in conformity with § 48 *Börsegesetz* (Austrian stock exchange act) and published in the Directors' Dealings Database if the value of the transactions for a member's own account came to or exceeded €5,000 in the calendar year.

As we have already mentioned, BKS Bank had not set up a stock option scheme for the members of the Management Board or members of the Supervisory Board or management personnel and did not intend to do so. However, during the year under review, it had within the scope of its ordinary business activities a portfolio of loans to members of the Supervisory Board totalling €274 thousand (2014: €275 thousand) and of loans to members of the Management Board totalling €92 thousand (2014: €165 thousand). In addition, credit agreements approved by the Supervisory Board were in place with two companies belonging to the spouse of a member of the Management Board on terms customary in the industry.

Fees paid to the Bank Auditor

On 15 May 2014, the 75th Ordinary General Meeting unanimously tasked *KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt*[1] with carrying out the annual audit of the business practices and activities of *BKS Bank AG* and its group for the 2015 financial year. Immediately after its election as Bank Auditor and prior to the conclusion of the agreement regarding the execution of the annual audit, this company informed the Supervisory Board in detail about the probable scope of the audit, which, according to C Rule 77 of the ÖCGK, must be carried out in conformity with international auditing standards (ISAs). In addition, it presented to the Supervisory Board details of the total fees received for the previous financial year broken down into service categories. *KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt* also informed this board about its incorporation into a quality assurance system and conclusively declared its impartiality.

Outlay on the annual audit and on related services rendered in accordance with the Memorandum and Articles of Association and regulatory requirements and on audit related services came to €307 thousand. Other consultancy fees came to €78 thousand (2014: €109 thousand).

FEES PAID TO THE BANK AUDITOR

€k	2014	2015
Fees for mandatory audits of the separate and consolidated financial statements	353	307
Other fees	109	78
Total fees	**462**	**385**

[1] The formal transformation into a *GmbH* company took place on 22 August 2014.
The company's new name is *KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt*.

Independent Assessment of the Effectiveness of the Risk Management System

According to C Rule 83 of the *ÖCGK*, the Auditor was required to assess the effectiveness of the risk management system and report its conclusions to the Management Board and, subsequently, to the Chairman of the Supervisory Board. The Chairman of the Supervisory Board was, in turn, required to ensure that the report was examined by the Audit Committee and discussed in detail by the plenary meeting of the Supervisory Board.

In accordance with the framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), *KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft* as the Auditor of the Annual Financial Statements assessed and analyzed the design and implementation of BKS Bank's risk management system. Among other things, it assessed the risk policy, the risk strategy, the organization of the risk management system ('risk governance') and the procedures followed when assessing and identifying risks. In addition, the practices applied when analyzing and measuring risks, monitoring risks and reporting within the scope of the risk management system were examined. The Auditor of the Annual Financial Statements presented its report on the effectiveness of the risk management system to the Chairman of the Supervisory Board and the Audit Committee.

Detailed presentations of the main features of the risk management system and current refinements thereof were made during the meeting of the Supervisory Board on 25 September 2015 within the scope of the catalogue of topics to be addressed as laid down by *§ 63a Abs. 4 BWG* and during the meeting of the Risk and Credit Committee on 25 November 2015.

In conformity with C Rule 18 of the *ÖCGK* and in accordance with *§ 42 BWG*, BKS Bank had an Internal Audit unit. This unit acted on the basis of an auditing plan approved by the Management Board and coordinated with the Audit Committee and the plenary meeting of the Supervisory Board. Internal Audit assessed the risks associated with all of the enterprise's activities and operational processes, sounded out ways of increasing efficiency and monitored adherence to legal provisions and internal guidance.

In addition, during 2015, the internal control system (ICS) was refined to improve the early detection and monitoring of risks, and new initiatives were introduced and their implementation was evaluated. The main focuses of our activities within the scope of the ICS were revising the principles underlying the internal governance of risk management, meeting the requirements identified during the latest risk assessment, amending the organization's controlling structure following the *Move* project and meeting regulatory requirements as well as putting in place the associated internal and external communication channels.

BKS Bank's risk management system is described in the Risk Report—an integral part of this Consolidated Management Report—from page 130.

Financial Reporting and Disclosure Policies

As a company listed on the Vienna Stock Exchange, *BKS Bank AG*, in conformity with L Rule 65 of the *ÖCGK*, prepared its Consolidated Financial Statements and the abridged Consolidated Interim Report contained in the Semi-Annual Financial Report in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. It has published annual financial reports not later than four months after the end of the reporting period and semi-annual financial reports and interim reports as at and for the periods ended 31 March and 30 September not later than two months thereafter, and in future it will, in view of the amendment to the *Börsegesetz* (Austrian stock exchange act) of November 2015, keep them publicly accessible for at least 10 years. Here, the Issuer Information Center of *Oesterreichische Kontrollbank AG* (*OeKB*) acts as the officially appointed mechanism for the central storage of the required information. In conformity with C Rule 68 of the *ÖCGK*, the financial reports, which are also published on BKS Bank's website, are available in German and English.

Going beyond the legislative requirements, our bank will also be publishing interim reports as of and for the periods ended 31 March and 30 September 2016 this financial year.

In conformity with L Rule 69 and C Rule 70 of the *ÖCGK*, the BKS Bank Group's financial reports presented fairly its assets, liabilities, financial position and profit or loss in accordance with the actual circumstances. The company presented an adequate analysis of the course of business in the Consolidated Management Report, in which it described the material financial and non-financial risks and uncertainties to which the enterprise was exposed and the most important features of the internal control system and risk management system for the purposes of the financial reporting process. The detailed Risk Report, which provides information about the enterprise's responsible handling of the different kinds of risk, can be found from page 129 of this Annual Report.

The separate financial statements of *BKS Bank AG* were prepared in conformity with the requirements of the *Unternehmensgesetzbuch* (*UGB*: Austrian enterprises code). The Consolidated Financial Statements and the financial statements of the *AG* (stock corporation) were prepared by the company, audited by the Auditor of the Annual Financial Statements elected by the General Meeting and approved and adopted by the Supervisory Board.

In the annual and interim reports, the Management Board elucidated material changes to and deviations from plans as well as their causes and impact in the current and/or following financial year as well as material deviations from previously published revenue and profit goals and strategic objectives.

The Financial Calendars for the current and following year were published in the financial reports and the Internet in conformity with C Rule 74 of the *ÖCGK*. They contained all the publication dates that are of importance for financial communication purposes as well as the date of the next General Meeting. BKS Bank simultaneously published on its website financial information about the enterprise that was also published by other means (e.g. printed reports, press releases, *ad hoc* reports).

Further details of the relationships between BKS Bank and its equity holders and stakeholders are provided in the chapter on *Investor Relations Communication* on page 50 of this Annual Report.

Measures for the Advancement of Women

BKS Bank's personnel policies are always directed at offering every employee the same opportunities and rights and preventing every form of discrimination. Our bank has played a pioneering role when putting together its Management Board, filling senior management posts and making proposals for the election of members of the Supervisory Board. It has strived with great effort to meet the requirements of C Rule 42 of the *ÖCGK*, *§ 243b Abs. 2 Z 2 UGB* and *§ 29 BWG*.

33%

The proportion of women on the Management Board was 33 per cent. One fifth of the representatives of the equity holders on the Supervisory Board were women, and three fifths of the staff representatives were already female, giving a total of 33 per cent. The target for representatives of the equity holders on the Supervisory Board as calculated and adopted by the Nominations Committee was 30 per cent.

The group-wide proportion of female BKS Bank employees has in recent years risen to 57.7 per cent thanks to the intensive efforts of the Management Board, Supervisory Board and employee representatives. Although every member of staff has been given the same career opportunities when management positions have been filled, regardless of sex, age or ethnic background, the number of women in senior management and supervisory board positions at the consolidated subsidiaries was still considerably lower than that of men in the year under review. Five senior positions were newly filled with women in 2015. We were pleased about the steadily increasing presence of highly motivated younger women.

BKS Bank offers its employees numerous forms of support to help them achieve a healthy work-life balance. Flexible flexitime models, extensive basic and further training during working hours, childcare for small children in the *Kinki* crèche and the active encouragement of fatherhood leave are just a few examples, and appropriate amounts were spent on making them possible. The Austrian Federal Ministry of Economy, Family and Youth awarded us *berufundfamilie* 'JobAndFamily' certificates in 2010 and 2013 in acknowledgement of these schemes. We particularly focused on steadily increasing the proportion of women in every tier of management to 35 per cent by 2020 by nominating a disproportionately large number of our female employees for internal basic and advanced training programmes.

In accordance with the 'equal pay for equal work' principle, we focused on closing the remaining income gaps between women and their male colleagues. Within our bank, they reflected the

THE FILLING OF SENIOR POSITIONS WITH WOMEN

At 31 December 2015	No. of Women	Ratio	No. of Men	Ratio
Management Board	1	33.3%	2	66.6%
Supervisory Board (representatives of the equity holders)	2	20.0%	8	80.0%
Supervisory Board (staff representatives)	3	60.0%	2	40.0%
Other senior positions	49	31.2%	108	68.8%

higher proportion of women working part-time. We also strived to steadily increase the average retirement age of our female employees to 60. In 2015, it was 58.4 years, which was slightly down on 2014. We greatly regret this. There are hardly any objective reasons for women to stop working earlier than men.

Klagenfurt am Wörthersee
March 2016

Herta Stockbauer
Chairwoman
of the Management Board

Dieter Krassnitzer
Member
of the Management Board

Wolfgang Mandl
Member
of the Management Board

Report by the Chairman of the Supervisory Board

Dear Sir or Madam,

BKS Bank can look back on a successful 2015. It was a year in which we again had big challenges to master. Economies in our target markets were still slow to recover, interest rates were stuck at a very low level and satisfying all the regulatory requirements required an enormous amount of resources. However, thanks to its prudent and sustainable business policy, BKS Bank was spared major upheavals and was able to close the year under review with an outstanding result.

Close coordination between the Supervisory Board and the Management Board

In the year under review, the Supervisory Board comprehensively supervised the Management Board and supported it in its management of BKS Bank and its subsidiaries. In the course of the year under review, the Supervisory Board and Management Board discussed in detail during four ordinary meetings the enterprise's financial position, including its risk position and risk management activities, its strategic development and other events and occurrences of banking relevance. The Management Board kept the members of the Supervisory Board promptly and comprehensively informed by way of written and verbal reports. In addition, I was in regular contact with the Chairwoman of the Management Board in order to analyze and discuss strategy, business performance and risk management. Consequently, the Supervisory Board was involved in every essential decision. This enabled it to perform the tasks that were incumbent upon it by virtue of the law, the Memorandum and Articles of Association and Austria's Code of Corporate Governance and to verify the lawfulness, effectiveness and orderliness of management.

The Supervisory Board applied its skills in five committees, which I chaired. Decisions were made and motions for the plenary meeting were prepared in the Audit Committee, Working Committee, Risk and Credit Committee, Nominations Committee and Remuneration Committee. Decisions on credit matters were made by circular resolution. In each case, the plenary meeting was informed about the approved loans in the meeting following a decision. The members of the Audit Committee met twice, as did the members of the Nominations Committee. The Risk and Credit Committee and Remuneration Committee both met once.

As recommended by the Nominations Committee, the Supervisory Board extended the Management Board appointments of Dieter Krassnitzer and Wolfgang Mandl.

The composition and independence of the Supervisory Board, the criteria for its independence, its working methods and decision-making powers and the results of its plenary meetings and the work of its committees are covered in detail in the chapter on *The Management Board and Supervisory Board* from page 17 of this Annual Report.

Changes in the membership of the Supervisory Board

There were changes in the membership of the Supervisory Board during the year under review. Dietrich Karner, having been on the Supervisory Board since 1997, resigned as a member. Similarly, Waldemar Jud, who had been a member of the Supervisory Board since 2010, chose not to stand for re-election. I would like to warmly thank both of them for their valuable and committed work on the Supervisory Board.

The 76th Ordinary General Meeting on 20 May 2015 elected Peter Hofbauer and Klaus Wallner as new members of the Supervisory Board. Both declared themselves to be independent. They brought with them extensive know-how and experience gained in senior positions in big financial service groups, and they have excellent knowledge of the industry. Franz Gasselsberger was re-elected for the maximum period permitted by the Memorandum and Articles of Association. The Staff Council delegated Ulrike Zambelli as a new member of the Supervisory Board to replace Manfred Suntinger. Memberships of the committees were changed accordingly.

The attendance rate of the representatives of the equity holders and the staff representatives at the four meetings of the Supervisory Board was approximately 92 per cent. Karl Samstag was unable to attend two plenary meetings. Christina Fromme-Knoch, Josef Korak and Gertrude Wolf each apologized for their absence from one meeting.

Audit of the Annual Financial Statements

The accounts, Annual Financial Statements and Management Report of *BKS Bank AG* and the IFRS-compliant Consolidated Financial Statements and Consolidated Management Report for 2015 were audited by *KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigniederlassung Klagenfurt*. This was confirmed by the Auditors without any objections being raised in an unqualified Auditor's Report.

All the documents concerning the Annual Financial Statements, the Profit Appropriation Proposal and the audit reports prepared by the auditors of the Annual Financial Statements were discussed in detail with the Auditors of the Annual Financial Statements in the Audit Committee and presented to the plenary meeting of the Supervisory Board. The Supervisory Board endorsed the results of the audit and expressed its approval of the Annual Financial Statements and Management Report submitted by the Management Board and thus adopted the company's Annual Financial Statements for 2015 in conformity with *§ 96 Abs. 4 Aktiengesetz*. The Supervisory Board likewise examined and approved the Consolidated Financial Statements, the Consolidated Management Report, the annual Risk Report and the Corporate Governance Report.

The Supervisory Board concurred with the Management Board's proposal that a dividend of €0.23 per share should be distributed out of the net profit for the year 2015, giving a distribution of €8,288,280 on 36,036,000 shares, and that the remaining profit should be carried forward to a new account.

The Consolidated Financial Statements as at and for the year ended 31 December 2015, which were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the Consolidated Management Report, which was prepared in accordance with Austrian company law, were audited by *KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigniederlassung Klagenfurt*. This audit too did not give rise to any objections. The legal requirements having been met, the prerequisites for exemption from the obligation to prepare consolidated financial statements in accordance with Austrian law had been satisfied. It is the opinion of the Bank Auditor that the Consolidated Financial Statements present fairly, in all material respects, the assets, liabilities and financial position of the BKS Bank Group at 31 December 2015 and its profit or loss and cash flows during the financial year from 1 January to 31 December 2015.

The Supervisory Board endorses the results of the audit and expresses its approval of the Consolidated Financial Statements and Consolidated Management Report submitted to it by the Management Board.

On behalf of the Supervisory Board, I would like to thank the Management Board, our management personnel and every member of staff for their exceptional personal dedication.

Klagenfurt am Wörthersee
March 2016

Peter Gaugg
Chairman of the Supervisory Board

INFORMATION ABOUT THE ÖCGK AND BKS BANK IN THE INTERNET

Austrian Code of Corporate Governance
www.corporate-governance.at

BKS Bank's Shares
www.bks.at/Aktie

Shareholder Structure
www.bks.at/Aktionaersstruktur

Calendar for Shareholders
www.bks.at/Aktionaerstermine

General Meeting
www.bks.at/Hauptversammlung

BKS Bank AG's Declaration of Commitment
Guidance on Independence
BKS Bank's report on the Austrian Code of Corporate Governance
Publications about Corporate Governance and Remunerations Required by § 65a BWG
Memorandum and Articles of Association of BKS Bank
www.bks.at/Corporate_Governance

BKS Bank's Business, Financial and Sustainability Reports
Information Required by the Disclosure Directive
www.bks.at/Berichte

OeKB Issuer Information Center
(mechanism for the central storage of information about Austrian issuers required by § 86 *BörseG*)
http://issuerinfo.oekb.at/startpage.html

BKS Bank's Press Releases
www.bks.at/Pressemitteilungen

COMPLIANCE AND AML INFORMATION ABOUT BKS BANK IN THE INTERNET

AML Declaration
Banking licence
USA Patriot Act Certification
BKS Bank AG Wolfsberg Questionnaire
W-8BEN-E
www.bks.at/Compliance

Investor Relations

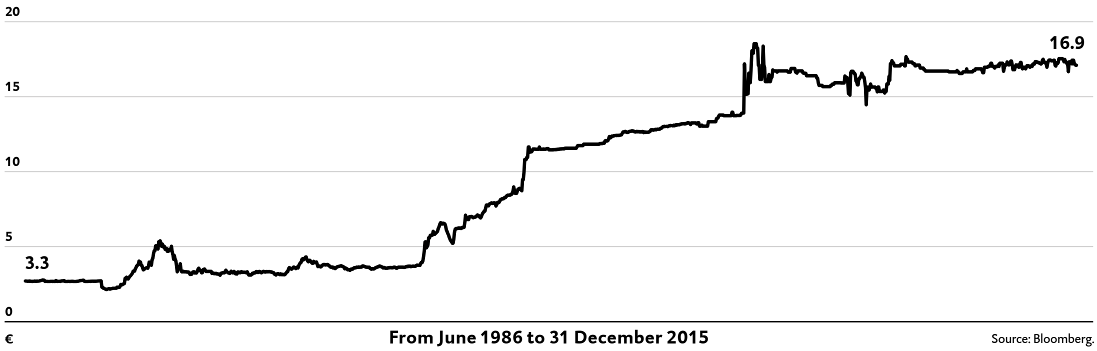
BKS Bank's Shares

Sustained solid performance and a stable shareholder structure

To date, our bank has been able to continue to hold its own even in economically difficult times. It has done so through stability, reliability and level-headed growth. In our corporate vision and mission statement, we express our commitment to ensuring that our shareholders enjoy long-term growth in the capital they have invested and a reasonable annual return on their shares. This goal, which was set at the time of our IPO in June 1986, has been achieved year after year regardless of the sometimes hefty upsets in the financial markets. BKS Bank's shares have proven to be a resilient investment for both private and institutional investors.

Since the day of its launch on the stock exchange on 17 June 1986, BKS Bank's market capitalization has increased (based on an issue price of öS425 per share with a nominal value of öS100 at that time) from the equivalent of €92.7 million to €605.8 million. In other words, it has increased by more than six times. This has mainly been thanks to our lasting stability and a business model focused on sustainability. In particular, the principle of only entering into risks that can be borne without outside help has paid off.

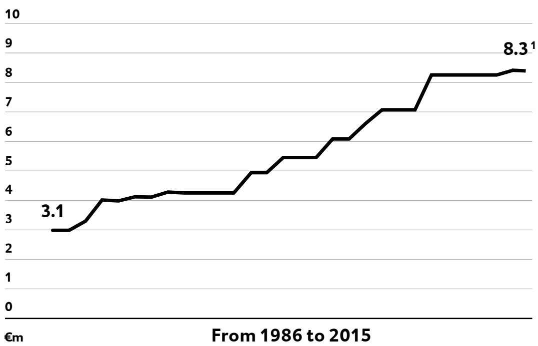
PRICE OF BKS BANK'S ORDINARY NO-PAR SHARE SINCE THE IPO



Price of the ordinary no-par share (prices adjusted to allow for dividends and one stock split).

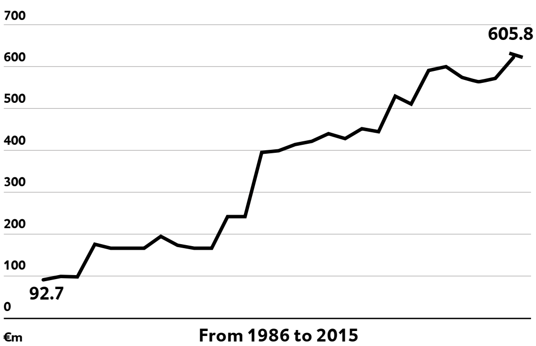
Past price trends are merely informative and not indicative of any future developments. Price performance in the past does not permit any conclusions to be drawn on future trends.

DIVIDENDS PAID ON BKS BANK'S SHARES



[1] Proposal to the 77th Ordinary General Meeting.

MARKET CAPITALIZATION OF BKS BANK



When allocating its net profit, BKS Bank aims to achieve a balance between strengthening its equity and offering its equity holders a reasonable return. Our good results in the year under review have enabled us to continue this pattern. As it did last year, the Management Board will be recommending to the 77th Ordinary General Meeting that it approve the distribution of a dividend of €8,288,280 in respect of the 2015 financial year. This would translate into €0.23 per share and a return of 1.36 per cent on the ordinary no-par share based on its price at the end of 2015 and 1.52 per cent on the no-par preference share. The payout ratio based on *BKS Bank AG*'s profit for the year after tax would be 32.2 per cent.

BKS Bank's solid market position should be seen not in isolation but in connection with that of the two other autonomous and independent regional banks *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft* (*BTV AG*). The public face of this union, which has grown over decades through mutual investments and a firm shareholder structure, is the brand *3 Banken Group*. The shared interest of the strategic equity holders—who are united through syndicates—in the independence of the three institutions has shielded the *3 Banks* from the exertion of external influences and has allowed them to make their decisions exclusively in the interests of their customers, employees and equity holders.

BKS Bank AG's subscribed capital of €72,072,000 was represented by 34,236,000 ordinary no-par shares and 1,800,000 no-par preference shares. Both share classes were traded in the Vienna Stock Exchange's *Standard Market Auction* segment. BKS Bank's stable shareholder structure makes it possible to actively steer the bank's development without outside interference. Our sister banks *Oberbank AG*, Linz, and *BTV AG*, Innsbruck, held 19.4 per cent and 19.6 per cent, respectively, of our voting capital. *Generali 3Banken Holding AG*, Vienna, held 7.8 per cent of our ordinary no-par shares. Those three core equity holders had concluded a syndicate agreement and together owned 46.9 per cent of the voting rights. Syndication of the shareholdings strengthens BKS Bank's independence, and the syndicate partners' interests are united within the scope of a cooperation and sales alliance. The agreement consists essentially of arrangements regarding the joint exercise of voting rights at general meetings and the syndicate partners' mutual rights of first refusal.

BKS Bank AG's biggest single equity holder was *CABO Beteiligungsgesellschaft mbH*. This is a wholly-owned subsidiary in the group of *UniCredit Bank Austria AG*, which is headquartered in Vienna. Including the shares held directly by *UniCredit Bank Austria AG*, the *UniCredit Group* thus held 33.6 per cent of the voting rights. Most of the remaining ordinary no-par shares were held by private investors and institutional investors close to our bank. *BKS-Belegschaftsbeteiligungsprivatstiftung*, which exists solely to distribute in full to employees of BKS Bank investment income within the meaning of *§ 10 Abs. 1 KStG*, had a voting interest of 0.4 per cent at the end of 2015. Otherwise, *BKS Bank AG* is not aware of any groupings that could result in the exercise of an influence on and/or control of the enterprise by one or several shareholders. Further information about BKS Bank's shareholder structure can be found, among other things, in the Consolidated Management Report from page 72 and on the website at www.bks.at. Click on Investor Relations » Aktionärsstruktur.

Resolutions Passed at the 75th General Meeting

BKS Bank's voting shareholders exercise their voting rights during general meetings, and they are by virtue of the law or the memorandum and Articles of Association involved in material enterprise decisions. In general, decisions are made by a simple majority of the votes cast, but if a motion requires approval by a majority of the represented share capital, the decision will be made by a simple majority of the represented share capital.

Roughly 87 per cent of the voting stock was represented at the 76th Ordinary General Meeting of *BKS Bank AG* on 20 May 2015, and the presence of the voting free float shareholders came to about 20 per cent.

Before the meeting proceeded to the agenda, a minute of silence was observed to mark the memory of the late Honorary President of the Supervisory Board, Heinrich Treichl, who passed away in November 2014.

The equity holders took note of and approved the Annual Financial Statements and Consolidated Financial Statements for the 2014 financial year together with the Supervisory Board's Report and the Corporate Governance Report as well as the comments of the Chairman of the Supervisory Report on the principles underlying the remuneration system for the Management Board of BKS Bank.

Unanimous motions were passed on the appropriation of net profit for the 2014 financial year, the discharge from liability of the members of the Management Board and the members of the Supervisory Board and the election of *KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt*, as Bank Auditor for the 2016 financial year.

The shareholders thus adopted the recommendation that a dividend of €0.23 per share be distributed from the net profit reported as at 31 December 2014 and that the remaining profit be carried forward to a new account subject to *§ 65 Abs. 5 Aktiengesetz*. 26 May 2015 was suggested as the dividend payment date.

The agenda item 'Elections to the Supervisory Board' was also carried without any dissenting votes. His term of office having expired, Franz Gasselsberger was re-elected to the Supervisory Board for the maximum period allowed by the Memorandum and Articles of Association, that is, to the end of the Ordinary General Meeting deciding on discharges from liability for the 2019 financial year. The Annual General Meeting also freshly elected Peter Hofbauer and Klaus Wallner to the Supervisory Board for the maximum period allowed by the Memorandum and Articles of Association after Dietrich Karner and Waldemar Jud decided not to stand for further terms upon the expiry of their terms of office.

In addition, the Annual General Meeting unanimously empowered the Management Board on the basis of appropriate motions to issue new authorized capital and to effect a corresponding amendment to § 4 of the Memorandum and Articles of Association. The Management Board is thus authorized within five years from the time of registration in the companies register (*Firmenbuch*) of the relevant change to the Memorandum and Articles of Association pursuant to

§ *169 AktG* and with the consent of the Supervisory Board to increase the company's share capital by up to €14,414,400 through the issuance of up to 7,207,200 ordinary no-par bearer shares and to set the issue price and lay down the terms and conditions of issue in consultation with the Supervisory Board. The Supervisory Board was authorized to adopt amendments to the Memorandum and Articles of Association arising from the issuance of shares within the limits of the authorized capital. At the same time, the authorization of the Management Board by the 72nd Ordinary General Meeting of 18 May 2011 with validity up to and including 6 August 2016 to increase the company's share capital by up to €13,104,000 through the issuance of up to 6,552,000 ordinary no-par bearer shares was revoked in respect of the amount of €6,552,000 to date unused.

In addition, the following amendments to § 8, § 19, § 25 and § 31 of the Memorandum and Articles of Association were agreed in order to bring them into line with current standards and formulations:

– § 8: The Management Board shall have two, three, four or five members whose quantity is to be decided by the Supervisory Board. Deputy members of the Management Board may be appointed.
– § 19: Details of how custody account confirmations are to be provided shall be made known at the time of convocation (Note: of the General Meeting). The convocation can allow the use of fax or e-mail as the means of providing custody account confirmations.
– § 25 (3): Net profit shall be distributed to the equity holders net of remuneration of the members of the Supervisory Board in accordance with § 16 of this Memorandum and Articles of Association unless the General Meeting decides otherwise. The General Meeting may decide not to distribute all or some of the net profit.
– § 25 (4): The holders of the no-par preference shares shall receive a dividend of at least 6 per cent of their interest in the company's share capital. This minimum dividend shall always be paid if it is covered by the net profit. If the minimum dividend in respect of a financial year is not paid or is not paid in full, the arrears must be paid out of net profit in later financial years.
– § 25 (5): When deciding on the appropriation of net profit, the General Meeting may also decide on a distribution in kind instead of or in addition to a cash distribution.
– § 31: Terms in the Memorandum and Articles of Association that relate to persons apply equally to women and men.

Investor Relations Communication

We attached particular importance to continuously, openly and actively communicating with our stakeholders. In order to achieve the greatest possible transparency, we provided our shareholders, employees and customers, representatives of the media and interested members of the public with close-to-real-time and detailed information about BKS Bank. Published information was made accessible to all our shareholders at the same time. We reported in conformity with the provisions of the Austrian Code of Corporate Governance. When communicating on financial matters, we attached particular importance to best practice transparency and the fair supply of information to all the participants in the market both at press conferences and when reporting. Our website at www.bks.at—click on Investor Relations—provided an extensive range of information about the enterprise such as annual and semi-annual financial reports, interim reports on our results up to 31 March and 30 September and information about planned bond issuances, planned changes to important investment thresholds and other capital-related measures that required disclosure. In addition, we used *OeKB*'s Issuer Information Upload Platform, the APA-OTS euro adhoc service and the www.pressetext.com Internet site to publish the reportable publications required under the *ad hoc* disclosure requirements set out in the EU Transparency Directive. We published press releases on BKS Bank's website. Click on Newsroom » BKS-News.

Since 2012, we have been preparing an annual Sustainability Report in accordance with the requirements of the Global Reporting Initiative (GRI). In it, we report in detail on our sustainability strategy and on a wide range of activities in the fields of management and design, employees, the market, society and the environment. We plan to publish the next Sustainability Report in April 2016. It will be available to download from the Internet at www.bks.at. Click on Investor Relations » Berichte und Veröffentlichungen.

FINANCIAL CALENDAR FOR 2016

Date(s)	Content
19 February – 1 April 2016	Quiet period
1 April 2016	Press conference to present the Annual Financial Statements for 2015
2 April 2016	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2015 in the Internet and in the official *Wiener Zeitung* gazette
29 April – 20 May 2016	Quiet period
19 May 2016	77th Ordinary General Meeting
23 May 2016	Ex-dividend date
20 May 2016	Interim Report as at and for the 3 months ended 31 March 2016
25 May 2016	Dividend payment date
5 August – 26 August	Quiet period
26 August 2016	Semi-Annual Report
4 – 25 November 2016	Quiet period
25 November 2016	Interim Report as at and for the 9 months ended 30 September 2016

INVESTOR RELATIONS CONTACT

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

Corporate Strategy

TRIPLE E! – THE THREE PILLARS OF OUR SUCCESS

BKS Bank's strategic edifice is founded on quality and sustainability and rests on three pillars, namely equity (*Eigenkapital*), profit (*Ertrag*) and self-responsibility (*Eigenverantwortung*). We will continue to strengthen our own funds ratio and reinforce our profit base with the help of more effective sales activities and new products. Our foreign markets will play a decisive role. Management personnel who are skilled and self-responsible will provide the substructure for our current and future business success.

See page 57 for details.

Corporate Strategy

BKS Bank—The Dependable Partner

"Many things come and go—but BKS Bank remains. Doing money business since 1922."

This slogan from an image campaign in the autumn states clearly what BKS Bank stands for:
– dependability;
– reliability;
– gradual growth.

This business policy is essential to our solid and crisis-resilient market position. We speak to corporate and business banking and retail banking customers alike. At the end of the year under review, we were servicing a total of more than 150,000 retail and corporate and business banking customers. Both groups of customers valued the high quality of our advisory services, for which we have repeatedly won awards. We continuously trained our 1,091 employees to ensure that we were always able to live up to our high quality standards.

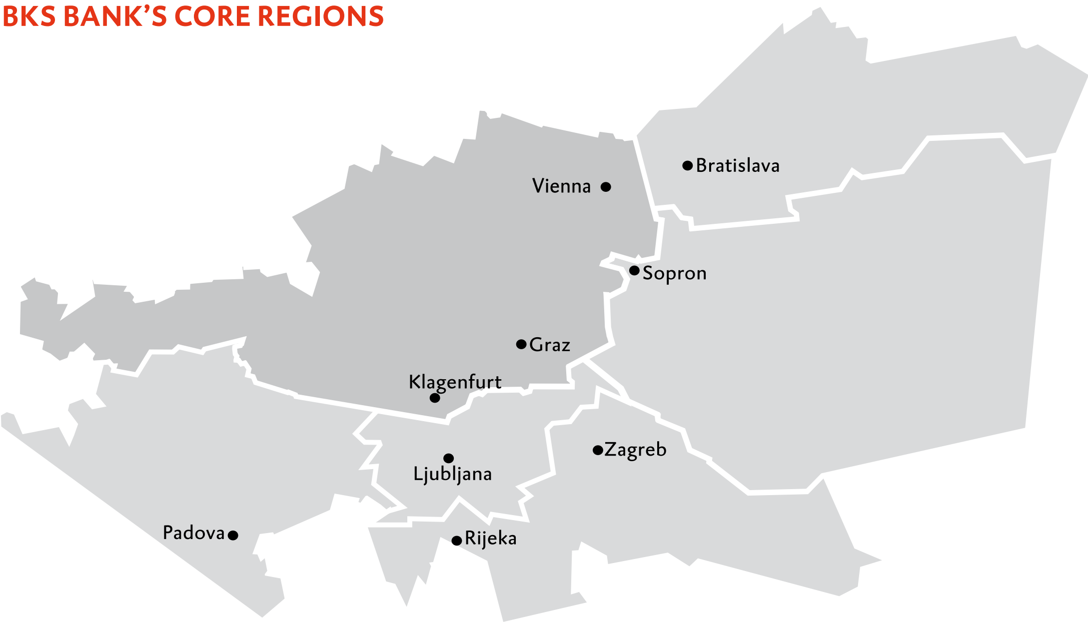
The branch is still our most important sales channels. However, we have long been aware that a branch is only permanently profitable if it is in a strong catchment area. Consequently, we have only opened new branches after carefully examining their location. BKS Bank has limited its branch network expansion to bigger cities. Within Austria, they have mainly been regional capitals. This means that we have been under little pressure to close branches in order to cut costs. If they are from rural areas, our support staff also visit customers where they are located. We have been steadily expanding our digital services. They make it possible to bank with us from remote areas and are a significant factor in the competition for future customers that we can no longer imagine life without.

Compared with other banks, our move into foreign markets came at a relatively late date. We set up a representative office in Zagreb, Croatia, in 1998 and bought a leasing company in Ljubljana, Slovenia, in the same year. We entered the international banking market in 2004 when we opened an EU branch in Slovenia. In every foreign market, BKS Bank began operations with a limited product portfolio. Usually, we began with financing operations because we were able to draw upon the experience of our previously founded leasing companies. Development into a fully fledged bank was then a gradual process.

Our bank now has banking branches, subsidiaries and leasing companies in Austria, Slovenia, Croatia and Slovakia. BKS Bank has one representative office in Italy and one in Hungary, and like our German customers, customers from those countries were only serviced on a cross-border basis.

At the moment, we are not planning any expansion into new foreign markets. Over the next few years, we want to continue to add to our market strength in our existing markets, open further branches and enlarge the customer base. We will continue to increase the number of branches in Austria, which is our principal market, and we will do so primarily within our Vienna – Lower Austria – Burgenland Region. New branches may also open in Styria. Our branch network in Carinthia already covers the entire province, so no new branches are planned there. In the course of 2016, we plan to open one more branch in Vienna, two in Slovenia and one in Slovakia.

BKS BANK'S CORE REGIONS

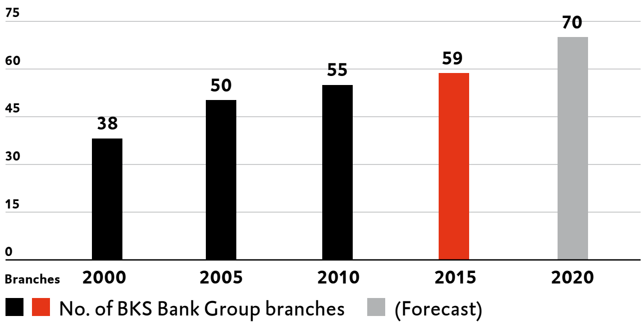


● Regional head offices, headquarters of leasing companies, representative offices, subsidiary bank (Rijeka).

BKS BANK'S BUSINESS ACTIVITIES BY REGION

Country	Entity	Operations, Branches	Employees
Austria	*BKS Bank AG* *BKS-Leasing GmbH*	Banking operations since 1922 50 bank branches	868
Slovenia	*BKS-leasing d.o.o.*	Banking operations since 2004 5 bank branches	110
Croatia	*BKS Bank d.d.* *BKS-leasing Croatia d.o.o.* Zagreb Representative Office	Banking operations since 2006 2 bank branches	72
Slovakia	*BKS-Leasing s.r.o.*	Banking operations since 2011 2 bank branches	37
Italy	Padova Representative Office	Cross-border activities	1
Hungary	Sopron Representative Office	Cross-border activities	1

BRANCHES



BKS Bank's strategy process

Although the basic cornerstones of our corporate strategy have been driving our bank's development for many years, we have also introduced an annual strategy process within the enterprise. We have done so to ensure that BKS Bank will remain able to hold its own in uncertain and difficult times in the future. The refinement of BKS Bank's strategy begins with our Vision and Mission Statement and a series of analyses of the enterprise's performance and the economic and regulatory landscape.

Throughout the year, we carefully monitored the following:
- the enterprise's performance as evidenced by key performance ratios and surveys;
- economic performance in our markets;
- the public's perception of BKS Bank as evidenced by media reports, online reports and the awards and seals of quality given to us;
- the market and our competitors;
- possible new competitors from other industries;
- changes in the legal requirements and regulations;
- new technologies and trends.

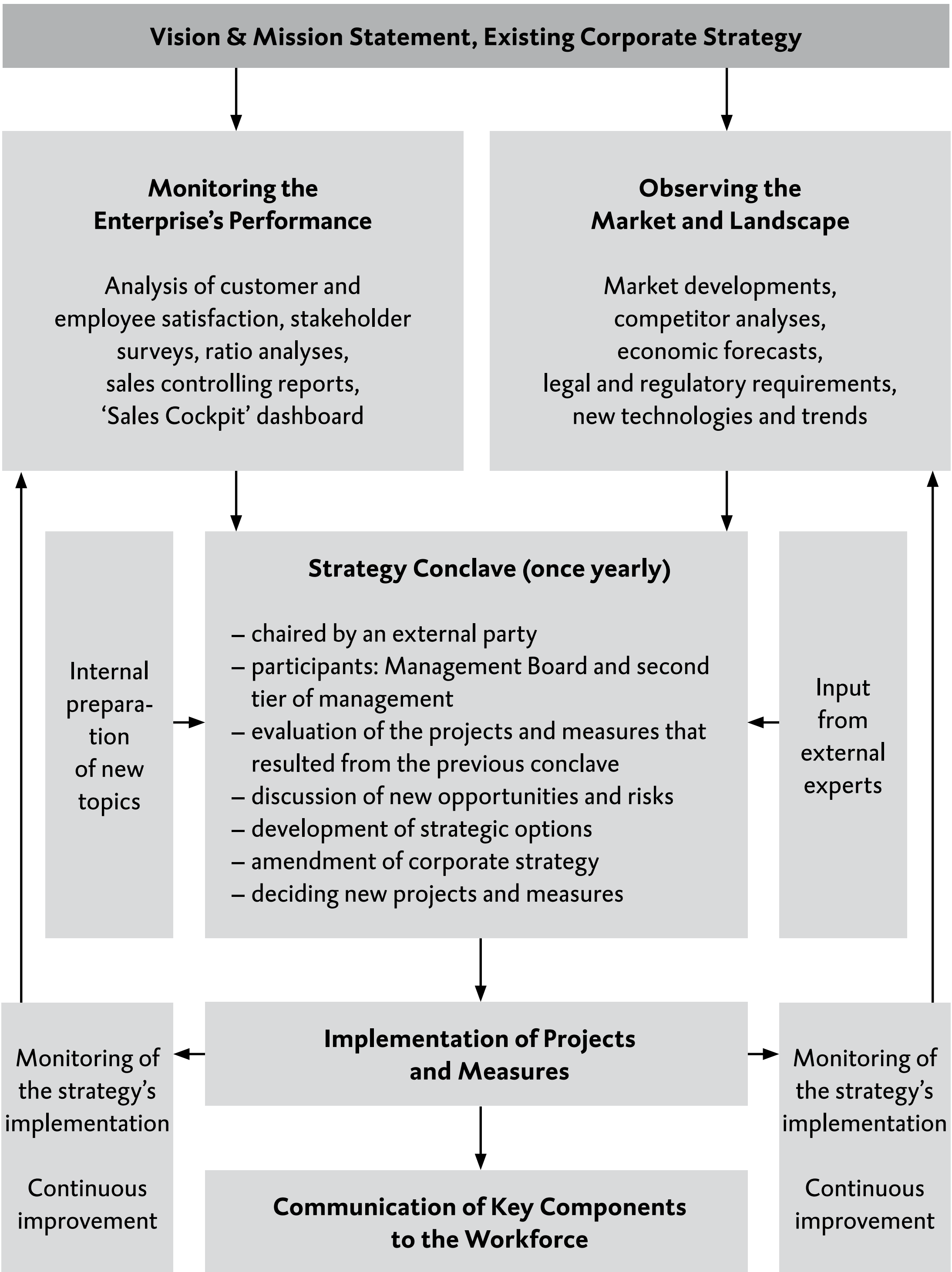
This monitoring process enabled us to take timely countermeasures in the event of serious deviations from our targets. Strategy reviews during the year took place during regular meetings of senior management.

Once a year, the top tier of management reviews and amends our strategy during a conclave lasting several days. The conclave was chaired by an external expert, and experts also provided input on topics that were currently of particular strategic interest. A wide range of different strategic options were discussed during the strategy conclave. When necessary, that led to the strategy's amendment and resulted in new projects and measures. *Inter alia*, key results of the conclave were communicated to our employees during the Management Board's twice-yearly information sessions.

Essential strategic goals

Our central strategic goal was to ensure our autonomy within the scope of a sustainable growth strategy. We see BKS Bank as an institution that
- strives for long-term successes, not short-term profits;
- grows step by step without outside help;
- is a responsible and enduring partner in the market;
- offers its employees secure jobs, its shareholders stable dividends and its customers dependable banking relationships combined with the highest quality advice;
- is risk-aware;
- is one of the best in its class in strategically key areas;
- is, all in all, the primary banking provider whose word is its bond.

VISUALIZATION OF THE STRATEGY PROCESS



Membership of the 3 *Banken* three banks group, which is made up of us together with *Oberbank AG* and *BTV AG*, gives us the strength of a major bank. Mutual investments ensure our independence and joint subsidiaries yield synergistic effects. Reciprocal benchmarking spurs us on. Our line of products and services is rounded off through our long-standing alliances with the *Bausparkasse Wüstenrot* building society and insurer *Generali Versicherung*.

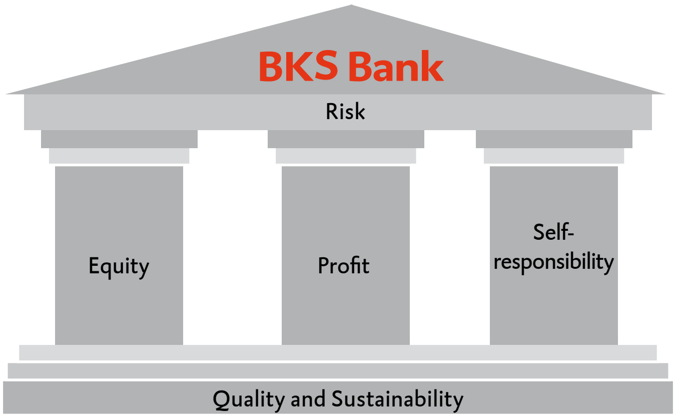
Triple E! – The Three Pillars of Success

The focuses for the years 2016 to 2018 were developed during our 2015 Strategy Conclave. Based on the Triple E! motto, three areas of action,

– profit,
– equity and
– self-responsibility,

were defined as the pillars of our future success. We aim to actively design and permanently secure BKS Bank's future hand in glove with a professional risk management system and lean processes.

BKS BANK'S STRATEGIC EDIFICE



Equity – for further growth

The implementation of the Basel III regime in 2014 fundamentally changed the way the own funds ratio is calculated. Various capital instruments that will no longer be eligible for inclusion in the future are gradually being eliminated. BKS Bank's capital and own funds ratios are currently good. Nonetheless, we are working intensively to improve them even more. A strong capital base is the key to future growth, and prudence is needed to achieve it. This makes far-sighted planning indispensable.

Profit – to ensure one's future autonomy

Big changes are coming to the entire banking sector worldwide. Growing digitization, the threat from non-banks like Google, Amazon and Facebook and the growing number of FinTechs with their innovative solutions will necessitate an overhaul of business models. Big investments in IT are continuously needed to stay competitive. Branch technology too must be prepared for future challenges. Historically low key interest rates and even negative rates are putting a great deal of pressure on interest operations.

BKS Bank has always posted respectable annual profits, and that includes during the financial and economic crisis. However, the new landscape is creating huge challenges for the future, especially in the retail banking segment. Corporate and business banking has accounted for the lion's share of BKS Bank's annual profits in the past, and that will still be the case in the future.

We need to achieve a significant increase in profitability by
– making our sales activities more effective,
– making processes leaner,
– introducing new products and services and
– seizing new opportunities in the market.
Our foreign markets will have a significant role to play as we do so, especially as economic recovery has begun in Slovenia and Croatia and potentials in those market have not yet been exhausted.

Self-responsibility – for greater competitiveness
We are a service provider, so capable and well trained employees are our most important asset. Entrepreneurial thinking by management personnel who are self-responsible and have the necessary grasp of the big picture will strengthen our competitiveness. Quality awareness, employees who continuously hone their own performance and an open feedback culture will be cornerstones of our success.

"Triple E!" rests on a solid base of sustainability and quality. It stands for a risk bearing capacity that is tuned to our business model. Our risk strategy and risk management process are described in detail in the Risk Report from page 129.

Enterprise quality and sustainability as foundations
BKS Bank has always given high priority to quality. Last year, the activities we had undertaken to raise our enterprise quality earned us the internationally respected *EFQM – recognized for excellence 5 Star* award. In addition, we became the only Austrian bank so far to be admitted to the list of excellent Austrian enterprises (*Exzellentes Unternehmen Österreichs*).

We are very proud of this recognition. At the same time, though, it places us under an obligation to continue on our quality-conscious path. In the year under review, we therefore brought all our quality management activities together and created a Quality Management Circle. The Quality Management Officer and her team are responsible for quality enhancement. The Quality Management Circle developed an ambitious two-year quality management programme on the basis of the Feedback Report that we received as part of our application for the state prize for enterprise quality (*Staatspreis Unternehmensqualität*).

In the course of an initiative called *Schreibwerkstatt* (writing workshop), we developed a new style of writing for our publications. We want to be understood by our customers, employees, shareholders and business associates and want to make a good impression with the help of a clear and pleasant writing style. Our declared goal is to significantly reduce the number of queries and thus become more efficient. Our style guide—*Der gute Ton*—is now available. This guide will help management personnel and other employees apply our new style to their own texts.

During the year under review, the Quality Management Team also began preparations for carrying out customer satisfaction measurements. We will be asking our customers questions on a variety of topics during 2016 to find out how satisfied they are with our services and products.

Corporate social responsibility (CSR) is an absolutely essential part of our business strategy. The associated goals, measures and non-financial performance indicators are disclosed in the Management Report in the chapter on *Sustainability and Non-financial Performance Indicators* from page 105 and in a separate Sustainability Report. Our extensive sustainability strategy and the awards and recognition we have received have become a major differentiating factor as we compete for bank customers and future employees.

Overview of our strategic initiatives

The "Move" Project
One of BKS Bank's biggest restructuring projects was approaching the finish line in 2015. The "Move" Project is reorganizing our sales structure. We have reduced the number of regional sales head offices in Austria from six to three units (Carinthia, Styria, Vienna–Lower Austria–Burgenland). At Head Office, we split the Corporate, Business and Retail Banking Department into a Corporate and Business Banking Department and a Retail Banking Department, and we also created an organizational unit called New Banking. Among other things, it is working on improving the dovetailing of BKS Bank's stationary and digital sales activities.

One of the innovations at the bank since the summer has been our first 'Sales Cockpit' dashboard. We use it to improve the management of sales activities. This dashboard is a tool that supports, visualizes and steers sales focuses and activities. Management benchmarks that are specific to each segment show account managers and the management team how well targets are being met. The Sales Cockpit is supplemented by weekly sales meetings. It has rapidly proved its value as a steering instrument, so we will continue to enlarge it in 2016.

Expanding market shares in Austria and abroad
BKS Bank aimed for a continuous increase in market shares. It strived for this goal in two ways. Firstly, it worked to enlarge the customer base in its existing territories by stepping up its sales activities. Secondly, it continued to open new branches where we saw good market opportunities. During 2015, we added to the branch network one branch in Vienna and one branch in Slovakia. In 2016, they will probably be followed by another branch in Vienna, two branches in Slovenia and one branch in Slovakia. We continued to refine the training of our corporate and business customer account managers in the year under review. We expect our sales specialists to achieve higher cross-selling rates and an increase in new customer acquisitions.

At the moment, we do not have our eye on any new markets abroad. There are still ample opportunities in the markets of our existing national territories. In Croatia, we plan to merge *BKS Bank d.d.* into *BKS Bank AG* during 2016. This entity, which is now a subsidiary, will be turned into an EU branch. As a result, our operations in Croatia will be structured in the same way as our activities in Slovenia and Slovakia. This project will save us a lot of money, so we will then have more resources available for developing the Croatian market.

A modern customer portal

Nowadays, customers want a good mix of in-branch and online offerings. We put our *BKS Bank-Online* digital customer portal into operation in 2015. Migration of the retail customer module went smoothly. This year, we will be expanding the system to include securities transactions and working on secure digital communication between BKS Bank and the customer.

Strengthening our own funds

An additional BKS Bank Tier 1 note was available for subscription from 1 September to 30 October. The investor response was good. Investors subscribed for a total of €23.4 million, enabling us to further strengthen our Tier 1 capital. We are continuing to monitor the capital markets in 2016 to see whether a window of opportunity opens for further measures to strengthen our own funds base.

Enhancing credit portfolio management

The weakness of the economy in our Carinthian home market has led to a large number of insolvencies in recent years. As a result, the risk:earnings ratio and requisite capital charge for credit risk did not develop as we would have liked. We took numerous steps to mitigate our risks in 2015. They included

– developing regional risk policies,
– enhancing advisor skills,
– reorganizing debtor meetings and
– anchoring risk targets more firmly in the budgeting process.

The first successes have been clearly felt, but nonetheless, our focus in this area will remain unchanged in 2016.

The OpEX Project

Our bank has been working on the OpEX Project for a number of years. The objective is to reduce the cost of our back-office operations while simultaneously cutting throughput times. Having outsourced the retail customer back office to *BKS Service GmbH* (*BSG*) in 2014, we outsourced the corporate and business customer back office in the year under review. We introduced a workflow system. One of the effects was to speed up the process of amending customer data. Over the next few months, we will gradually be integrating other labour intensive sub-processes into this workflow system.

Effective process management

Since 2015, an internal ranking system has been giving transparency to measures undertaken to improve the management of business processes. Measures that raise quality and cut costs have a substantial impact on rankings.

A main process—*Financing Corporate and Business Banking Customers*—achieved the best score in the first rankings. We made detailed preparations for the use of electronic credit files (*elektronischer Kreditakt*) from application to repayment in the *Financing Retail Banking Customers* business process. All the relevant documents are to be scanned during 2016. After that, BKS Bank will do largely without paper in this business process. Once this preliminary work has been done, we expect to save €150,000 a year as a result—and that does not include savings generated by workflows based on the digital documents.

Projects in the regulatory field and projects in the public interest

The steadily rising regulatory requirements and the enormous burden of levies are a serious millstone for banks. The industry was hit by labour intensive and unanticipated new loads with the introduction of the so-called *Bankenpaket* (bank package) in 2015. The following points provide an overview of the most important projects ongoing in this field.

Register of accounts and capital inflow and outflow reports

In recent months, BKS Bank has among other things been making preparations for the measures needed to introduce the accounts register and capital inflow and outflow reports. These reports will turn banks into agents of the tax authorities without having any of their costs reimbursed. Putting the new systems into place is taking considerable organizational effort. As a result of the reports, the remains of bank secrecy will be but rudimentary, and this is worrying many customers.

Recovery plan

We also did a great deal of work on the preventative recovery plan required by the *Bundesgesetz über die Sanierung und Abwicklung von Banken* (*Sanierungs- und Abwicklungsgesetz* or *BaSAG*: the Austrian bank recovery and resolution act). We submitted it to the authorities punctually in September. This document sets out in detail what steps we will take should we fall below the thresholds laid down in the recovery plan in order to remain solvent and operational.

MIFID II

A number of regulation driven projects also await us in 2016. The final version of the Markets in Financial Instruments Directive (MiFID II) was published on 12 June 2014. It required the first-time application of MiFID II as of 3 January 2017, although the period allowed to put it into effect has now been extended to 1 January 2018. The body of rules known as MiFID II is divided into a directive (MiFID) and a regulation (MiFIR). The amendment to MiFID attempts, among other things, to make market structures more resilient and efficient, to increase transparency, to widen the powers of the regulatory authorities, to regulate commodity derivative markets more strictly and to further improve investor protection. The new regulations will also impact on the entirety of BKS Bank's securities operations. The advisory process will need to be reorganized and new IT solutions will need to be created.

IFRS 9

Preparations for fulfilling the new financial reporting requirements in conformity with IFRS 9 are in full swing. IFRS 9 will amend the recognition and measurement of financial instruments. The goal is to replace the whole of IAS 39, which is currently in force. The new standard will mean a significant departure from current classification practice and the present valuation of financial assets and liabilities. As a result of the transition from an incurred loss model to an expected loss model, there will be far-reaching changes to the calculation of the impairment charge from the 2018 financial year. In view of the standard's complexity, putting it into effect in 2016 and 2017 will take a great deal of time and tie up a lot of technical and financial resources.

Consolidated Management Report

SUSTAINABILITY

Sustainability and quality are the bedrock of our corporate strategy. One of the challenges facing us in the future will be to anchor sustainability even more firmly in our core operations. We want to respond to the growing customer demand for sustainable investments and finance by stepping up our sustainable finance operations and issuances of green and social bonds. We are not worried about the demands stemming from the sustainability reporting that will be mandatory from 2017. We have to date already adequately met those demands.

Details are provided from page 105.

The Economic Environment

The performance of the global economy is mixed, with growth being driven by the United States

Looking back, 2015 was a year in which the economy's challenging overall performance was overshadowed by the severity of the shocking headlines. In particular, we remember the appalling earthquake in Nepal, the murderous acts of terror in Paris, Tunisia and Ankara, the continuation of the smouldering war in the Ukraine and the escalation of tensions in the Islamic regions of the Middle East and North Africa. Above all, we were deeply affected by the immeasurable suffering caused by the resulting refugee crisis, which is the biggest since the end of World War II. It became a test of endurance for Europe.

The so-called advanced economies, including above all that of the United States, felt a mild economic tailwind. On the other hand, there was a definite softening of economic outlooks in the big emerging markets. Weaker international trade, marked declines in the market prices of raw materials, subsiding flows of capital and burgeoning political uncertainties harmed economic outlooks at the same time as laying bare internal structural weaknesses. China again fell short of its predicted growth rate of at least 7 per cent and achieved real GDP growth of 6.9 per cent, and Russia fell into a deep recession. On the other hand, real economic growth rates in Central and Eastern Europe lay in a range of between 2.5 per cent and 4.5 per cent. The CEECs profited from rising purchasing power, moderate lending growth and recovery in their labour markets.

Real GDP growth in the United States came to about 2.5 per cent. It was mainly driven by a rise in private consumer spending. The drop in prices in the raw material markets, favourable financing terms, recovery in the labour and property markets and the waning effect of progressive taxation (fiscal drag) had a positive impact. However, the rise from the middle of 2015 in the effective rate of exchange of the US dollar versus the currencies of the country's trading partners dented export growth. On the other hand, employment growth remained robust, reducing the jobless rate to 5.3 per cent.

A sluggish economic recovery in the eurozone

The modest economic recovery in the eurozone continued. According to ECB projections, it led to real GDP growth of 1.6 per cent. The economy profited primarily from appreciable depreciation of the euro, which made European companies more price competitive. Above all, the perceptible drop in crude oil prices had a positive impact on real disposable incomes and also, as a result, on private consumer spending. The ECB's monetary policy remained expansionary, easing refinancing terms and therefore—albeit only hesitantly—improving access to investment credit. Economic differentials within the eurozone became considerably narrower. Because of the greater dynamism of its domestic economy and the easier monetary environment, Germany's economy moved onto a GDP growth path of 1.7 per cent. The peripheral EU countries other than Greece continued their robust recovery. Portugal, Spain and Ireland recorded GDP growth rates of between 1.5 per cent and 6.9 per cent. Italy also achieved positive GDP growth, of 0.8 per cent. Because of its stagnant economic performance, Greece still could not escape from its stubborn recession in 2015. Serious structural problems meant that France and Finland too achieved only marginal economic growth. The jobless rate in the eurozone fell from 11.6 per cent in 2014 to 10.9 per cent in the year under review. However, worrying quantities of people were still forced to work part-time because capacities were not being fully utilized or had pulled out of the job market in despair. They numbered about seven million and over six million, respectively.

Euro exchange rates continue to weaken

The euro lost a significant amount of territory in 2015. Because of the differences in monetary policy between the eurozone and the United States and Europe's comparatively modest economic outlook, the euro depreciated by 10.3 per cent against the US dollar to US$1.0887/€. The single currency also lost ground versus the Swiss franc and the Chinese renminbi, namely by 9.9 per cent to SFr 1.0835/€ and by 6.3 per cent to CNY 7.0608/€. The Croatian kuna, which is of importance to our bank, was trading at HRK 7.6380/€ at the end of December, compared with HRK 7.6580/€ at the beginning of the year.

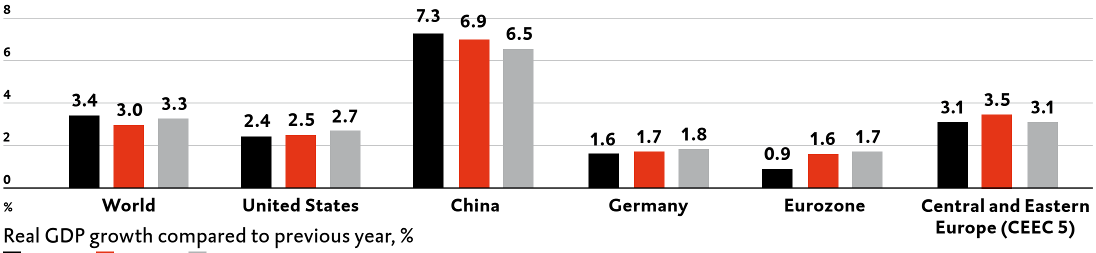
Highly volatile money and capital markets

In 2015, the European Central Bank's monetary policy continued to focus on ensuring price stability with a medium-term inflation target of close to 2.0 per cent. The ECB kept up its longer-term refinancing operations on the basis of an unchanged low interest rate on main refinancing operations of 0.05 per cent, a deposit facility rate of negative 0.30 per cent and a peak refinancing rate of 0.30 per cent. The Asset Purchase Programme or APP, which was introduced to improve money supply and credit indicators and has been extended until at least the end of March 2017, accounted for €60 billion a month of securities purchases. Banks' funding costs fell to a historical low of close to zero. The impact of this on credit growth remained modest. On the other hand, in December, the Federal Reserve in the United States responded to the encouraging economic and labour market indicators by hiking the funds rate for the first time since 2008, raising it by 25 basis points to a range of between 0.25 per cent and 0.50 per cent. China, India and a number of other big threshold countries combated deflationary tendencies by easing their monetary policies through cuts in their key interest rates.

Because of the ECB's loose monetary policy, money market interest rates continued to drop during 2015. The 3-month Euribor—an important reference rate for new lending—dropped to negative figures in the second half of April and came to negative 0.131 per cent on 31 December. Yields on long-term AAA German government bonds bottomed out at a historical low of close to zero in April, although they had recovered to 0.63 per cent by the end of December. The yield on equivalent US debt at the end of the year under review was 2.27 per cent.

After a boom fuelled by the expansionary policies of the big central banks that lasted into the second quarter, the international stock markets were affected by the downward pull of a number of adverse factors during 2015. The threat of Greece leaving the eurozone, worsening geopolitical tensions in the Middle East, fears that the Chinese economy might suffer a hard landing and the differences in monetary policy between the eurozone and the United States led to significantly weaker prices after periods of high volatility. Having stood at 144.3 points at the beginning of the year and having reached an April high of 171.7 points, the MSCI World Equity Index

THE INTERNATIONAL ECONOMY

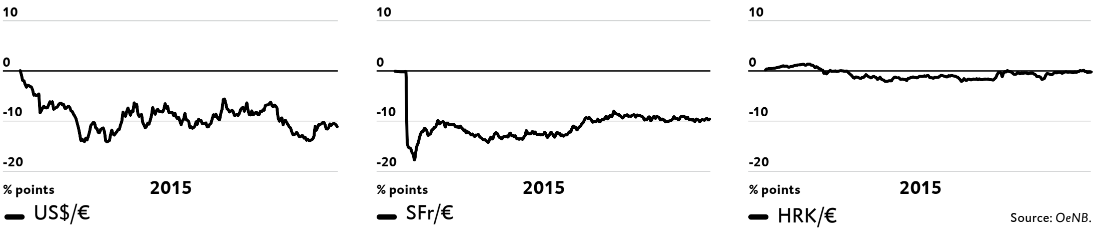


Real GDP growth compared to previous year, %

■ 2014 ■ 2015 ■ 2016 (forecast)

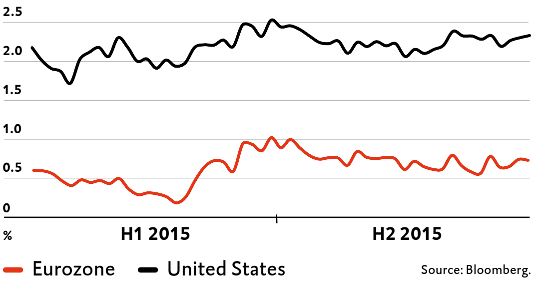
Sources: European Commission, WIFO.

MOVEMENTS IN KEY EXCHANGE RATES



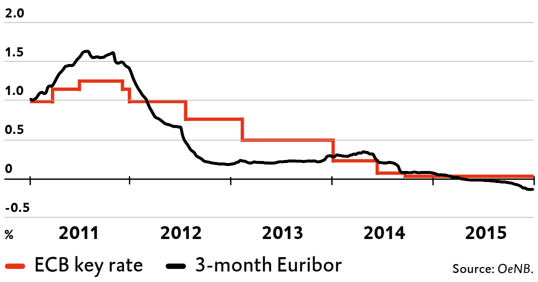
Source: OeNB.

LONG-TERM GOVERNMENT BOND YIELDS



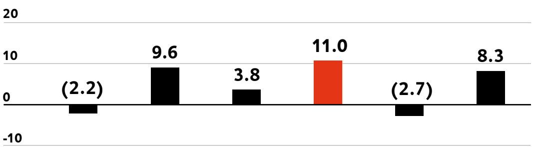
Source: Bloomberg.

EURO INTEREST RATES



Source: OeNB.

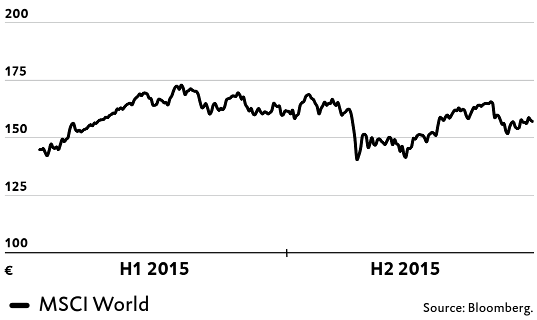
PERFORMANCE OF KEY STOCK INDICES



Close of Year	DJIA New York	DAX Frankfurt	DJ EUR Stoxx 50 Zurich	ATX Vienna	MSCI in US$ Worldwide	MSCI in € Worldwide
2015	17,425.03	10,743.01	3,267.52	2,396.94	1,662.79	156.30
2014	17,823.07	9,805.55	3,146.43	2,160.08	1,709.67	144.28

■■ Percentage movement in the index since the end of the previous year

PERFORMANCE OF THE EQUITY MARKETS



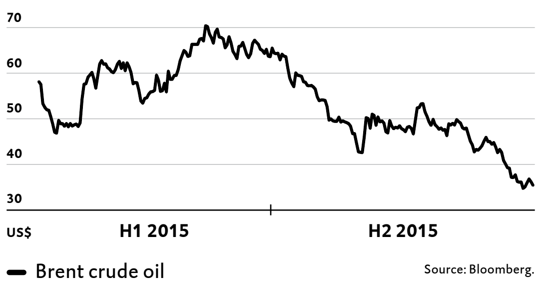
Source: Bloomberg.

in euros had fallen to 144.7 points by the end of the third quarter. We did not see the onset of a broad recovery until the beginning of October. The crucial factors were diminishing concern about the threshold economies and the market's expectations regarding the ECB's and the Fed's future monetary policy decisions. The MSCI World Equity Index ended the stock market year up 8.3 per cent to 156.3 points. Rising to 2,396.94 points, the ATX had an annual performance of 11.0 per cent. *BKS Bank AG*'s ordinary no-par shares, which were traded in the *Standard Market Auction* segment on the Vienna Stock Exchange, were trading at €16.9 at the end of 2015, and *BKS Bank AG*'s no-par preference shares were trading at €15.1. *BKS Bank AG*'s market capitalization came to €605.8 million, which was 2.3 per cent less than at the end of 2014.

Plummeting raw material markets

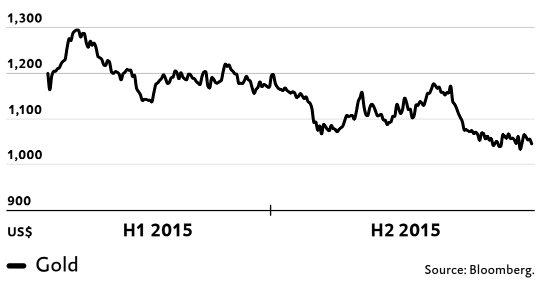
In 2015, the international crude oil markets were exposed to a massive glut originating mainly in Saudi Arabia and other OPEC nations, to China's economic weakness and to their high dependency on the value of the US dollar. In addition, shale oil production in the United States proved to be very flexible and more robust than had been expected. Moreover, the markets seemed already to have priced in the increase in the supply of oil from Iran alongside high inventory levels once the Western industrial nations' sanctions had been lifted after the end of the Iranian nuclear dispute. Consequently, the price of a barrel of European benchmark Brent crude fell by over a third compared with the end of 2014 to €36.69. Judging by the long-term futures curve, both OPEC and the other market participants are expecting oil prices to be low for a longer period. The prices of other industrial raw materials and precious metals followed a similar pattern. Having started the year at US$1,183.40 an ounce, the price of the 'crisis currency' gold was primarily determined by speculation on the part of big professional investors and the waning Far East economy. During the year under review, the spot price of a fine ounce fell by 11.4 per cent to US$1,060.0.

CRUDE OIL PRICES



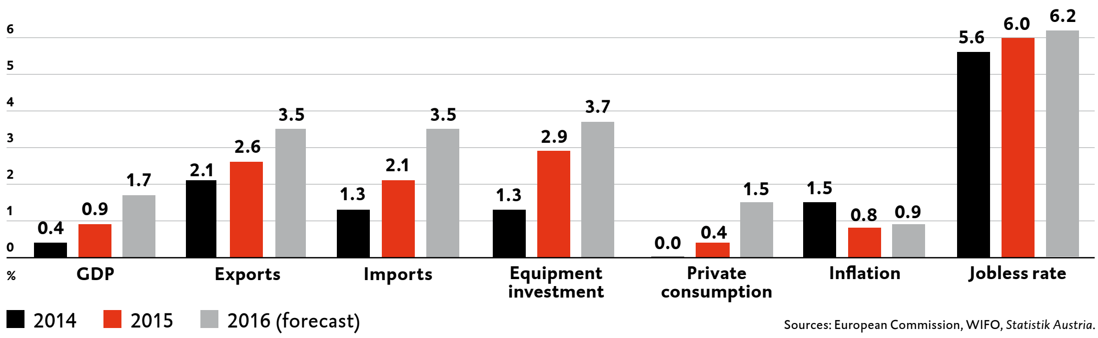
Source: Bloomberg.

GOLD PRICES



Source: Bloomberg.

ECONOMIC INDICATORS IN AUSTRIA



Sources: European Commission, WIFO, *Statistik Austria*.

Clouds on Austria's economic horizon

Austria's GDP grew by just 0.9 per cent in 2015. In other words, its growth did not pick up significantly and fell short of the eurozone average. The propensity to invest increased somewhat, advancing by 2.9 per cent in real terms, as equipment investment grew. Replacement investment accounted for most of the spending on long-term capital goods. The economic stimulus from public consumption and private consumption was modest as they grew just slightly, increasing by 0.9 per cent and 0.4 per cent, respectively. Incoming orders (above all from the United States) and a weaker euro generated export growth of about 2.6 per cent. The situation in the Austrian job market was aggravated by the influx of foreign workers, an increase in the number of women working and a drop in early retirements. Applying the Austrian definition, the jobless rate in 2015 came to 9.1 per cent. It was 6.0 per cent applying the *Eurostat* definition. The rate of inflation during the year under review was 0.8 per cent and was therefore still well above the eurozone average of 0 per cent.

Management and Shareholder Structure

The Members of the Supervisory Board and its Committees

HONORARY PRESIDENT
Hermann Bell

REPRESENTATIVES OF THE EQUITY HOLDERS	STAFF REPRESENTATIVES	REPRESENTATIVES OF THE REGULATORY AUTHORITY
Peter Gaugg Chairman **Franz Gasselsberger** Vice-Chairman **Christina Fromme-Knoch** **Peter Hofbauer** **Reinhard Iro** **Josef Korak** **Heimo Penker** **Karl Samstag** **Sabine Urnik** **Klaus Wallner**	**Maximilian Medwed** **Herta Pobaschnig** **Hanspeter Traar** **Gertrude Wolf** **Ulrike Zambelli**	**Alois Schneebauer** *Ministerialrat* **Peter Ladislav** *Ministerialrat*

SUPERVISORY BOARD COMMITTEES		
Audit Committee Peter Gaugg, Chairman Franz Gasselsberger Peter Hofbauer Sabine Urnik Maximilian Medwed Herta Pobaschnig	**Working Committee** Peter Gaugg, Chairman Franz Gasselsberger Heimo Penker Ulrike Zambelli Hanspeter Traar	**Risk and Credit Committee** Peter Gaugg, Chairman Franz Gasselsberger Heimo Penker Ulrike Zambelli Hanspeter Traar
	Nominations Committee Peter Gaugg, Chairman Heimo Penker	**Remuneration Committee** Peter Gaugg, Chairman Reinhard Iro Heimo Penker Herta Pobaschnig

As in March 2016.
All board members currently in office can be contacted at *BKS Bank AG*, St. Veiter Ring 43, 9020 Klagenfurt am Wörthersee, Austria. Further details about each individual and his or her functions are provided in the Corporate Governance Report from page 11 and on BKS Bank's website at www.bks.at/Corporate_Governance.

Organizational Structure

MANAGEMENT BOARD

Herta Stockbauer (Chairwoman)
Dieter Krassnitzer
Wolfgang Mandl

CENTRAL ADMINISTRATIVE DEPARTMENTS

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

Controlling and Accounts
Hubert Cuder

Personnel Management
Werner Laure

Internal Audit
Robert Raunig

HEAD OFFICE

Corporate and Business Banking
Viktor König

Retail Banking
Gudrun Matitz

Credit Management
Michael Oberwalder

Treasury and International Operations
Josef Morak

Private Banking and Securities Operations
Georg Svetnik

Operations
Klaus Patterer

REGIONAL HEAD OFFICES

Carinthia
Bernd Berger
Sabine Lax
Karl Mertel
Diethmar Wölle

Styria
Nikolaus Juhász
Alfred Kordasch

Vienna – Lower Austria – Burgenland
Martin Gratzer
Anton Seebacher

SERVICE COMPANIES IN AUSTRIA

BKS Immobilien-Service GmbH
Manfred Isopp

BKS Service GmbH
Jaroslav Zvolensky
Georg Köferle

LEASING COMPANIES IN AUSTRIA

BKS-Leasing GmbH
Heimo Hebein
Karl Schabus

ABROAD

Branches
5 in Slovenia
3 in Slovakia

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

Representative Offices
Italy (Padova)
Hungary (Sopron)
Croatia (Zagreb)

As in March 2016.

BKS Bank's shareholder structure

As specified in the Memorandum and Articles of Association, *BKS Bank AG*'s subscribed capital of €72,072,000 is represented by 34,236,000 ordinary no-par bearer shares and 1,800,000 no-par bearer preference shares. Unlike the ordinary no-par share, the no-par preference share does not carry any voting rights for the shareholder, but it does carry a minimum dividend payable immediately or, if that is not possible, in a later period, of 6 per cent of the interest in the share capital that it represents. If the minimum dividend in respect of a financial year is not paid or is not paid in full, the arrears must be paid out of net profit in later financial years.

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. Both share classes were traded in the *Standard Market Auction* segment on the Vienna Stock Exchange. On 20 May 2015, the 76th Ordinary General Meeting authorized a capital increase of up to €14,414,400 by means of an issue of up to 7,207,200 ordinary no-par bearer shares. Each share represented the same interest in the subscribed capital. The computed nominal value of each share was thus €2. Based on year-end prices, *BKS Bank AG*'s market capitalization at the end of 2015 was €605.8 million. At 31 December, the portfolio of treasury shares consisted of 557,284 ordinary no-par shares and 138,667 no-par preference shares. That translates into about 1.6 per cent of the voting rights and an equity interest of about 1.9 per cent.

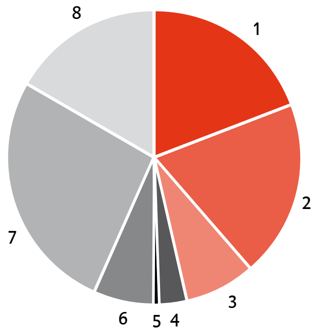
Based on registrations for the 76th Ordinary General Meeting and the information available to us at the end of 2015, institutional investors with positions in excess of the legal disclosure threshold of 5 per cent accounted for 83.5 per cent of the voting rights. 39.0 per cent thereof was accounted for by our two sister banks—*Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft*—and *Generali 3 Banken Holding AG* held a voting share of 7.8 per cent. Those three shareholders had contributed their equity investments to a syndicate that owned 46.9 per cent of the voting rights at the end of 2015. The syndicate agreement's purpose is to safeguard BKS Bank's independence by means of the joint exercise of voting rights at general meetings and the syndicate partners' mutual rights of first refusal. The largest single indirect equity holder with a stake of 33.6 per cent was Italy's *UniCredit S.p.A. Holding*, whose Austrian

BASIC INFORMATION ABOUT BKS BANK'S SHARES

	2014	2015
Ordinary no-par shares in issue (ISIN AT0000624705)	34,236,000	34,236,000
No-par preference shares in issue (ISIN AT0000624739)	1,800,000	1,800,000
High: ordinary/preference share, €	17.8/15.6	17.5/15.7
Low: ordinary/preference share, €	16.9/14.9	16.5/14.8
Closing price: ordinary/preference share, €	17.3/15.3	16.9/15.1
Market capitalization, €m	619.8	605.8
IFRS earnings per share in issue, €	1.49	1.50
Dividend per share, €	0.23	0.23[1]
P/E: ordinary/preference share	12.8/11.3	11.4/10.2
Dividend yield: ordinary no-par share, %	1.33	1.36
Dividend yield: no-par preference share, %	1.50	1.52

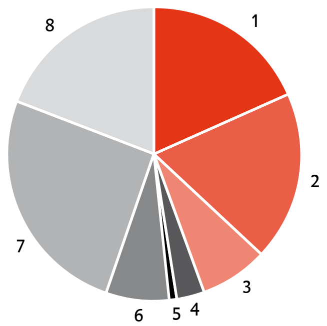
[1] Proposal to the 77th Ordinary General Meeting on 19 May 2016.

SHAREHOLDER STRUCTURE OF BKS BANK BY VOTING INTEREST



1	*Oberbank AG*	19.44%
2	*Bank für Tirol und Vorarlberg Aktiengesellschaft*	19.57%
3	*Generali 3Banken Holding AG*	7.84%
4	*Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.*	3.10%
5	*BKS-Belegschaftsbeteiligungsprivatstiftung*	0.42%
6	*UniCredit Bank Austria AG*	6.74%
7	*CABO Beteiligungs Gesellschaft m.b.H.*	26.81%
8	Free float	16.08%

SHAREHOLDER STRUCTURE OF BKS BANK BY EQUITY INTEREST



1	*Oberbank AG*	18.52%
2	*Bank für Tirol und Vorarlberg Aktiengesellschaft*	18.89%
3	*Generali 3Banken Holding AG*	7.44%
4	*Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.*	2.99%
5	*BKS-Belegschaftsbeteiligungsprivatstiftung*	0.73%
6	*UniCredit Bank Austria AG*	7.29%
7	*CABO Beteiligungs Gesellschaft m.b.H.*	25.47%
8	Free float	18.67%

The shareholders shown in red have entered into a syndicate agreement.

group subsidiaries *UniCredit Bank Austria AG* and *CABO Beteiligungs Gesellschaft m.b.H.* held 6.7 per cent and 26.8 per cent, respectively, of our ordinary no-par shares at the end of 2015. *Wüstenrot Wohnungswirtschaft reg. Gen. m.b.H.* held a stake of 3.1 per cent. The free float held by corporates, institutional investors and private shareholders accounted for 16.1 per cent of the voting share capital at the end of 2015. That included a substantial slice of 0.5 per cent of the shares that were held by BKS Bank employees. *BKS-Belegschaftsbeteiligungsprivatstiftung*, which exists solely to distribute in full to employees of BKS Bank investment income within the meaning of *§ 10 Abs. 1 KStG 1988*, held 142,590 ordinary no-par shares. This translates into a voting interest of about 0.4 per cent.

In 2013, our bank acquired a total of 1,000,000 ordinary no-par shares on the stock exchange or over the counter within the scope of a publicly announced stock buyback programme. In the year under review, a tranche of 9,343 shares was sold to employees of the bank in the period from 31 March to 14 April at a unit price of €17.45 within the scope of a staff share ownership scheme. Under certain circumstances, the shares were paid out as part of the end-of-year bonus. At the end of 2015, 52,103 ordinary no-par shares had been allocated to this scheme, corresponding to a voting interest of 0.15 per cent. That compared with 61,446 shares at the end of 2014.

At the reporting date of 31 December 2015, *Oberbank AG* held an equity interest of 18.5 per cent, *Bank für Tirol und Vorarlberg Aktiengesellschaft* held an equity interest of 18.9 per cent and *Generali 3Banken Holding AG* held an equity interest of 7.4 per cent. *UniCredit Bank Aus-*

tria AG had a direct equity interest of 7.3 per cent, but including the stake of 25.5 per cent held by *CABO Beteiligungsgesellschaft m.b.H.*, its equity interest totalled 32.8 per cent. 3 per cent of the ordinary no-par shares and no-par preference shares were held by *Wüstenrot Wohnungswirtschaft reg. Gen. m.b.H.*, and 18.7 per cent was free float.

Otherwise, *BKS Bank AG* is not aware of any groupings that could result in the exercise of an influence on or control of the enterprise by one or several shareholders. Consequently, in our opinion, no measures were required to prevent an abuse of control.

BKS Bank's Markets

Austria

Austria is our predominant market and was the location of 50 of our 59 branches. Our Austrian market territory extended along the south-east axis between Carinthia and Vienna. Since 2015, our domestic market has been subdivided into the Carinthia, Styria and Vienna – Lower Austria – Burgenland sales regions. See the Segmental Report from page 115 for more information about its reorganization.

Carinthia: The province's poor reputation is harming its economic development

2.0bn

Our Carinthian home market was still our bank's most important. At year-end, the portfolio of loans to Carinthian retail and corporate and business banking customers was worth €2.0 billion. That was roughly 37 per cent of BKS Bank's total loan portfolio. On the same date, the balance of deposits from Carinthian customers came to €2.3 billion, which was roughly 47.0 per cent of total deposit balances. Many companies have been BKS Bank customers for generations, and our bank is one of the biggest employers in the province.

We closely examined the possible impact on BKS Bank of various development scenarios for the province. BKS Bank had in its books direct exposures neither to the province of Carinthia nor to *Hypo-Alpe-Adria-Bank* or its legal successors. We would not be directly affected were the province to become insolvent. However, we do believe that companies' revenues and profits will be dented by the province's lack of financial strength.

The propensity to invest will suffer as a result. However, many companies have already for some time been readying themselves for that kind of scenario and are, as a result, largely insensitive to the state of the province's economy. Many businesses in Carinthia are outstanding achievers.
- Companies like Infineon Austria Technologies AG, Flex and Mahle in the industrial sector and Hotel Hochschober, the Feuerberg mountain resort and the Ronacher family's hotels in the tourism sector are internationally acknowledged industry leaders.
- Carinthian start-ups regularly win awards, and Carinthia is also a renewable energy pioneer.
- The research ratio is much higher than in many other provinces, with Carinthia ranking third in Austria.
- The population is well educated, loyal and enormously dedicated.

The factors that we have named here as examples give us confidence that Carinthia will get back on track. The regional economic forecast published by the *Institut für Höhere Studien* (institute of higher studies) in December 2015 gives us hope. Despite all the predictions to the contrary, Carinthia's regional GDP growth forecast of 1.5 per cent puts it on a par with Austria as a whole.

Styria: A thriving growth market
The branch that opened in Graz in 1983 was the first BKS Bank branch outside the borders of the province of Carinthia. At the end of the period under review, our bank was well positioned with six branches in Graz and one each in Hartberg, Leibnitz, Gleisdorf, Feldbach, Weiz and Deutschlandsberg.

Over the past 20 years, Styria has developed from a region of heavy industry to a land of innovation. Every third high-tech product from Austria is made in Styria. This is in part thanks to its five universities with over 40,000 students, a well developed system of vocational secondary schools and a raft of research institutions. The automobile cluster is another important engine of growth.

0.9bn

In view of its economic strength, we still see Styria as one of our bank's growth markets. The number of Styrian retail and corporate and business banking customers serviced by our employees is continuously growing. In the year under review, the deposit balance came to €0.6 billion, and loans outstanding in Styria came to €0.9 billion. Here too, BKS Bank scored points with its outstanding advisory skills. Admission to the ECO WORLD STYRIA Cluster gave our bank access to a new network of companies. Like BKS Bank, they are sustainability orientated.

Vienna – Lower Austria – Burgenland: A lot is happening on the Eastern Front
BKS Bank made its first move into the Austrian capital over 25 years ago, in 1990. This was followed in 2003 by the acquisition of *Burgenländische Anlage und Kreditbank AG*, which was merged into BKS Bank in 2005. Since then, we have gradually been expanding our activities in Eastern Austria. By the end of the year under review, BKS Bank's Regional Head Office for Vienna – Lower Austria – Burgenland was servicing over 24,700 customers at 15 branches. We plan to open more branches in this market territory.

Vienna has a rapidly growing population, and purchasing power and income statistics published at the end of the year also speak in the federal capital's favour. Burgenland Province too has proven able to build up a solid position over the past few years. Numerous Carinthians living in Vienna have been appreciators of our offerings for many years, but in the meantime, we have also been able to position ourselves as a reliable provider of banking services and skilled provider of advice outside that target group. Thanks to this, we have a sizeable base of retail and corporate and business banking customers.

The performance of our Vienna – Lower Austria – Burgenland Regional Head Office in 2015 was particularly satisfactory. We were able to expand the loan portfolio by 3.89 per cent to €891.5 million, and customer deposit balances came to €551.8 million at year-end.

Markets Abroad

891.5m

BKS Bank operates in the banking and leasing sectors of three foreign markets, namely Slovenia, Croatia and Slovakia. Customers in other countries are serviced exclusively on a cross-border basis by our regional head offices in Austria.

OVERVIEW OF BKS BANK'S OPERATIONS ABROAD

	Slovenia	Croatia	Slovakia
Population, millions	2.1	4.2	5.4
Capital	Ljubljana	Zagreb	Bratislava
Economic growth in 2015*	2.6%	1.1%	3.2%
Economic growth forecast*	1.9%	1.4%	2.9%
Currency	€	HRK	€
Primary banking location	Ljubljana	Rijeka	Bratislava
Employees in banking, FTEs	95.9	57.2	20.0
Branches	5 branches	*BKS Bank d.d.* 2 branches	2 branches
Leasing company	*BKS-leasing d.o.o.*	*BKS-leasing Croatia d.o.o.*	*BKS-Leasing s.r.o.*
Registered office of leasing company	Ljubljana	Zagreb	Bratislava
Employees of leasing company, FTEs	11.6	11.8	12.0

* Source: European Commission.

Slovenia

Slovenia was BKS Bank's most important foreign market. We have already been operating as a bank in Austria's southern neighbour for more than 10 years and in its leasing sector for over 17. We are correspondingly well established as a solid 'universal' bank in that market.

Strong customer growth

The Slovenian economy is recovering rapidly after a number of economically difficult years. Following GDP growth of 2.6 per cent in the year under review, the European Commission is forecasting growth of 1.9 per cent and 2.5 per cent, respectively, in 2016 and 2017. The mood of the population too is a lot more positive than in recent years. Our branches in Slovenia have also profited from this uptrend and we have achieved a respectable increase in the number of retail and corporate and business banking customers. In all, we had the confidence of over 13,800 customers at the end of 2015, or 4.8 per cent more than at the end of 2014. In the 2016 financial year, we will respond to this strong growth by enlarging our branch network to match.

Securities operations on the up

The bulk of the securities customers whom we took over from *Factor banka d.d.* in 2014 have remained true to us. At the end of 2015, we had securities accounts under management worth €422.3 million. We plan to further enlarge our line of securities services and products in 2016.

Growing deposit balances, early loan repayments

12.8%

Our most important area of business in Slovenia was still credit. Lending in this region accounted for roughly 12.8 per cent of the Group's total loan portfolio, namely €655.7 million. The shrinkage of €20.0 in the loan portfolio was a result of our more restrictive lending policy. In addition, many corporate and business banking customers took advantage of the economic upturn to pay off their debts ahead of time.

At the same time, credit risks were considerably reduced compared with 2014. Meanwhile, primary deposit balances grew very satisfactorily in 2015, increasing by 4.4 per cent to end the year at €626.0 million.

We are very pleased with our profit for the year after tax in Slovenia, which came to €1.7 million. Alongside interest earnings, fee and commission income from payment and securities operations also made an important contribution to the increase.

Highly satisfactory volumes of new leasing business
Our leasing subsidiary *BKS-leasing d.o.o.* had a lease portfolio of €71.6 million under management at the end of the year under review (31 December 2014: €68.9 million) and posted a profit for the year after tax of €0.47 million. New business volumes in the automobile and truck leasing segments developed particularly well, far outstripping our expectations.

Croatia

Our Croatian subsidiary *BKS Bank d.d.* was servicing roughly 4,700 customers at its branches, which were located at its Head Office in Rijeka and in Zagreb. We plan to merge *BKS Bank d.d.* into *BKS Bank AG* in 2016. The present subsidiary will be turned into an EU branch and in future—matching our configuration in other markets—operate as our Regional Head Office in Croatia. The benefit of the merger for us will be administrative simplification. Customer operations will continue at their usual quality level, and all the staff at *BKS Bank d.d.* will keep their jobs. We will not be enlarging the branch network in Croatia until that project has been completed.

In contrast to Slovenia (growth of 1.9 per cent) and Slovakia (growth of 2.9 per cent), economic forecasts for Croatia for 2016 suggest that real GDP growth will come to a relatively modest figure of about 1.4 per cent. Croatia's 2015 jobless rate of 16.2 per cent was well above the EU average. It affected both private consumption and companies' propensity to invest. Nonetheless, we saw a lot of positive signs in this country, even if they were not as pronounced as in Slovenia and Slovakia.

Increase in lending
BKS Bank d.d. can look back on a very successful year. The balance sheet total in its separate financial statements increased by 18.1 per cent to €203.0 million, and its loan portfolio grew by €128.9 million to €157.0 million. Our bank was unaffected by the Croatian government's decision at the beginning of 2015 to peg the kuna to the Swiss franc because we had not granted any Swiss franc loans in Croatia. This means that we did not suffer any serious harm to our profits, unlike our competitors. Deposits also developed satisfactorily. At year-end, *BKS Bank d.d.*'s separate financial statements showed primary deposit balances of €107.5 million. That was €20.6 million more than at the end of 2014.

20.6m

Best ever profit for the year
The company's good business performance generated a profit for the year after tax of €1.2 million. That was *BKS Bank d.d.*'s best result since we bought the company in 2006.

Leasing company well on track
Our Croatian leasing subsidiary *BKS-leasing Croatia d.o.o.* also performed satisfactorily during the year under review and achieved a substantial increase in new business volumes. This subsidiary had a lease portfolio worth €34.2 million at year-end and posted a profit for the year after tax of €0.6 million.

Slovakia

BKS Bank is Slovakia's banking David among many Goliaths. We set up our first banking branch in Bratislava in 2011. Business operations were still under development in the year under review and concentrated on non-cash products. We do not intend to introduce resource-intensive counter operations for a number of years. At year-end, deposit balances in Slovakia came to €16.9 million and the loan portfolio came to €50.8 million.

The growth of both business segments should accelerate in 2016. The positive development of new business in the fourth quarter of 2015 underscored the positive trend. We opened another branch in Banská Bystrica in 2015. The next stage of our expansion is taking us to Žilina, where we already had a leasing branch. The new branch opened in February 2016.

While our leasing companies in Croatia and Slovenia thrived in the market, leasing operations in Slovakia stagnated during 2015. At the end of 2015, our leasing subsidiary *BKS-Leasing s.r.o.* had a lease portfolio of €25.6 million.

Italy and Hungary

The role of our representatives offices in Padova and Sopron was to
– help corporate and business banking customers set up companies;
– help customers find business partners and associates;
– set up contacts with authorities, lawyers and accountants and tax advisors;
– observe the market and provide information about the country.

The representative offices themselves did not transact any business. Customers from those two countries were only serviced on a cross-border basis.

Resources, Products and Services

The people who work for BKS Bank

At the end of 2015, BKS Bank was providing 1,091 people with a secure job and giving them challenging responsibilities. Bucking the trend towards consolidation in the banking industry, our workforce grew slightly compared with the end of 2014, increasing by 16. There was double-digit growth in Austria. Among other things, this was the result of opening our new branch in *Ungargasse* and hiring new experts at Head Office. The workforce in Slovenia increased in response to the steady growth in the customer base.

Higher productivity

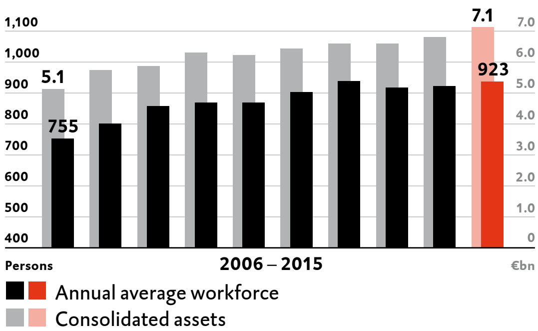
BKS Bank sought to make its organizational processes more efficient, to hire exceptionally dedicated and self-responsible employees to whom it offered attractive opportunities for promotion and career openings and to keep fluctuation rates within the enterprise low. We expect the size of the workforce to remain virtually constant over the next few years. BKS Bank has not planned and is not planning extensive staff cuts.

As the charts below show, the increase in our consolidated assets has been disproportionately large over the past ten years compared with the increase in the workforce. Between the year 2000 and the year under review, assets per employee increased from €5.3 million to €7.7 million.

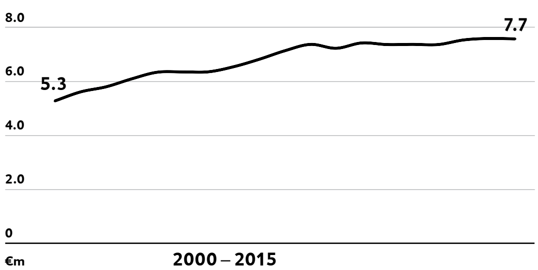
Living out diversity

BKS Bank's staff profile is that of a modern, internationally active group.
- Our employees come from eleven different countries.
- 57.7 per cent of the workforce are women.
- 31 per cent of our management personnel are women. We are aiming for 35 per cent by 2020.
- Most of our employees—47.8 per cent—are between 35 and 50 years old. 28.1 per cent are over 50, 24.0 per cent are under 35.
- 18 employees are physically disabled.

STAFFING AND ASSETS



ASSETS PER EMPLOYEE



To do justice to this diversity, BKS Bank took numerous measures to make it possible for employees to combine having a family with having a career, to promote their health, to promote their understanding of each other and to raise motivation in general. You will find a detailed presentation of our CSR measures for employees from page 108 of this report.

High employee loyalty

Thanks to a combination of these efforts with interesting and varied work and opportunities to make internal career moves or apply for other roles, loyalty was generally high. The average period of service within the BKS Bank Group was 14.2 years. The average at *BKS Bank AG* taken in isolation was actually much higher, at 15.0 years. BKS Bank has been operating in Austria since back in 1922, but only since the end of the 1990s in markets abroad. For this reason alone, our employees' average period of service in other countries is lower. One Austrian employee is actually celebrating 50 years with BKS Bank this year, which has never happened before.

An attractive employer

Our bank profits from its good reputation as an attractive employer whenever new staff are needed. Personnel Management received 2,045 job applications during they year under review. Many reached us via online channels like XING and karriere.at. Group-wide, 69 new employees were hired in 2015, including 38 women and 45 people under the age of 35.

Training for success

Comprehensive basic and further training is an important contributor to our attractiveness as an employer. In 2015, each BKS Bank staff member spent an average of 4.4 days in training, and 34,676 hours of training were completed. Personnel Management organized 196 internal seminars. In addition, many employees also took part in further training provided by prestigious seminar providers.

34,676

Among other things, the range of further training measures consisted of:
– professional training;
– personality training;
– training by experts;
– courses like management and coaching training.

For the first time, participants completed the new training cycle in our talent management programme called *Orientierung. Engagement. Chancen* (Orientation, Commitment, Opportunities). The purpose was to make preparations for filling vacant key positions from within the organization. At the same time, we offered our high-potential employees attractive personality development modules. We also redesigned our training range in the corporate and business banking segment. We again offered our directors, the members of the Supervisory Board and the holders of key positions workshops that provided them with important information about ways of broadening and deepening their professional knowledge so as to meet our 'Fit & Proper' standards.

STRUCTURE OF THE WORKFORCE

Number of Employees (Individuals)	2014	2015
Total number of employees	**1,075**	**1,091**
– Of which in Austria	855	868
– Of which in Slovenia	104	110
– Of which in Croatia	75	72
– Of which in Slovakia	37	37
– Of which in Italy	3	3
– Of which in Hungary	1	1
– Of which women	620	630
– Of which men	455	461
Full-time employees	**845**	**851**
– Of which women	391	403
– Of which men	454	448
Part-time employees	**230**	**240**
– Of which women	219	227
– Of which men	11	13
Disabled employees	**19**	**18**

Please note that—unless specifically stated otherwise— all employee figures provided elsewhere in this report are given in full time equivalents (FTEs).

Digitization

Banking would be impossible without functioning information technology. Smoothly operating internal processes and user-friendly applications for both customers and employees are decisive competitive factors, and they will gain considerably in importance in the years to come. Banks around the world are investing large amounts in 'digitization' in order to stay competitive.

Refining IT and online platforms has been a part of BKS Bank's business strategy for many years. In 2015, the 'New Banking' project looked at more effectively dovetailing our stationary and digital sales activities. Over the next few years, the measures that have been developed will be used:
– to expand e-commerce;
– to create a new Internet page that will work perfectly on every output device from smartphone to PC;
– to expand our video advisory services so that they can also be used directly by customers.

The new BKS Bank-Online Internet portal
One of the main cornerstones of our online offerings—the *BKS Bank-Online* digital customer portal—went into operation in 2015. Since then, virtually all our customers have migrated from the old online banking system to the new portal. *BKS Bank-Online* is aimed at retail banking customers. Most of our corporate and business banking customers use the *ELBA* system. What each variant has in common is the strongest possible protection against Internet threats.

Compared with the previous *Online Banking* system, the new digital customer portal offers customers a number of additional user-friendly features. Among other things, it showcases all the usual products like savings products, credit cards and insurance. The dispatch of account statements and contracts and the transfer of documents from the customer to the bank have now been built in to the portal and thus greatly simplified. Similarly, the procedures for ordering transactions, payments and transfers have been redesigned and optimized for use on tablets and smartphones.

Online transactions are on the increase
The changeover to *BKS Bank-Online* is taking place in several phases. We began with the retail customer module. The launch of the securities module is taking place in the first quarter of 2016. It will mean that orders for securities purchases and sales can be placed in the new portal at any time and from anywhere. In addition, the portal provides extensive market information. In the next stage, we will be integrating service functions that will allow our customers to block or order replacement cards themselves and change their address details.

Our banking app was also very popular. By year-end, it had already been downloaded from the Apple or Google stores more than 14,000 times, and its was very highly rated by its users. More and more customers are using our mobile banking offerings and carrying out transactions with them. However, a number of customers are still doing no more than checking their account balance. They appreciate being able to access precise information about their financial situation at any time when they are on the move.

14,000

Information technology

DREI-BANKEN-EDV Gesellschaft m.b.H. (*3BEG*)—a subsidiary in the *3 Banken Group*—was responsible for BKS Bank's IT projects and IT operations. It employed an average of 226 people at its centres of excellence in Klagenfurt, Linz and Innsbruck. Our Operations Department acted as our interface to 3BEG. It worked on 106 projects during the year under review, some of which were multi-year projects. 77 per cent of our projects for 2015 were successfully completed.

We are also pleased to tell you about our outstanding system availability rates. Our so-called 'online availability' during the prime shift from 8 am to 5 pm was 100 per cent. It is equally impressive that 99.6 per cent of transactions were carried out with a response time of less than one second. A backup test carried out in the autumn simulated a complete failure of the primary computer centre. All systems were fully operational again within the required period. Nor did we experience any noteworthy incidents in the IT security field. We will continue to raise our already outstanding security standards in 2016.

100%

IT costs: our second-largest item of expense
Continuous investment on our network infrastructure and hardware and software is necessary to perform this well. In 2015, IT costs stayed constant at €15.1 million (2014: €15.4 million). We also invested an amount of €2.3 million in information technology that was not included in the accounts of *3BEG*.

For instance, we spent roughly €330 thousand on renewing the network infrastructure and €570 thousand on self-service equipment. Among other things, we purchased new ATMs, cash recycling equipment and coin counters. We completed the installation of the new standard client. Every workstation is now equipped with 64 bit Windows 7, MS Office 2013 and the necessary bank-related software.

Legal changes necessitate numerous IT changes

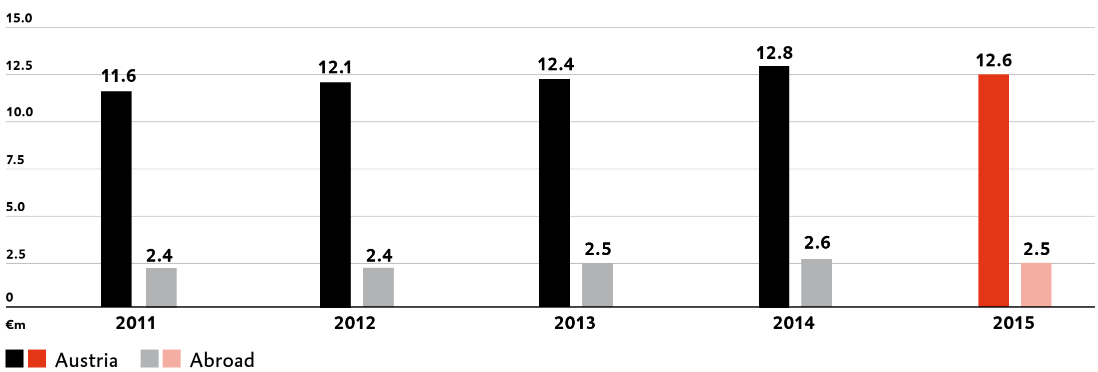
Our project work during the year under review was shaped to a large extent by the new legal requirements. Above all, FATCA (the Foreign Account Tax Compliance Act), new deposit guarantee requirements and the Common Reporting Standards (CRS) necessitated extensive changes in many IT systems. The changes needed to implement the accounts register and capital outflow and inflow reporting are on track.

Putting the new MiFID II regulations into effect will take a great deal of effort in 2016, particularly as the exact legal requirements are not yet known and the work will probably have to be done in a short period. As of 1 January 2018, IFRS 9 will introduce a new recognition and measurement standard for financial instruments that will replace IAS 39. As a listed financial service provider, we will be directly affected by the new regulations. In the year under review, we initiated a new project to prepare for the changeover to the new standard.

A wide range of process innovations that were invisible to the customer accelerated our internal processes. For instance, we created the prerequisites for real-time transaction processing in the core banking system, significantly improved the quality of payment slip scanning and created the prerequisites for full data capture.

Only minor measures were required in our foreign markets during the year under review. Among other things, in Slovenia, we introduced a B2B Communicator to allow the secure exchange of data with external authorities and we optimized our backup procedures. The online banking system in Croatia was replaced by a new application supplied by *Banksoft*. In Slovakia, we began phasing in a reporting software package.

IT COSTS



Construction

BKS Immobilien-Service Gesellschaft m.b.H. handled everything to do with construction in the BKS Bank Group. This subsidiary was responsible for:
– construction and facility management at properties used by the enterprise and by third parties;
– property management;
– security;
– company vehicles;
– waste management.

The BKS Bank Group owned some 60 properties with an area of about 670,000 square feet. Nearly half that area was used for banking operations and the remaining properties were let to companies or private individuals. Rental income from lettings to third parties increased to €2.1 million in the year under review.

OVERVIEW OF THE BKS BANK GROUP'S PROPERTIES

	2014	2015
No. of properties	60	60
Total area, m^2 (1 m^2 = 10.8 sq.ft.)	60,749	61,979
– Of which used for banking operations	31,831	31,864
– Of which let to third parties	24,723	25,070
Occupancy rate, %	93.1	91.9
Net rental income, €m	1.9	2.1

BKS Immobilien-Service Gesellschaft m.b.H. completed a number of construction projects in 2015. Usually, companies from the region were hired to do the work. In this way, the bank provided an important boost to the Austrian economy. Capital expenditure on construction inclusive of other related investments was €4.7 million up on 2014 to €6.3 million. Among other things, this was because of a big construction project in downtown Klagenfurt that reached completion in 2015. Two buildings on *St. Veiter Ring* opposite our Head Office were enlarged and converted at a cost of about €3 million. To date, the occupancy rates in both buildings, which were ready for occupation in the summer, have been satisfactory.

New branches that meet high disabled accessibility standards
The new branch on *Ungargasse* in Vienna was equipped in accordance with our standard for barrier freedom. A lowerable counter, an induction loop system, wheelchair accessible areas and Braille signs are just some of the special features of this branch. Wherever the structure allowed, barrier freedom was also taken into account at our *Baumbachplatz* branch in Klagenfurt, which was rebuilt in the year under review. Please see the chapter of this report on *Sustainability* on page 114 for more information about what we did to remove barriers. It also contains the most important results of the energy audit and carbon footprint measurements. Our most significant project in a foreign market was the construction of the Banská Bystrica branch in Slovakia.

Besides these larger projects, *BKS Immobilien-Service Gesellschaft m.b.H.* took numerous steps to modernize and maintain the buildings we use for banking operations. It also rapidly repaired the damage caused by a severe hailstorm in Villach in the summer.

Discovery of historically important stuccoed ceilings
We also carried out various maintenance works in buildings that were not used for banking operations. We would particularly like to highlight the renovation of the Christalnigg Palace in downtown Klagenfurt. Historically important stuccoed ceilings were discovered during the renovation works. They were thoroughly restored in cooperation with the *Bundesdenkmalamt* (Austrian historical monuments authority). We were able to complete part of the renovation works in 2015. In 2016, the rooms previously used by a dancing school will be made ready for a new use.

High standards of bank security
Staff safety is one of BKS Bank's special priorities. During 2015, we took further action to prevent incidents and improve employee protection. Nonetheless, we again fell victim to two bank robberies. We are pleased to report that the police soon caught the culprits. In both cases, they were helped by the high quality pictures obtained from the security camera. Staff were given regular training by the police and our security personnel, and they acted as they should in the event of a hold-up. A webinar available in the Intranet also provided information about how to behave and about security precautions. The branches themselves underwent regular security checks.

Important Equity Investments

EQUITY INVESTMENTS IN BANKS AND OTHER FINANCIAL SERVICE PROVIDERS

Equity Interest[1]	>50%	20%–50%	10%–20%	<10%
BKS-Leasing GmbH	100.00			
BKS-leasing d.o.o.	100.00			
BKS-leasing Croatia d.o.o.	100.00			
BKS-Leasing s.r.o.	100.00			
BKS Bank d.d.	100.00			
Alpenländische Garantie-GmbH		25.00		
Oberbank AG			15.30	
Bank für Tirol und Vorarlberg Aktiengesellschaft			13.59	
3 Banken-Generali Investment-GmbH			15.43	
Drei-Banken Versicherungs-AG		20.00		
Oesterreichische Kontrollbank AG				3.06
BWA Beteiligungs- und Verwaltungs AG				0.89
3-Banken Wohnbaubank AG			10.00	
3 Banken Kfz-Leasing GmbH			10.00	

[1] Including directly and indirectly held interests.

OTHER EQUITY INVESTMENTS (SUBSIDIARIES AND ASSOCIATES)

Equity Interest[1]	>50%	20%–50%	10%–20%	<10%
BKS Immobilien-Service GmbH	100.00			
BKS Service GmbH	100.00			
IEV Immobilien GmbH	100.00			
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	100.00			
BKS Zentrale-Errichtungs- u. Vermietungs GmbH	100.00			
VBG Verwaltungs- und Beteiligungs GmbH	100.00			
VBG-CH Verwaltungs- und Beteiligungs GmbH	100.00			
BKS Hybrid alpha GmbH	100.00			
BKS Hybrid beta GmbH	100.00			
BKS 2000 Beteiligungsverwaltungs GmbH	100.00			
– Beteiligungsverwaltung GmbH		30.00		
– Generali 3 Banken Holding AG			16.40	
– 3-Banken Beteiligung GmbH		30.00		

[1] Including directly and indirectly held interests.

OTHER EQUITY INVESTMENTS (NON-BANKS)

Equity Interest	>50%	20%–50%	10%–20%	<10%
DREI-BANKEN-EDV Gesellschaft mbH		30.00		
Einlagensicherung der Banken & Bankiers GmbH				3.10
CEESEG AG				0.38

Notes on the Scope of Consolidation

The scope of consolidation of BKS Bank upon which Group analyses were based encompassed 20 banks and other financial service providers and entities rendering banking-related ancillary services. Those entities included the leasing companies in Austria and abroad as well as *Drei-Banken Versicherungs-Aktiengesellschaft*. The overview that follows presents the entities whose assignment to the BKS Bank Group was required by the International Financial Reporting Standards. Subsidiaries were included on the basis of common Group-wide criteria of materiality and quantitative and qualitative parameters. The principal criteria of materiality were the balance sheet total of a subsidiary, the Group's interest in an associate's equity and the number of people employed by the entity in question.

THE MEMBERS OF THE CONSOLIDATED GROUP

Banks and Other Financial Service Providers

BKS Bank AG, Klagenfurt	*BKS-Leasing Gesellschaft mbH,* Klagenfurt	*BKS-leasing d.o.o.,* Ljubljana
BKS-leasing Croatia d.o.o., Zagreb	*BKS Bank d.d.,* Rijeka	*BKS-Leasing s.r.o.,* Bratislava
Oberbank AG, Linz	*Bank für Tirol und Vorarlberg Aktiengesellschaft,* Innsbruck	*Drei-Banken Versicherungs-Aktiengesellschaft,* Linz
Alpenländische Garantie-GmbH, Linz		

Other Consolidated Entities

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

Consolidated   Accounted for using the equity method   Accounted for on a proportionate basis

Besides *BKS Bank AG*, the consolidated members of the BKS Bank Group comprised 15 banks and other financial service providers as well as entities rendering banking-related ancillary services that were controlled by *BKS Bank AG*. These Annual Financial Statements are based on the separate financial statements of all the consolidated entities, which were prepared applying common, Group-wide policies.

The carrying amounts of the investments in the three entities accounted for using the equity method in conformity with IAS 28 were adjusted according to the changes in the net assets of the entities in which those investments were held. Besides *Drei-Banken Versicherungs-Aktiengesellschaft*, our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft* (*BTV AG*) were also accounted for using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of those banks at the end of 2015, holding stakes of 16.5 per cent and 15.0 per cent, respectively, the exercise of voting rights was regulated by syndicate agreements. These allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them.

ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H. (*ALGAR*) was accounted for on a proportionate basis. This investment required classification as a joint operation pursuant to IFRS 11.

The other consolidated entities, the bulk of which were designated as real estate companies, predominantly rendered banking-related ancillary services. All other company shares were assigned to the available for sale portfolio.

Banks and other financial service providers

BKS Bank AG

BKS Bank AG is the parent of the BKS Bank Group. It is headquartered in Klagenfurt. *BKS Bank AG* recorded profit from ordinary activities of €42.5 million, thus making a substantial contribution to consolidated profit in 2015. Its dominant role was also underlined by its assets of roughly €6.7 billion.

BKS-Leasing Gesellschaft m.b.H.

BKS-Leasing Gesellschaft m.b.H. operated in the motor vehicle, movable asset and property leasing segments in BKS Bank's core catchment areas within Austria. It was a 99.75 per cent subsidiary of *BKS Bank AG*. This company was a member of the same taxable group as BKS Bank (*Organschaftsverhältnis*). At the end of 2015, it had share capital of €40.0 thousand and assets of €162.8 million. *BKS Bank AG* provided 8.3 employees (full time equivalents) and the infrastructure used to sell the lease agreements.

BKS-leasing d.o.o.;
BKS-leasing Croatia d.o.o.

The two wholly owned leasing subsidiaries—*BKS-leasing d.o.o.*, which is headquartered in Ljubljana, and *BKS-leasing Croatia d.o.o.*, which is headquartered in Zagreb—reflect BKS Bank's historical business links with the so-called *Alpe-Adria* region. *BKS-leasing d.o.o.*, which was acquired in 1998, had share capital of €260.0 thousand and assets of €80.6 million at the end of 2015. It had 11.6 employees in the 2015 financial year (full time equivalents). Motor vehicle, movable asset and real property leasing were the focuses of its business activities. Our Croatian leasing subsidiary, which is headquartered in Zagreb, was set up in 2002. It had 11.8 employees (full time equivalents) in 2015. At the end of the year under review, *BKS-leasing Croatia d.o.o.* had a lease portfolio under management worth €34.2 million.

BKS-Leasing s.r.o.

BKS-Leasing s.r.o. was acquired as *KOFIS Leasing a.s.* in 2007. It operated as a stock corporation until 30 September 2013, when it was transformed into a limited liability company for business policy and administrative reasons. It had capital stock of €15.0 million and assets of roughly €43.2 million at the end of the year under review. The company is headquartered in Bratislava, and its customers are based around the urban centres of Bratislava, Žilina and Banská Bystrica. *BKS-Leasing s.r.o.* had 12.0 employees in the year under review (full time equivalents).

BKS Bank d.d.

BKS Bank entered the Croatian banking market in 2006 when it acquired a majority shareholding in *Kvarner banka d.d.* This stake was gradually increased to 100 per cent. In 2008, it opened a branch in Zagreb, and this bank, which is registered as a stock corporation, was renamed as *BKS Bank d.d.* On the reporting date, it had share capital of HRK 200 million. *BKS Bank d.d.* specializes mainly in lending to small and medium-sized manufacturers and businesses. At the same time, it has rapidly developed its retail banking segment and now offers its customers the product line of a fully fledged bank with the sole exception of securities products and services. At the end of December 2015, it had 57.2 employees (full time equivalents) and assets of HRK 1.56 billion.

Since Croatia's accession to the EU, we have been considering merging *BKS Bank d.d.* with *BKS Bank AG* and, at the same time, setting up an EU branch in order to cut down on our administrative costs. These have been tying up resources and have been getting out of hand because of regulatory demands. We now plan to merge *BKS Bank d.d.* into its sole equity holder and parent *BKS Bank AG* on a cross-border basis in an upstream merger. In future, banking operations based in Rijeka and Zagreb will be carried on through an EU branch. The basis for this under European law is Directive 2005/56/EC on Cross Border Mergers of Limited Liability Companies in various Members States. The merger is likely to take legal effect on 30 September 2016. Among other things, it still requires approval by the bank regulators in Croatia and Austria. The merger is to take place on the basis of the balance sheets as of 31 December 2015.

Oberbank AG

Oberbank AG was set up in 1869 as *Bank für Oberösterreich und Salzburg.* It is headquartered in Linz. It is accounted for in the Consolidated Financial Statements of BKS Bank using the equity method. It is a leading independent provider of banking services to medium-sized enterprises in its core regional markets, which are Upper Austria and Salzburg Province. It had a total of 156 branches located in Vienna, Lower Austria, Germany, the Czech Republic, Slovakia and Hungary. It had 2,025 employees at the end of 2015. With share capital of €96.7 million and consolidated assets of €18.24 billion, it posted a profit for the year before tax of €191.5 million and was again one of Austria's most strongly capitalized and profitable banks in 2015.

Bank für Tirol und Vorarlberg Aktiengesellschaft

Bank für Tirol und Vorarlberg Aktiengesellschaft (*BTV AG*) was founded in 1904. It has its roots in its core markets in western Austria. It is the third independent bank in the *3 Banken Group*, on an equal footing with *Oberbank AG* and *BKS Bank AG*. *BTV*, which operates under the brand name *BTV VIER LÄNDER BANK* (4 countries bank), also had a presence in Vienna, eastern Switzerland, Veneto, South Tyrol, Bavaria and Baden-Württemberg in addition to Vorarlberg and Tyrol. It had a total of 1,354 employees and 36 branches. This company had share capital of €55.0 million at the end of 2015. Its consolidated assets came to €9.43 billion. The BTV Group recorded a profit for the year before tax of €172.5 million in the year under review, compared with €92.1 million in 2014.

ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H.

ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H. (*ALGAR*), Linz, is a *3 Banken Group* joint operation. It was set up as a bank in 1983. Its purpose is to provide protection against the large loan risks of the three banks that are its equity holders. It does so by guaranteeing loans, advances and leases and by assuming liability in other ways. It is not profit-orientated. Fifty per cent of its share capital of €3.0 million was held by *Oberbank AG*, and *BTV AG* and BKS Bank held 25 per cent each. *ALGAR* has been accounted for within the BKS Bank Group on a proportionate basis in conformity with IFRS 11.

Drei-Banken Versicherungs-Aktiengesellschaft

Drei-Banken Versicherungs-Aktiengesellschaft (*3BV-AG*), which is headquartered in Linz, was set up in 1988. It sells its own risk insurance products and brokers the endowment and property insurance products of *Generali Versicherung AG* as an insurance agent. That long-standing ally of the *3 Banken Group* held 20 per cent of *3BV-AG*'s stock. *Oberbank AG* held a stake of 40 per cent in its share capital of €7.5 million, and *BTV AG* and *BKS Bank AG* held 20 per cent each. This company posted profit for the year 2015 of €2.33 million. Based on a decision by its shareholders and with the approval of the *Finanzmarktaufsicht* (Austrian Financial Market Authority) and the *Bundeswettbewerbsbehörde* (Austrian Federal Competition Authority), all the liabilities arising from the insurance portfolio of *Drei-Banken Versicherungs-Aktiengesellschaft* were transferred to *Generali Versicherung AG* as of 1 January 2016. *3BV-AG* will be giving up its insurance licence and will then manage the assets remaining within it. New insurance business generated by BKS Bank from 1 January 2016 will be handled directly by *Generali Versicherung AG*.

Other consolidated entities

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H.

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H., Klagenfurt, was set up in 1990. It built and now let BKS Bank's Head Office building on *St. Veiter Ring*, and it also let an underground car park, open-air parking spaces and store premises. *BKS Bank AG* held an indirect stake of 100 per cent in *BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H.* through *BKS-Leasing Gesellschaft m.b.H.* and *VBG Verwaltungs- und Beteiligungs GmbH*. This company had share capital of €36.4 thousand. In the year under review, the business operations of *RBG 43 Restaurant Betriebs GmbH* were transferred to *BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H.*

Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG
IEV Immobilien GmbH

Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG purchases, lets and sells land and buildings and carries out construction projects of all kinds. As a BKS Bank subsidiary, it was primarily responsible for building and letting business premises within the BKS Bank Group. It was managed by *IEV Immobilien GmbH* as a general partner. *BKS Bank AG* held direct stakes of 100 per cent in these companies, both of which are headquartered in Klagenfurt.

BKS Hybrid alpha GmbH;
BKS Hybrid beta GmbH

The principal object of *BKS Hybrid alpha GmbH*, Klagenfurt, which was set up in September 2008, and of *BKS Hybrid beta GmbH*, which was set up in April 2009, is to issue hybrid bonds and use the proceeds from such issuances to purchase the supplementary capital bonds (*Ergänzungskapitalanleihe*) of *BKS Bank AG*. Pursuant to the transitional provisions of the CRR (Capital Requirements Regulation), only part of the proceeds from the issuance of hybrid capital instruments qualified as so-called additional Tier 1 capital of *BKS Bank Kreditinstitutsgruppe* in the year under review.

VBG-CH Verwaltungs- und Beteiligungs GmbH;
LVM Beteiligungs Gesellschaft m.b.H.

BKS Bank AG held 100 per cent of the shares in *VBG-CH Verwaltungs- und Beteiligungs GmbH*, which, in turn, held a 100 per cent stake in *LVM Beteiligungs Gesellschaft m.b.H.* These companies' principal object is to finance foreign subsidiaries in the BKS Bank Group.

BKS Service GmbH

This wholly owned subsidiary of BKS Bank, which is headquartered in Klagenfurt, had share capital of €35 thousand. It is a provider of banking related services and support that was mainly responsible for dealing with BKS Bank's standardized credit back office and branch service functions. In April 2015, the *Sachbearbeitung Firmenkunden* (corporate and business banking customer processes) department was hived off to *BKS Service GmbH*. The company had 52.6 employees (full time equivalents) at the end of 2015.

BKS Immobilien-Service Gesellschaft m.b.H.

This company was founded in 1973 as *Liegenschaftsverwaltungs- und Verwertungs GmbH* and renamed as *BKS Immobilien-Service Gesellschaft m.b.H.* in 1994. It had share capital of €40 thousand. Its principal object is to let, buy and sell real estate. This wholly owned subsidiary is headquartered in Klagenfurt. It handled all of the Group's construction projects and acted as property manager for all of the properties owned by the BKS Bank Group. BKS Bank had assigned 8.5 employees to this company (full time equivalents). Three people were employed directly.

BKS 2000 - Beteiligungsverwaltungsgesellschaft mbH

The primary object of this wholly-owned subsidiary in the BKS Bank Group, which is headquartered in Klagenfurt and had capital stock of €40 thousand, is to trade, acquire property and hold equity investments in other entities. At the end of 2015, it held stakes of 30 per cent in *Beteiligungsverwaltung GmbH*, 16.4 per cent in *Generali 3Banken Holding AG* and 30 per cent in 3-*Banken Beteiligung Gesellschaft m.b.H.*

Profit

In the 2015 reporting year, BKS Bank was again operating in a persistently difficult business landscape dominated by near-zero interest rates and intense competition, and this landscape is very likely to remain challenging for the foreseeable future. Ever increasing regulatory requirements presented highly complex challenges from the point of view of both human resources and costs—but they were challenges that could be mastered. Our continuous reviews of internal processes, structures and technical platforms, which were aimed at making us leaner, more efficient and more customer orientated, were not limited to one-off projects. They were a permanent feature of our activities. Reviewing 2015, we can again look back at a formidable number of successfully completed projects, impressive sales performance, enriching encounters and prestigious awards. We were not spared short-lived setbacks and disappointments, but looking back, they proved to be an incentive to achieve lasting improvements. Ultimately, we were able to increase our profit for the year before tax by 12.3 per cent and so achieved further profitable growth. Our common equity Tier 1 ratio of 11.8 per cent meant that we met our own funds target for 2015 and exceeded the standards that applied at the level of European banks.

53.6m

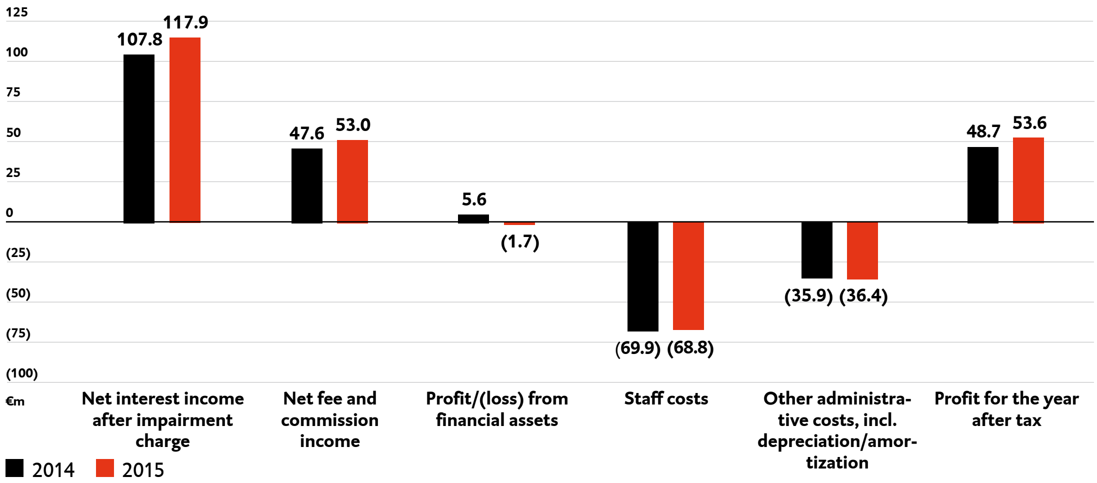
Overall, we are very satisfied with the profit for the year of €53.6 million that we posted for the year under review. It compared with €48.7 million in 2014. It was a reflection of a slight uptrend in lending, the satisfactory development of the impairment charge, our pleasing performance in the services segment and, not least, non-recurring effects at the entities accounted for using the equity method. Thanks to our quality advisory services, new and attractive products and further expansion of our digital offerings, we saw an increase in the number of satisfied customers and their willingness to recommend us to others.

Consolidation of our interest rate operations

Net interest income before the impairment charge was substantially up on the year ended 31 December 2014, increasing by 5.8 per cent to €166.4 million. The continuing fall in market interest rates reduced interest income by 8.4 per cent to €176.1 million. The renewed drop in interest expenses only made up for part of the decline. They fell by 17.0 per cent to €52.6 million, and besides savings deposits, this also affected investments in sight and time deposits. The pressure on margins was undiminished in our core markets of Carinthia, Slovenia and Croatia; above all, a rigid decline in margins set in in Slovenia. Nonetheless, we were able to hold our lending margin nearly static on the previous year at 1.9 per cent as we did everything we could to carry out any credit standing based adjustments to margins that were possible. The deposit margin, weakened by market interest rates, slid by 0.06 percentage points on the year to 0.01 per cent. Interest rates in the institutional deposits segment were increasingly negative.

The line item *Net interest income* also includes our earnings from investments in entities accounted for using the equity method, the most important of which were *BTV AG*, *Oberbank AG* and *Drei-Banken Versicherungs-AG*. Those earnings totalled €43.0 million, which was

COMPONENTS OF THE INCOME STATEMENT



KEY COMPONENTS OF THE INCOME STATEMENT

€m	2014	2015	+/(–) Change, %
Net interest income	157.3	166.4	5.8
Impairment charge on loans and advances	(49.5)	(48.5)	(2.0)
Net fee and commission income	47.6	53.0	11.4
Net trading income	1.4	2.3	69.0
Profit/(loss) from financial assets	5.6	(1.7)	(>100)
General administrative expenses	(105.8)	(105.1)	(0.7)
Profit for the year before tax	54.1	60.7	12.3
Income tax expense	(5.3)	(7.1)	33.3
Consolidated profit for the year after tax	48.7	53.6	10.0

over 50 per cent up on 2014. We note that *BTV AG* restructured its treasury securities portfolio in the second half of 2015 in order to strengthen its equity base. In the course of that restructuring, it realized substantial hidden reserves and added them to the equity on its balance sheet. Some of the funds were re-invested in variable rate bonds. For BKS Bank, this means that some of the interest earnings that will flow to us from investments in the entities accounted for using the equity method in coming years have already been accounted for.

Our conservative risk policy and commitment to consistently combating risks again proved their worth in the year under review. We were able to keep the impairment charge on loans and advances below the prior-year figure of €49.5 million, at €48.5 million. The charge was reduced by impairment reversals made possible by the reduction of risk positions and the positive impact of the allowance for country risk exposure following an upgrade of Slovenia's country rating from 2a to 1b.

Looking in detail at our impairment charge on loans and advances, the overall charge was the sum of impairment allowances and reversals thereof, subsequent recoveries of written-off receivables, direct write-offs and assessments of impairments of portfolios carried out in accordance with IAS 39.64. Including the proportional allocation of risk allowances to *ALGAR*, impairment allowances came to €58.4 million. It proved possible to limit direct write-offs during the year under review to €0.9 million against the backdrop of a falling number of

IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€m	2014	2015	+/(–) Change, %
Direct write-offs	0.7	0.9	22.0
Impairment allowances	60.4	58.4	(3.4)
Impairment reversals	(11.2)	(10.0)	(10.9)
Subsequent recoveries	(0.5)	(0.8)	69.9
Impairment charge on loans and advances	**49.5**	**48.5**	**(2.0)**

crisis-related insolvencies. At the same time, we were able to carry out impairment reversals totalling €10.0 million. The impairment charge on loans and advances came to 0.89 per cent of the average exposure inclusive of contingent liabilities.

Impairment charges on loans and advances at our foreign subsidiaries came to €1.7 million, compared with € 2.0 million in 2014. *BKS Bank d.d.* accounted for €1.0 million of the total. *BKS-leasing d.o.o.* in Slovenia recognized impairment allowances of €0.6 million. The leasing subsidiary in Slovakia was able to carry out an impairment reversal of €0.2 million, and *BKS-leasing Croatia d.o.o.* was able to carry out a reversal of €0.1 million.

Full-year net interest income after the impairment charge was 9.3 per cent up on 2014 to €117.9 million.

Excellent net fee and commission income

11.4%

Net fee and commission income in the period under review exceeded our ambitious expectations. Group-wide, BKS Bank's net fee and commission income was substantially up on the previous year, increasing by 11.4 per cent to €53.0 million. As note 3 on page 194 shows, this good result was founded on an increase in fee and commission earnings from payment services (up 5.1 per cent to €21.3 million), on securities operations that were sustained by performance on the part of the international capital markets that was volatile but generally still balanced (up 13.4 per cent to €14.9 million) and on increases in fee and commission earnings from credit operations and foreign exchange operations (up 10.8 per cent to €14.8 and up 36.4 per cent to €3.8 million, respectively). The only significant increases in fee and commission expenses occurred in credit operations and payment services, where they went up by 25.2 per cent to €0.4 million and by 6.3 per cent to €1.6 million, respectively.

At the end of 2015, the securities portfolios held in custody by BKS Bank were worth €8.10 billion, compared with €7.96 billion at the end of 2014. The low interest rates prompted investors looking for returns to invest more in securities, even if the euphoria enjoyed by the stock markets in the first few months of the year evaporated after big corrections in the summer.

In the retail banking segment, we reviewed our prices for *Konten neu* accounts, and from April, we offered our customers updated and attractive account models called *Klassikkonto Privat* (classic personal account), *Premiumkonto Privat* (premium personal account) and *New Bankingkonto Privat* (new personal bank account). Their nationwide introduction was virtually glitch-free and customer response was very positive.

Performance of financial assets is mixed

The total profit from financial assets was weaker than in 2014, falling from €5.6 million to negative €1.7 million. Whereas profit from financial assets designated as at fair value through profit or loss was positive, at €0.1 million, there was a loss of €2.1 on assets in the available for sale portfolio. This loss was largely due to depreciation of an equity investment caused by a dividend distribution. Profit from held-to-maturity financial assets came to €0.3 million, compared with €4.7 million in 2014.

The line item *Net trading income*, which consists of earnings from foreign exchange trading and trading in derivatives, came to €2.3 million. Since proprietary trading was not a focus of our business operations, trading activities made only a small contribution to total profit.

Slight reduction of staff costs

0.7%

General administrative expenses came to €105.1 million, which was 0.7 per cent less than in 2014. Indeed, staff costs were 1.6 per cent down on 2014 to €68.8 million. We are pleased to report that our bank was able to keep staffing at a reasonable level despite the high regulatory demands. This was thanks to structural changes, strict cost awareness and the commitment of every decision-maker. Between the beginning of the year and the reporting date, the average number of staff increased by just eight to 923 (full time equivalents). Among other things, the workforce grew in sales as the number of branches increased by two. The increase in salaries under collective agreements in 2015 averaged 1.78 per cent and took effect on 1 April 2015. Nonetheless, wage and salary costs fell slightly, decreasing by 0.2 per cent to €50.9 million. Social security and old-age benefit costs were also down on 2014.

Other administrative costs and depreciation and amortization totalled €36.4 million in the period under review, compared with €35.9 million in 2014. We also cut other administrative costs. However, we did complete all the infrastructure investments that were needed because they will have an enduring positive effect on profits. Other administrative costs were just 1.1 per cent up on 2014. Depreciation and amortization increased marginally by 1.3 per cent to €7.1 million. This was because of construction and infrastructure works.

Having come to negative €2.5 million in 2014, the line item *Other operating income net of other operating expenses* came to negative €5.7 million. This outlay was caused by the stability levy of €4.1 million payable to the tax authorities (2014: €4.5 million) and other additional expenses in the supervisory field. Expenditure on Austria's national resolution mechanism for banks came to €2.1 million. This was payable for the first time in 2015, as was the payment to the deposit guarantee scheme, which came to €0.8 million in the year under review. If the bank tax in Austria, which is distorting competition, is not cut to a reasonable level, these enormous burdens will also affect profitability in the years ahead. In the final analysis, these burdens are severely hampering the desired development of equity. This line item also includes a provision of €3.5 million for tax payments.

Profit for the year

Including all income and expenses and the impairment charge on loans and advances, the BKS Bank Group posted a profit for the year before tax of €60.7 million in 2015, compared with €54.1 million in 2014. Profit for the year after tax after allowing for current and deferred tax expenses, which increased from €5.3 million to €7.1 million, came to €53.6 million. Taking into account the contributions to profit made by our investments in entities accounted for using the equity method, this was therefore the best result ever achieved in the history of BKS Bank.

Profit Appropriation Proposal

Distributable profit is determined on the basis of the Annual Financial Statements of Group parent *BKS Bank AG*. This company posted a profit for the financial year from 1 January 2015 through 31 December 2015 of €25.7 million, as against €19.9 million in 2014. €17.6 million of the profit for the year was taken to reserves, with 0.8 million thereof being taken to the liability reserve (*Haftrücklage*). Allowing for a profit carryforward of €0.3 million, *BKS Bank AG* thus posted a net profit of €8,468,458.40. We will be recommending to the 77th Ordinary General Meeting on 19 May 2016 that this amount be used as follows: distribution of the same dividend of €0.23 as in respect of the previous year; and carryforward of the remaining €0.2 million to a new account. The dividend will be paid to all the entitled ordinary and preference shareholders.

8,468,458.40

Key performance ratios are satisfactory

At the end of 2015, the BKS Bank Group's enterprise performance barometer—which captures growth in the loan portfolio and in primary deposit balances as well as costs and profit—was painting a generally satisfactory picture. As it showed, most of the BKS Bank Group's key operational ratios matched our high expectations. This was thanks to the striking increase in consolidated net profit for the year. The return on equity (ROE) before tax improved to 7.3 per cent despite the sharp but pleasing growth in equity that accompanied the rise in profit. The return on assets after tax (ROA) also came close to its level in the pre-crisis years, reaching 0.8 per cent, compared with 0.7 per cent in 2014. IFRS earnings per share were one cent up on 2014 to €1.50. As we will detail in the section on our *Consolidated Own Funds* from page 103, our bank's own funds position was solid, and consequently, our ratios remained correspondingly good under the Basel III regime. Having been 51.9 per cent im 2014, the cost:income ratio stayed on course to our benchmark target, improving to 48.7 per cent. This ratio, which is an important gauge of a bank's efficiency and reflected our consistent cost management during the 2015 financial year, means that our bank was still among the leaders in Austrian industry comparisons. Even though we were already well below our internal benchmark target of 55 per cent, we will do everything we can to sustain this outstanding ratio. The fall in the risk:earnings ratio—the gauge of the relationship between risks costs and net interest income—from 31.5 per cent in 2014 to 29.2 per cent in the year under review reflected the improvement in the structure of our credit risks. Our extensive work on continuing to improve the quality of our credit portfolio gives us confidence that we will be able to achieve our internal benchmark target of 25 per cent again in the foreseeable future.

KEY CORPORATE PERFORMANCE INDICATORS

% unless otherwise stated	2014	2015	+/(–) Change, %
ROE before tax (profit for the year in % of average equity)	7.2	7.3	0.1
ROE after tax	6.5	6.5	0.0
ROA after tax (profit for the year in % of average assets)	0.7	0.8	0.1
Cost:income ratio	51.9	48.7	(3.2)
Risk:earnings ratio (credit risk in % of net interest income)	31.5	29.2	(2.3)
Common equity Tier 1 capital ratio	11.2	11.8	0.6
Own funds ratio	12.0	12.3	0.3
IFRS earnings per share in issue, €	1.9	1.50	0.01

Assets, Liabilities and Financial Position

BKS Bank's consolidated balance sheet total grew by 3.0 per cent during the 2015 financial year, increasing from €6.85 billion to €7.06 billion and thus passing the €7 billion mark. The increase was once again a reflection of growth in the portfolios of loans to customers and other banks. The equity and liabilities side of the Balance Sheet mirrored the still high level of so-called 'primary' deposit balances, which provided an important basis for our funding.

Assets

The growth in our assets was primarily a consequence of increases in the line items *Receivables from customers* (up 2.1 per cent to €5.11 billion) und *Receivables from other banks* (up 35.0 per cent to €363.9 million). Besides lending by the Group parent *BKS Bank AG* (up 1.5 per cent to €4.65 billion), the line item *Receivables from customers* also includes lending by the leasing companies in Austria and abroad and by *BKS Bank d.d.* Lending abroad accounted for about 23.0 per cent of the loan portfolio. It proved possible to reduce marginally the impairment charge on receivables from customers, namely by 0.2 per cent to €193.7 million.

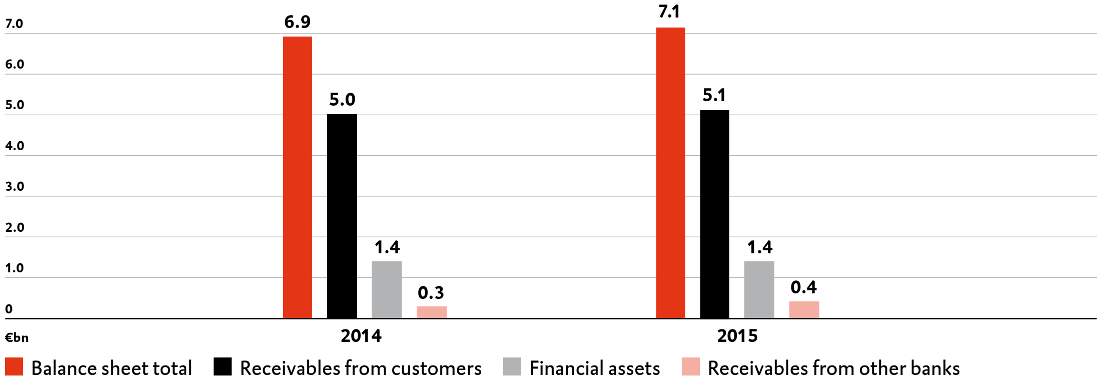
Unlike many of our competitors, we recorded growth in our credit operations during the year under review. Looking back, this upward trend strikes us as all the more remarkable given that the big cash holdings of many companies led to substantial loan repayments over the year. That was, however, made up for by our excellent new business performance in the corporate and business and retail banking segments. The reorganization of our sales structure thus yielded initial results. The nationwide growth in receivables from customers (non-banks) between January and September 2015 was just 0.5 per cent.

Leasing operations in Austria also developed satisfactorily in the period under review. Lease products gained a significant amount of ground, and we were able to exploit that trend. The growth in new leases for cars, trucks and other investment goods was substantially up on 2014. In the period under review, the present value of *BKS-Leasing Gesellschaft m.b.H.*'s portfolio reached €164.1 million. Present values at our foreign leasing companies in Slovenia and Croatia were also significantly up on 2014 to total €114.8 million. So far, growth at our leasing company in Slovakia has not lived up to our expectations.

BKS Bank d.d., which is headquartered in Rijeka, performed satisfactorily. At the end of 2015, it was servicing over 4,700 customers and had assets of HRK 1.56 billion. The growth in receivables from customers was particularly marked. In line with its strategy, the company also achieved perceptible volume growth in its retail banking operations.

The foreign currency loan portfolio again shrank significantly during the period under review. The portfolio of Swiss franc loans decreased by SFr 206.2 million to SFr 315.7 million. The foreign currency (FX) ratio at *BKS Bank AG* also fell sharply, reaching just 6.3 per cent at the end of December. It had still been 9.4 per cent at the end of 2014.

ASSETS



The line item *Financial assets* grew by 2.7 per cent to €1.45 billion. Investments in fixed-interest securities played an important part in ensuring our compliance with the legislative liquidity requirements. However, interest rates remained stuck at the same low levels, so they provided little incentive to invest. The yield on 10-year German *bunds* stood at just 0.63 per cent at the end of 2015. The shrinkage of the portfolio of assets designated as at fair value through profit and loss (FV) by over one fifth to €114.9 million and of the available for sale portfolio (AFS) by 9.0 per cent to €166.7 million must be seen in this context. However, the brief rise in 10-year yields on benchmark bonds to a peak of 0.92 per cent created opportunities to carry out a number of purchases and thus cushion repayments. During the year, the held to maturity portfolio grew by 6.8 per cent to €724.9 million, the principal focus being on ensuring that we had sufficient holdings of high quality liquid assets (HQLAs) to meet the minimum liquidity standards (liquidity coverage ratio or LCR).

The line item *Investments in entities accounted for using the equity method* increased by 10.8 per cent to €438.6 million. Among other things, the change in this line item was due to capital increases at *Oberbank AG* and *BTV AG* and to accounting for the annual profits of those entities and *Drei-Banken Versicherungs-Aktiengesellschaft* using the equity method.

Cash and balances with the central bank were shown at €190.3 million on the Balance Sheet as at 31 December 2015, compared with €215.3 million at the end of 2014. The components thereof—*Cash and cash equivalents* and *Balances with the central bank*—made up the cash and cash equivalents in the Cash Flow Statement, which is presented in detail in the Notes on page 180. The other line items on the assets side of the Balance Sheet such as *Property and equipment*, *Investment property*, *Intangible assets* and *Other assets* did not change significantly in the year under review.

Equity and liabilities

'Primary' deposits were still BKS Bank's most important source of funds. We therefore appreciated all the more the confidence that our customers continued to show in us during a sometimes turbulent 2015 reporting year. It was manifested by a rise in customer assets from €5.01 billion to €5.11 billion. The line item *Payables to customers* grew by 5.1 per cent to €0.9 billion.

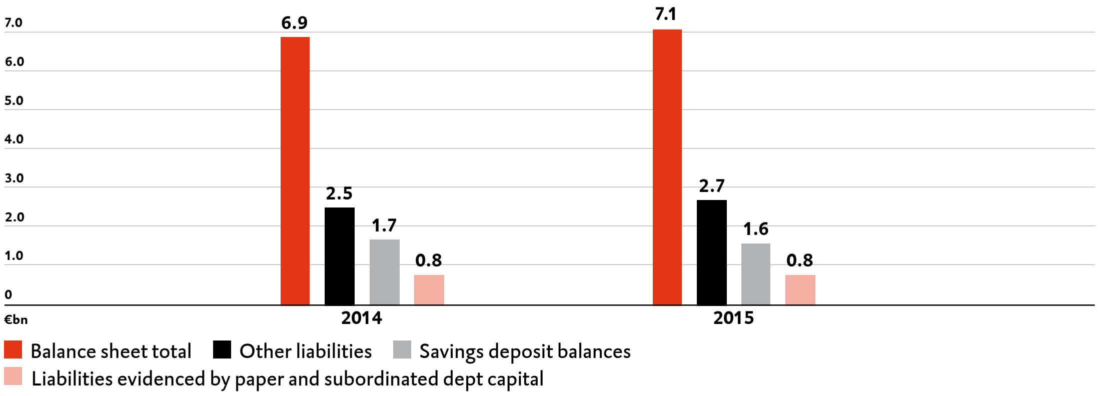
A number of trends shaped the changes in the balance of primary deposits during the year. Once again, the predominant components of the line item *Payables to customers* were sight and time deposit balances, which—having again grown strongly, by 8.1 per cent—came to €2.72 billion. They reflected above all the strong liquidity positions of our corporate and business banking customers. On the other hand, savings deposit balances suffered a market driven decline of €75.7 million to €1.63 billion. Because of the persistently low interest rates, our customers too were increasingly on the lookout for alternative investment forms outside the banking environment. This trend was also apparent in *OeNB* statistics. Savings deposit balances in Austria shrank by 1.9 per cent compared with the end of the previous year and had already shrank by 6.5 per cent since the end of 2012. On the other hand, the high level of investor confidence that our bank enjoyed in the Slovenian market—which was evidenced by deposit balances of roughly €626 million at 31 December 2015—gave us a great deal of satisfaction.

The line item *Liabilities evidenced by paper* shrank slightly, falling by 2.9 per cent to €576.3 million. We have been deliberately defensive during this period of extremely low interest rates, in which it has been and remains difficult to carry out long-term issuances of one's own securities. We were able to place new notes worth a total of €66.7 million during the year.

Redemptions reduced our subordinated debt capital outstanding by 7.0 per cent to €181.8 million. In the fourth quarter of 2015, our bank issued a supplementary capital note—the *4 per cent BKS Bank Nachrangige Obligation 2015-2025* [1]—to make up for the amount of a redemption of €15.0 scheduled for December.

The line item *Equity* on the Consolidated Balance Sheet, which consists of subscribed capital, capital reserves, retained earnings and other reserves, increased by €64.4 or 8.1 per cent to €860.2 million during the period under review. As shown in note 33, most of the increase was due to the addition of profit and other reserves in the amount of €41.0 million and to issuing further equity instruments. We issued a total of €23.4 million of the *BKS Bank Additional Tier 1-Anleihe 2015* note made available for subscription in September. It constitutes additional Tier 1 capital under CRR Art. 51 *et seq*. Subscribed capital remained unchanged at €72.1 million.

EQUITY AND LIABILITIES



[1] This does not constitute an offer or an inducement to buy or sell the notes mentioned. Nor does it constitute a recommendation to buy or sell. These issuances took place during the 2015 reporting year on the basis of the base prospectus published by *BKS Bank AG* on 1 April 2015 together with all the documents incorporated by way of reference thereto and all addenda and the final terms and conditions published in each case. These are available free of charge from the issuer's website at www.bks.at and from the branches of *BKS Bank AG*, St. Veiter Ring 43, 9020 Klagenfurt, Austria, during normal business hours.

Consolidated Own Funds

Since the beginning of 2014, BKS Bank has calculated its own funds ratio and basis of assessment in accordance with the own funds regime laid down by the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) as established by Basel III in order to increase crisis resilience.

CRR recognizes three clearly defined classes of own funds: *common equity Tier 1 capital* (Art. 26 CRR), *additional Tier 1 capital* (Art. 51 CRR) and ancillary *Tier 2 capital* (Art. 62 CRR). Within Tier 1 capital, one is thus required to differentiate between common equity Tier 1 and additional Tier 1. The following minimum requirements (in per cent of risk-weighted assets) apply for the individual components of capital:
– 4.5 per cent common equity Tier 1;
– 6 per cent Tier 1 (common equity Tier 1 + additional Tier 1);
– 8 per cent total capital (Tier 1 + ancillary capital).

Stricter qualitative criteria now govern the eligibility of Tier 1 and ancillary capital instruments. Since, for instance, short-term subordinated debt capital has not proven itself during the financial crisis that has been smouldering since 2008, all instruments in this class are no longer eligible for inclusion in own funds. The gradual implementation of the CRR is taking place by means of transitional provisions.

In addition to the minimum own funds requirements, capital buffers must be accumulated in preparation for future periods of strong credit growth in order to be ready for times of crisis. The combined buffer requirement lays down a variety of different buffers. They must consist exclusively of common equity Tier 1 capital. Among other things, between 2016 and 2019, one is required to accumulate a capital conservation buffer starting with 0.625 per cent of one's risk-weighted assets and going up to 2.5 per cent. Another requirement that may be of relevance to our bank relates to the anti-cyclical buffer in the amount of up to 2.5 per cent of the risk-weighted assets required by *§ 23a BWG*. It will be set in steps by the FMA depending on the state of the economy should excessive lending take place.

In order to prevent overblown balance sheets that combine the lending of large amounts with minimal capital charges, the regulators also paid particular attention to the leverage ratio. This ratio, which first required disclosure within the scope of the reporting requirements for 2015, expresses the relationship between Tier 1 capital (common equity Tier 1) and a bank's unweighted exposure inclusive of off-balance-sheet risk positions. Both during the year and at the end of 2015, our bank's ratio was outstanding and well above the regulatory minimum of 3 per cent that is currently under discussion.

We calculated our own funds requirement in conformity with the requirements of the standardized approach. Our management of our own funds was a reflection of BKS Bank's conservative and proactive business strategy. In the year under review, we were able to increase our common equity Tier 1 capital, which plays an essential role in the bank's management, by €32.0 million or 5.9 per cent to €575.6 million. By 31 December 2015, the common equity

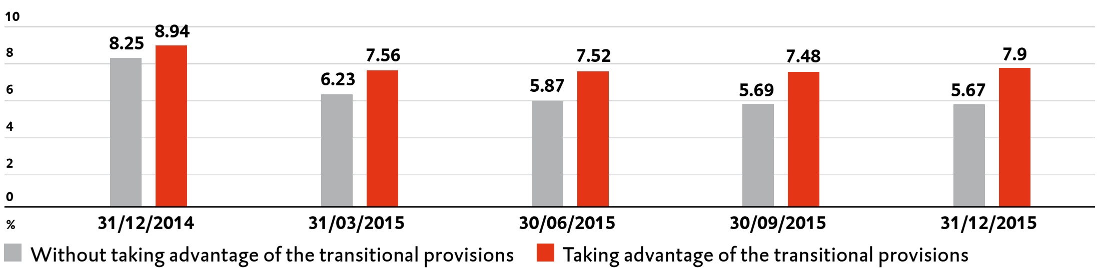
BKS BANK KREDITINSTITUTSGRUPPE: OWN FUNDS FOR THE PURPOSES OF CRR

€m	31/12/2014	31/12/2015
Share capital	71.4	71.0
Reserves net of intangible assets	714.5	748.0
Deductions	(242.2)	(243.4)
Common equity Tier 1 capital (CET1) [1]	**543.7**	**575.6**
Common equity Tier 1 ratio	**11.2%**	**11.8%**
Hybrid capital	32.0	28.0
AT1 note	—	23.4
Deductions	(32.0)	(51.4)
Additional Tier 1 capital	—	—
Tier 1 capital (CET1 + AT1)	**543.7**	**575.6**
Tier 1 ratio (including additional Tier 1 capital)	**11.2%**	**11.8%**
Ancillary capital items and instruments	117.8	114.7
Deductions	(80.6)	(90.4)
Ancillary capital	**37.2**	**24.3**
Total own funds	**580.9**	**599.9**
Own funds ratio	**12.0%**	**12.3%**
Basis of assessment	4,846.6	4,883.4
Surplus own funds	**193.2**	**209.2**

[1] Includes profit for the year 2015. Formal adoption is still outstanding.

Tier 1 ratio had risen by 60 basis points to 11.8 per cent. We issued a total of €23.4 million of the *BKS Bank Additional Tier 1-Anleihe 2015* note [1], which was open for subscription from 1 September and constitutes additional Tier 1 capital according to Art. 51 *et seq* of the CRR. Including ancillary capital in the amount of €24.3 million, our bank had own funds of €599.9 million at the end of 2015. The own funds ratio was 12.3 per cent, and surplus own funds came to €209.2 million.

LEVERAGE RATIO OF BKS BANK KREDITINSTITUTSGRUPPE



[1] This is a marketing message. The information in this text is intended solely as customer information. It is not binding and does not under any circumstances replace advice regarding the buying or selling of securities. This does not constitute an offer or invitation to buy or sell the investment mentioned herein. Nor does it constitute a recommendation to buy or sell. The offering of the product described here took place on the basis of *BKS Bank AG's Informationsmemorandum* (information memorandum) of 28 August 2015 and the final terms and conditions contained therein.

Sustainability and Non-financial Performance Indicators

During 2015, there was increasingly intense debate about whether Corporate Social Responsibility (CSR) really brings competitive advantages or is frequently mere greenwashing by PR departments. We can understand this debate because the term 'sustainability' has become more than over-used. But regardless of whether or not sustainability and CSR happen to be fashionable at the moment, BKS Bank stands for a responsible business policy. For instance, neither 'sustainability' nor 'CSR' were widely used terms when we became the first company in Carinthia to set up a care facility for small children on our premises in the form of the *Kinki* crèche in 1998. Similarly, we have for many decades been well-known for our commitment to society. Today, we direct our responsible actions equally at our customers, our employees and our equity holders. Sustainability is anchored in our core operations, and environmental and climate protection are likewise part of our strategic thinking.

That is why are so committed to this topic. We are convinced that a bank needs a solid reputation to succeed. A good reputation is based on:
– acting in conformity with rules and compliantly;
– keeping one's word and behaving professionally and reliably vis-à-vis one's customers and business associates:
– treating employees with esteem;
– maintaining lasting partnerships with society.

We want to make a contribution to ensuring that our children and grandchildren too will have a world worth living in. We have therefore committed ourselves to the principles of the UN Global Compact and, at a regional level, do everything we can to act as a multiplier for responsible action.

Holistic sustainability management rather than isolated actions
BKS Bank did not perform any isolated CSR actions. It only undertook new measures and projects if they fitted into our sustainability strategy, which has a holistic orientation. For us, sustainability means that we acted in accordance with *respACT*'s CSR vision and differentiated between the following fields of action:
– leading and designing;
– employees;
– the market;
– the environment;
– society.

'Prime': high recognition from *oekom research* AG
We are particularly proud to report that our sustainability activities earned us our first 'prime' rating from *oekom research AG* in 2015. This top rating says that an enterprise has satisfied the sustainability standards set by *oekom* and is one of the best in its class. BKS Bank was rated in the 'Public and Regional Banks' category.

oekom rated a total of more than 3,500 enterprises worldwide, and only a few were granted 'prime' status. Before we were given this rating, our business policy underwent thorough scrutiny in the areas of social and environmental responsibility. We are pleased about the bank's good scores in the business ethics and corporate governance categories, and among other things, our responsible sales practices and sustainable products and services also received positive mentions. Furthermore, our efforts to give support to the people working for BKS Bank were rated well above the industry average.

Our sustainability strategy was also praised by other external experts. At the end of 2015, *BusinessART Magazine* voted us a *Nachhaltige Gestalterin* (designer of sustainability). During the award process, 52 innovative, sustainability orientated and socially engaged enterprises underwent assessment by a jury of experts. BKS Bank won the coveted first place ahead of numerous well-known companies in the category of entities with more than 100 employees.

Leading and Designing

Sustainability management at BKS Bank took place directly in its Management Board Office. The CSR Officers coordinated activities with the various departments and with working groups that were addressing specific topics. There were regular consultations with the Management Board.

In dialogue with our stakeholders

BKS Bank was operating as a bank with strong roots in the region, as a listed company and employer, as a business associate and as a member of interest groups. A variety of regulatory authorities were in regular contact with the bank. Printed and online media published regular reports about our bank, and our activities also had an impact on the environment. This list alone demonstrates how many different stakeholders the bank had a relationship with.

We define stakeholders as all the people, groups of people, institutions and organizations that have a

– legal,
– financial,
– commercial or
– social interest

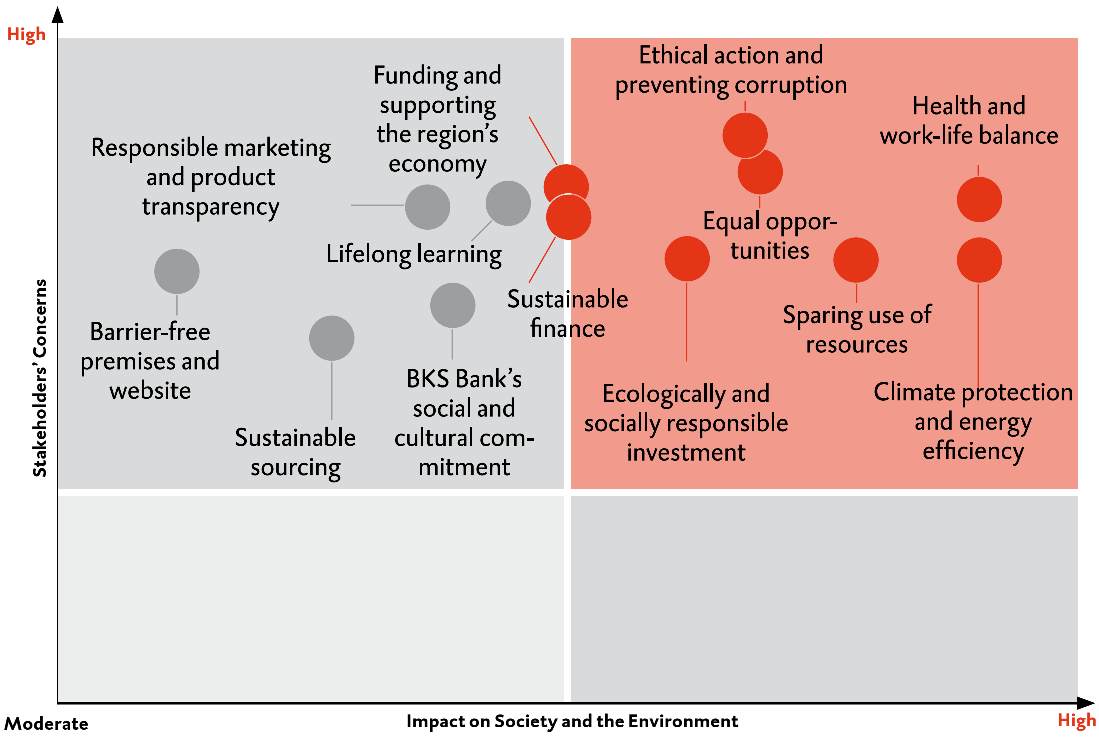
in BKS Bank's decisions and actions. We maintained a regular dialogue with those stakeholders. This happened, for instance, by means of events, personal meetings, the now usual online communications, mail shots, reports and much more. We also saw this dialogue as an opportunity to receive input abut topics that are key to our stakeholders.

In 2015, we carried out an extensive stakeholder survey to find out which areas of CSR are of special importance to them and whether we were addressing the 'right' CSR issues. We surveyed equity holders, customers, employees and business associates. We intended to use the results to give us a basis for refining our sustainability strategy and BKS Bank's targets and actions. We were very pleased with the response rate of about 50 per cent.
Those questioned gave a high priority to health care, the work-life balance, climate protection and energy efficiency as CSR topics for the future. We

50%

extracted a materiality matrix from the revealing results and conclusions of the survey. They are described in detail in our 2015 Sustainability Report.

MATERIALITY ANALYSIS



Integrating foreign markets into the CSR strategy

BKS Bank aims to undertake comparable sustainability activities in all its markets. We therefore began setting up CSR management systems in our foreign markets during the year under review. Slovenia was given priority as our most important foreign market.

We set up a CSR Team in Slovenia under the leadership of our Country Director, Boštjan Dežman. He developed a programme for the year together with our Austrian CSR officers and introduced a CSR reporting system. The first fruit of our efforts in Slovenia was an award for being a family-friendly enterprise along the lines of the Austrian *berufundfamilie* audit award.

NON-FINANCIAL PERFORMANCE INDICATORS (LEADING AND DESIGNING)

	Indicators in 2014	Indicators in 2015
Sustainability rating by *oekom research AG* (on a scale from A+ to D-)	C-	C 'Prime'
Enterprise quality rating*	—	R4E 5*
Stakeholder survey response rate	—	50%
Number of complaints Group-wide	316	605

EFQM – recognized for excellence 5.

New code of conduct

The EBA Guidelines on Internal Governance require a regular review of our Code of Conduct. Our Code of Conduct was last revised in 2013, but we will be bringing it into line with present circumstances again in 2016. The Code of Conduct was available to every employee in the language of his or her country. It is a valuable decision-making aid for employees when addressing critical issues of behavioural conformity.

Employees

A large part of BKS Bank's multifaceted CSR activities was directed at the people working for BKS Bank. BKS Bank makes it easier for them to combine having a family and a career, which is why it has the *berufundfamilie* audit certificate. We hope to undergo our second re-audit in 2016.

Suggestions made within the scope of the employee survey

As a survey of all the employees of BKS Bank carried out at the end of 2014 showed, they were very happy with BKS Bank as an employer. 108 suggestions for improvements emerged from the survey, and 87 had been put into effect by the end of 2015.

Anonymous advice for employees in difficult situations

Since March 2015, the *EAP-Institut für Mitarbeiterberatung* staff counselling institute has been offering our employees a professional advice service for people in difficult professional and personal situations. It can be used anonymously and free of charge.

***Durch die Bank gesund* (banking on health)**

In 2015, the workplace health promotion scheme operating within the enterprise under the motto *Durch die Bank gesund* (banking on health) focused primarily on skin health. About 330 employees made use of the scheme, and the drives and lectures that went beyond it were also well received. The next project will address one of society's biggest health issues—metabolic diseases like diabetes. BKS Bank carries the *Gütesiegel für Betriebliche Gesundheitsförderung* (quality seal for workplace health promotion) for its work in this field.

330

In the second half of 2015, we carried out an employee survey about our workplace health promotion scheme. The results reflected a consistently high level of satisfaction with what we have done so far. About four fifths of those questioned said that our activities were improving their health. 93 per cent found the schemes we had offered them very attractive. Please refer to the section on *The people who work for BKS Bank* in the chapter on *Resources, Products and Services* from page 80 for details of our staffing and basic and further training measures. Information about our measures for the advancement of women and equal treatment is provided from page 38 in the Corporate Governance Report.

NON-FINANCIAL PERFORMANCE INDICATORS (EMPLOYEES)

	Indicators in 2014	Indicators in 2015
Number of employees (Group)	1,075	1,091
Proportion of women on the Management Board	33.3%	33.3%
Proportion of women on the Supervisory Board	26.6%	33.3%
Ratio of female management personnel to male management personnel (Group-wide)	31%	31%
Average days of training per member of staff	3.96	4.39
Fluctuation rate	2.91%	3.87%
Participants in annual workplace health promotion project	189	328
Sick leave in per cent of working days	2.58%	2.95%
Average parenthood leave, years	1.4	1.5
Proportion of fathers to the total number of employees taking parenthood leave	n.a.	15%
Awards for staff-related activities and memberships of staff-related networks:		
– *berufundfamilie* audit certificate	✓	✓
– Quality seal for workplace health promotion	✓	✓
– *Unternehmen für Familien* (enterprises for families)	✓	✓
– Carinthian International Club	✓	✓
– *Charta der Vielfalt* (diversity charter)	—	✓

The market

BKS Bank was
– an important provider of funds to businesses,
– a customer of many companies,
– an employer and
– a tax payer.

In the 'market' field of action, we worked on anchoring sustainability in our core operations, on addressing customers responsibly and on ethical and ecological sourcing. Our main focus in 2015 was on continuing to strengthen the market position of the *AVM nachhaltig* fund [1] and revising our Code of Conduct for Suppliers.

Success of *AVM nachhaltig*

Over the past few years, BKS Bank has consistently been anchoring CSR in its core operations. It has been offering its customers a number of sustainable products such as *Öko-Kredit* 'green' loans, *Umwelt-Kredit* 'environmental' loans, the 'green' *Öko-Sparbuch* passbook accounts and the *AVM nachhaltig* active asset management fund.

[1] This is a marketing message. The information in this text is intended solely as customer information. It is not binding and does not under any circumstances replace advice regarding the buying or selling of securities. This does not constitute an offer or invitation to buy or sell the investments and/or (bank) products mentioned herein. Nor does it constitute a recommendation to buy or sell.

AVM nachhaltig was awarded the *Österreichisches Umweltzeichen für nachhaltige Finanzprodukte* (the Austrian environmental friendliness mark for sustainable financial products)[2]. We energetically promoted this product in the year under review and significant growth was the result. At 31 December 2015, over €18 million had been invested in *AVM nachhaltig*. A ranking of the seven active asset management variants in our product line now put *AVM nachhaltig* in third place, and it was the fastest growing variant.

18m

Code of Conduct for Suppliers

When we bought products—whether they were promotional gifts or paper—we made sure that their manufacture was ecologically-friendly, kind to the climate and humane. We bought many of our gifts in regions where we were active and knew the manufacturers in person.

Every supplier was required to agree to our Code of Conduct for Suppliers. Among other things, they agreed
- to respect human rights;
- to provide humane working conditions;
- not to use forced labour or child labour;
- to act to prevent corruption;
- not to launder money;
- to protect data;
- to protect the environment and the climate.

We revised the Code of Conduct in the year under review and introduced it in every one of BKS Bank's markets in the language of the respective country.

NON-FINANCIAL PERFORMANCE INDICATORS (THE MARKET)

	Indicators in 2014	Indicators in 2015
Number of customers	149,000	150,000
Number of branches	57	59
Amount invested in *AVM nachhaltig*, €m	9.6	18.1
Ratio of assets invested in *AVM nachhaltig* to total assets under AVM management	10%	18%
Fund assets in 3 *Banken Nachhaltigkeitsfonds*, €m	99.9	92.8
Fund assets in 3 *Banken Dividende+ Nachhaltigkeit 2021*, €m	—	52.6
Balances in *Öko-Sparbüch* passbook accounts, €m	4.4	7.5
Volume of environmental loan end environmental lease portfolios in the corporate and business banking segment, €m	0.7	3.4
Proportion of suppliers who had agreed to the Code of Conduct for Suppliers	100%	100%

[2] *Österreichisches Umweltzeichen für nachhaltige Finanzprodukte*: The *Lebensministerium* (Austrian ministry of life) awarded the *Österreichisches Umweltzeichen* to the *AVM nachhaltig* fund because it also takes ecological and social criteria into account alongside financial criteria when investment funds are selected. The *Umweltzeichen* provides assurance that these criteria and their application are such as to lead to the selection of appropriate investment funds. This is checked by an independent agency. The awarding of the *Österreichisches Umweltzeichen* environmental friendliness mark does not provide any indication of the investment's future performance.

New sustainable products

The results of the *oekom* rating process inspired us to carry out further improvements. We will therefore be continuing to enlarge our range of sustainable products. We already introduced another sustainable product—the *Silberkredit* silver loan—at the beginning of 2016. It is designed for customers who are older than 65 when they take out a loan or will be older than 70 at the end of its term. Often, this segment of the population can only get loans approved in exceptional cases. In addition, the preparations for issuing green and social bonds are already well advanced.

The environment

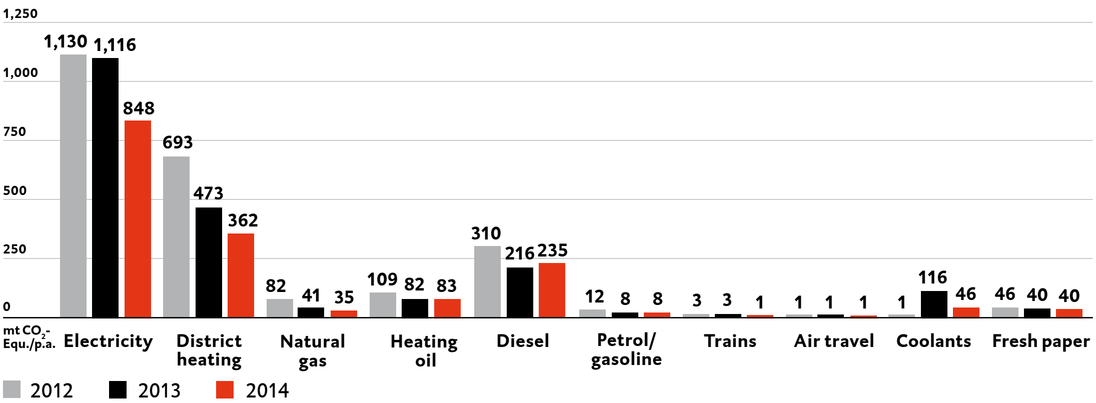
Despite worldwide efforts to calm the situation, global climate change continues. Within the limits of its possibilities, BKS Bank strived to contribute to climate protection.

A sharp reduction in our carbon footprint

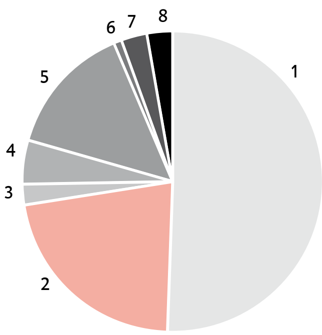
As part of our environmental data management activities, we re-calculated our 2014 carbon footprint in the year under review and compared it with 2012 and 2013 as base years. In absolute terms, the carbon footprint calculated for all the BKS Bank locations that we analyzed came to a CO_2 equivalent of 1,660 metric tons in 2014. Roughly 86 per cent of BKS Bank's carbon footprint was attributable to one of three causes, namely electricity, district heating and diesel fuel. We were very pleased about the saving of 21 per cent or 450 metric tons of CO_2 equivalent compared with 2013.

450t

BKS BANK'S CARBON FOOTPRINT OVER TIME



CARBON FOOTPRINT IN 2014



1	Electricity	51.0%
2	District heating	21.2%
3	Natural gas	2.5%
4	Heating oil	5.0%
5	Diesel	14.0%
6	Petrol/gasoline, trains, air travel	0.8%
7	Coolants	2.8%
8	Fresh paper	2.7%

Above all, our Fleet Management Department looked carefully at energy efficiency when buying new company cars. As a result, we no longer bought any new cars that were not in the emission classes 5 or 6. We added a VW e-Golf to the fleet in 2015, and people were very fond of using it. Furthermore, we only used paper from sustainable forestry businesses carrying the FSC seal.

We carried out our first energy audit so as also to meet our obligations under the *Energieeffizienzgesetz* (Austrian energy efficiency act). The results showed that BKS Bank's energy consumption lies within the industry average. We plan to put a large number of recommendations from the energy audit into effect during 2016. In doing so, we will be renewing the systems used to control the heating, ventilation and air conditioning equipment at three locations.

Green IT – Collaboration with AfB

AfB has been recycling BKS Bank's old hardware since 2015. IT hardware that is no longer needed by BKS Bank is routinely passed on to *mildtätige und gemeinnützige GmbH* (*AfB*). *AfB* specializes in collecting discarded IT hardware from big companies and public sector organizations, refurbishing it and carrying out the certified erasure of any existing data. The equipment is then re-sold for its intended use. Defective equipment is stripped down for spare parts and the remaining raw materials are passed on to certified recyclers. Every process within the company is barrier-free and carried out by disabled and able-bodied persons alike in solidarity.

Admission to the ECO WORLD STYRIA Cluster

170 companies and research facilities are working on the creation of tomorrow's clean and green technologies within the ECO WORLD STYRIA Cluster. BKS Bank has been a member of the cluster since June 2015.

NON-FINANCIAL PERFORMANCE INDICATORS (THE ENVIRONMENT)

	Indicators in 2013[1]	Indicators in 2014[1]
Carbon footprint, metric tons of CO_2 equivalents	2,100	1,660
Carbon footprint per employee, metric tons of CO_2 equivalents/FTE	2.8	2.3
Electricity consumption, GWh	3.0	3.0
Proportion of electricity from renewable resources in total electricity consumption	n.a.	100%
Natural gas consumption, GWh	0.18	0.20
Diesel, 1,000 litres	80	80

[1] The carbon footprint was always calculated on the basis of prior-year values.

	Indicators in 2014	Indicators in 2015
Kilometres of travel saved through video conferences	141,000	194,400
Kilometres travelled by rail	54,229	76,869
Paper consumption, metric tons	41.3	36.0
Paper consumption per employee, kg	48.5	42.1
Units of hardware recycled by *AfB*	—	574

Society

Social involvement was very important to BKS Bank. It supported social, cultural and educational projects either financially or through corporate volunteering. Activities within networks for responsibility like *respACT – austrian council for sustainable development*, *Verantwortung zeigen!* (show[ing] responsibility) and *Unternehmen für Familien* (companies for families) acted as a multiplier. With the help of TRIGOS, BKS Bank motivated other companies too to become sustainability activists. Barrier-free access to banking was also a concern for our bank.

A supporter of cultural, educational and social causes

362

BKS Bank sponsored 362 projects during the year under review. Most of them were in the cultural, educational and social fields. For instance, in 2015, we gave financial support to the premiere of *Lavant* in Klagenfurt's city theatre, the Carinthian Summer Festival and the *Tage der deutschsprachigen Literatur* (German literature days). In the social field, we continued our long-standing partnership with *Kärntner in Not* (Carinthians in need). BKS Bank's employees made donations to the victims of a driver who ran amok in Graz, and we topped up the amount raised. We also continued to support projects operated by *Caritas* and *Diakonie*. Our sponsorship of *Volkswirtschaftliche Gesellschaft Kärnten* and support of the *Junior-Wettbewerb* competition and the International School are just three examples of our measures to promote basic and further training and education.

Corporate volunteering: our warm-hearted employees

Our employees were able to take part in corporate volunteering projects throughout the year. Among other things, in 2015,

- they accompanied severely disabled children to horseback riding during the Aktionstage Nachhaltigkeit (sustainability campaign days) and created a berry garden at Pöttsching Children's Village;
- they barbecued with disabled guests and cooked with asylum seekers during the Engagementtage (commitment days);
- they hiked with children from a special educational establishment;
- they made advent calendars with disabled people during pre-Christmas projects;
- they packed Christmas presents for the young patients of the pediatric oncology department in Graz and the children cared for by *Diakonie de la Tour*;
- a BKS Bank team cooked in Maribor market for a social project in Slovenia.

CSR multipliers

Sustainability can only have an impact if the idea is spread by as many people as possible.

BKS Bank is an active member of *respACT* and is significantly represented in the organization by the Chairwoman of our Management Board, Herta Stockbauer, who is its Vice-President. The principal manifestation of our collaboration in 2015 was the CSR Day in Villach. It was attended by about 200 CSR experts from across Austria.

Companies submitted some 40 entries for the *TRIGOS Steiermark* (Styria) award in 2015, setting a new record. It was correspondingly hard for the judges to choose the winners of these coveted CSR trophies, which are awarded by BKS Bank in the Austrian province known as the

'Green March' on a biannual basis. In Carinthia, the Forelle Hotel won the PRIMUS award sponsored by us in the sustainability category. The PRIMUS is awarded under the aegis of the *Kleine Zeitung* newspaper.

In 2015, BKS Bank signed the *Charta der Vielfalt* (diversity charter), committing it to strengthening the commitment to diversity within the enterprise and propagating it outside the organization.

Barrier-free access to banking

Since 1 January 2016, companies that offer goods and services have been legally obliged to provide barrier-free access to their offerings. BKS Bank continued to invest in converting its branches in the year under review. The branches that we opened anew or converted during 2015 boast high standards of barrier freedom thanks to ramps, lowerable counters, induction loop systems, foil fitted to glass facades and opening time panels that can be read by the visually impaired.

NON-FINANCIAL PERFORMANCE INDICATORS (SOCIETY)

	Indicators in 2014	Indicators in 2015
Number of sponsored projects in Austria	370	362
Monetary sponsorship, €k	271	228
Participants in corporate volunteering projects	94	102
Person-hours contributed to corporate volunteering projects	536	574
Entries for TRIGOS Carinthia (2014) and Styria (2015)	20	36
Memberships of networks for responsibility:		
– UN Global Compact	✓	✓
– *respACT*	✓	✓
– *Verantwortung zeigen!*	✓	✓
– *Unternehmen für Familien*	✓	✓
– *Eco Cluster Styria*	—	✓

The activities described here represent just a small part of our commitment to sustainability. Detailed information is provided in our Sustainability Report, which is available at www.bks.at/nachhaltigkeit.

Segmental Reports

BKS Bank was founded in 1922 and has been listed on the stock exchange since 1986. It has for decades been making its mark as a major regional bank in southern Austria in association with its subsidiaries and the *3 Banken Group*. Its business policy has always been shaped by a conservative system of values based on the principles of independence, autonomy and entrepreneurial far-sightedness. This is valued equally by our discriminating retail banking customers and our export orientated corporate and business banking customers in the medium enterprises segment.

Our sales network is geared to regional interests and our customers' needs. At year-end, it consisted of 59 branches located in Austria, Slovenia, Croatia and Slovakia and a representative office each in Italy and Hungary. Besides the products and services that are normally provided by a so-called 'universal' bank, our broad range of financial products and services also included banking-related ancillary offerings like lease finance, insurance and building society products. These products and services were sourced from subsidiaries, associates within the *3 Banken* three banks group and long-standing allies of BKS Bank and were sold through our own sales channels.

SEGMENTS

The Corporate and Business Banking Segment

About 18,100 customers were being serviced in the corporate and business banking segment. BKS Bank having originally been conceived as a pure corporate and business bank, this segment has the longest tradition, and since corporate and business banking customers account for the larger part of the loan portfolio, it remained the most important pillar of the enterprise. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed the income and expenses of *BKS Bank d.d.* in Croatia and the leasing companies insofar as they arose from business done with companies.

The Retail Banking Segment

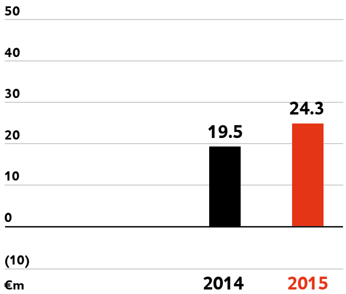
At the end of 2015, roughly 132,250 customers of *BKS Bank AG*, *BKS Bank d.d.* and the Group's leasing companies were being serviced in the retail banking segment. Because it is highly dependent on branch operations, this segment was very resource and cost intensive. However, at the same time, innovatively designed branches offering customers extensive and skilled advisory support to help them with complex banking products were just as indispensable to us as the retail banking segment's role as our bank's principal source of funds. Even in these times of historically low interest rates, some 87 per cent of savings deposit balances and nearly a third of sight and time deposit balances—that is, slightly over half of our payables to customers—came from retail banking customers. In addition, our retail clients accounted for about one fifth of our receivables from customers.

The Financial Markets Segment

The financial markets segment encompassed the profits from *BKS Bank AG*'s proprietary trading activities, from securities held in its own portfolios, from equity investments, from derivatives in the banking book and from inter-bank transactions as well as earnings from its interest-rate term structure management activities.

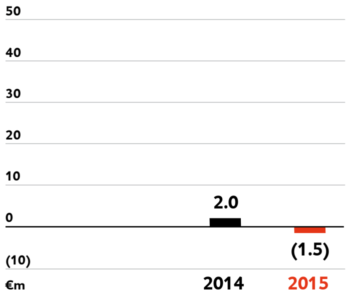
PROFIT FOR THE YEAR BEFORE TAX, BY SEGMENT

CORPORATE AND BUSINESS BANKING



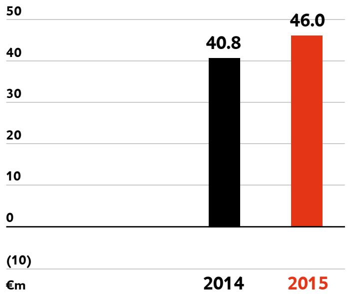
ROE	7.8%	9.9%
CIR	39.4%	38.7%
RER	57.7%	53.2%

RETAIL BANKING



ROE	4.7%	(3.7%)
CIR	94.0%	98.7%
RER	3.7%	7.8%

FINANCIAL MARKETS



ROE	9.0%	8.6%
CIR	16.0%	12.8%
RER	1.2%	4.3%

Our segmental reporting was based on the organizational structure of the Group that underlies its internal management system. It was divided into three segments, namely corporate and business banking, retail banking and financial markets. The performance of each segment was measured on the basis of its profit before tax and the indicators return on equity (ROE), cost:income ratio (CIR) and risk:earnings ratio (RER). Return on equity was calculated on the basis of the relationship between a segment's profit for the year and the average amount of equity tied up in it.

Capital was allocated according to regulatory criteria. Net interest income was allocated using the *market interest rate method* and on the basis of an extensive liquidity cost accounting system. Incurred operating expenses were allocated to the individual business segments on a cost-by-cause basis. So-called 'structural' income was allocated to the financial markets segment.

During the 2015 reporting year, BKS Bank focused intensely on optimizing its sales structure and sales organization, and it carried out a minor change to its segmental structure. Up to and including 30 June 2015, the retail banking segment also included retail business customers. These are businesses with borrowings of not more than €1.0 million. With the exception of customers who could be counted as belonging to the healing professions, those customers were integrated into the corporate and business banking segment as of 1 July 2015 so as to provide them with the best possible customer care. This has led to minimal changes in our segmental reporting. The figures for the comparative period have been restated retrospectively in conformity with IFRS 8.29.

A modern sales structure and professional sales management
The demands made on modern and sustainable banking have changed constantly in recent years. The goal is a balanced relationship between branches, self-service, call centres, video advice, integrated information about financial products and online banking. However, as has repeatedly been verified by a raft of studies and surveys, the local branch remains the primary point of contact for a bank's customers when it comes to complex services and contracts.

In order to make us leaner, more efficient and more customer orientated, we reviewed BKS Bank's structure and reorganized our sales units. We cut the number of regional sales offices in Austria from six to three. Since the summer of 2015, we have had one regional sales office each for Carinthia, Styria and Vienna – Lower Austria – Burgenland. Since 1 July 2015, our branches have been organized by customer category. The categories are retail customers, corporate and business customers and large customers. In addition, we have since the summer been using a professional 'Sales Cockpit' dashboard to improve our management of sales activities. We see the Sales Cockpit as an essential building block of a modern sales architecture. It supports self-management, promotes self-dependence and shows how far one has met one's targets on the basis of management benchmarks that are specific to the respective segment. Adherence to targets is monitored within the scope of weekly sales meetings and appropriate countermeasures are deployed if targets are missed.

The change in our sales structure went hand-in-hand with the reorganization of our central customer departments. The Retail Banking Department was reorganized and extended to include a new organizational unit called New Banking. The New Banking team will primarily address issues to do with making banking operations mobile and the Group-wide dovetailing of BKS Bank's stationary and digital sales activities.

The Corporate and Business Banking Segment

The corporate and business banking segment was the most important operating business segment by far within the BKS Bank Group. Historically, it dates back to the bank's foundation in 1922. Having originally been conceived as a pure corporate and business bank, BKS Bank is particularly strongly rooted in the medium enterprise segment. Its customers include numerous industrial, business and trading enterprises; a detailed list of the sectors and industries that are of relevance to us is provided in the Risk Report on page 147. Those companies value BKS Bank as a solid and reliable partner that stays by their side even when economic times are tough, that knows what is going on in the market and helps shape it and that makes decisions in a flexible and unbureaucratic manner. Our core areas of expertise in the corporate and business banking segment encompassed the provision of expert investment and export finance advice, our extensive know-how in the field of subsidies and our broad and modern range of payment services. Thanks to our transparent account models, high service orientation and strong roots in the region, our recommendation rate remained good in 2015.

An attractive range of products and services

We offered our corporate and business banking customers a broad range of financing products. Working funds and project finance, lease and export finance, guarantees and subsidized finance were carefully tailored to customers' needs in the course of personal advice sessions.

Export subsidies were an important area of business. Exporting companies appreciated our years of experience and the expertise of our corporate and business banking account managers in this field. Our bank accounted for nearly a third of the export loans granted to SMEs in the province of Carinthia. In other words, we have been the unchallenged leader in this area for many years. BKS Bank had a market share of 4.8 per cent of the total volume of export fund loans granted to SMEs across Austria.

Our extensive range of payment services for corporate and business banking customers was built on a detailed analysis of their individual needs. We used it to develop appropriate low-cost offerings for each situation and gave our customers needs-tailored and transparent *Business Klassik*, *Business Komfort* or *Business Premium* business accounts. We advised corporate and business banking customers on and helped them with the introduction of modern electronic payment systems, covering a range from classical point-of-sale payments to digitization issues. In the year under review, we began preparations for the application of the amended PSD II (Payment Services Directive II). The focuses of this directive, which has yet to be incorporated into Austrian law, are strict security standards for electronic payments, the creation of the prerequisites for payment initiation and account information services and the strengthening of consumer rights. Another regulation was introduced in May 2015 by way of the EU directive on inter-bank fees for card-based payments.

At the beginning of 2015, we established an organizational unit called Corporate Banking to act as a new central sales unit. Its function is to provide professional support to our 'large corporate' clients—these are customers with output of over €75 million—and our institutional clients. We are able to offer this special group of customers made-to-measure one-stop care with the support of our specialists in the export subsidy, investment subsidy, payments and leasing fields. This unit is also responsible for syndicated loan and debt certificate operations.

BKS Bank collaborated with insurance broker *3 Banken Versicherungsmakler Gesellschaft m.b.H.* in the insurance field. This is a *3 Banken* joint operation whose specialized insurance advisors gave support to our corporate and business banking account managers during advice sessions. In the year under review, customers showed especial interest in our corporate pension insurance products and cover for corporate risks like business interruptions and directors' liability.

Pleasing business performance

The market landscape was still being affected by the state of the economy, but the segment's business performance in the 2015 reporting year was relatively satisfactory. In general, we note that new lending coincided with substantial loan repayments. This was because the propensity to invest was still reduced, leaving many companies with high surpluses of liquid assets.

The portfolio of loans to corporate and business banking customers grew by 3.8 per cent to €3.97 billion. This meant that the corporate and business banking segment accounted for more than three quarters of all lending by the BKS Bank Group. We see this as a sign of the excellent response to the quality of our services and advice. *BKS Bank AG* accounted for €3.55 billion of the loan portfolio. We recorded pleasing growth of about €65 million compared with the end of 2014 despite the continued dullness of the Austrian and Slovenian economies. *BKS Bank d.d.* in Croatia contributed €139.7 million to the corporate and business loan portfolio.

3.97bn

Lease finance is an attractive alternative to classical credit finance. It is a form of finance that has a limited impact on liquidity and does not affect one's balance sheet. The present value of the current leases in the portfolios of our leasing companies in Austria and abroad came to €286.4 million at the end of the period under review.

We were able to continue to reduce the proportion of foreign currency loans in the total loan portfolio in the corporate and business banking segment. In the course of the year, *BKS Bank AG*'s foreign currency loan ratio fell from 6.3 per cent to just 3.7 per cent.

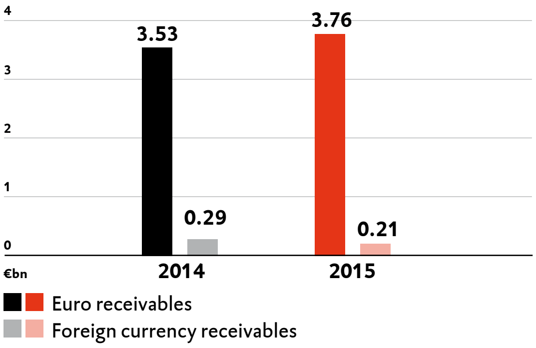
Primary deposit balances develop well

Although made-to-measure finance was still BKS Bank's most important offering for corporate and business banking customers, savings, sight and time deposit balances and sales of insurance products also grew steadily during the year under review. Despite the fact that interest rates were at historical lows, savings deposit balances in the corporate and business banking segment grew by a respectable 11.6 per cent to €218.3 million. Companies' restrained investment behaviour was also reflected by high balances of sight and time deposits. In the year under review, the line item *Other liabilities* grew to €1.93 billion, which was 10.7 per cent more than at the end of 2014.

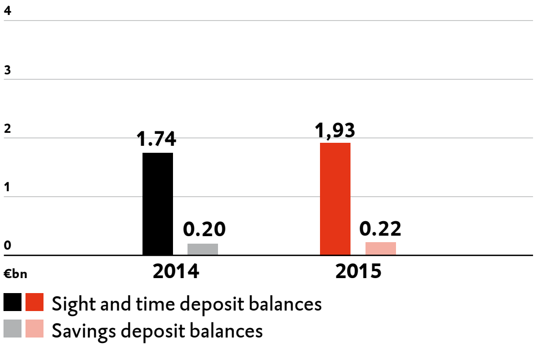
Strong growth in segment profit

Despite the economy's subdued growth, net interest income in this segment built on the strong total of €82.8 million recorded in 2014, coming to €82.9 million. This was a very satisfactory result given the stubborn pressure on margins and the erosion of interest rates. Net fee and commission income was fed by advances in earnings from credit and securities operations and payment operations and grew by 3.8 per cent to €28.6 million in the year under review. That compared with €27.6 million in 2014. The segment's risk position improved

RECEIVABLES FROM CORPORATE AND BUSINESS BANKING CUSTOMERS



PAYABLES TO CORPORATE AND BUSINESS BANKING CUSTOMERS



CORPORATE AND BUSINESS BANKING SEGMENT

€k	2014	2015
Net interest income	82,843	82,870
Impairment charge on loans and advances	(47,832)	(44,095)
Net fee and commission income	27,567	28,603
General administrative expenses	(43,775)	(43,166)
Other operating income net of other operating expenses	682	129
Profit for the year before tax	**19,485**	**24,341**
ROE before tax	7.8%	9.9%
Cost:income ratio	39.4%	38.7%
Risk:earnings ratio	57.7%	53.2%

visibly during the year under review. It proved possible to reduce the impairment charge by 7.8 per cent or €3.7 million, resulting in a balance of €44.1 million at year-end. Our consistent frugality kept general administrative expenses virtually static on the previous year at €43.2 million. The segment's profit for the year grew significantly, increasing by 24.9 per cent to €24.3 million. That compared with €19.5 million in 2014. The increase was also mirrored by an improvement in its management benchmark figures.

The segment's return on equity (ROE) based on its profit for the year and allocated equity of €245.0 million increased from 7.8 per cent to 9.9 per cent. The lower impairment charge had a positive impact on the relationship between credit risk costs and net interest income. Having come to 57.7 per cent in 2014, the risk:earnings ratio had improved to 53.2 per cent by the end of 2015. The cost:income ratio was slightly down on 2014, falling from 39.4 per cent to a respectable 38.7 per cent.

In our view, the gloom on the economic horizon is going to be slow to lift in the weeks and months to come. We will therefore continue to keep a close eye on the development of margins and risks in our financing operations this 2016 financial year.

The Retail Banking Segment

Our core areas of expertise in the retail banking segment are home construction finance and asset management. Our 59 branches continued to be the hub and pivot of our customer relationships and the most important interface to our retail banking customers. Our respect for our customers is demonstrated by the appealing design of our foyers and the inviting self-service zones, which house the latest technology. There, customers can conduct their daily banking activities around the clock.

Challenging times

Retail customer operations with their comparatively high branch density have always been hotly contested. Low interest rates and narrowing margins dented profit and increased competitive pressures. By now, a substantial number of customers were preferring to use banking services that were available at any time and anywhere. It was becoming increasing difficult for banks to make a profit.

New branches opened

Contrary to the Austrian trend of closing branches that we were seeing during the year under review, we opened two new branches in 2015. So far, we have done very well in the Viennese market. Our customers value us as a skilled and dependable partner. Our successful opening of our seventh branch continued our successful expansion in Greater Vienna. We also opened a new branch in Banská Bystrica, which is Slovakia's fifth largest city after Bratislava, Košice, Prešov and Žilina with a population of roughly 80,000.

Outstanding customer advice services

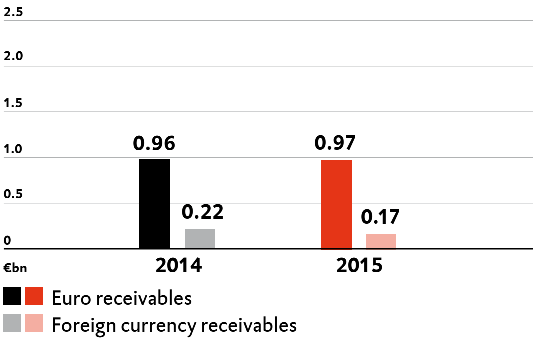
Our line of products and services for retail customers featured a balance of quality and price. They ranged from standard account services to made-to-measure credit and lease financing variants to personalized retirement saving products and discrete asset management services. *Österreichische Gesellschaft für Verbraucherstudien* (ÖGVS) again confirmed the outstanding quality of the advice provided by our retail customer account managers. BKS Bank emerged as test winner against its rivals in ÖGVS's independent study of credit advice services. This was one reflection of our sales team's professional and skilled work.

A new account landscape

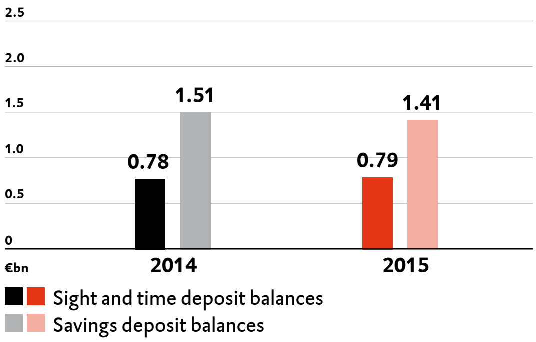
In the spring of 2015, we introduced new account models in the retail banking segment that are designed to match our customers' personal needs. High levels of personalization and security set them apart. We developed a special *New Bankingkonto* (new banking account) for customers who do most of their banking online. Classical bank customers who want to continue to do their banking in-branch are offered two variants, namely *Klassikkonto Privat* (classical personal account) and *Premiumkonto Privat* (premium personal account). In addition to the new account models, our account range also includes made-to-measure offerings for students, young people and children. In particular, children aged between 10 and 14 are given a free 'pocket money account'. The new account models include a security package that provides around-the-clock protection for bank cards, and the classical variants include term life insurance.

As a 'universal' bank, BKS Bank naturally also had a presence in the non-cash credit card market and offered customers all the usual credit cards provided by our partners *card complete Service Bank AG* and *SIX Payment Services (Austria) GmbH (PayLife)* in addition to our 'own' *Maestro Card* and the *BKS MasterCard* at every branch.

RECEIVABLES FROM RETAIL BANKING CUSTOMERS



PAYABLES TO RETAIL BANKING CUSTOMERS



RETAIL BANKING SEGMENT

€k	2014	2015
Net interest income	32,528	27,218
Impairment charge on loans and advances	(1,209)	(2,115)
Net fee and commission income	20,060	23,238
General administrative expenses	(49,456)	(49,636)
Other operating income net of other operating expenses	35	(182)
Profit for the year before tax	**1,958**	**(1,477)**
ROE before tax	4.7%	(3.7%)
Cost:income ratio	94.0%	98.7%
Risk:earnings ratio	3.7%	7.8%

Successful launch of BKS Bank's new online presence

In September 2015, we launched the new *BKS Bank-Online* service for new customers. The new customer portal stands out thanks to its modern user interface and intuitive operation. Customer response to the new *BKS Bank-Online* presence was very positive. Its introduction was flawless and smooth. We owe this to the hard work of the responsible team of employees. We had begun migrating our existing *BKS Online-Banking* customers to the new system by the end of the year. The changeover is taking place gradually and will be completed by not later than the second quarter of 2016.

Some shrinkage of the retail loan portfolio

At the end of 2015, the portfolio of loans granted to retail customers in the construction, home and consumer credit and finance lease fields came to a respectable €1.14 billion, compared with €1.18 million a year earlier. Despite the difficult situation in the labour market, lending to private individuals developed satisfactorily. However, we were aware of our responsibilities as a lender. In view of the statistics published by *KSV1870* for 2015—which reported the first perceptible (5.7 per cent) increase in the number of private debt regulation proceedings in five years—we felt that it was a priority to protect our customers against becoming overindebted by carrying out careful credit checks. This would in turn keep credit risk in the retail banking segment low—and doing so also kept the impairment charge on loans and advances low in 2015, at just €2.1 million.

In the year under review, we continued to act to reduce the volume of foreign currency loans so as to minimize risks. This took the form of advice sessions. In the wake of the abrupt change to SFr/€ exchange rates initiated by the Swiss National Bank on 15 January 2015, we were able to shrink the portfolio of foreign currency loans granted to retail banking customers by roughly €50 million to €167.2 million. This cut the corresponding foreign currency ratio (FX ratio) at *BKS Bank AG* from 20.1 per cent to 16.2 per cent. However, customers proved rather unwilling to convert to euros. This is strange given that the Swiss franc no longer has an interest rate advantage over the euro.

High primary funds

We welcome the fact that, as we have already mentioned, retail banking customers accounted for most of the savings deposit balances at our bank at the end of 2015, namely €1.41 billion, and for roughly €0.79 billion of the sight and time deposit balances. Despite the low interest rates, traditional saving products were still our customers' preferred form of investment. Besides classical *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts with terms of 12, 18 or 24 months, the product line also included an *Öko-Sparbuch* passbook account for energy-saving investments and the on-demand *Mein Geld* account, which is accounted for in the line item *Other liabilities*. Classical building society agreements were also among the saving products that continued to attract interest during the year under review. Although it was increasingly difficult for our account managers in the retail banking segment to sell follow-up agreements after a building society agreement had matured, we were satisfied with the 4,241 building society agreements we signed within the scope of our long-standing alliance with *Wüstenrot*.

CUSTOMER ORIENTATION

Wolfgang Mandl
Member of the Management Board

Insurance operations exceed our expectations
The retail banking segment profited from the unbroken demand for solid ways of saving for old age. Many of the products that are commonly used to provide for retirement count as insurance products. In this area, BKS Bank acted as a strategic partner to insurer *Generali Versicherung AG* via *Drei-Banken Versicherungs-Aktiengesellschaft*, which is a joint operation in the *3 Banken Group*. It primarily sold classical regular-premium endowment insurance policies in cooperation with *Generali Versicherung AG*. The stable guaranteed returns on these products were key. *Drei-Banken Versicherungs-Aktiengesellschaft* sold a total of 33,085 policies in the retail segment. 24,513 were its own risk insurance policies, and 5,572 were *Generali* endowment insurance policies.

Securities operations enjoy a tailwind
Our securities operations continue to build on our most valuable resource—our customers' confidence in us—in the year under review. Based on the professional foundations for their decisions—which came from asset structure analyses—our experienced investment advisors built their work on the following pillars;
– asset management;
– brokerage;
– investment funds.

Fee and commission income from securities operations grew very satisfactorily in the year under review. The increase of 21.7 per cent to €8.7 million gives us confidence that this business segment will once again be one of the supporting pillars of our fee and commission earnings.

We were particularly pleased with the performance of our Brokerage Segment, which celebrated its third anniversary in December 2015. Many of our customers benefited from this extensive stock brokerage service. At the end of the year, assets in custody with the bank within the scope of the brokerage service totalled €61 million. By the same date, over 1,600 customers with invested securities worth €190 million had placed their trust in our bank's know-how within the framework of the individual asset management (iVV) and active asset management (AVM) lines. The growth of the *AVM nachhaltig*[1] fund was exceptional. By 1 December 2015, 347 customers had invested a total of more than €18 million in our *AVM nachhaltig* fund, which was awarded the *Österreichisches Umweltzeichen für nachhaltige Finanzprodukte*[2].

[1] This is a marketing message. The information in this text is intended solely as customer information. It is not binding and does not under any circumstances replace advice regarding the buying or selling of securities. This does not constitute an offer or invitation to buy or sell the investments and/or (bank) products mentioned herein. Nor does it constitute a recommendation to buy or sell.

[2] The *Lebensministerium* (Austrian ministry of life) awarded the *Österreichisches Umweltzeichen für nachhaltige Finanzprodukte* (the Austrian environmental friendliness mark for sustainable financial products) to the *AVM nachhaltig* fund because it also takes ecological and social criteria into account alongside financial criteria when investment funds are selected. The environmental friendliness mark is an assurance that these criteria and their application are such as to lead to the selection of appropriate investment funds. This was checked by an independent agency. The awarding of the Austrian environmental friendliness mark does not provide any indication of the investment's future performance.

We offered our Private Banking Service to customers with liquid assets of more than €200 thousand. In addition to the expertise of our specially trained Private Banking Advisors in Klagenfurt, Graz and Vienna, this group of customers had access to a special range of products and services. Portfolios under management by the Private Banking Service grew by €144.4 million to €673.2 million.

Customer assets under management by our bank increased by 1.9 per cent to €13.21 billion in 2015. This total included portfolios at *3 Banken-Generali Investment Gesellschaft m.b.H.*, for which BKS acts as custodian. In a broad analysis, the stock market magazine *Der Börsianer* assessed the offerings of all the relevant Austrian fund companies and foreign fund companies that were active in Austria. It looked at ratios specific to the sector as well as strategy, service, innovation, sustainability and adherence to regulatory standards. Thirty-eight companies were included in the ranking. *3 Banken-Generali Investment Gesellschaft m.b.H.* won a double victory in the categories *Beste inländische Fondsgesellschaft* (best Austrian fund company) and *Beste Fondsgesellschaft in Österreich* (best fund company in Austria). In view of the highly complex developments taking place in the financial markets, we were very pleased with these awards.

Segment performs unsatisfactorily
Despite intensive cross-selling activities, the retail banking segment's profit did not mirror the successes achieved in the course of 2015. Profit for the year after tax fell from €2.0 million in 2014 to negative €1.5 million. Net interest income was 16.3 per cent down on 2014 to €27.2 million. This was a regrettable decline given that interest rates have been close to zero for a number of years. However, we are pleased to report that net fee and commission income grew significantly, advancing by 15.8 per cent or €3.2 million to €23.2 million.

The costs allocated to this segment came to €49.6 million and were virtually unchanged compared with 2014. The cost:income ratio remained unsatisfactory at 98.7 per cent, compared with 94.0 per cent in 2014. The segment's result reduced the return on equity from 4.7 per cent to negative 3.7 per cent. The most striking segment ratio was the outstanding risk:earnings ratio, which came to 7.8 per cent in the period under review. It is an indication that our retail customers were still positioned in the strong credit rating classes. Despite its weak profit, we are confident that the retail banking segment will become able to pick up the thread of its successes in the pre-crisis years.

The Financial Markets Segment

Profit from *BKS Bank AG*'s proprietary trading activities, from securities held in its own portfolios, from equity investments, from derivatives in the banking book, from inter-bank transactions and from its interest-rate term structure management activities grew sharply in the year under review, increasing by 12.9 per cent to €46.0 million.

46.0m

The responsibility for the proactive management of so-called 'structural' income earned in the financial markets segment was in the hands of BKS Bank's Asset/Liability Management (ALM) Committee. It came to €29.5 million, as against €29.8 million in 2014. Structural income includes profits from inter-bank transactions, proprietary securities trading, derivatives in the banking book and the bank's internal reference interest rate settlements. Management activities were mainly geared towards prudently managing risks within the domain of market risk so as to reduce our reliance on volatile sources of funds in favour of more stable sources. The relationship between risk and returns and the probable market scenario were explored before undertaking any investments or disinvestments.

In the course of 2015, the ECB cut its deposit facility rate—which had already been negative since June 2014—by another 10 basis points from negative 0.20 per cent to negative 0.30 per cent. This sharply increased the cost to banks of briefly investing surplus funds with the ECB. The interest rate on main refinancing operations and the peak refinancing rate have likewise been at historical lows of 0.05 per cent and 0.30 per cent, respectively, since September 2014. As a result, managing market risks was very challenging as market rates continued to drop in the year under review. Terms and conditions for deposits were particularly severely affected by the growing pressure on margins. This interest rates landscape also had an impact on our investment policy for the treasury portfolio in that long-term investments in fixed-interest securities harbour a latent depreciation risk should interest rates rise. We managed our challenging interest rate operations on the basis of an extensive funds transfer pricing system. Calculations took into account the marginal costs of raising funds as the requisite markups to be added to loan rates and as the compensation paid on deposit products.

FINANCIAL MARKETS SEGMENT

€k	2014	2015
Net interest income	41,006	54,981
– Of which from entities accounted for using the equity method	28,562	42,986
Impairment charge on loans and advances	(479)	(2,337)
Net fee and commission income	189	218
Net trading income	1,373	2,320
General administrative expenses	(6,779)	(7,363)
Other operating income net of other operating expenses	(143)	(100)
Profit/(loss) from financial assets	5,623	(1,679)
Profit for the year before tax	**40,790**	**46,040**
ROE before tax	9.0%	8.6%
Cost:income ratio	16.0%	12.8%
Risk:earnings ratio	1.2%	4.3%

The contributions to profit made by the entities accounted for using the equity method—*Oberbank AG*, *BTV AG* and *Drei-Banken Versicherungs-Aktiengesellschaft*—proved to be stable pillars of our earnings in the financial markets segments, coming to €43.0 million. That compared with €28.6 million in 2014. It should be noted that *BTV AG* carried out a strategic reorientation of its securities portfolio in the second half of 2015. Substantial hidden reserves were realized during that restructuring process, which was primarily intended to strengthen its own funds basis. We also recorded appreciable earnings from our equity investments in *Oesterreichische Kontrollbank AG* and *SIX Payment Services (Austria) GmbH*. The changes in the value of our interests in the entities accounted for using the equity method, which totalled €42.7 million, resulted mainly from our interests in the profits of our sister banks *Oberbank AG* and *BTV AG*. Because of the circular shareholdings that exist between *Oberbank AG*, *BTV AG* and *BKS Bank AG*, they were included on the basis of the quarterly financial statements of those banks as of one quarter earlier.

We have good news to report about BKS Bank's inter-bank exposures. There were no impairments of loans to other banks during the year under review. In 2015, BKS Bank's correspondents in the banking sector were without exception in the top AA to A3 rating classes. The network of correspondents with which we had money dealings consisted of some 350 banks. In addition, we made use of our bank's opportunity to raise liquid funds in the amount of €264 million through the *OeNB/ESCB* tender procedure.

We were able to keep a tight rein on general administrative expenses in the financial markets segment. They only increased by about €0.6 million to €7.4 million. There was a sharp improvement in net trading income, which increased by €0.9 million to €2.3 million. It was driven by our interest rate and foreign exchange operations. On the other hand, having come to positive €5.6 million in 2014, the line item *Profit/(loss) from financial assets* turned negative. Among other things, the decline to negative €1.7 million was due to impairments in the amount of €4.3 million in the available for sale portfolio.

This segment's very satisfactory overall performance reduced its cost:income ratio by 3.2 percentage points to 12.8 per cent. Following a low of 1.2 per cent in 2014, we were able to keep the risk:earnings ratio at a respectable level of 4.3 per cent. The increase was due to a rise in the collective portfolio impairment assessment calculated in accordance with IAS 39.64. The

BKS BANK NOTES ORIGINATED IN 2015[1]

ISIN	Name	Nominal Amount, €
AT0000A1E0X1	*Variable BKS Bank Obligation 2015-2023/1*	8,300,000
AT0000A1H5E7	*4% BKS Bank Nachrangige Obligation 2015-2025/2*	8,512,000
AT0000A1AUX8	*0,60% BKS Bank Obligation 2015-2017/1/PP*	20,000,000
AT0000A1BTD0	*1,3% fundierte BKS Bank Obligation 2015-2030/2/PP*	20,000,000
AT0000A17WE5	*Stufenzins-Wandelschuldverschreibung 2015-2028 der 3-Banken Wohnbaubank AG*	6,527,600

[1] This does not constitute an offer or an inducement to buy or sell the notes mentioned. Nor does it constitute a recommendation to buy or sell. These issuances took place during the 2015 reporting year on the basis of the base prospectus published by *BKS Bank AG* on 1 April 2015 together with all the documents incorporated by way of reference thereto and all addenda and the final terms and conditions published in each case. These are available free of charge from the issuer's website at www.bks.at and from the branches of *BKS Bank AG*, St. Veiter Ring 43, 9020 Klagenfurt, Austria, during normal business hours.

return on equity—the segment's profit for the year divided by the equity of €534.0 million allocated to it—came to 8.6 per cent.

With the goal of reducing our dependence on money market borrowings in mind, we continued to step up our efforts to acquire primary deposits in 2015. We issued four tranches of our own securities to satisfy our need for long-term funds. The notes were issued directly though our bank. In addition, we took part as trustee in an issue of a stepped coupon convertible bond (*Stufenzins-Wandelschuldverschreibung 2015-2028*) of *3-Banken Wohnbaubank AG* that is tax privileged for private investors. BKS Bank had a 10 per cent stake in that company.

Risk Report

Our business policy credo was to safeguard our autonomy and independence by increasing our profits within the framework of a sustainable growth strategy. The selective assumption of risks was an important feature of our business activities subject to the requirement that all the relevant operational and other banking risks should be detected early and actively managed and limited using effective risk management techniques. The aim was to continuously and fully capture every individual risk. Available capital was used as efficiently as possible in the light of our medium-term and long-term strategic goals, and the trade-off between risk and return was constantly optimized. The precept that we only enter into risks that BKS Bank can bear without outside help was anchored in the Risk Strategy as a general principle so as not to jeopardize the bank's autonomy and independence. BKS Bank's Risk Strategy is reviewed and discussed and agreed with the Supervisory Board once a year.

BKS Bank did everything it could to proactively meet the new demands in the risk management field. The risk management units worked intensely on existing topics and on the new topics raised by CRD IV and CRR I, the *Banken Sanierungs- und Abwicklungsgesetz* (*BaSAG*: the Austrian bank recovery and resolution act) and the Supervisory Review and Evaluation Process (SREP). The resulting requirements, including in particular the newly introduced leverage ratio (LR), liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), were taken into account in the overall bank risk management process.

We made preparations for the amended Supervisory Review and Evaluation Process (SREP) within the scope of a special project that, among other things, is to make allowance for the regulators' high documentation standards. Alongside analyzing the business model, internal governance and enterprise-wide internal control system (ICS), SREP is strongly geared to the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). Another important project addressed the issue of meeting the future demands associated with measuring financial instruments in accordance with the new standard IFRS 9. We also focused our attention on the changes to own funds requirements that might arise from Basel IV.

Pursuant to the provisions of *§ 39a BWG* (Austrian banking act), banks are required to have effective plans and procedures in place to ascertain the amount, composition and distribution of the capital available to cover quantitatively and qualitatively all material operational and other banking risks. The requisite amount of capital must be held on that basis. These procedures were combined within ICAAP and presented and reported at BKS Bank within the scope of the risk bearing capacity analysis process.

ILAAP is a process for identifying, measuring, managing and monitoring liquidity that must be put in place by BKS Bank pursuant to *§ 39 Abs. 3 BWG*. It encompasses a description of the systems and methods used to measure and manage liquidity and funding risks. BKS Bank measured and monitored adherence to its liquidity targets within the scope of close to real time and extensive risk reports.

The quantitative statements contained in this report in conformity with IFRS 7.31 to 7.42 were based on our internal reports on the overall bank risk management process.

In the 2015 financial year, BKS Bank prepared for the first time a resolution plan in accordance with *§ 15 BaSAG*. It was designed to ensure that BKS Bank can rapidly overcome crises without outside help, and it also served the prevention of crises by measuring and observing early warning indicators which, in turn, would trigger timely countermeasures. Our early warning indicators encompassed capital, liquidity, profitability and asset quality indicators. They were monitored in a so-called *BaSAG* dashboard as well as being periodically reported to the Supervisory Board. The resolution plan and preliminary management processes were firmly integrated into BKS Bank's risk organization.

BKS Bank's Group Resolution Plan is updated on an annual basis. Besides a strategic analysis and predefined phases of observation and escalation, it also included a set of early warning and resolution indicators, selected resolution measures and stress scenarios. In addition, we drew up detailed communication and information plans so as to be able to input all the necessary information and to provide appropriate and timely information to every stakeholder in the event of resolution.

The structure and organization of the risk management process

The conservative handling of operational and other banking risks shaped BKS Bank's Risk Strategy. They were controlled and managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures and appropriate organizational structures. We made it a rule to constantly review the appropriateness and reliability of our monitoring procedures so as to adapt them as necessary to changing market conditions.

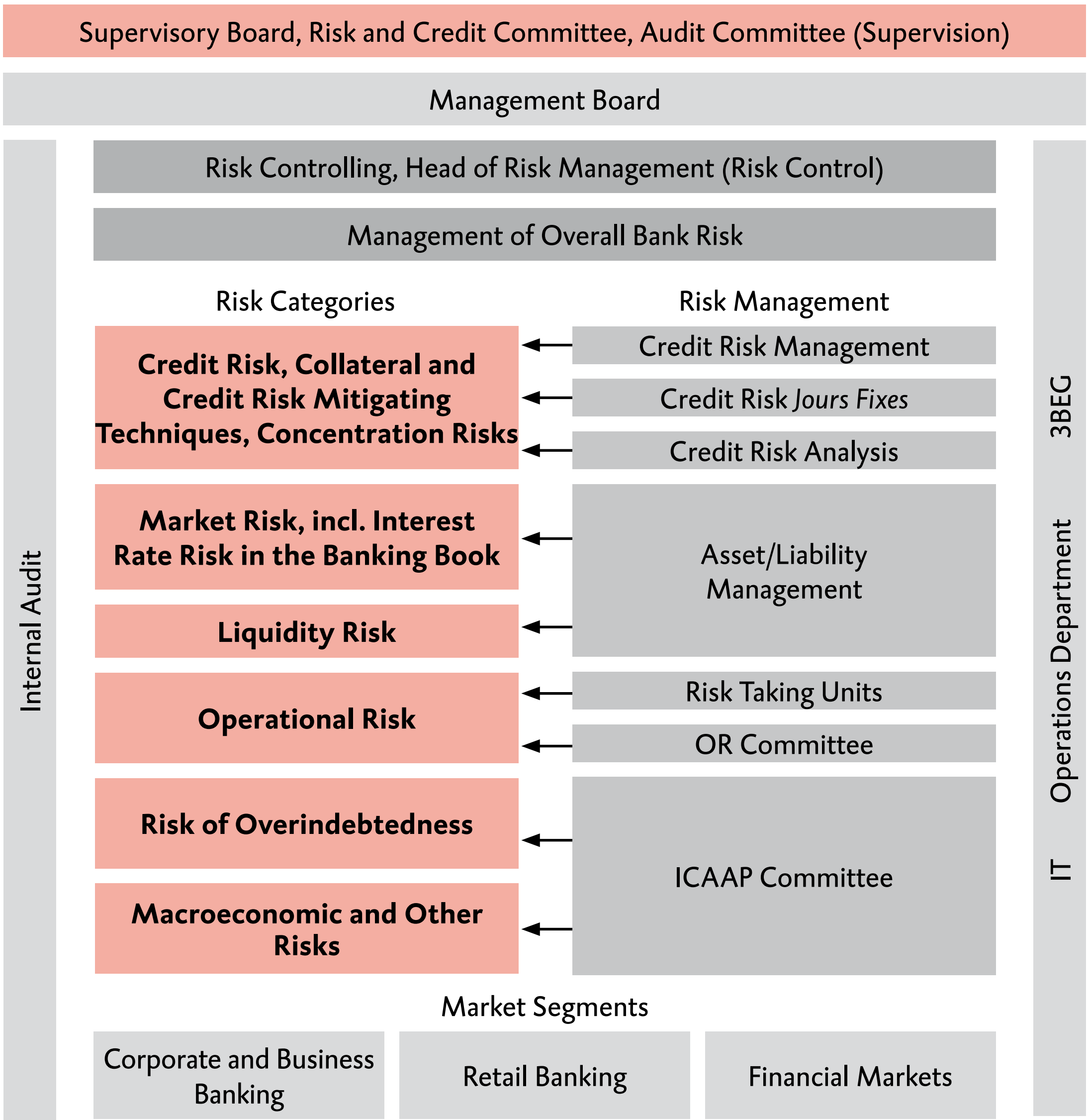
A Management Board member who was not involved in front office operations had central responsibility for risk management. The Risk Strategy was revised during the annual budgeting and planning process, approved by the Management Board and discussed and evaluated by the members of the Risk and Credit Committee within the Supervisory Board. During this process, close attention was also paid to risk concentration. The Management Board laid down risk management principles, the limits for all relevant risks and risk monitoring and management procedures.

Risk Controlling—a central unit at BKS Bank that is independent from operations—was responsible for identifying and measuring risks in conformity with *§ 39 Abs. 5 BWG*. This unit reported regularly to the Management Board and the operational units responsible for risk management and assessed the bank's current risk position in the light of the corresponding risk limits and its risk bearing capacity. As an independent watchdog, it assessed whether all risks lay within the limits established by the Management Board.

SECURITY

Dieter Krassnitzer
Member of the Management Board

THE ORGANIZATIONAL FOUNDATIONS OF RISK MANAGEMENT



The Supervisory Board, Risk and Credit Committee and Audit Committee were provided with all the information they needed to enable them to perform their supervisory function. Once a year, a representative from this unit provides a report to the Supervisory Board's Risk and Credit Committee about the types of risk affecting the bank and the bank's risk position. In addition, Risk Controlling was responsible for the development and implementation of risk measurement methods, the ongoing development and refinement of the management instruments and the further development and maintenance of the Risk Strategy and other bodies of rules and regulations.

BKS Bank carries out an annual risk inventory as it revises the Risk Strategy. The ICAAP Committee identified risks and assessed their severity in a risk matrix. The results of the risk identification process and the assessment of the severity of the risks were taken into account during the annual definition of the Risk Strategy. Once a year, the limits and goals established in the Risk Strategy are adjusted and, if necessary, changed in accordance with the risk assessment and our Business Strategy.

As an independent internal watchdog, BKS Bank's Internal Audit Department audited every operational and business process, the appropriateness and effectiveness of the measures taken by Risk Management and Risk Controlling and the bank's internal control systems.

A number of committees had been set up to manage overall bank risk. They ensured comprehensive treatment of all the individual types of risk based on the broad range of know-how brought into the management process by the individual committee members. They were:
– the ICAAP Committee;
– the Asset/Liability Management Committee;
– the Operational Risk Committee (OR);
– the Credit Risk *jours fixes*.

The ICAAP Committee
The ICAAP Committee met quarterly. It discussed our risk bearing capacity in the light of our economic capital requirement and the assets available to cover risks. This committee consisted of the Management Board as a whole, the Head of Controlling and Accounts and the Head of the Risk Controlling Group. The following topics were discussed in detail and, if necessary, appropriate action was taken:
– the allocation of the assets available to cover risks and setting of the limits in line with the Risk Strategy;
– the current risk situation and any measures that might be required as a result;
– utilization of the overall bank limit and the limits for individual risks;
– changes in and the refinement of risk identities and valuation methods;
– monitoring of the *BaSAG* indicators.

The Asset/Liability Management Committee
The Asset/Liability Management Committee met once a month. It analyzed and managed the structure of the balance sheet from the point of view of interest rate risk in the banking book, market risk and liquidity risk and, in this connection, performed essential funding planning tasks and decided which hedging measures should be taken.

The Asset/Liability Management Committee consisted of the Management Board as a whole, the Head of the Proprietary Trading and International Operations Department, the Head of the Trading Group, the Head of Controlling and Accounts, the Head of the Risk Controlling Group and an expert from securities operations.

The Operational Risk Committee
The Operational Risk Committee also met quarterly. The OR Committee
– monitored our risk experience and analyzed historical data about risk events in the past;
– helped the RTUs (risk-taking units) and Management actively manage operational risk;
– tracked measures taken by the RTUs;
– further developed the operational risk management system.

This committee's core team consisted of the Management Board member responsible for risk, the Head of the Internal Audit Department, the Head of Controlling and Accounts and a member of staff from the Risk Controlling Group.

The Credit Risk Jours Fixes
As the Risk Strategy states, credit risk is BKS Bank's most important risk category by far. Effective credit risk management that unerringly identifies the risks, optimizes the bank's risk and earnings profile and ensures consistency with BKS Bank's risk bearing capacity is therefore a prerequisite for our bank's sustained success.

The principal topics of discussion during the weekly credit risk *jours fixes* were issues that arose from day-to-day operations in connection with the granting or extension of loans and other current topics connected with corporate and business banking and retail banking operations. The participants at the weekly *jours fixes* included at least one member of the Management Board responsible for front office operations, the member of the Management Board responsible for risk, the Head of the Credit Management Department, the Head of the Risk Analysis Group and the Head of the Credit Risk Management Group. If necessary, further staff members were also brought in.

Besides the weekly *jours fixes*, an extended credit risk committee met quarterly. It managed credit risk at the portfolio level, forged ahead with the ongoing refinement of the credit risk management process and made it possible to rapidly apply management instruments. Alongside a holistic view of credit risk, the involvement of the responsible decision makers from various areas of the organization is essential to effective credit risk management. The key tasks of the extended credit risk *jour fixe* included:
– discussing credit risk strategy;
– assessing the credit risk situation;
– managing the credit portfolio at the Group level;
– managing sub-portfolios;
– formulating measures to improve our risk position;
– deciding what measures should be taken in order to adhere to and manage the credit risk limits.

As a rule, the extended *jours fixes* were attended by the Management Board as a whole, the Head of the Credit Management Department, the Head of the Domestic Risk Analysis Group and the Head of the International Risk Analysis Group, the Head of Risk Management, the Head of Monitoring and Services, the Head of the Controlling and Accounts Department and the Head of the Risk Controlling Group. Senior staff from front office units were also were also brought in as the need arose.

Management of overall bank risk

Carrying out risk bearing capacity analysis by means of the Internal Capital Adequacy Assessment Process (ICAAP) was a fundamental part of BKS Bank's overall bank risk management activities. We assessed our internal capital adequacy once a quarter on the basis of the risks that had been identified using internal models. The aim was to ensure that BKS Bank always had sufficient assets available to cover its risks, enabling it to absorb the risks it had assumed even if unexpected events were to occur. All identified and quantified unexpected risks were therefore aggregated to obtain a figure for overall bank risk.

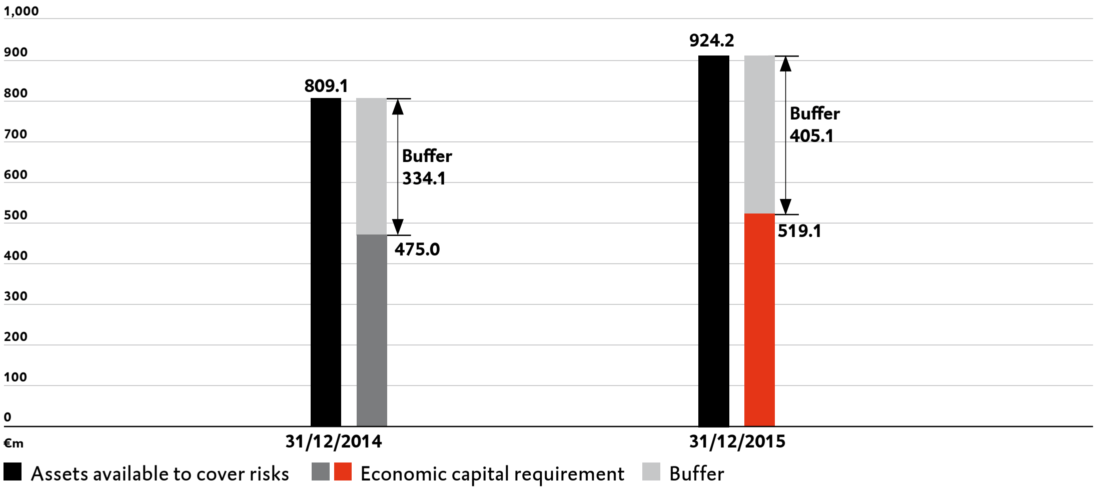
The overall bank risk was the equivalent of our economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit and liquidity risk were factored into the prices charged to customers as risk premiums (standard risk costs, liquidity premiums).

This aggregated total potential loss was compared with the assets available to cover such a potential loss to ascertain whether the bank was in a position to bear unexpected losses without suffering serious detriment to its business activities.

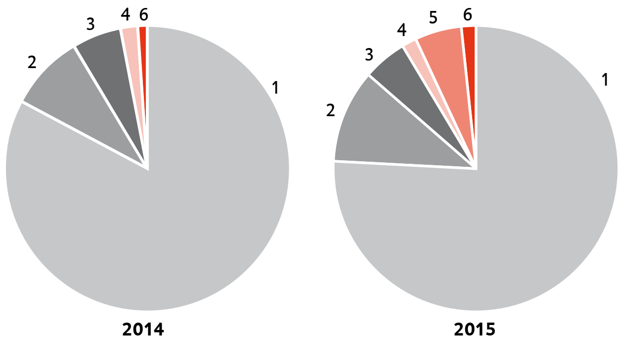
The individual components of the assets that were available to cover risks were ranked according to their realizability while taking account, above all, of their liquidity and publicity effects. When a capital adequacy target was set on a going concern basis, the potential risk and risk bearing capacity and the limits derived from them were balanced in such a way that the bank was in a position to absorb an adverse burden while continuing to conduct business in an orderly manner. The capital adequacy target set on a liquidation basis is a regulatory requirement. It serves to protect creditors.

We continuously developed and refined the methods used to measure and analyze material risks. In the 2015 financial year, we broadened our economic capital to encompass macroeconomic risk, which had previously been captured by way of a blanket buffer within the other

STATEMENT OF RISK BEARING CAPACITY ON A LIQUIDATION BASIS



BREAKDOWN OF OVERALL BANK RISK BY RISK CATEGORY (LIQUIDATION BASIS)



in %	2014	2015
1 Credit risk	82.8	76.1
2 Market risk	8.7	10.3
3 Operational risk	5.5	5.0
4 Liquidity risk	1.9	1.9
5 Macroeconomic risk	—	5.2
6 Other risks	1.1	1.5

risks and in scenario analyses and stress tests. The risk capital buffer for equity risk was also increased within the scope of the annual risk evaluation.

At 31 December 2015, our economic capital requirement on a liquidation basis was €519.1 million, compared with €475.0 million at the end of 2014. The corresponding assets available to cover risks came to €924.2 million, compared with €809.1 million at the end of 2014. The increase in the assets available to cover risks to 31 December 2015 was mainly due to capital measures during the 2015 financial year and good profit for the year.

924.2m

At BKS Bank, unexpected losses were calculated on a liquidation basis for a period of observation of one year and with a confidence interval of 99.9 per cent. As in the previous year, the economic capital requirement for credit risk was the biggest risk capital requirement within the *Kreditinstitutsgruppe*. Credit risk accounted for about 76.1 per cent of our total potential loss (31 December 2014: 82.8 per cent). Market risk was responsible for 10.3 per cent of the total (31 December 2014: 8.7 per cent).

Stress tests in the overall bank risk management process

We carried out stress tests to assess the risk bearing capacity of the *Kreditinstitutsgruppe* during possible adverse external events. The results were analyzed to ascertain the quantitative impact on our risk bearing capacity. Stress tests supplemented the information provided by value at risk analyses and identified possible losses. The results of the various scenarios were reported to the Management Board and the risk management units on a quarterly basis.

Our stress tests used scenarios to capture adverse changes in the macroeconomic environment. They described exceptional but plausible adverse developments in the economy. We differentiated between a ‘mild recession case’, a ‘worst case scenario’ and a ‘standard macroeconomic scenario’ as well as a ‘greatest relevance scenario’ that was reviewed once a quarter. The other scenarios are reviewed annually. In 2015, our risk bearing capacity sufficed in every scenario and at every point of time in the analyses. In addition, we carried out an inverse stress test that specifically focused on the bank’s risk sensitive areas, giving Management important information about the maximum losses that the bank could bear. During this test, we stressed the risk-sensitive areas until all the assets available to cover risks had been used up.

Credit Risk

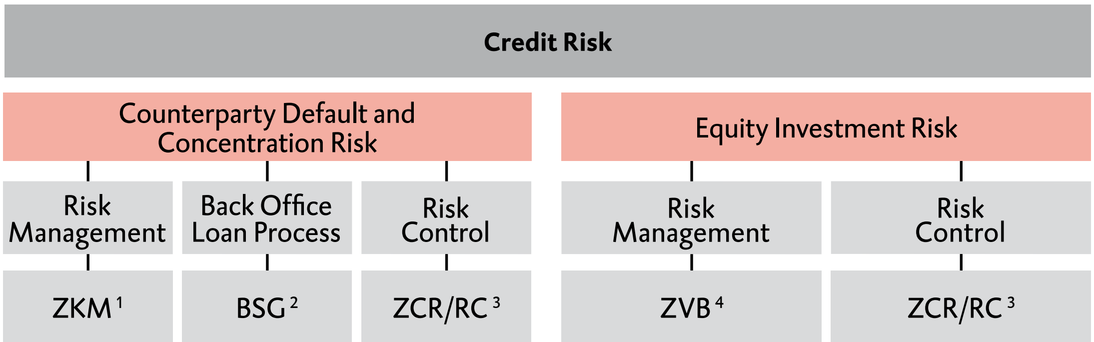
We define credit risk as the risk of a partial or complete loss of contractually agreed loan payments. This risk can be caused by a business counterparty’s credit standing or, indirectly, by country risk as the result of a counterparty’s domicile or place of residence. Credit risk was BKS Bank’s biggest risk category by far. Monitoring and analysis took place at the product and single customer level, at the level of groups of related customers and on a portfolio basis.

Managing credit risk

Our management of credit risk was based on the principle that loans shall only be granted on a know-your-customer basis. In other words, loans were only granted after thorough personal and credit checks and on a dual-control or 'four-eyes' basis (front office and back office). Collateral requirements were based on the rating class and the product concerned. Fair value valuations of collateral took their bearings from average proceeds from liquidation achieved in the past. Lending in markets outside Austria was regulated by special guidelines that were fine tuned to suit the specific features of the country concerned. They depended in particular on the economic landscape and allowed for the heightened risk involved in realizing collateral.

The Credit Management Department was responsible for risk analysis and management at the level of the individual customer. Independent risk control at the portfolio level was carried out by the Risk Controlling Group in the Controlling and Accounts Department. Key objectives when taking on new risk positions related to our rating structure. This meant that new business was only to be sought in rating class 3a or better and when there was adequate collateralization given the debtor's credit standing.

CREDIT RISK MANAGEMENT



[1] Credit Management Department.
[2] *BKS Service GmbH.*
[3] Controlling and Accounts Department (Risk Controlling).
[4] Office of the Management Board.

CREDIT RISK UNDER ICAAP

€m	Risk Position at 31/12/2014	Risk Position at 31/12/2015
Receivables from customers	5,641	5,711
Contingent liabilities [1]	188	212
Receivables from other banks	306	389
Securities and funds	755	772
Equity investments [2]	378	495
Credit risk under ICAAP	**7,269**	**7,579**

[1] Promised credit lines based on internally calculated withdrawal patterns.
[2] The equity investments in *BTV AG* and *Oberbank AG* have been accounted for using the equity method since 2015 (31 December 2014: fair values).

In conformity with IFRS 7.31 to 7.42, exposures within the meaning of IFRSs were converted into ICAAP credit risk positions as follows:

TRANSITION FROM IFRS POSITIONS TO CREDIT RISK POSITIONS UNDER ICAAP

€m	Receivables at 31/12/2014	Receivables at 31/12/2015
Consolidated receivables from customers as per note 13	5,010	5,114
Adjustment as a result of 2014 restatement	13	—
+ Loans measured to fair value as per note 16	87	74
+ Contingent liabilities as per note 44	395	387
+ Corporate bonds	104	94
+ Value of risk position arising from derivative contracts entered into with customers, Other (adjustments on Balance Sheet)	32	42
Receivables from customers according to internal risk management figures	**5,641**	**5,711**
Other commitments as per note 44	868	1,058
Contingent liabilities based on internally calculated withdrawal patterns	**188**	**212**
Receivables from other banks as per note 12	269	364
+ Value of risk position arising from derivative contracts entered into with other banks	37	25
Receivables from other banks according to internal risk management figures	**306**	**389**
Held-to-maturity financial assets as per note 18	679	725
+ Bonds and other fixed-interest securities measured to fair value as per note 16	62	41
+ Bonds and other and fixed-interest securities classified as available for sale as per note 17	83	67
+ Shares and other non-interest bearing securities as per note 17	42	43
– Corporate bonds, Other (included in receivables from customers)	(111)	(104)
Securities and funds according to internal risk management figures	**755**	**772**
Equity investments in other entities as per note 17	54	52
+ Other equity investments as per note 17	4	4
+ Equity investments in entities accounted for using the equity method as per note 19	396	439
– *Oberbank AG* as per note 19	(259)	—
– *BTV AG* as per note 19	(133)	—
+ Fair value of *Oberbank AG* and *BTV AG* as per note 35	317	—
Equity investments according to internal risk management figures	**378**	**495**
Credit risk under ICAAP	**7,269**	**7,579**

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying Amount or Max. Default Risk per Category, €m	Financial Instruments that were Neither Past Due nor Impaired 2014	2015	Past Due Financial Instruments 2014	2015
Receivables from customers	5,085	5,189	556	514
– Of which measured to fair value	116	83	—	—
Contingent liabilities	183	212	5	6
Receivables from other banks	306	389	—	—
Securities and funds	755	772	—	—
– Of which measured to fair value	33	33	—	—
Equity investments	378	495	—	—
Total	**6,707**	**7,057**	**561**	**520**

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying Amount or Max. Default Risk per Category in €m	Impaired Financial Instruments 2014	2015	Financial Instruments that were Past Due but Not Yet Impaired 2014	2015
Receivables from customers	445	464	173	103
– Of which measured to fair value	—	—	—	—
Contingent liabilities	—	—	—	—
Receivables from other banks	—	—	—	—
Securities and funds	—	—	—	—
– Of which measured to fair value	—	—	—	—
Equity investments	—	8	—	—
Total	**445**	**472**	**173**	**103**

BKS Bank did not have any credit derivatives to mitigate default risks.

PAST DUE BUT NOT YET IMPAIRED RECEIVABLE FROM CUSTOMERS: PERIOD OVERDUE

Rating Class	< 1 Month		1 – 6 Months		6 Months – 1 Year		1 Year – 5 Years		> 5 Years	
€m	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
5a	10	7	37	13	32	9	31	32	2	2
5b	0	0	9	7	13	4	28	20	12	9
5c	0	0	0	0	0	0	0	0	1	0
Total	**10**	**7**	**45**	**20**	**45**	**13**	**59**	**52**	**14**	**11**

Applying rating classes to credit risk

One major pillar of the risk assessment process is our extensive rating system, which served as the basis for decision-making processes and risk management within the BKS Bank Group. In all, 12 different rating procedures were used. The bank's internal rating models undergo regular annual quantitative and qualitative validation reviews during which each rating model is assessed to check whether it accurately captures the risks being measured.

RATING CLASSES

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

BKS Bank employed a 13-class rating system. Rating classes AA to 2b accounted for approximately 49 per cent of the loan portfolio (31 December 2014: 46 per cent). In these rating classes, the capacity of borrowers to repay their borrowings was very good to good. When acquiring new business, our focus was on customers in these rating classes.

The following tables show the risk positions by rating class.

LOAN QUALITY, BY CLASS OF RECEIVABLE

Risk Position by Rating €m in 2015	AA–A1	1a–1b	2a–2b	3a–3b	4a–4b	5a–5c	Unrated
Receivables from customers	30	1,117	1,655	1,811	582	514	1
Contingent liabilities	1	77	73	50	7	6	0
Receivables from other banks	83	268	33	2	1	0	2
Securities and funds	598	156	7	0	0	0	11
Equity investments	440	48	6	1	0	0	0
Total	**1,152**	**1,666**	**1,775**	**1,864**	**589**	**520**	**14**

Risk position by Rating €m in 2014	AA–A1	1a–1b	2a–2b	3a–3b	4a–4b	5a–5c	Unrated
Receivables from customers	27	1,041	1,541	1,831	633	556	13
Contingent liabilities	1	60	68	44	9	5	0
Receivables from other banks	210	66	25	4	1	0	0
Securities and funds	589	130	6	0	0	0	30
Equity investments	323	49	4	2	0	0	0
Total	**1,150**	**1,346**	**1,644**	**1,881**	**643**	**562**	**43**

Customers were classed on the basis of internal risk assessments.

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 could be assumed that the debtor would not be able to repay the full amount of the loan to the bank. This was taken to be the case if one of the following applied:
– a new impairment charge (individual allowance);
– restructuring of the credit exposure combined with deterioration in the quality of the receivable;
– initiation of collection procedures because of inability or unwillingness to pay or fraud or for other reasons;
– receivable only collectable at a loss for BKS Bank;
– sale of the receivable at a significant credit standing related loss for BKS Bank;
– the debtor's insolvency;
– loan irrecoverable for other reasons.

6.6%

At the end of 2015, the non-performing loan ratio was 6.6 per cent (31 December 2014: 7.4 per cent). This is the ratio of non-performing loans contained in the classes 5a – 5c of BKS Bank's rating system (default classes) to gross receivables in the customer loan segment, contingent liabilities, receivables from other banks and fixed interest securities. The ratio we have stated is to be understood as a gross ratio, i.e. prior to the deduction of collateral for defaulted receivables. After taking collateral into account, it fell to 3.1 per cent (31 December 2014: 3.6 per cent).

Our intensive efforts to bring about a permanent improvement in the quality of the portfolio were reflected by a pleasing reduction in our exposures in the rating classes 4a – 4b and in the default classes 5a – 5c.

The term 'forbearance' had an important role to play in the management of problem exposures. This term encompassed all the contractual arrangements that required amendment because the borrower had got into financial difficulties. Financial difficulties were deemed to exist if repayment could no longer be assured within a realistic period from cash flows or based on the result of a credit check. Pursuant to CRR, these business cases must be specially tagged. Such forbearance may, for instance, involve:
– extending the term of the loan;
– making concessions compared with the loan installments that had originally been agreed;
– making concessions regarding the terms and conditions of the loan;
– completely reconfiguring the loan (restructuring).

Credit risk assessment
Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing individual impairment charges, by recognizing individual impairment charges applying class-specific criteria and by recognizing appropriate provisions in accordance with IAS 37. Objective evidence of impairment of a receivable was deemed to exist if the Basel III default criteria applied. That was the case if a material obligation of the debtor to the bank was more than 90 days past due or if one of the default criteria applied. In conformity with the International

EXPOSURES CLASSIFIED AS FORBORNE

€m for 2015	Corporate and Business Banking Customers	Retail Banking Customers	Total
Performing exposures	**29,798**	**2,322**	**32,120**
– Of which concessions made regarding installments	24,003	2,230	26,233
– Of which rescheduled	5,795	92	5,887
Non-performing exposures	**116,593**	**4,442**	**121,035**
– Of which concessions made regarding installments	136,296	4,300	140,596
– Of which rescheduled	3,854	588	4,442
Total	**146,391**	**6,764**	**153,155**

€m for 2014	Corporate and Business Banking Customers	Retail Banking Customers	Total
Performing exposures	**40,712**	**2,602**	**43,314**
– Of which concessions made regarding installments	37,842	2,491	40,333
– Of which rescheduled	2,869	112	2,981
Non-performing exposures	**95,800**	**3,115**	**98,915**
– Of which concessions made regarding installments	90,016	3,045	93,061
– Of which rescheduled	5,784	70	5,854
Total	**136,512**	**5,717**	**142,229**

Financial Reporting Standards, collective portfolio impairment assessments in respect of receivables in the performing rating classes were carried out in accordance with IAS 39.64.

Impairment losses were calculated on the basis of Group-wide guidance using a standardized process during which impairment charges were recognized on impaired receivables in respect of the non-collateralized portion of the debt. Impairment losses on significant receivables were calculated using the *discounted cash flow method* (DCF method). Individual impairment charges were recognized on loans to corporate and business banking customers and to other banks if the customer or bank in question had a collateral shortfall of €70,000 or more. In the case of retail banking customers, individual impairment charges were recognized if the customer in question had a collateral shortfall of €35,000 or more. Impairments of loans to customers who were at risk of default but whose collateral shortfalls were smaller were assessed applying class-specific criteria.

The balance of impairment allowances for receivables was disclosed on the Balance Sheet of the BKS Bank Group. At year-end 2015, it came to €193.7 million (31 December 2014: €194.2 million). The annual addition to the impairment allowance balance recognized in the Income Statement is the sum of impairment allowances, reversals thereof, subsequent recoveries of written-off receivables, direct write-offs, allowances resulting from the recognition of our portion of the payments to *ALGAR*—the *3 Banken Group* joint operation set up to mitigate large loan risks—and portfolio impairment assessments carried out in accordance with IAS 39.64. In the year under review, direct write-offs came to €0.9 million (2014: €0.7 million).

Impairment allowances in 2015 totalled €54.6 million (2014: €55.6 million). Impairment reversals of €12.0 million proved possible (2014: €13.1 million). In addition, the BKS Bank

IMPAIRMENT ALLOWANCES

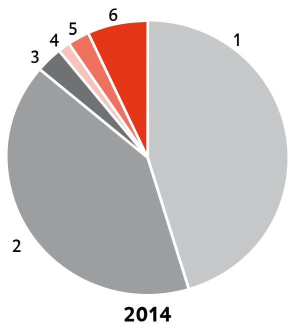
€k	Individual Impairment Allowances	Country Risks	Portfolio Impairment Assessments in Conformity with IAS 39	Impairment Allowance Balance
At 1 January 2015	170,030	3,731	20,400	194,161
Added	44,401	934	10,627	54,587
Reversed	(11,820)	—	—	(11,957)
Exchange rate differences	(22)	—	—	(22)
Used	(44,533)	—	—	(43,021)
At 31 December 2015	**158,056**	**4,665**	**31,027**	**193,748**

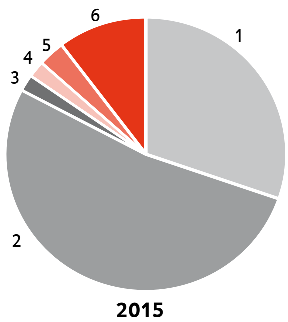
INDIVIDUAL IMPAIRMENT ALLOWANCES, BY CUSTOMER GROUP

	2014			2015		
€k	Reduction in Carrying Amount[1]	Individual Impairment Allowances	Fair Value of Collateral	Reduction in Carrying Amount	Individual Impairment Allowances	Fair Value of Collateral
Corporate and business banking customers	437,166	160,297	203,514	438,690	146,325	233,356
Retail banking customers	19,407	9,733	7,924	26,456	11,731	12,367
Total	**456,573**	**170,030**	**211,438**	**465,146**	**158,056**	**245,723**

[1] Carrying amount of impaired receivables.

BALANCE OF IMPAIRMENT ALLOWANCES FOR COUNTRY RISK EXPOSURE





	2014 €k	2014 %	2015 €k	2015 %
1 Slovenia	1,693	45	1,406	30
2 Croatia	1,525	41	2,483	52
3 Hungary	110	3	91	2
4 Montenegro	55	2	115	3
5 Serbia	90	2	126	3
6 Other	258	7	444	10
Total	**3,731**	**100**	**4,665**	**100**

Group's *Other provisions* included 25 per cent of ALGAR's general provisions on a proportionate basis, namely €30.1 million.

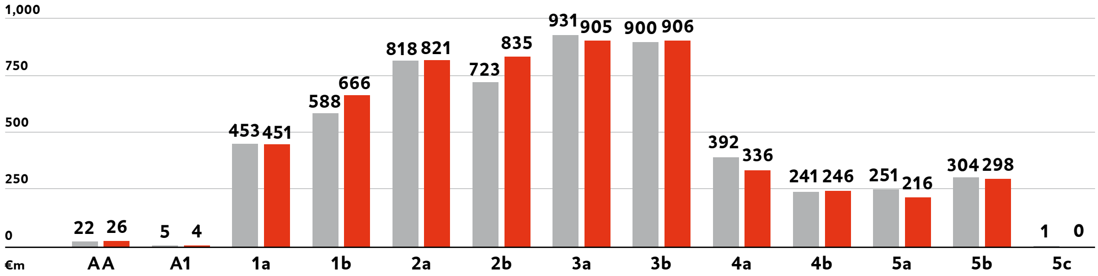
The requisite impairment charges at our foreign subsidiaries were tiny in comparison, at €1.7 million (2014: €2.0 million). The corporate and business banking segment accounted for €42.8 million of the impairment allowances in 2015 (2014: €47.8 million). The allowance for country risk exposure during the 2015 financial year came to €0.9 million, increasing the balance to €4.7 million.

Our risk:earnings ratio in the 2015 financial year was €29.2 per cent (2014: 31.5 per cent). In the retail banking segment, this ratio of risk costs to net interest income worsened from 3.7 per cent to 7.8 per cent, but the ratio in the corporate and business banking segment, where volumes were much larger, improved from 57.7 per cent to 53.2 per cent.

Receivables from customers

The chart below presents the distribution of receivables from customers using BKS Bank's 13-class rating scale. We were pleased by the fact that the balance in rating class 2b increased from €723 million to €835 million. In all, balances in the rating classes from AA to 3a, which is where we were trying to attract new business, increased by €169 million. Balances in the classes from 3b downwards decreased by €88 million. Among other things, this was thanks to our consistent efforts to upgrade the portfolio and to the economic recovery in our core markets.

RECEIVABLES FROM CUSTOMERS, BY RATING CLASS[1]

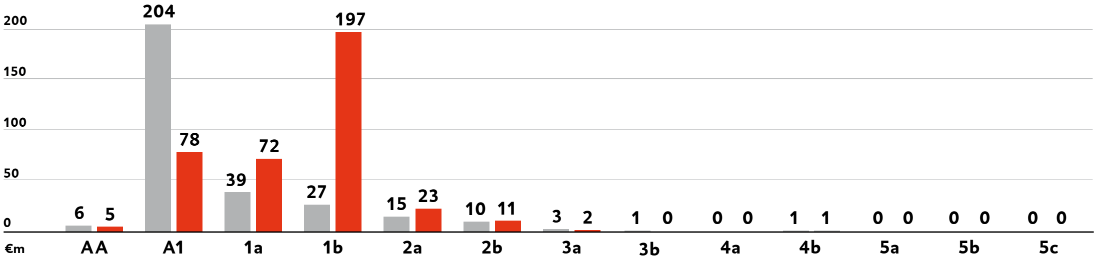


[1] Includes off-balance sheet items.

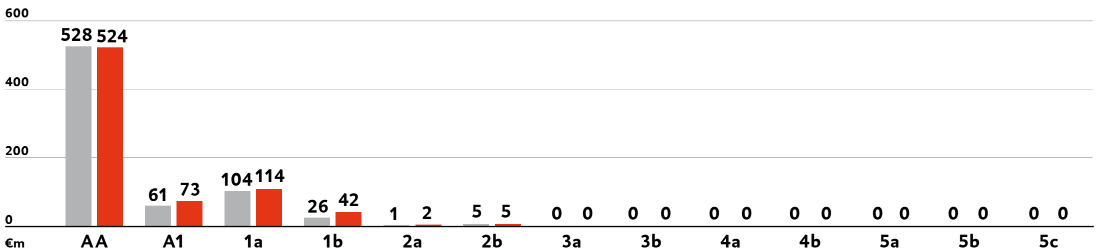
Receivables from other banks and securities

The charts below present the distribution of receivables from other banks and the securities portfolio using BKS Bank's 13-class rating scale. At year-end, 98.9 per cent of BKS Bank's exposure to other banks was in the first-class rating classes from AA to 2b (31 December 2014: 98.4 per cent). The shift in receivables from other banks from A1 to 1b was primarily due to changes in the credit ratings of a number of banks. The network of correspondents with which we had business dealings consisted of some 220 banks. At the end of 2015, 98.6 per cent of the securities in BKS Bank's proprietary securities portfolio were in the risk classes from AA to 2b (31 December 2014: 96.0 per cent).

RECEIVABLES FROM OTHER BANKS , BY RATING CLASS



SECURITIES PORTFOLIO, BY RATING CLASS



Equity investment risk

Equity investment risk encompasses the risk of lost dividends, impairments and realized losses and the risk of a decline in the value of hidden reserves caused by poor financial performance on the part of entities in which BKS Bank holds equity investments. The acquisition of equity investments was not a strategic focus; they were acquired for the purposes of our banking operations.

EQUITY INVESTMENTS

In Consolidated Financial Statements, €m	31/12/2014	31/12/2015
Listed banks	391.6	434.0
Unlisted banks	6.9	6.8
Other unlisted equity investments	55.8	54.4
Total	**454.3**	**495.2**

Our equity investments in subsidiaries focused on strategic partners in the banking and other financial service provider sectors and ancillary, banking-related service industries. We did not acquire equity investments in countries whose legal, political or economic situations were judged to be risky or trade on a regular basis in such equity investments.

BKS Bank had both a strategic and an operational equity investment management mechanism. Laying down equity investment strategy was the responsibility of the Management Board. Operational equity investment management was the responsibility of the Office of the Management Board. Risk control was the responsibility of the Risk Controlling Group in the Controlling and Accounts Department.

The carrying amount of BKS Bank's equity investments calculated in conformity with IFRSs was €495.2 million at 31 December 2015, compared with €454.3 million at the end of 2014. This total included our interests in *Oberbank AG* and *BTV AG*, which had a carrying amount of €434.0 million (31 December 2014: €391.6 million).

In order to manage and control individual financial risks, we prepared annual budgets for subsidiaries as well as budgeting for and preparing adapted projections of the income that was to be expected from equity investments. Monthly reports on operating subsidiaries were an integral part of our Group reporting system.

Credit risk concentrations

Concentrations of credit risk were managed at the portfolio level. We aimed for a balanced distribution of credit exposures by size, and limits were set for individual geographical regions, sectors and industries and the foreign currency portion of the loan portfolio. Developments in individual sectors and industries were closely monitored and regularly appraised, and a clear strategic focus was defined. The large loan risks incurred by BKS Bank were covered by a cover pool at *ALGAR*. As a *3 Banken Group* joint operation, *ALGAR* mitigated the risks associated with the large loans granted by the three banks in that group. It did so by issuing guarantees and assuming liability in other ways for loans, advances and lease receivables.

SIZE DISTRIBUTION OF RECEIVABLES FROM CUSTOMERS

Receivables from Customers by Size Basis: IFRS values, €k	2014 Exposure	 Proportion,%	2015 Exposure	 Proportion,%
< €0.15 million	816,880	14.4	817,936	14.3
€0.15 million to €0.5 million	746,734	13.3	772,309	13.5
€0.5 million to €1.0 million	285,218	5.1	303,674	5.3
€1.0 million to €3.0 million	711,304	12.6	681,610	11.9
€3.0 million to €14.0 million	1,709,548	30.3	1,842,557	32.3
€14 million to €20 million	408,688	7.2	384,768	6.7
> €20 million	963,018	17.1	908,194	15.9
Total	**5,641,391**	**100.0%**	**5,711,047**	**100.0%**

Loan size concentrations

Loan size concentration risk was captured separately during the calculation of our risk bearing capacity. Loan size concentration risk measures granularity risk in the loan portfolio, including in particular the risk that arises in connection with large receivables from groups of related borrowers. These are customers who are legally or financially interlinked in such a way that if one borrower in the group gets into financial difficulties, the other customers in the group might also have difficulty making repayments.

Risk bearing capacity calculations made allowance for the risk and unexpected losses resulting from loan size concentrations by way of an 'add-on' for the granularity adjustment (GA). The Herfindahl Hirschman Index calculated in this connection stood at 0.00178 at the end of the year. It showed a well-balanced spread of loan sizes within the customer credit portfolio. Loan size concentration risk was managed by setting limits on receivables from customers at the overall bank level. Adherence to the credit exposure size distribution limits was continuously monitored by the management committees.

0.00178

Sector and industry concentrations

The distribution of sectors and industries in BKS Bank's customer base is presented in accordance with the ÖNACE list of economic activities. The main focuses, accounting for roughly 68.8 per cent of the total portfolio, were the categories private customers, construction, goods manufacturing, landed property and homes and trade. This gave BKS Bank's customer loan portfolio a broad and well diversified mix of both sizes and sectors and industries. The corporate and business banking segment accounted for over three quarters of the loan portfolio under management.

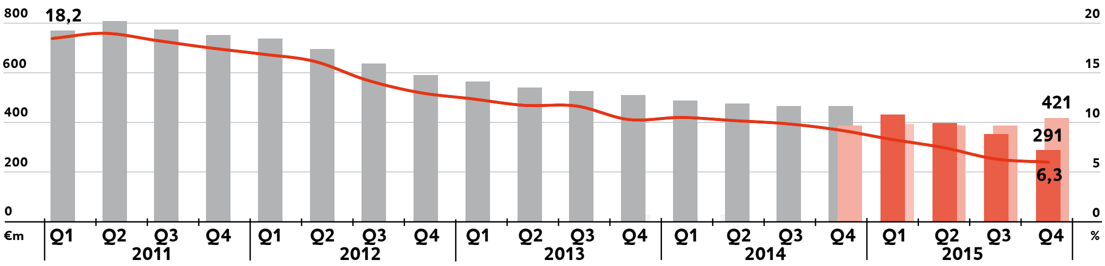
Foreign exchange induced credit risk

Foreign exchange-induced credit risk is another form of credit risk concentration. The classical foreign exchange risk borne by the customer may, if exchange rates change unfavourably, seriously affect the ability of borrowers with foreign currency loans to repay their debts. FX-induced credit risk was calculated for the foreign currency debts of corporate and business banking and retail banking customers. To quantify the potential risk from movements in foreign exchange rates, we calculated it for *BKS Bank AG*'s main currencies (SFr, ¥, US$), separately for euro loans to Croatian customers and for all other currencies on an across-the board basis. We used a random walk simulation based on movements in exchange rates in the previous 1,000 days to simulate an adverse movement in rates with confidence intervals of 95 per cent and 99.9 per cent.

RECEIVABLES FROM CUSTOMERS, BY ECONOMIC ACTIVITY

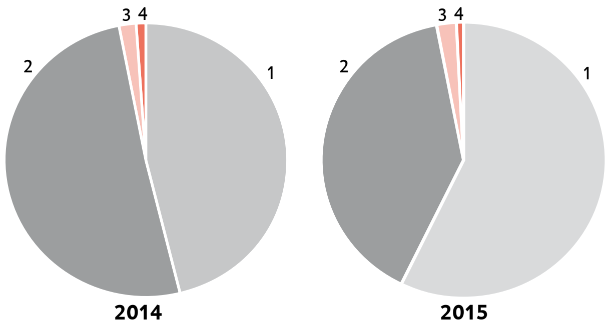
Economic Activity Classification in Conformity with ÖNACE (*Statistik Austria*)	2014 €m	2014 %	2015 €m	2015 %
Private	1,010	17.9	1,044	18.3
Construction	815	14.4	824	14.4
Goods manufacturing	764	13.5	743	13.0
Landed property and homes	678	12.0	799	14.0
Trade, vehicle maintenance and repairs	567	10.1	517	9.1
Financial and insurance services	356	6.3	336	5.9
Provision of professional, scientific and technical services	258	4.6	260	4.6
Transport and storage	206	3.7	196	3.4
Hospitality and gastronomy	198	3.4	172	3.0
Health and social services	179	3.2	169	3.0
Energy supply	117	2.1	131	2.3
Public administration, defence, social insurance	115	2.0	120	2.1
Mining and extraction of stones and soil	94	1.7	104	1.8
Other business services	80	1.4	78	1.4
Agriculture and forestry, fishing	57	1.0	60	1.1
Provision of other services	46	0.8	51	0.9
Water supply, disposal of effluent, waste, environmental pollutants	37	0.7	41	0.7
Information and communication	31	0.6	39	0.7
The arts, entertainment and recreation	18	0.3	21	0.4
Education and instruction	9	0.2	6	0.1
Other borrowers without a sector or industry	7	0.1	—	—
Extraterritorial organizations and bodies	—	—	—	—
Total	**5,641**	**100**	**5,711**	**100**

FOREIGN CURRENCY RECEIVABLES FROM CUSTOMERS



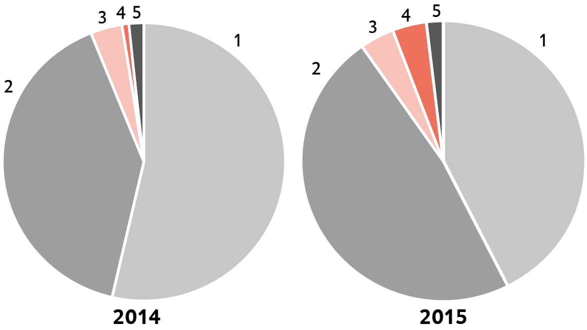
Foreign currency portion of the total loan portfolio, %
SFr Euro loans to borrowers with incomes in a different currency

FOREIGN CURRENCY RECEIVABLES FROM CUSTOMERS, BY CURRENCY



	2014 €m	2014 %	2015 €m	2015 %
1 €	397	46.4	421	57.3
2 SFr	434	50.7	291	39.7
3 US$	17	2.0	16	2.2
4 ¥	8	0.9	6	0.8

FOREIGN CURRENCY RECEIVABLES FROM CUSTOMERS, BY COUNTRY



	2014 €m	2014 %	2015 €m	2015 %
1 Austria	462	53.7	314	42.7
2 Croatia	346	40.3	350	47.7
3 Hungary	31	3.7	30	4.1
4 Switzerland	6	0.7	28	3.8
5 Other	14	1.6	13	1.8

A country breakdown of the foreign currency loan portfolio indicates that foreign exchange risk was mainly limited to the Austrian and Croatian markets. Foreign currency loan volumes in Croatia consisted almost exclusively of euro loans granted to borrowers with incomes in a different currency.

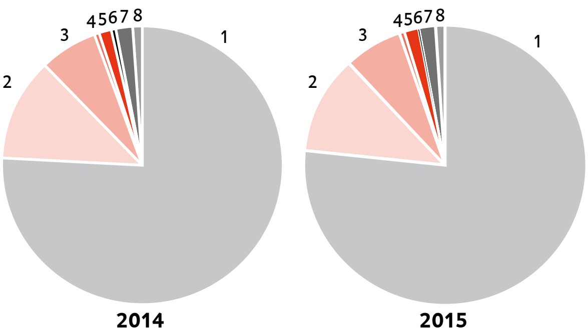
For years, BKS Bank's strategy has been to permanently reduce portfolios of foreign currency and repayment vehicle loans. We regularly discussed this with our customers and, as the occasion arose, developed tailor-made risk limitation solutions jointly with them. During 2015, the portfolio of foreign currency loans in Swiss francs shrank by €142.7 million (2014: €77.8 million) to €291.4 million (31 December 2014: €434.1 million). The proportion of foreign currency loans in relation to total loans in the portfolio had fallen to 6.3 per cent by year-end (31 December 2014: 9.4 per cent). As a result of our activities in Croatia, the portfolio of euro loans to borrowers with incomes in a different currency grew slightly, increasing to €420.7 million. Foreign exchange induced credit risk was managed by setting limits at the profit centre and overall bank levels, and adherence to them was continuously monitored.

6.3%

Country risk

Country or transfer risk is the risk that a counterparty might fail to meet obligations because the central bank of that counterparty's domicile or country of residence fails to supply the necessary currency. Besides transfer risk, the borrower's credit standing may also be directly affected by economic or political developments in a country. The countries that are material to BKS Bank when it comes to concentration risk are its target markets Slovenia, Croatia, Slovakia and Germany. Our country risk exposure was captured by a collective impairment charge

RECEIVABLES FROM CUSTOMERS, BY COUNTRY



	2014 €m	2014 %	2015 €m	2015 %
1 Austria	4,279	75.9	4,375	76.6
2 Slovenia	681	12.1	661	11.6
3 Croatia	375	6.6	384	6.7
4 Hungary	33	0.6	31	0.5
5 Slovakia	90	1.6	84	1.5
6 Italy	18	0.3	14	0.2
7 Germany	118	2.1	110	1.9
8 Other	48	0.8	53	0.9

in the Comprehensive Income Statement and was limited in the Risk Strategy. Exposures in individual countries were monitored on a monthly basis within the scope of the country limit monitoring process. The volume of credit outstanding in BKS Bank's target markets remained virtually unchanged in the year under review. Our business activities focused on the economic centres in our regions close to the Austrian border. For 2015, we set a bank-wide cap of €1.6 billion on loans to non-banks abroad (2014: 30 per cent of the total cash credit exposure). This limit was adhered to throughout the year.

For risk management and control purposes, we applied different rating standards to domestic and foreign loans, with stricter lending guidelines that were tailored to the specific characteristics of the country concerned being applied abroad.

RECEIVABLES FROM CUSTOMERS AT YEAR- END 2015, BY COUNTRY

€k	Receivables[1]	Past Due[2]	Individual Impairment Allowances	Collateral for Past Due Receivables
Austria	4,374,571	335,346	115,530	172,858
Slovenia	660,801	82,794	27,441	44,552
Croatia	383,576	67,342	36,481	41,224
Hungary	31,110	10,903	4,528	5,230
Slovakia	83,970	9,969	3,383	5,253
Italy	14,185	6,084	2,471	3,844
Germany	110,048	1,478	1,364	333
Other	52,786	195	617	192
Total at year-end 2015	**5,711,047**	**514,111**	**191,815**	**273,486**

[1] Risk volumes under ICAAP.
[2] Past due according to BKS Bank's default definition.

RECEIVABLES FROM CUSTOMERS AT YEAR- END 2014, BY COUNTRY

€k	Receivables[1]	Past Due[2]	Individual Impairment Allowances	Collateral for Past Due Receivables
Austria	4,279,114	346,108	116,138	165,663
Slovenia	680,960	111,468	34,259	56,353
Croatia	374,853	78,761	33,856	47,129
Hungary	32,835	11,395	4,071	6,424
Slovakia	90,324	6,655	3,888	3,973
Italy	17,970	401	233	243
Germany	117,719	1,555	1,093	365
Other	47,616	64	615	61
Total at 31 December 2014	**5,641,391**	**556,407**	**194,153**	**280,211**

[1] Risk volumes under ICAAP.
[2] Past due according to BKS Bank's default definition.

SECURITIES AND FUNDS, BY DOMICILE OF ISSUER

€k Region	Cost 2014	2015	Impairments 2014	2015	IFRS Carrying Amount[1] 2014	2015
Austria	429,714	451,443	294	—	460,413	456,491
Germany	68,732	50,501	—	—	70,572	51,489
Belgium	14,814	19,746	—	—	15,077	20,047
Luxembourg	133,411	122,090	—	—	138,017	126,807
France	2,252	17,246	—	—	2,169	17,134
Ireland	5,921	15,890	—	—	6,115	16,159
Italy	15,087	20,072	—	—	15,311	20,290
Poland	4,975	4,975	—	—	5,058	5,063
Slovakia	19,956	19,956	—	—	20,601	20,607
Greece	—	—	—	—	99	—
Spain	5,002	13,776	—	—	5,024	13,902
United States	16,401	18,253	—	—	16,499	18,412
Portugal	—	5,096	—	—	—	5,123
Total	**716,265**	**759,044**	**294**	**—**	**754,955**	**771,524**

[1] Including interest accrued.

Collateral

Collateral management was another central element of risk management. Comprehensive internal valuation guidance specified in writing which forms of collateral were permissible and how its value was to be appraised. Common collateral valuation policies had been defined for the entirety of the Group. However, they also took account of local market conditions. They were generally based on the average proceeds from liquidation achieved in the past and on anticipated movements in market prices. Real estate collateral was valued and the valuations were regularly audited by experts from Credit Management who were not involved in the credit approval process.

LOAN COLLATERAL AT 31 DECEMBER 2015

€m	Credit Exposure or Max. Default Risk	Total Collateral	Of which Financial Collateral	Of which Personal Collateral	Of which Real Estate Collateral	Of which Other	Risk[1]
Receivables from customers	5,711	3,316	169	170	2,351	626	2,395
Contingent liabilities	212	—	—	—	—	—	212
Receivables from other banks	389	—	—	—	—	—	389
Securities and funds	772	45	—	25	—	20[2]	727
Equity investments	495	—	—	—	—	—	495
Total	**7.579**	**3.361**	**169**	**195**	**2.351**	**646**	**4.218**

[1] Minus collateral. [2] Covered bonds covered by cover pool.

In the table below, the collateral security associated with receivables from customers was restated from €3,760 million to €3,242 million in respect of the year 2014 for the sake of better comparability, the method used to calculate the lending value of collateral having been changed to a more conservative approach in 2015.

LOAN COLLATERAL AT 31 DECEMBER 2014

€m	Credit Exposure or Max. Default Risk	Total Collateral	Of which Financial Collateral	Of which Personal Collateral	Of which Real Estate Collateral	Of which Other	Risk[1]
Receivables from customers	5,641	3,242	182	201	2,140	719	2,399
Contingent liabilities	188	—	—	—	—	—	188
Receivables from Other Banks	306	—	—	—	—	—	306
Securities and funds	755	70	—	45	—	20[2]	677
Equity investments	378	—	—	—	—	—	378
Total	**7,269**	**3,287**	**182**	**272**	**2,499**	**739**	**3,981**

[1] Minus collateral. [2] Covered bonds covered by cover pool.

Macroeconomic risk

Macroeconomic risk is the risk of adverse macroeconomic changes and the resulting risks that could affect the bank. At BKS Bank, it was calculated as a part of credit risk. The impact on the bank's portfolio was ascertained on the basis of possible changes in selected variables like GDP, the jobless rate, inflation and the balance of trade. The correlations that were drawn upon—these being correlations that have an impact on the probability of default (PD)—were based on the bank's historical data. They underwent regular validation. Inflation had the biggest impact on credit risk, followed by gross domestic product. Macroeconomic risk was calculated on a going concern and liquidation basis.

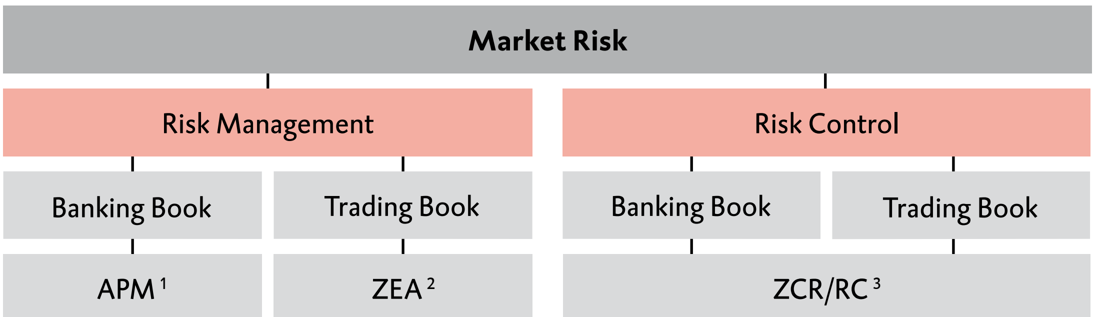
Market risk inclusive of interest rate risk in the banking book

BKS Bank defines market risk as the risk of losses that might arise from movements in market prices or rates (e.g. equity and bond prices, foreign exchange rates, interest rates) or other parameters that influence prices or rates (e.g. volatilities and credit spreads). Market risk affected all interest rate and price sensitive positions in the banking and trading books of BKS Bank and the individual institutions within the *Kreditinstitutsgruppe*. For internal management purposes, the BKS Bank Group therefore included the risk associated with positions in the banking book as a result of the possibility of movements in interest rates in its calculations of market risk. BKS Bank subdivided market risk into the following categories:
– interest rate risk (including credit spread risk);
– equity price risk;
– foreign exchange risk.

The principles underlying the management of market risk
Managing interest rate risk in the banking book—the most important risk category within market risk—was one of the responsibilities of the Asset/Liability Management Committee. This committee was made up of the Management Board and the heads of the relevant banking departments. The ALM Committee analyzed on a monthly basis the results of present value and duration analyses, value-at-risk analyses and simulations of changes in interest rates.

BKS Bank pursued a conservative interest rate risk strategy and did not in general engage in any material speculative derivative transactions. BKS Bank engaged in derivative transactions almost exclusively to hedge against market risks. In doing so, it only used instruments whose characteristics were known, the risks associated with which were known and where we had experience-based data. BKS Bank's central interest rate management instruments were interest rate swaps. Depending on the interest rates situation and structures, the ALM Committee made decisions to hedge not only individual transactions but also portfolios. Where applicable, when use was made of interest rate hedges, both the hedged item and the corresponding interest rate derivative were designated under the fair value option in accordance with IASs/IFRSs.

MANAGEMENT OF MARKET RISK



[1] Asset/Liability Management Committee.
[2] Proprietary Trading and International Operations Department.
[3] Controlling and Accounts Department (Risk Controlling).

Since earning profits from open currency positions is not one of the focuses of our business policy, BKS Bank has always kept its foreign exchange risks low. Consequently, open currency positions were only held in small amounts and for short periods.

Generally, loans and deposit balances denominated in a foreign currency were funded or invested in the same currency. To offset foreign exchange risks, BKS Bank sometimes engaged in derivative transactions like cross currency swaps, currency forwards and futures and currency swaps. Managing currency positions was the responsibility of the Proprietary Trading and International Operations Department (Money and Currency Trading). Currency positions were monitored by Risk Controlling.

Equity price risk in the banking book was managed by the ALM Committee. There was no proprietary trading in equities in the year under review. Generally, long-term banking book investments in equities and realizable assets were fund based. There were few investments in individual securities. We limited equity price risk by limiting volumes and the value at risk, and adherence to the limits was monitored by Risk Controlling.

Market risk affects both trading book and banking book positions. Because volumes were negligible, market risks in the trading book were of minor importance. Proprietary trading took place within prescribed limits. Adherence to the limits was checked by Risk Controlling on a daily basis and limit breaches were reported to the Management Board. A special Treasury Rulebook documented in detail all the proprietary trading rules.

We managed market risks and set the corresponding limits using a combination of different methods. These consisted of value at risk (VaR), modified duration and volume analyses and economic capital stress tests. The Management Board sets the overall limit once a year during the budgeting process. While doing so, it takes account of our risk bearing capacity and consults with Risk Controlling. Risk Controlling measured the VaR for interest rate risk, foreign exchange risk and equity price risk. The total VaR was then compared with the limit that had been set while allowing for diversification effects. The result was reported to the ALM Committee.

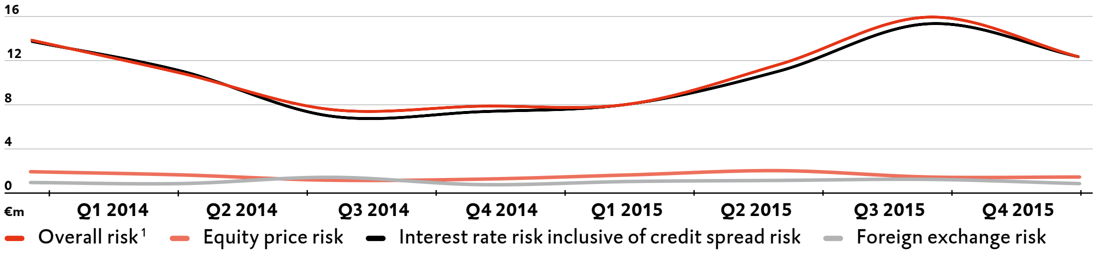
Value at risk

We calculated the value at risk (VaR), which was the most important gauge of risk used by us in the management of market price risks in the trading and banking books. It is the maximum loss that could be incurred as a result of market risk within a specified holding period and with a specific probability (confidence interval).

BKS Bank measured VaR using historical simulation based on the changes in market values observed in the previous 1,000 days. For the purposes of ongoing management and to calculate our risk bearing capacity on a going concern basis, we calculated VaR with a holding period of 180 days and a confidence interval of 95 per cent. Our ICAAP liquidation scenario was based on a holding period of 250 days and a confidence interval of 99.9 per cent.

Below, VaR is presented with a confidence interval of 95 per cent and a holding period of 180 days. As the table shows, there were no big fluctuations in market risk during the 2015 financial year.

MARKET RISK (VALUE AT RISK BASIS)



[1] Because of diversification effects, overall risk may be less than the sum of the individual risks.

VALUE AT RISK

€m	Interest Rate Risk[1] 2014	2015	FX Risk 2014	2015	Equity Price Risk 2014	2015	Total 2014	2015
Minimum	6.8	7.9	0.6	0.7	1.0	1.3	7.4	7.9
Maximum	13.6	15.2	1.3	1.1	1.8	1.9	13.7	15.8
Average	9.6	11.6	0.9	0.9	1.4	1.5	9.9	11.9
In Q4	7.2	12.2	0.6	0.7	1.1	1.3	7.7	12.2

[1] Includes diversification effects.

Interest rate risk

Interest rate risk is the risk of adverse changes in the values of interest rate sensitive positions or net interest income. We differentiated between:

– basic risk;
– interest rate adjustment risk;
– yield curve risk;
– option risk.

Differing maturities and interest rate adjustment periods can lead to interest rate risks on both the assets and the liabilities side of the account. However, they can generally be hedged against by means of a combination of on-balance sheet and off-balance sheet transactions. BKS Bank did not engage in any immoderate maturity transformation activities. Consequently, maturity arbitrage with significant volumes of open positions in order to generate income by riding the yield curve was not a focus of our activities. In addition, we calculated the credit spread risk contained within interest rate risk. This is the risk of credit standing and/or risk premium induced changes in market values affecting the portfolio of interest rate bearing securities. At the end of the year, the ratio of our interest rate risk to our eligible own funds assuming an interest rate shift of 200 basis points as reportable to *OeNB* was 3.32 per cent, as against 4.31 per cent at the end of 2014. We point out that the bank regulators classify a bank as an 'outlier' from a ratio of 20 per cent. We were nowhere near that figure.

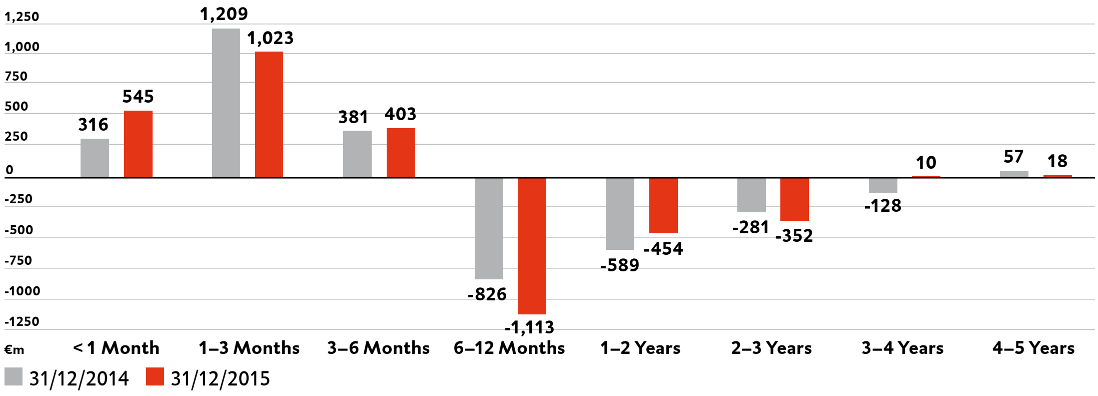
REGULATORY INTEREST RATE RISK (% OF OWN FUNDS)

Currency	31/12/2014	31/12/2015
€	3.90%	2.79%
SFr	0.07%	0.11%
US$	0.33%	0.41%
¥	0.00%	0.00%
Other	0.01%	0.01%
Total	**4.31%**	**3.32%**

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

Currency, €k	31/12/2014	31/12/2015
€	23,779	15,667
SFr	426	620
US$	2,021	2,312
¥	18	16
Other	69	37
Total	**26,313**	**18,652**

INTEREST RATE GAPS (EURO VERSUS FOREIGN CURRENCIES)



BKS Bank's interest rate risk at the end of 2015 was very low at €12.2 million in terms of the value at risk and 3.32 per cent in terms of the regulatory interest rate risk ratio. This was mainly to avoid pressures to recognize impairment losses on securities in the available for sale portfolio should interest rates rise. The biggest interest rate gaps were to be found in the bands from 1 through 3 months and from 6 through 12 months.

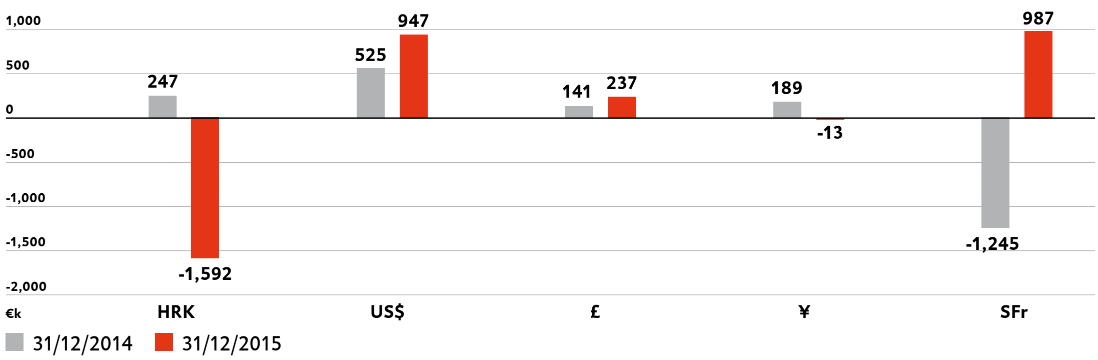
Equity price risk

Equity price risk is the risk of changes in prices caused by the interplay of supply and demand. Most of the investments in equities in our treasury portfolio were in highly liquid German and Austrian stock market securities. The proportion of shares and equity funds in the treasury portfolio was not allowed to exceed 10 per cent. At year-end, they accounted for 3.17 per cent thereof. Once a month, equity price risk was quantified on a historical simulation basis as a value at risk and reported to the ALM Committee. At 31 December 2015, the value at risk arising from this risk position based on a holding period of 180 days and a confidence interval of 95 per cent was €1.3 million (31 December 2014: €1.1 million).

Risks arising from foreign currency positions

These risks result from acquiring foreign currency asset and liability positions that are not matched by an equal counter position or derivative transaction. An adverse movement in exchange rates can lead to losses as a result. Open currency positions were appraised daily to assess the foreign exchange risk and were compared with the corresponding limits. Our foreign exchange value at risk at year-end was €0.7 million (31 December 2014: €0.6 million).

FOREIGN EXCHANGE RISK (OPEN CURRENCY POSITIONS)



Liquidity Risk

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 (funding risk) or liquidate assets at lower than usual market rates or prices (market liquidity risk).

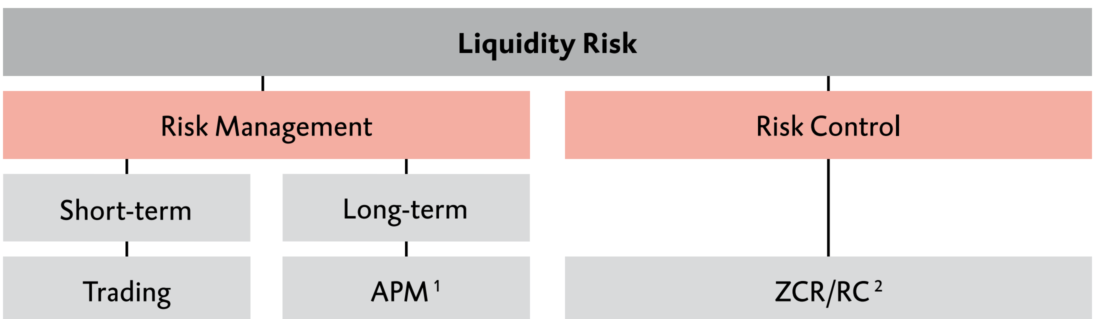
Liquidity management principles
The management of liquidity risk was governed by clearly defined principles that were anchored in our Risk Strategy and in our liquidity management manuals. The diversification of our funding profile to achieve a mix of investor categories, products and maturities was an essential part of the liquidity management process. Loan terms and conditions policy was managed on the basis of the *Risikomanagementverordnung* (Austrian risk management directive) and the EBA guidance underlying it. Using a sophisticated funds transfer pricing process, we ascertained the costs that arose when financial products were funded and allocated them during our product and profit centre calculations.

Intraday, liquidity management involved managing daily deposits and withdrawals. This process was based on information about transactions that affected liquidity. It included information about payment instructions, advance information about upcoming customer transactions provided by Sales, information about cash flows from the bank's own issuances provided by the Securities Back Office Department and information about securities and money market transactions provided by Treasury. Any liquidity peaks were evened out by borrowing money from or investing money with *OeNB*.

Medium-term and longer-term liquidity and the liquidity buffer were managed by the Asset/Liability Management Committee. At the end of 2015, BKS Bank's available liquidity buffer 1 came to €862.3 million (31 December 2014: €898.5 million). It was made up of receivables from customers that were eligible with *OeNB* (credit claims) and fixed-interest securities. The extended liquidity buffer (counterbalancing capacity), which also includes additional equities and funds, came to about €1 billion at the end of the year. This gave us a comfortable cushion of liquidity for the event of any disruptions in the money and capital markets. Furthermore, the Asset/Liability Management Committee monitored BKS Bank's liquidity position on a monthly basis with the help of predefined early warning

1bn

MANAGEMENT OF LIQUIDITY RISK



1 Asset/Liability Management Committee.
2 Controlling and Accounts Department (Risk Controlling).

indicators. The ALM Committee was required to meet should early warning indicators exceed the defined thresholds and to take remedial action. Furthermore, BKS Bank's Risk Management Manual contained emergency plans laying down responsibilities, measures to be taken and procedures to be followed in the event of disruptions in the money and capital markets.

The Risk Controlling Group was responsible for liquidity risk control, ensuring adherence to the principles, procedures and limits that had been established. Reporting took place on a daily, weekly, monthly and quarterly basis. If it was discovered that anything unusual had occurred or if certain early warning scores or limits had been reached, a corresponding *ad hoc* report was prepared for the Management Board.

Liquidity gaps and funding

Our daily liquidity gap analyses arranged all assets and liabilities of relevance to our funding profile into maturity bands. These analyses showed a liquidity surplus or shortfall for each maturity band, permitting the management of open liquid positions very close to real time. In addition, we developed an extensive system of limits (limits for each maturity band, time-to-wall limits) that gave the Management Board and the responsible risk management units a quick overview of the current situation. Analyses were supplemented by suitable stress tests. Depending on the nature of the source of stress, we categorized the scenarios as general macroeconomic scenarios, bank-specific scenarios or combined stress scenarios.

During the calculation of our risk bearing capacity, the VaR approach was used to measure liquidity risk on a going concern basis and on a liquidation basis. This risk was ascertained on the basis of net gaps assuming an increase in funding costs following a hypothetical deterioration in the bank's credit standing. The confidence interval was 95 per cent for the going concern case and 99.9 per cent for the liquidation case.

Most of our funds were raised in euros. When it came to foreign currencies, our main focus was on safeguarding the funding of Swiss franc loans. To do so, we used medium-term to long-term capital market swaps to convert some of our euro liabilities into Swiss franc liabilities.

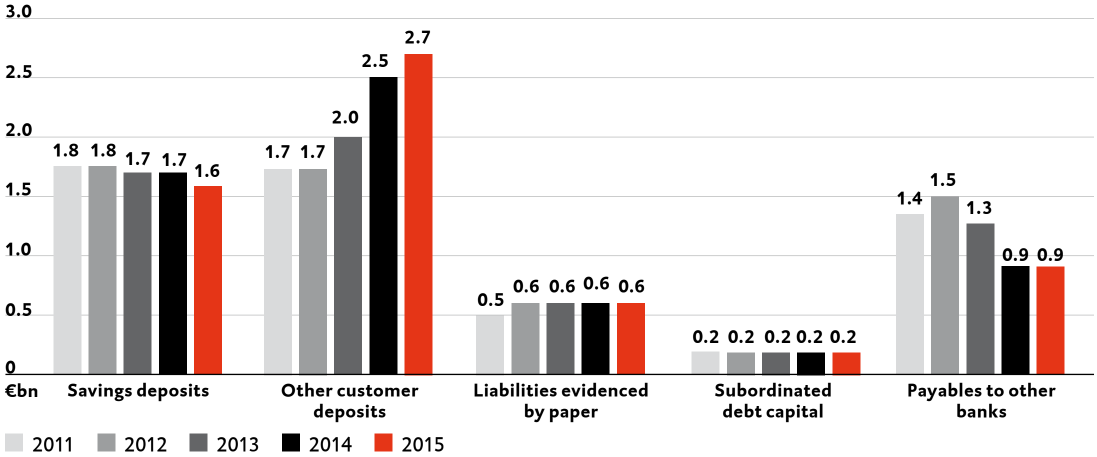
LIQUIDITY BUFFER AND COUNTERBALANCING CAPACITY

€k	31/12/2014	31/12/2015
Securities lodged with *OeNB*	665,477	668,765
Securities lodged with the Swiss National Bank	31,859	—
Credit claims ceded to *OeNB*	346,870	377,376
Credit claims ceded to the Slovenian National Bank	41,555	46,303
Total collateral eligible with the ECB	1,085,761	1,092,444
Minus *OeNB* tender block	(219,015)	(264,355)
Minus Slovenian National Bank tender block	—	—
Minus Swiss National Bank repo	(1,000)	—
Total available collateral eligible with the ESCB	865,746	828,089
Cash and cash equivalents	32,758	34,257
Liquidity buffer 1	**898,504**	**862,346**
Other securities	142,847	167,877
Liquidity buffer 2 (counterbalancing capacity)	**1,041,351**	**1,030,223**

From 2016, BKS Bank will be participating in *EUREX Clearing AG*'s General Collateral (GC) Pooling Market. In the GC Pooling system, liquid assets can be borrowed or invested in euros, US dollars and Swiss francs for durations from overnight (euros and US dollars) to 12 months. BKS Bank is thus one of the present total of about 125 participants in this steadily growing market for standardized and collateralized funding transactions that also involve a clearing house.

The chart below shows BKS Bank's funding structure by product category. The increase in 'other' customer deposits in 2015 was mainly a result of newly acquired deposits in Slovenia.

FUNDING STRUCTURES



The tables below present derivative and non-derivative liabilities according to the contractually agreed cash flows.

DERIVATIVE AND NON-DERIVATIVE LIABILITIES AT YEAR-END 2015 (CASH FLOW BASIS)

€m	Carrying Amounts	Contractual Cash Flows[1]	Up to 1 Month	1 Month to 1 Year	1–5 Years	More than 5 Years
Non-derivative liabilities	**6,015**	**6,381**	**544**	**2,657**	**1,617**	**1,563**
– Deposits from other banks	905	981	244	670	60	7
– Deposits from customers	4,352	4,497	293	1,868	1,123	1,213
– Liabilities evidenced by paper	576	685	7	102	269	307
– Subordinated liabilities	182	218	—	17	165	36
Derivative liabilities	**30**	**23**	**—**	**2**	**21**	**—**
– Derivatives in the banking book	30	23	—	2	21	—
Total	**6,045**	**6,404**	**544**	**2,659**	**1,638**	**1,563**

[1] Not discounted.

DERIVATIVE AND NON-DERIVATIVE LIABILITIES AT YEAR-END 2014 (CASH FLOW BASIS)

€m	Carrying Amounts	Contractual Cash Flows[1]	Up to 1 Month	1 Month to 1 Year	1–5 Years	More than 5 Years
Non-derivative liabilities	**5,874**	**6,155**	**631**	**2,271**	**1,868**	**1,385**
– Deposits from other banks	861	881	235	370	267	9
– Deposits from customers	4,224	4,341	391	1,789	1,151	1,010
– Liabilities evidenced by paper	594	693	5	77	325	286
– Subordinated liabilities	195	240	—	35	125	80
Derivative liabilities	**26**	**25**	**1**	**13**	**7**	**4**
– Derivatives in the banking book	26	25	1	13	7	4
Total	**5,900**	**6,180**	**632**	**2,284**	**1,875**	**1,389**

[1] Not discounted.

Thanks to the shrinkage in the portfolio of Swiss franc loans, our Swiss franc funding requirement also fell, dropping to €291.4 million (2014: €434.1 million). It now accounted for just 5.7 per cent of our total funding requirement.

FUNDING REQUIREMENTS, BY CURRENCY

%	2014	2015
1 €	90.6	93.9
2 SFr	8.8	5.7
3 US$	0.3	0.3
4 ¥	0.2	0.1
5 Other	0.1	—

Deposit concentration

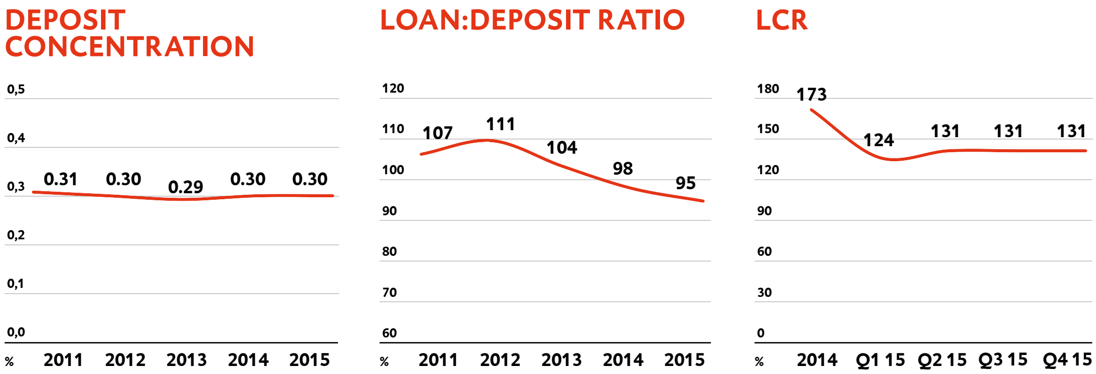
The deposit concentration as sketched out in the chart below came to 0.30 in the year under review. This statistic helps us estimate the deposit withdrawal risk associated with the possibility of a run on deposits. Above all, it thus highlights the dangers that come with relying on large deposits. All customer deposit balances were broken down into predefined size bands and the relative amounts thereof, and weighting factors of between 0 and 1 were applied to them.

Loan:deposit ratio

The loan:deposit ratio is another important liquidity management indicator. It states the relationship between the size of the loan portfolio and primary deposit balances. This ratio came to

95.3%

95.3 per cent, so we were just below our benchmark target and, therefore, at an excellent level. We interpret this as the fruit of our intense efforts to attract primary deposits. We have set a balanced ratio of 100 per cent as our benchmark target.



Liquidity coverage ratio

The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain liquid for the coming 30 days even in the event of simultaneous market and bank-specific stresses. It compares holdings of highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. At BKS Bank, this regulatory liquidity ratio came to 130.7 per cent at 31 December 2015 and was therefore far above the minimum ratio of 100 per cent that is gradually being phased in between the beginning of October 2015 and 2018.

Under Article 100 CRR in conjunction with the Commission Implementing Regulation (EU) No 2015/79, banks are obliged to report encumbered assets to the regulators on a quarterly basis. For the purposes of these reports, an asset should be deemed to be encumbered if it has been pledged or if it is subject to an arrangement to secure on-balance-sheet or off-balance sheet transactions. At 31 December 2015, 7.2 per cent (31 December 2014: 6.9 per cent) of the assets in the *Kreditinstitutsgruppe* were encumbered. This was a comparatively small amount and below the regulatory ceiling of 15.0 per cent. As a result, our bank is only subject to the reduced reporting requirements.

Operational Risk

In line with the CRR, we define operational risk as the risk of losses arising primarily in BKS Bank's operational domain that might result from inadequate or failed internal processes, people or systems or from external factors.

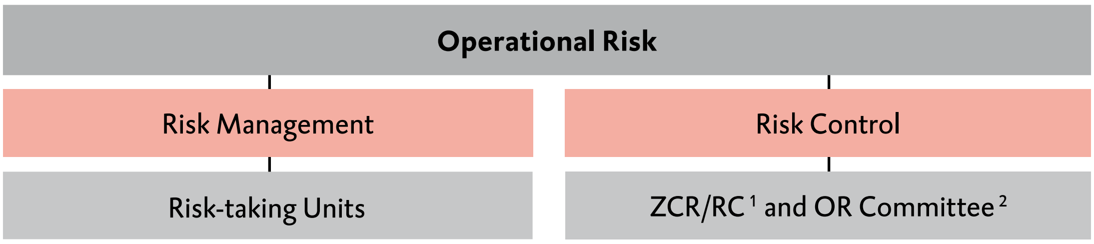
Operational risks at *BKS Bank AG* and all its subsidiaries in Austria and abroad were limited by an appropriate and continually refined internal control system. It included a raft of organizational measures ranging from the appropriate separation of functions within business processes (separation of front office from back office activities, dual-control or 'four-eyes' principle) to extensive bodies of internal rules and regulations and regular controls to emergency plans and self-auditing systems.

We combated IT risks by means of professional IT security management carried out by *DREI-BANKEN-EDV Gesellschaft m.b.H.*—which is held jointly with our sister banks—and extensive data protection and data security measures, and professional business continuity management was also carried out. The appropriateness of those precautions was regularly reviewed by Internal Audit. System weaknesses detected by Internal Audit were immediately remedied.

Every process in the enterprise involved IT, so IT governance was of great importance. IT governance is the collective term for the principles, procedures and measures that ensure that business targets are reached, resources are responsibly used and risks are adequately monitored with the help of the hardware and software that are in use.

An OR Committee was in place to manage operational risk holistically at the overall bank level. It met once a quarter. Each quarter, it sent an operational risk report to the relevant decision makers. Risk Controlling was responsible for carrying out operational risk measurements and for defining the operational risk framework. The implementation of risk mitigating measures was the responsibility of the risk-taking units.

OPERATIONAL RISK



[1] Controlling and Accounts Department (Risk Controlling).
[2] Operational Risk Committee.

We employed a variety of techniques to ensure the effective management of operational risk. They included:

– carrying out Group-wide self-assessments on a bottom-up basis; these could be used to derive the risk profile specific to each area of operations;
– documenting operational risk losses in a Group-wide loss database;
– developing risk mitigating measures on the basis of the threat analysis carried out within the scope of the self-assessment process and the analysis of actual losses.

Operational risks were assigned to one of the following categories:

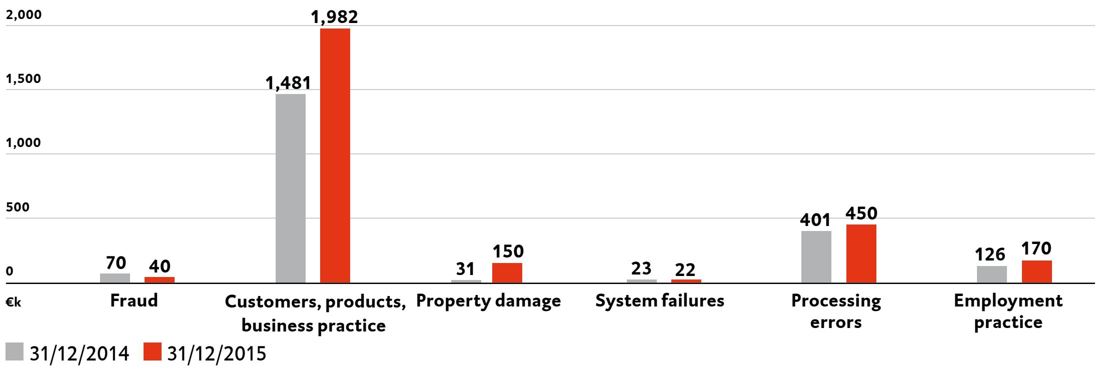
– fraud;
– customers, products, business practice;
– property damage;
– system failures;
– processing errors;
– employment practice.

9,380

Excluding those resulting from credit operations, 300 loss events were recorded at BKS Bank in the year 2015 (2014: 233 loss events). The average loss amount after deducting amounts recovered was €9,380 (2014: €9,150). Most of the increases in the number of loss events and the average loss amount took place in the customers, products and business practice category. During the 2015 financial year, losses arose from customer complaints about closed property and shipping funds and stop loss agreements pertaining to Swiss franc loans. Appropriate provisions were created for those complaints. The business practice category accounted for about 67.5 per cent of the operational risk, followed by the category processing errors (15.4 per cent).

As in prior years, we used the standardized approach to gauge our regulatory capital requirement for operational risk. At the end of the year under review, the regulatory own funds requirement was €25.7 million (31 December 2014: €26.0 million). This compared with actual operational risk losses net of amounts recovered of €2.8 million (2014: €2.1 million). The total loss in 2015 translated into 10.9 per cent of our regulatory own funds requirement for operational risk.

OPERATIONAL RISKS, BY RISK CATEGORY



Risk of excessive borrowing

The risk of excessive borrowing is the risk of a rise in borrowing and/or contingent liabilities that could detrimentally impact upon BKS Bank's business operations. Alongside any change in the business plan that might become necessary, there could also be funding bottlenecks that would necessitate the emergency realization of assets and, therefore, could lead to losses or impairment of the remaining assets.

The risk of excessive borrowing is measured by the leverage ratio. The leverage ratio expresses the relationship between capital (Tier 1 capital) and overall risk (balance sheet total plus off-balance sheet items). At the end of 2015, it was 7.7 per cent (31 December 2014: 8.9 per cent). This meant that our leverage ratio was well above the minimum that is currently under consideration.

7.7%

RISK OF EXCESSIVE BORROWING

Risk of excessive borrowing

Risk Management — Management Board

Risk Control — ZCR/RC[1]

[1] Controlling and Accounts Department (Risk Controlling).

Other risks

Other types of risk that BKS Bank does not currently deem to be material were collected together in the category of *Other risks*. These included:
– strategic risks;
– risks associated with new kinds of business;
– reputational risks;
– risks associated with residual values in leasing operations;
– money laundering and terrorism financing risks;
– risks associated with the bank's business model;
– systemic risks.

Appropriate risk buffers were created for 'other' risks both on a going concern basis and on a liquidation basis within the scope of the risk bearing capacity analysis process. They undergo annual evaluation and are adjusted as necessary. These risks were managed by the ICAAP Committee.

Characteristics of the Internal Control and Risk Management System

The following contains the material disclosures required by *§ 243a Abs. 2 UGB* regarding the internal control and risk management system (ICS) for the purposes of BKS Bank's financial reporting process. We point out that the characteristics of the risk management system have already been commented upon in detail in earlier chapters.

The internal control system serves primarily to:
– safeguard assets;
– increase BKS Bank's profitability;
– ensure adherence to the legal requirements, business policy guidelines and internal rules;
– prevent damage that might be caused by our own staff or third parties.

The ICS ensured the reliability of enterprise reporting, including, in particular, financial reporting. Documentation of the most important financial reporting processes in a Group Manual and an internal impairment allowance guideline was an important part of the ICS in the context of the financial reporting process.

The Management Board was responsible for setting up and designing a control and risk management system that met the needs of the Group's financial reporting process. Accounting, the associated processes and the associated risk management procedures were the domain of the Controlling and Accounts Department.

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

The control environment
Besides the legal requirements in place in Austria, Slovenia, Croatia and Slovakia, the focus was also on the Code of Conduct established by BKS Bank. In addition, importance was attached to the principles of corporate governance and adherence to internal guidance.

There were separate job descriptions for the individual roles which precisely defined areas of authority and fields of responsibility. Internal and external seminars were held to ensure that employees were appropriately trained.

In addition, numerous guidelines, manuals and instructions were created to regulate controlling and financial reporting activities, and they were regularly reviewed and updated.

Risk assessment
A risk catalogue was developed and the relevant fields of risk were identified for the material business processes within the financial reporting process that were typical of the enterprise. They were continuously monitored, reviewed and, if necessary, updated.

Depending on the classification of a risk as ‘low’, ‘medium’ or ‘high’, individual activities and positions were assigned to specific mandatory controlling activities. Misjudgements cannot be completely ruled out. To minimize this risk, we drew upon the experience of external experts and consultants, especially when introducing changes that had a material impact on the financial reporting process.

Control procedures

A variety of different control procedures were applied within BKS Bank’s financial reporting process. Recurring systemic controls were implemented together with IT users and external auditors to monitor the IT systems that were in use (SAP, GEOS, etc.). The accuracy, completeness and precision of the data were audited. In addition, plausibility checks were carried out, checklists were employed and the dual-control or ‘four-eyes’ principle was consistently applied.

In financial accounting, checks were in particular carried out to ensure that outgoing payments had also been authorized by the responsible parties and that no boundaries of authority had been overstepped. Payments were approved on a dual-control or ‘four-eyes’ basis. Coordination processes were implemented between the organizational units Accounts (Balance Sheet Accounting) and Controlling so as to synchronize data. This ensured data consistency across internal reporting and external reporting.

One important control procedure related to the restrictive granting and monitoring of IT authorizations in SAP systems. Authorizations were documented and granted by Internal Audit within the scope of a separate authorization 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 was kept regularly and promptly informed about every aspect of the financial reporting process and the financial results in monthly reports. Each quarter, the Supervisory Board and Audit Committee and the equity holders of *BKS Bank AG* received an interim report containing notes on budget deviations, material changes and changes over time.

Monitoring procedures

The financial reporting process was monitored by way of self-assessments as well as independent audits by BKS Bank’s Internal Audit Department. These were reported upon directly to the Management Board. The department heads and the responsible group heads performed the primary monitoring and supervisory role within the financial reporting process in accordance with their role descriptions. To ensure the reliability and orderliness of the financial reporting process and the associated reports, additional monitoring procedures were carried out by the statutory Auditors of the Consolidated Financial Statements and the mandatorily appointed Audit Committee.

Compliance Management System

Besides risk management and internal auditing, compliance is one of the three factors that, by ensuring strict compliance with the law, protects the enterprise, investors, customers and employees against breaches of rules. Compliance risks arise when laws, other requirements, codes of conduct or proper business standards are not or are only incompletely adhered to. The BKS Bank Group's Risk Management Department maintained a focus on the proper and legally compliant behaviour of every business division as the basis for entrepreneurial responsibility. It is an essential prerequisite for sustainable business success.

The foremost goal of the Compliance Management System was therefore to proactively prevent breaches of laws and regulations. Compliance remits encompassed the definition of compliance standards like codes of conduct and ethical codes, communication measures and training measures and the installation of monitoring, auditing and reporting systems. In a landscape of continuously changing business processes and legal requirements, we focused particularly on preventing and combating insider trading, market manipulations, money laundering and terrorism financing.

The Compliance Unit at BKS Bank was directly answerable to the Management Board as a whole, which was also responsible for putting the Compliance Organization into place and creating suitable communication channels to ensure that compliance targets were achieved. It also set the benchmarks for a corporate culture based on honesty, integrity and conduct on the part of employees that complies with the legal requirements and regulations. Management personnel in the BKS Bank Group who were responsible for processes were required within their respective banking departments and areas of activity to act in accordance with the law and the internal rules that had been derived from the legislative provisions. In the event of a breach, they were responsible for the purposes of administrative penal law in accordance with *§ 9 Absatz 2 VStG*.

The compliance duties stemming, in particular, from the *Wertpapieraufsichtsgesetz* (WAG: Austrian securities supervision act), the *Börsegesetz* (BoerseG: Austrian stock exchange act), the *Emittenten-Compliance-Verordnung* (ECV: Austrian issuer compliance directive), the Austrian banking industry's Standard Compliance Code, the *Bankwesengesetz* (BWG: Austrian banking act), the *ÖCGK* (Austrian Code of Corporate Governance), the circulars of the FMA and, not least, European legal frameworks were carried out by the Capital Market Compliance Team. In conformity with the ECV, the Compliance Officer, who answered directly to the Management Board as a whole, had a series of supervisory, notification, reporting and disclosure duties. On the other hand, the Compliance Officer had extensive rights to give orders, be given information and carry out investigations.

In the AML/CFT organizational unit, the Anti Money Laundering Officer—who likewise reports directly to the Management Board as a whole—and his team dealt with measures to prevent money laundering and the financing of terrorism and to ensure adherence to financial sanctions. Their responsibilities derived in particular from the *Bankwesengesetz*, the requirements of EU law, regulatory circulars and the recommendations of international organizations like the

Financial Action Task Force on Money Laundering (FATF). In addition, this team was responsible for establishing and refining an effective system for the prevention of corruption and fraud.

IT-supported and manual control procedures ensured the detection of transactions that might have something to do with money laundering or terrorism financing. Conspicuous transactions underwent detailed analysis. The *Bankwesengesetz* requires the bank to make a report to the law enforcement agencies if there is suspicion of money laundering or terrorism financing. Such reports were promptly sent as required by the law by the AML/CFT Unit.

The tasks of the organizational units Capital Markets Compliance and AML/CFT also included implementing and continuously updating compliance and anti money laundering guidance and rules and regulations, giving employees further training on complying with the relevant laws, directives, regulations, codes of conduct and standards, assessing compliance and AML risks at regular intervals and preparing independent reports for the Management Board, Supervisory Board and Financial Market Authority. Compliance management systems were also in place at our foreign branches and subsidiaries.

BKS Bank's Compliance Management System was founded on three elements:
– recognition (risk identification, risk assessment and continuous monitoring);
– prevention (training, consultation desk, measures to raise awareness);
– action (professional management of cases of non-compliance, zero tolerance principle).

Strict emphasis was placed on adherence to the 'know-your-customer' principle so as to maximize the transparency of business relationships and financial transactions. Among other things, this included ascertaining and documenting customers' identities beyond doubt, and, where necessary, also tracing the origins of assets used in the business relationship or for a transaction.

Prevention remained a focus of our compliance agenda during the year under review. Wide-ranging communication, regular compulsory training and a number of catalogues of principles (Compliance Charter, Compliance Code, Code of Conduct, Anti-corruption Work Manual, Anti Money Laundering Work Manual, etc.) gave our employees und management personnel the tools they needed to comply with the legal requirements and rules and regulations in line with the principles of integrity, accountability, responsibility, fairness and courtesy. User-friendly e-learning modules dealing with compliance in the capital markets, money laundering and terrorism financing prevention and financial transactions were distributed throughout the Group. They again proved to be an important aid to orientation in 2015.

Outlook

The global economy is currently growing a little. However, the recovery varies from one economic region to the next and is subject to big uncertainties. Whereas growth in the economies of the United States and the eurozone has stabilized at a low level, the decline in crude oil prices since the middle of 2014 has created major problems for the emerging market economies. The state investments funds of, above all, the oil exporting countries have felt compelled to sell large amounts of the bonds and equities that had been earmarked long-term to cover their runaway budget deficits. This was one reason for the turbulence in the international financial markets that has set in since the beginning of 2016. The disinvestments began back at the end of 2014 when the American central bank started reining in its expansionary monetary policy. Consequently, the weak growth in China, Russia and the Golf states, the likelihood of further monetary tightening in the United States and the threat of an escalation of the geopolitical tensions in the Middle East are major sources of economic risk.

At the moment, the US economy's outlook still seems to be strongest. In view of its solid indicators, real GDP growth of 2.7 per cent seems likely in 2016. The driving forces are private consumption, growing employment, low energy prices and the effects of US dollar exchange rates. The differences between the monetary policy paths being pursued in the United States and the eurozone suggest that the euro will probably continue to lose ground against the US dollar following a high of US$ 1.1347/€ in February. At the beginning of March 2016, the rate was US$ 1.0872/€. The first hike in key US interest rates since 2008 took place in the middle of December 2015. It was a historical sea change. However, the Federal Reserve's interest rates decision did not yet prompt the ECB to act. Among other things, the economic outlooks on the two sides of the Atlantic are too different for that. We assume that the ECB will be implementing the entirety of its special monetary quantitative easing measures by purchasing assets as well as taking further action to stimulate the economy until the end of 2016 and, if necessary, beyond. Consequently, capital market rates in the eurozone are probably going to stay extremely low for some time to come.

Thanks to the strong growth of private consumption, the eurozone's economy is currently on a narrow but robust path of 1.7 per cent growth. The renewed drop in crude oil prices is improving the real disposable incomes of private households and profits in the corporate sector. This in turn is increasing the propensity to invest. The latter is being supported by brisker demand, the prospect of better profit margins and higher utilization of production capacities. Furthermore, according to ECB analyses, the eurozone is showing signs of being on a mildly expansionary fiscal policy path as a result of aid for refugees. However, structural problems in erstwhile growth regions, debate about the future of the ECB's monetary policy and the eurozone and the increasing popularity of euro-critical parties mean that there is considerable potential for upsets.

In the international equity markets, signs of a slump emanating from the Asian money and capital markets and the international commodity markets in January led to a broad but generally moderate consolidation. Having started the year at 148.128 points, the MSCI World Equity Index in euros had fallen to 156,304 points by the beginning of March. Regardless of the increase in nervousness, the medium-term uptrend in the stock markets is still intact in a landscape of solid corporate profits.

Austria's economic recovery since the beginning of the year 2016 has been modest. However, three non-recurring factors should accelerate real GDP growth to between 1.7 per cent and 1.9 per cent over the year as a whole. The factors that *OeNB* has named in this context are the entry into force of the tax reform in January 2016 (with its impact on the to date only modest level of private consumption), rising expenditure on asylum seekers and recognized refugees and the Austria-wide home building initiative that has been announced by the Federal Government. Austrian companies' order levels are currently being boosted by the declining value of the euro and lower energy prices. Real export growth should accelerate to 3.5 per cent from 2.6 per cent in 2015. Despite a small increase in equipment investment, investment is likely to remain restrained. Above all, the construction industry is still stuck in the economic doldrums. The weakness of the residential construction sector is particularly surprising given the high level of demand for homes, the sharp rise in property prices and the low cost of finance. The situation in the job market is still strained and it is suffering from the sharp rise in the labour supply. The slight economic recovery is not enough to stem the high level of unemployment. Unemployment came close to the 500,000 mark in January. The large number of people seeking refuge can be expected to continue to have a major impact on the job market, pubic finances and value added in the future.

In view of the geopolitical and macroeconomic situation, 2016 is going to be another challenging year for banks. In the months to come, further measures to improve the capital adequacy of banks and effect recovery or resolution in the event of a crisis will continue to be the focus of discussion. In addition, preparations for the introduction of the new recognition and measurement policies required by IFRS 9 are already tying up valuable resources.

The banking sector's business performance is, in particular, being seriously harmed by the ECB's monetary policy, which has already led to negative interest rates in many maturity bands. Nor, given the ECB's recent decision to cut its key rate from 0.05 per cent to 0.00 per cent and to expand its ongoing quantitative easing programme to €80 billion a month from April, are there any signs of a sea change in the coming quarters. This means that the margins on customer operations are not going to improve. To date, the desired increase in lending has not happened. In the absence of investment projects in the industrial sector and because low interest rates alone are apparently not motivating companies to invest more, lending in Austria has only increased by about 1 per cent. Moreover, as things stand at the moment, the reduction in the burdens on banking books achieved through cuts in impairment charges on loans and advances seems fragile. In addition, growing competition from online banks and technology driven providers of banking services is making it difficult to develop new profit opportunities.

Having carried out a number of important organizational changes, our bank remains strategically excellently placed to meet any challenges that 2016 may bring. We intend to continue to reinforce BKS Bank's reputation as a capable bank that focuses on its customers' needs. We will do so by providing individual advice and offering customers an attractive range of products and services. As we compete for customer deposits, we want to increase our funding strength by, above all, continuing to attract inflows of savings deposits and carrying out attractive issuances in the capital markets. That said, BKS Bank wants to consistently pursue its strategy and is striving to continue to expand its market shares in its core segments—corporate and business banking and retail banking—in Austria and abroad. Lending to companies is likely to stay on last year's growth path and expand by about 2 to 4 per cent. The improvement in consumer sentiment associated with the tax reform should give added momentum to lending to private households.

Despite the enormous burdens imposed by the bank tax and contributions to the deposit guarantee scheme and resolution mechanism, we want to keep a grip on costs and hold them stable, and we expect productivity to continue to improve. Severe cost pressures are compelling us to streamline our business processes and, above all, reduce staffing in our processing units by automating processes. Although we are not planning an general cut in staffing, we will be seeing further shifts between organizational units as we already have in recent years. Thanks to the slight economic upturn in the eurozone, we are seeing a drop in impairment charges on loans and advances, and an internal programme of measures to improve portfolio quality is also making a contribution.

The population of Vienna and its surroundings is growing comparatively strongly. We will be focusing on that growth and enlarging our Austrian branch network in the region. We will also be opening new branches in Slovenia insofar the economic landscape allows us to do so. Our customer communication activities will be making more use of social media interactions and we will do everything we can to continue to enlarge the customer base. Finally, we will be sounding out every opportunity to reinforce our equity base and looking at all the instruments that we could use to do so.

We are of course aware that the realization of our strategic goals in line with our plans could be hampered or prevented by turbulence in the market, deterioration of the global, regional or national economy, regulatory intervention or the actions of our competitors. However, we are cautiously optimistic and are convinced that BKS Bank will be able to master the hurdles it faces in this challenging 2016 financial year thanks to its proven business model, its good and stable own funds position and its firm market position in its core business segments. It will do so as a reliable partner to its customers and equity holders alike. As in prior years, we intend to distribute a dividend that adequately reflects our profits and own funds.

We note that no material events of relevance for reporting purposes took place between the end of the financial year and the preparation of the Annual Financial Statements and certification thereof by the Auditors.

Herta Stockbauer
Chairwoman of the
Management Board

Dieter Krassnitzer
Member of the
Management Board

Wolfgang Mandl
Member of the
Management Board

IFRS-compliant Consolidated Financial Statements

Contents of the Notes

Restatement under IAS 8

IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors is applied when selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. Changes in accounting policies and corrections of errors are generally retrospectively accounted for. Between November 2014 and July 2015, *Österreichische Prüfstelle für Rechnungslegung* (Austria's financial report auditing body) subjected the Consolidated Financial Statements as at and for the year ended 31 December 2013 and the Semi-Annual Financial Reports as at and for the six month periods ended 30 June 2013 and 30 June 2014 to an audit in accordance with *§ 2 Abs. 1 Z 2 RL-KG*. The audit was an off-site audit for which there were no specific grounds. The audit of the Consolidated Financial Statements for 2013, the Semi-Annual Financial Statements as at and for the six months ended 30 June 2014 and the Consolidated Financial Statements for 2014 produced two results: In the Consolidated Financial Statements for 2013 and the 2013 and 2014 Semi-Annual Financial Statements, loan processing fees and charges and transaction costs were not deferred as provided in IAS 39.9 in conjunction with AG6 of IAS 39 and IAS 18, IE14 (a)(i) and (ii). Instead, they were in each case taken in their entirety to income each year. As a result, the profit before the tax for the year ended 31 December 2013 of €45.5 million was €1.1 million too high and the equity of €714.2 million was a total of €12.0 million too high. In addition, it was established that pursuant to IFRS 11, *ALGAR* should already have been classified as a joint operation as of 1 January 2014 and, therefore, accounted for in the Semi-Annual Financial Report as of and for the six months ended 30 June 2014 on a proportionate basis. In the Semi-Annual Financial Report, it was still accounted for in conformity with IAS 28.10 (using the equity method) and not in conformity with IFRS 11.20 (on a proportionate basis). *ALGAR* was accounted for correctly but not retrospectively in the Consolidated Financial Statements as at and for the year ended 31 December 2014 and the reconciliation was presented in note 37 in the 2014 Annual Report. The restatement was first published in the 2015 Semi-Annual Report. The following table presents the changes in the amounts of the individual line items that result from restatement in conformity with IAS 8.49:

EFFECT OF RESTATEMENT ON BALANCE SHEET TOTAL, EQUITY AND PROFIT FOR THE YEAR

€k	1/1/2014	31/12/2014
Effect on assets		
Amount reported in the respective annual report	6,743,760	6,864,504
Restatement	(9,048)	(9,863)
Amount after restatement	6,734,712	6,854,641
+/(–) change, %	(0.13)	(0.14)
Effect on equity		
Amount reported in the respective annual report	714,164	805,712
Restatement	(11,992)	(9,863)
Amount after restatement	702,172	795,849
+/(–) change, %	(1.68)	(1.22)

€k	1/1/2013 – 31/12/2013	1/1/2014 – 31/12/2014
Effect on profit for the year after tax		
Amount reported in the respective annual report	40,596	46,614
Restatement	(797)	2,129
Amount after restatement	39,799	48,743
+/(–) change, %	(1.96)	4.57
Effect on earnings per share		
Amount reported in the respective annual report	1.26	1.42
Restatement	1.23	1.49
+/(–) change, €	(0.03)	0.07

EFFECT OF RESTATEMENT ON ASSETS

€k	1/1/2014	31/12/2014
Receivables from other banks		
Amount reported in the respective annual report	116,917	269,482
Restatement	43,249	—
Amount after restatement	160,166	269,482
+/(–) change, %	36.99	0.00

€k	1/1/2014	31/12/2014
Receivables from customers		
Amount reported in the respective annual report	5,050,314	5,023,080
Restatement	(15,989)	(13,151)
Amount after restatement	5,034,325	5,009,929
+/(–) change, %	(0.32)	(0.26)
Impairment allowance balance		
Amount reported in the respective annual report	(176,109)	(194,161)
Restatement	(39.331)	—
Amount after restatement	(215,440)	(194,161)
+/(–) change, %	22.33	0.00
Investments in entities accounted for using the equity method		
Amount reported in the respective annual report	361,126	395,896
Restatement	(974)	—
Amount after restatement	360,152	395,896
+/(–) change, %	(0.27)	0.00
Deferred tax assets		
Amount reported in the respective annual report	17,109	21,670
Restatement	3,997	3,288
Amount after restatement	21,106	24,958
+/(–) change, %	23.36	15.17

EFFECT OF RESTATEMENT ON LIABILITIES

€k	1/1/2014	31/12/2014
Payables to other banks		
Amount reported in the respective annual report	1,302,332	860,517
Restatement	(31,364)	—
Amount after restatement	1,270,968	860,517
+/(–) change, %	(2.41)	0.00
Provisions		
Amount reported in the respective annual report	83,992	128,519
Restatement	34,308	—
Amount after restatement	118,300	128,519
+/(–) change, %	40.85	0.00

EFFECT OF RESTATEMENT ON THE INCOME STATEMENT

€k	1/1/2013 – 31/12/2013	1/1/2013 – 31/12/2014
Impairment charge on loans and advances		
Amount reported in the respective annual report	(42,710)	(49,520)
Restatement	(1,700)	—
Amount after restatement	(44,410)	(49,520)
+/(–) change, %	3.98	0.00
Fee and commission income		
Amount reported in the respective annual report	48,329	47,823
Restatement	(1,063)	2,838
Amount after restatement	47,266	50,661
+/(–) change, %	(2.20)	5.93
Other operating income		
Amount reported in the respective annual report	3,567	5,973
Restatement	1,597	—
Amount after restatement	5,164	5,973
+/(–) change, %	44.77	0.00
Income tax expense		
Amount reported in the respective annual report	(4,933)	(4,623)
Restatement	266	(710)
Amount after restatement	(4,667)	(5,333)
+/(–) change, %	(5.39)	15.36

Comprehensive Income Statement of the BKS Bank Group for the 2015 Financial Year

INCOME STATEMENT (FULL YEAR)

€k	Note	2014[1]	2015	+/(–) Change, %
Interest income		192,174	176,051	(8.4)
Interest expenses		(63,393)	(52,593)	(17.0)
Profit/(loss) from investments in entities accounted for using the equity method		28,562	42,986	50.5
Net interest income	(1)	**157,343**	**166,444**	**5.8**
Impairment charge on loans and advances	(2)	(49,520)	(48,547)	(2.0)
Net interest income after impairment charge		**107,823**	**117,897**	**9.3**
Fee and commission income		50,662	56,154	10.8
Fee and commission expenses		(3,084)	(3,172)	2.9
Net fee and commission income	**(3)**	**47,578**	**52,982**	**11.4**
Net trading income	(4)	1,373	2,320	69.0
General administrative expenses	(5)	(105,809)	(105,120)	(0.7)
Other operating income	(6)	5,973	10,034	68.0
Other operating expenses	(6)	(8,485)	(15,708)	85.1
Profit/(loss) from financial assets		**5,623**	**(1,679)**	**(>100)**
– Profit/(loss) from financial assets designated as at fair value through profit or loss (FV)	(7)	(2,081)	109	(>100)
– Profit/(loss) from available-for-sale financial assets (AFS)	(8)	3,017	(2,075)	(>100)
– Profit/(loss) from held-to-maturity financial assets (HTM)	(9)	4,687	287	(93.9)
Profit for the year before tax		**54,076**	**60,726**	**12.3**
Income tax expense	(10)	(5,333)	(7,110)	33.3
Profit for the year after tax		**48,743**	**53,616**	**10.0**
Minority interests in profit for the year		(3)	(3)	0.0
Profit for the year after minority interests		**48,740**	**53,613**	**10.0**

INCOME AND EXPENSES TAKEN DIRECTLY TO EQUITY

€k	2014[1]	2015	+/(–) Change, %
Profit for the year after tax	**48,743**	**53,616**	**10.0**
Items not reclassified to consolidated profit or loss	**(6,540)**	**(1,672)**	**(74.4)**
+/(–) Actuarial gains/(losses) in conformity with IAS 19	(8,553)	3,788	(>100)
+/(–) Deferred taxes in conformity with IAS 19	2,132	(949)	(>100)
+/(–) Gains less losses arising from use of the equity method in conformity with IAS 19	(119)	(4,511)	>100
Items reclassified to consolidated profit or loss	**7,004**	**(5,536)**	(>100)
+/(–) Exchange differences	(120)	77	(>100)
+/(–) Available-for-sale reserve	250	(132)	(>100)
+/(–) Deferred taxes taken to AFS reserve items	(188)	(40)	(78.7)
+/(–) Gains less losses arising from use of the equity method	7,062	(5,441)	(>100)
Total income and expenses taken directly to equity	464	**(7,208)**	(>100)
Comprehensive income before minority interests	**49,207**	**46,408**	**(5.7)**
Of which minority interests	(3)	(3)	0.0
Comprehensive income after minority interests	**49,204**	**46,405**	**(5.7)**

EARNINGS AND DIVIDEND PER SHARE

	2014[1]	2015
Average number of shares in issue (ordinary and preference shares)	32,749,693	35,410,670
Dividend per share (ordinary and preference shares), €	0.23	0.23
Earnings per ordinary and preference share (diluted and undiluted), €	1.49	1.50

[1] The comparative values have been restated in conformity with IAS 8.

Earnings per share compares consolidated profit for the year with the average number of no-par shares (*Stückaktie*) in issue. In the period under review, earnings per share and diluted earnings per share were the same because no financial instruments with a dilution effect on the shares were outstanding.

QUARTERLY REVIEW (2015)

€k	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Interest income	43,099	45,985	40,970	45,997
Interest expenses	(13,376)	(11,303)	(10,639)	(17,275)
Profit/(loss) from investments in entities accounted for using the equity method	6,371	8,735	9,624	18,256
Net interest income	**36,094**	**43,417**	**39,955**	**46,978**
Impairment charge on loans and advances	(6,161)	(6,126)	(12,907)	(23,353)
Net interest income after impairment charge	**29,933**	**37,291**	**27,048**	**23,625**
Fee and commission income	14,439	14,103	13,133	14,479
Fee and commission expenses	(769)	(843)	(856)	(704)
Net fee and commission income	**13,670**	**13,260**	**12,277**	**13,775**
Net trading income	(67)	998	1,086	303
General administrative expenses	(26,173)	(26,875)	(26,185)	(25,887)
Other operating income	1,433	899	1,209	6,493
Other operating expenses	(1,751)	(4,170)	(6,810)	(2,977)
Profit/(loss) from financial assets	**1,768**	**1,004**	**358**	**(4,809)**
– Profit/(loss) from financial assets designated as at fair value through profit or loss (FV)	1,256	(528)	565	(1,184)
– Profit/(loss) from available-for-sale financial assets (AFS)	225	1,532	(207)	(3,625)
– Profit/(loss) from held-to-maturity financial assets (HTM)	287	0	0	0
Profit for the period before tax	**18,813**	**22,407**	**8,983**	**10,523**
Income tax expense	(6,534)	(3,032)	3,337	(881)
Profit for the period after tax	**12,279**	**19,375**	**12,320**	**9,642**
Minority interests in profit for the period	(1)	(1)	0	(1)
Profit for the period after minority interests	**12,278**	**19,374**	**12,320**	**9,641**

QUARTERLY REVIEW (2014)[1]

€k	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Interest income	50,077	47,961	48,262	45,874
Interest expenses	(15,889)	(16,216)	(16,114)	(15,174)
Profit/(loss) from investments in entities accounted for using the equity method	4,889	7,493	8,712	7,468
Net interest income	**39,077**	**39,238**	**40,860**	**38,168**
Impairment charge on loans and advances	(13,913)	(13,982)	(12,279)	(9,346)
Net interest income after impairment charge	**25,164**	**25,256**	**28,581**	**28,822**
Fee and commission income	12,140	12,283	12,821	13,417
Fee and commission expenses	(716)	(666)	(879)	(823)
Net fee and commission income	**11,424**	**11,617**	**11,942**	**12,594**
Net trading income	321	743	458	(149)
General administrative expenses	(25,932)	(26,062)	(24,960)	(28,855)
Other operating income	869	2,104	(411)	3,411
Other operating expenses	(881)	(3,019)	(2,751)	(1,834)
Profit/(loss) from financial assets	**1,091**	**1,352**	**933**	**2,247**
– Profit/(loss) from financial assets designated as at fair value through profit or loss (FV)	673	145	(112)	(2,787)
– Profit/(loss) from available-for-sale financial assets (AFS)	418	1,207	1,045	347
– Profit/(loss) from held-to-maturity financial assets (HTM)	0	0	0	4,687
Profit for the period before tax	**12,056**	**11,991**	**13,792**	**16,236**
Income tax expense	(1,732)	(1,643)	(1,770)	(188)
Profit for the period after tax	**10,324**	**10,348**	**12,022**	**16,048**
Minority interests in profit for the period	(1)	0	(1)	(1)
Profit for the period after minority interests	**10,323**	**10,348**	**12,021**	**16,047**

[1] The comparative values have been restated in conformity with IAS.8.

Balance Sheet of the BKS Bank Group as at 31 December 2015

ASSETS

€k	Note	1/1/2014[1]	31/12/2014[1]	31/12/2015	+/(–) Change, %
Cash and balances with the central bank	(11)	104,815	215,269	190,310	(11.6)
Receivables from other banks	(12)	160,166	269,482	363,862	35.0
Receivables from customers	(13)	5,034,325	5,009,929	5,113,867	2.1
– Impairment allowance balance	(14)	(215,440)	(194,161)	(193,748)	(0.2)
Trading assets	(15)	352	46	46	0.0
Financial assets		1,515,809	1,407,362	1,445,094	2.7
– Financial assets designated as at fair value through profit or loss	(16)	188,626	149,399	114,863	(23.1)
– Available-for-sale financial assets	(17)	251,483	183,310	166,721	(9.0)
– Held-to-maturity financial assets	(18)	715,548	678,757	724,891	6.8
– Investments in entities accounted for using the equity method	(19)	360,152	395,896	438,619	10.8
Intangible assets	(20)	1,907	1,993	1,868	(6.3)
Property and equipment	(21)	63,251	59,040	58,437	(1.0)
Investment property	(22)	22,814	28,985	29,690	2.4
Deferred tax assets	(23)	21,106	24,958	25,441	1.9
Other assets	(24)	25,607	31,738	28,566	(10.0)
Total assets		**6,734,712**	**6,854,641**	**7,063,433**	**3.0**

EQUITY AND LIABILITIES

€k	Note	1/1/2014[1]	31/12/2014[1]	31/12/2015	+/(–) Change, %
Payables to other banks	(25)	1,270,968	860,517	904,574	5.1
Payables to customers	(26)	3,783,595	4,223,966	4,351,716	3.0
– Of which savings deposit balances		1,741,201	1,705,479	1,629,833	(4.4)
– Of which other payables		2,042,394	2,518,487	2,721,883	8.1
Liabilities evidenced by paper	(27)	591,083	593,614	576,346	(2.9)
Trading liabilities	(28)	404	45	46	2.2
Provisions	(29)	118,300	128,519	125,973	(2.0)
Deferred tax liabilities	(30)	5,593	10,505	9,312	(11.4)
Other liabilities	(31)	39,788	46,173	53,472	15.8
Subordinated debt capital	(32)	222,809	195,453	181,752	(7.0)
Equity	(33)	702,172	795,849	860,242	8.1
– Of which total minority interests and equity		702,162	795,837	860,227	8.1
– Of which minority interests in equity		10	12	15	25.0
Total equity and liabilities		**6,734,712**	**6,854,641**	**7,063,433**	**3.0**

[1] The comparative values have been restated in conformity with IAS.8.

The total return on equity in the 2015 financial year was 0.76 per cent (2014: 0.71 per cent).

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY IN 2015

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates[1]	Profit/ (Loss) for the Year	Additional equity instruments[2]	Equity
At 1 January 2015	**72,072**	**143,056**	**(1,107)**	**2,560**	**519,297**	**11,219**	**48,740**	**0**	**795,837**
Distribution							(8,148)		(8,148)
Taken to retained earnings					40,592		(40,592)		—
Profit/(loss) for the year							53,613		53,613
Income and expenses taken directly to equity			77	(172)	2,839	(9,952)			(7,208)
Increase in share capital									—
Effect of the equity method					2,234	3,045			5,279
Change in treasury shares					(2,503)				(2,503)
Additional equity instruments[2]								23,400	23,400
Other changes					(43)				(43)
At 31 December 2015	**72,072**	**143,056**	**(1,030)**	**2,388**	**562,416**	**4,312**	**53,613**	**23,400**	**860,227**
Available-for-sale reserve									3,181
Deferred tax reserve									(793)

[1] This column contains the cumulative interest in the OCI of the entities accounted for using the equity method.
[2] The additional Tier 1 note issued in 2015 was classified as equity in conformity with IAS 32.

TOTAL MINORITY INTERESTS AND EQUITY IN 2014

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/ (Loss) for the Year	Additional equity instruments	Equity
At 1 January 2014	**65,520**	**97,929**	**(987)**	**2,498**	**504,322**	**4,276**	**40,596**	**—**	**714,154**
Restatement					(11,195)		(797)		(11,992)
At 1 January 2014 after Restatement	**65,520**	**97,929**	**(987)**	**2,498**	**493,127**	**4,276**	**39,799**	**—**	**702,162**
Distribution							(8,044)		(8,044)
Taken to retained earnings					31,755		(31,755)		0
Profit/(loss) for the year (restated)							48,740		48,740
Income and expenses taken directly to equity			(120)	62	(6,421)	6,943			464
Increase in share capital	6,552	45,864							52,416
Effect of the equity method									—
Change in treasury shares					349				349
Other changes		(737)			487				(250)
At 31 December 2014	**72,072**	**143,056**	**(1,107)**	**2,560**	**519,297**	**11,219**	**48,740**	**—**	**795,837**
Available-for-sale reserve									3,313
Deferred tax reserve									(753)

Minority interests were of secondary importance in the BKS Bank Group's Statement of Changes in Equity (31 December 2015: €15.4 thousand; 31 December 2014: €12.5 thousand). At the end of 2015, there were 557,284 ordinary no-par shares and 138,667 no-par preference shares (31 December 2014: 421,518 ordinary no-par shares and 126,843 no-par preference shares) with a market value of €11.5 million (31 December 2014: €9.0 million) in the treasury portfolio.

Cash Flow Statement

CASH FLOWS

€k	2014[1]	2015
Profit for the year before minority interests	**48,743**	**53,616**
Non-cash positions in profit for the year:		
– Depreciation, amortization and impairment charge on receivables and property and equipment	49,396	49,700
– Changes in provisions	10,307	8,674
– Gains and losses on disposals	(8,068)	(2,562)
– Change in other non-cash items	(31,730)	(37,144)
Subtotal	**68,649**	**72,284**
Change in assets and liabilities arising from operating business activities after correction for non-cash items:		
– Receivables from customers and other banks, effect of using the fair value option	(134,057)	(225,466)
– Trading assets	306	—
– Other assets	(10,958)	5,639
– Payables to customers and other banks	29,920	171,807
– Liabilities evidenced by paper	2,531	(17,268)
– Trading liabilities	(359)	1
– Provisions and other liabilities	4,472	(545)
Net cash from/(used in) operating activities	**(39,496)**	**6,452**
Proceeds from sales of:		
– Financial assets and property and equipment	260,102	162,556
Outlay on purchases of:		
– Financial assets and property and equipment	(126,371)	(190,503)
Net cash from/(used in) investing activities	**133,731**	**(27,947)**
Increases in share capital	51,679	—
Dividend distributions	(8,044)	(8,148)
Proceeds from issuing additional equity components	—	23,400
Cash inflow from subordinated liabilities and other financing activities	20,827	8,512
Cash outflow on subordinated liabilities and other financing activities	(48,532)	(27,504)
Net cash from/(used in) financing activities	**15,930**	**(3,740)**
Cash and cash equivalents at end of previous year	**104,815**	**215,269**
Net cash from/(used in) operating activities	(39,496)	6,452
Net cash from/(used in) investing activities	133,731	(27,947)
Net cash from/(used in) financing activities	15,930	(3,740)
Effect of exchange rate changes on cash and cash equivalents	289	276
Cash and cash equivalents at end of year under review	**215,269**	**190,310**
Taxes, interest and dividends		
– Income tax paid	6,723	7,154
– Interest received	186,314	170,098
– Interest paid	67,491	54,866
– Dividends received	1,151	909

[1] The comparative values have been restated in conformity with IAS.8.

Cash and cash equivalents are recognized in the line item *Cash and balances with the central bank*. The Cash Flow Statement is not of much significance to the BKS Bank Group because it cannot be used as a management or planning instrument in this form.

Notes to the Consolidated Financial Statements of BKS Bank

Material Accounting Policies

I. General information

BKS Bank AG is headquartered at *St. Veiter Ring* 43, 9020 Klagenfurt, Austria. As the parent of the BKS Bank Group, it prepared its Consolidated Financial Statements in accordance with the principles of the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board (IASB) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU for the 2014 financial year as exempting consolidated financial statements within the meaning of *§ 59a BWG*. In addition, the requirements of *§ 245a Abs. 1 UGB* (Austrian enterprises code) were met.

BKS Bank was founded in Klagenfurt in 1922 as *Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co.* Years of effort to transform the limited partnership (*Kommandite*) into a stock corporation (*Aktiengesellschaft*) led to the formation of *Bank für Kärnten* (Bank of Carinthia) in 1928. It entered the Styrian market 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. Both share classes are traded in the *Standard Market Auction* segment. BKS Bank has had a presence in Vienna since 1992. In 2003, it began developing the Burgenland and Lower Austrian markets. Abroad, it also operates in Slovenia, Croatia, Slovakia, northern Italy and western Hungary. *BKS Bank AG* makes up the *3 Banken Group* with *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft* (*BTV AG*). Together, the *3 Banks* have the strength of a major bank combined with the flexibility and closeness to the market of a regional bank.

The Management Board of *BKS Bank AG* signed the Consolidated Financial Statements on 11 March 2016 and approved them for submission to the Supervisory Board. The Supervisory Board had the task of examining the Consolidated Financial Statements and stating whether it approved the Consolidated Financial Statements. Up to the time of signature, there were no reasons to doubt that the entity would continue as a going concern.

II. Effects of new standards and amendments of 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 2014 financial year were retained in 2015. The comparative figures for the previous year were also based on the same requirements. Standards that had been announced but were not effective for the financial year under review were not applied ahead of time.

AMENDMENTS AND INTERPRETATIONS (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2015)

Standard or Amendment	Effective in the EU for Annual Periods Beginning on or After this Date	Endorsement by the EU
IFRIC 21: Levies	17 June 2014	June 2014
Annual Improvements 2011 – 2013 cycle	1 January 2015	December 2014

IFRIC 21: The IASB published the IFRIC 21 interpretation on levies in May 2013. It provides clarification on how and when a levy imposed by a government agency or similar body should be recognized by way of provisions, contingent liabilities or contingent assets. IFRIC 21 is applicable in the BKS Bank Group in respect of the Stability Levy and the new levies for the deposit guarantee scheme and resolution mechanism introduced in 2015. The interpretation in IFRIC 21 has not affected recognition of the Stability Levy because the interpretation of IAS 37 that is in use is in line with the

interpretation. According to IFRIC 21, contributions to the deposit guarantee scheme and resolution mechanism must be recognized in profit and loss at the time the liability arises. Deferral is not permitted.

Annual Improvements 2011 – 2013 cycle: The resulting changes consist mainly of clarifications and editorial amendments. The BKS Bank Group is not affected.

AMENDMENTS AND INTERPRETATIONS EFFECTIVE FOR THE 2015 FINANCIAL YEAR

Standard or Amendment	Effective in the EU for Annual Periods Beginning on or After this Date	Endorsement by the EU
IAS 19: Employee Benefits	1/2/2015	December 2014
Annual Improvements 2010 – 2012 cycle	1/2/2015	December 2014
IFRS 14: Regulatory Deferral Accounts	Not effective in the EU	Not effective in the EU
IFRS 11: Acquisition of an Interest in a Joint Operation	1/1/2016	November 2015
IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	1/1/2016	December 2015
IAS 41 and IAS 16: Accounting for Bearer Plants	1/1/2016	November 2015
IAS 27: Equity Method in Separate Financial Statements	1/1/2016	December 2015
IFRS 10, IFRS 12 and IAS 28: Investment Entities	1/1/2016 [1]	Outstanding
IAS 1: Disclosure Initiative	1/1/2016	December 2015
Annual Improvements 2012 – 2014 cycle	1/1/2016	December 2015
IAS 28 and IFRS 10: Sale or Contribution of Investments in Associates and Joint Ventures	Postponed for an indefinite period	Postponed for an indefinite period

[1] If adopted by the EU.

IAS 19 (Amendment): The amendment clarifies how employee contributions to a defined benefit plan should be treated by the promising entity. According to the amendment, it would be permissible to deduct the nominal amount of employee contributions in the period from the service cost if the amount of the contributions does not depend on the number of years of service. This clarification will not have an effect on BKS Bank.

Annual Improvements 2010 – 2012 cycle: The resulting changes consisted mainly of clarifications and editorial amendments. They did not have any material effect on the BKS Bank Group.

IFRS 14: The IASB issued the interim standard IFRS 14: Regulatory Deferral Accounts on 30 January 2014. On 30 October 2015, the EU decided not to adopt this Interim Standard.

IFRS 11 (Amendment): On 6 May 2014, the IASB issued an amendment to IFRS 11 on the accounting for the acquisition of an interest in a joint operation that constitutes a business within the meaning of IFRS 3: Business Combinations. According to the amendment, such cases must be accounted for as business combinations within the meaning of IFRS 3. This amendment could affect BKS Bank in the future.

IAS 16 and IAS 38 (Amendment): On 12 May 2014, the IASB issued an amendment on acceptable methods of depreciation and amortization. Under the amendment, the revenue-based depreciation of tangible assets will not be permitted and the revenue-based amortization of intangible assets will only be permissible in certain exceptional cases. This standard will not cause any changes for BKS Bank because BKS Bank does not use any revenue-based depreciation or amortization methods.

IAS 41 and IAS 16 (Amendment): On 30 June 2014, the IASB issued amendments to IAS 16 and IAS 41 on accounting for so-called bearer plants. Since it does not have any application for IAS 41, this will not affect the BKS Bank Group.

IAS 27 (Amendment): On 12 August 2014, the IASB published changes to IAS 27: Separate Financial Statements on investments in subsidiaries, joint ventures and associates. In future, IFRS-compliant separate financial statements can also account for them using the equity method. Since BKS Bank does not prepare any IFRS-compliant separate financial statements, this amendment this will not result in any changes for BKS Bank.

IFRS 10, IFRS 12, IAS 28 (Amendment): The IASB issued amendments to these standard on 18 December 2014. They address questions about applying the consolidation exception under IFRS 10 if the parent satisfies the definition of an investment entity. Since they are not applicable to BKS Bank, these amendments will not result in any changes for BKS Bank.

IAS 1 (Amendment): The IASB also issued an amendment to IAS 1 on 18 December 2014. Under the amendment, information must only be disclosed in the notes if its content is not immaterial. In addition, and among other things, it precisely regulates the aggregation and disaggregation of items on the balance sheet and in the comprehensive income statement. Furthermore, it explains how an entity's share of the profit or loss of equity-accounted entities should be presented in the comprehensive income statement. This amendment could result in changes for BKS Bank.

Annual Improvements 2012 – 2014 cycle: The IASB issued clarifications on the standards IFRS 5, IFRS 7, IFRS 1, IAS 19 and IAS 34 within the scope of this annual project. They will not have a material impact on BKS Bank.

IAS 28 and IFRS 10 (Amendment): The amendment to IAS 28 and IFRS 10 addresses a known inconsistency between the provisions of IAS 28 and IFRS 10. It was issued by the IASB on 11 September 2014. According to the amendment, any gains or losses upon the sale of assets of an associate or joint venture or the contribution of assets to an associate or joint venture can only be recognized in full in the annual financial statements if the sold or contributed assets constitute a business as defined in IFRS 3. If the assets do not constitute a business, only a partial gain or loss can be recognized. The amendment was to have been effective for annual periods beginning on or after 1 January 2016, but it has now been postponed for an indefinite period because the IASB wants to take another look at such transactions within the scope of a research project on the equity method.

STANDARDS AND AMENDMENTS EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2017

Standard or Amendment	Effective in the EU for Annual Periods Beginning on or After this Date	Endorsement by the EU
IAS 7: Statement of Cash Flows	1/1/2017 [1]	Outstanding
IFRS 9: Financial Instruments	1/1/2018 [1]	Outstanding
IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	1/1/2017 [1]	Outstanding
IFRS 15: Revenue from Contracts with Customers	1/1/2018 [1]	Outstanding
IFRS 16: Leases	1/1/2019 [1]	Outstanding

[1] Assuming that endorsement by the EU takes place.

IAS 7: The IASB issued amendments to IAS 7 on 26 January 2016. The purpose of the amendments is to improve disclosures about changes in an entity's debt. They require more detailed disclosure of inflows and outflows of financial liabilities and cash flows from financing activities. Following endorsement by the EU, the BKS Bank Group will meet this requirement.

IFRS 9: The IASB issued the final version of IFRS 9 on 24 July 2014. The standard can be divided into three main areas, namely classification and measurement, impairment und hedge accounting. The new approach to the classification and measurement of financial instruments provides for two totally new criteria for classification, namely classification driven by business models and classification driven by the 'SPPI' criteria. These only allow instruments with cash flows that consist solely of payments of principal and interest. The impairment rules in IFRS 9 provide for a transition to the *expected loss credit model*. Depending on whether or not there has been a significant deterioration in credit standing, impairment charges must be recognized based on the 'lifetime expected loss' or a '12 month expected loss'. In addition, the application of IFRS 9 will lead to a raft of new disclosures in notes. We began an IFRS 9 project during the 2015 financial year.

Because of its complexity, applying the standard will require a lot of time, technical and financial resources. We can expect there to be significant changes in the classification and measurement of financial assets and a marked increase in impairment charges as a result of calculating the lifetime expected loss.

IAS 12 (Amendment): The amendment to IAS 12 was issued in January 2016. It clarifies how to account for deferred tax assets for unrealized losses related to debt instruments measured at fair value since different approaches have been used in practice. We are still examining the amendment and its impact on the BKS Bank Group.

IFRS 15: The IASB and the FASB (Financial Accounting Standards Board) issued IFRS 15 jointly on 28 May 2014. It regulates the accounting for revenues from contracts with customers. The purpose of this standard is to combine into one standard the many regulations on the subject that existed beforehand. This standard replaces IAS 11: Construction Contracts; IAS 18: Revenue; IFRIC 13: Customer Loyalty Programmes; IFRIC 15: Agreements for the Construction of Real Estate; IFRIC 18 : Transfer of Assets from Customers; and SIC 31: Revenue—Barter Transactions Involving Advertising Services. On 11 September 2015, IASB changed the date as of which the standard will be effective from 1 January 2017 to 1 January 2018. We are still studying the impact of this standard on our financial statements.

IFRS 16: The IASB issued IFRS 16: Leases on 13 January 2016. IFRS 16 specifies how lessors and lessees must recognize and measure and what information is to be provided in the notes. It will wholly replace IAS 17, which is currently in force. The central idea behind the new IFRS 16 is that lessees must in future account for all leases and the associated rights and obligations on their balance sheets, including those previously classified as operating leases. For lessees in particular, IFRS 16 will result in material changes. The provisions in IAS 17 affecting lessors have largely been retained. As the BKS Bank Group is solely a lessor, we do not, based on an initial assessment, expect any significant changes affecting us.

We do not intend to apply the said standards, amendments and interpretations ahead of time.

III. Recognition and measurement

General notes

The Annual Financial Statements were prepared in euros (the functional currency). Unless stated otherwise, all figures in the Notes to the Consolidated Financial Statements that follow are rounded to thousands of euros. The Balance Sheet is arranged in descending order of liquidity. The going concern assumption was used in the preparation of the financial statements.

Scope of consolidation

Besides *BKS Bank AG*, the Consolidated Financial Statements accounted for a total of 19 entities (15 consolidated, three accounted for using the equity method and one accounted for on a proportionate basis). The scope of consolidation was unchanged compared with the 2014 reporting date of 31 December 2014. The inclusion of subsidiaries was based on the criteria for materiality set out in point 29 and point 30 of the IFRS Framework. Materiality was judged applying common Group-wide criteria on the basis of qualitative and quantitative parameters. The quantitative parameter used in the case of subsidiaries was their balance sheet total. In the case of associates, it was the Group's interest in their equity. The number of employees was another criterion. Furthermore, each entity was evaluated to ascertain whether its exclusion might affect financial decisions on the part of the report's addressees. Here, the key criteria were an entity's business activity and future business expectations. During first-time consolidation, an entity's cost was compared with (the Group's interest in) its remeasured equity.

Consolidated entities

The following entities all conformed to the control concept for the purposes of IFRS 10. This meant that *BKS Bank AG* as parent had the decision-making power needed to have the ability to affect variable returns. Besides *BKS Bank AG*, the following entities were consolidated members of the Group:

CONSOLIDATED ENTITIES

Entity	Head Office	Direct Equity Interest	Indirect Equity Interest	Date of Financial Statements
BKS Bank d.d.	Rijeka	100.00%	—	31/12/2015
BKS Leasing Gesellschaft m.b.H.	Klagenfurt	99.75%	0.25%	31/12/2015
BKS—leasing d.o.o.	Ljubljana	100.00%	—	31/12/2015
BKS—leasing Croatia d.o.o.	Zagreb	100.00%	—	31/12/2015
BKS—Leasing s.r.o.	Bratislava	100.00%	—	31/12/2015
IEV Immobilien GmbH	Klagenfurt	100.00%	—	31/12/2015
Immobilien Errichtungs— und Vermietungs GmbH & Co KG	Klagenfurt	100.00%	—	31/12/2015
BKS 2000—Beteiligungs— und Verwaltungs GmbH	Klagenfurt	100.00%		31/12/2015
BKS Zentrale—Errichtungs— und Vermietungs GmbH	Klagenfurt	—	100.00%	31/12/2015
BKS Hybrid alpha Gmbh	Klagenfurt	100.00%	—	31/12/2015
BKS Hybrid beta GmbH	Klagenfurt	100.00%	—	31/12/2015
VBG—CH Verwaltungs— und Beteiligungs GmbH	Klagenfurt	100.00%	—	31/12/2015
LVM Beteiligungs Gesellschaft mbH	Klagenfurt	—	100.00%	31/12/2015
BKS Immobilien Service GmbH	Klagenfurt	100.00%	—	31/12/2015
BKS Service GmbH	Klagenfurt	100.00%	—	31/12/2015

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

Entity	Head Office	Direct Equity Interest	Date of Financial Statements
Oberbank AG	Linz	15.30%	30/9/2015
BTV AG	Innsbruck	13.59%	30/9/2015
Drei-Banken Versicherungs-AG	Linz	20.00%	31/12/2015

Regarding *Oberbank AG* and *BTV AG*, we point out that although BKS Bank had voting interests of less than 20 per cent in those banks, namely of 16.52 per cent and 14.95 per cent, respectively, and equity interests of less than 20 per cent, namely of 15.30 per cent and 13.59 per cent, respectively, the exercise of voting rights was regulated 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 control of them.

Because of the circular shareholdings that exist between *BKS Bank AG*, *Oberbank AG* and *BTV AG* and since the consolidated financial statements of the sister banks are prepared simultaneously, the most recently available quarterly financial statements were drawn upon when preparing the Consolidated Financial Statements of BKS Bank

Entities accounted for on a proportionate basis

As a result of the application of IFRS 11 since the 2014 financial year, our 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

Entity	Head Office	Direct Equity Interest	Date of Financial Statements
ALGAR	Linz	25.00%	31/12/2015

Other entities not included in the scope of consolidation

Based on our own discretion, the following entities in which BKS Bank held stakes of over 20 per cent were not included in the Consolidated Financial Statements on the grounds of the aforementioned immateriality provisions.

OTHER ENTITIES NOT INCLUDED IN THE SCOPE OF CONSOLIDATION

Entity	Head Office	Direct Equity Interest	Indirect Equity Interest	Date of Financial Statements
Drei-Banken-EDV GmbH	Linz	30.00%	—	31/12/2015
VBG Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	—	31/12/2015
E 2000 Liegenschaftsverwaltungs GmbH	Klagenfurt	100.00%	—	31/12/2015
Pekra Holding GmbH	Pörtschach	100.00%	—	31/12/2015

Like all other equity investments, investments in these entities were classified as available-for-sale financial assets and, if their fair value could not be reliably measured, recognized at cost.

Performance of the foreign subsidiaries and branches

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 DECEMBER 2015

€k	Net Interest Income	Operating Profit	Number of Staff (Full Time Equivalents)	Profit/(Loss) for the Year before Tax	Income Tax Expense	Profit/(Loss) for the Year after Tax
Branches abroad						
Slovenia Branch (banking branch)	12,111	14,516	95.9	1,934	(274)	1,660
Slovakia Branch (banking branch)	1,196	1,446	20.0	(86)	0	(86)
Subsidiaries						
BKS Leasing d.o.o., Ljubljana	2,261	2,750	11.6	946	(477)	469
BKS-leasing Croatia d.o.o., Zagreb	1,448	1,534	11.8	714	(149)	565
BKS-Leasing s.r.o.,Bratislava	1,033	1,509	12.0	90	(8)	82
BKS Bank d.d., Rijeka	5,370	6,144	57.2	1,229	(37)	1,192

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 DECEMBER 2014

€k	Net Interest Income	Operating Profit	Number of Staff (Full Time Equivalents)	Profit/(Loss) for the Year before Tax	Income Tax Expense	Profit/(Loss) for the Year after Tax
Branches abroad						
Slovenia Branch (banking branch)	11,354	13,703	90.3	225	0	225
Slovakia Branch (banking branch)	1,200	1,322	19.0	(337)	0	(337)
Subsidiaries						
BKS Leasing d.o.o., Ljubljana	2,041	2,315	10.6	845	(143)	702
BKS-leasing Croatia d.o.o., Zagreb	1,353	1,409	10.0	181	(54)	127
BKS-Leasing s.r.o.,Bratislava	1,072	1,528	14.0	31	(45)	(14)
BKS Bank d.d., Rijeka	4,627	5,422	59.0	(75)	83	8

Foreign currency translation

Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates ruling at the balance sheet date. The financial statements of subsidiaries that were not prepared in euros were translated using the *closing rate method*. Within the Group, there were just two companies that did not prepare their financial statements in euros. They were Croatian companies that prepared their financial statements in Croatian kunas. Their assets and liabilities were translated at the exchange rates ruling at their balance sheet dates. Expenses and income were translated applying the average rate of exchange in the respective period. The resulting exchange differences were recognized in *Other comprehensive income*. Exchange differences were recognized as a component of equity.

Notes on individual items on the Balance Sheet

Cash and balances with the central bank

Cash and balances with the central bank were recognized at nominal values.

Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one entity and a financial liability or equity of another entity. Financial assets and liabilities were initially measured at their fair value, which was, as a rule, their cost. They were subsequently measured in conformity with the provisions of IAS 39 and according to their assignment to one of the following categories:

- financial assets and liabilities requiring measurement to fair value, subdivided into
  - trading assets and trading liabilities: these are financial instrument held for trading, inclusive of all derivatives with the exception of those designated as hedges (held for trading);
  - financial assets and liabilities designated as at fair value through profit or loss (fair value option);
- available-for-sale financial assets and liabilities (AFS);
- held-to-maturity financial assets and liabilities (HTM);
- loans and receivables (LAR);
- financial liabilities (other liabilities).

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

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS[1]

ASSETS	At Fair Value	At Amortized Cost	Other, Note	IAS 39 Category
Cash and balances with the central bank			Nominal	Not assignable
Receivables from other banks		✓	—	Loans and receivables
Receivables from customers		✓	—	Loans and receivables
Trading assets	✓		—	Held for trading
Financial assets at FV through profit or loss	✓		—	Fair value option
Available-for-sale financial assets	✓	✓	—	Available for sale
Held-to-maturity financial assets		✓	—	Held to maturity
Investments in entities accounted for using the equity method			Equity Method	Not assignable
Investment property		✓	—	Not assignable
Other assets				
– Of which derivatives	✓		—	Held for trading
– Of which other items			Nominal	Not assignable

[1] As in 2014, no reclassifications were carried out in accordance with IFRS 7.12.

LIABILITIES	At Fair Value	At Amortized Cost	Other, Note	IAS 39 Category
Payables to other banks		✓	-	Other liabilities
Payables to customers		✓	—	Other liabilities
Liabilities evidenced by paper				
– Of which at fair value through profit or loss	✓		—	Fair value option
– Of which other liabilities evidenced by paper		✓	—	Other liabilities
Trading liabilities	✓		—	Held for trading
Other liabilities				
– Of which derivatives	✓		—	Held for trading
– Of which other items			Nominal	Not assignable
Subordinated debt capital		✓	—	Other liabilities

Financial assets and liabilities designated as at fair value through profit or loss

The measurement of certain positions took place under the collective designation *as at fair value through profit or loss* using the fair value option (FV). Their assignment to this category was decided by the Asset/Liability Management Committee (ALM). These positions (asset or liability and associated derivative) were measured at fair value through profit or loss). Revaluation gains net of revaluation losses were recognized in the Income Statement in the line item *Profit/(loss) from financial assets designated as at fair value through profit or loss.*

Available-for-sale financial assets

Available-for-sale (AFS) securities are a separate category of financial instrument. They are what remains when a financial asset is accounted for neither as a held-to-maturity asset nor as an asset designated as at fair value through profit or loss. They were generally measured applying stock exchange prices. If these were not available, values of interest rate products were measured using present value techniques. Revaluation gains and losses were recognized in the AFS reserve and not through profit or loss. If such securities were sold, the corresponding part of the AFS reserve was released through profit or loss.

In the event of impairment (e.g. a debtor in severe financial difficulties or a measurable decline in the expected future cash flows), a charge was recognized in the Income Statement. If the reason for such a charge no longer existed, a write-back was recorded. In the case of equity capital instruments, it was made to equity through the AFS reserve. In the case of debt instruments, it was made to income. Investments in entities that were neither consolidated nor accounted for using the equity method were deemed to be part of the AFS portfolio. Where market prices were unavailable, equity investments were valued on a cost basis.

Held-to-maturity financial assets

In this line item, we account for financial instruments that were to be held to maturity (HTM). Premiums and discounts were spread over their term using the effective interest rate method. Impairment losses were recognized through profit or loss.

Investments in entities accounted for using the equity method

Entities in which BKS Bank held a stake of over 20 per cent were accounted for in the Consolidated Financial Statements using the equity method. In addition, *Oberbank AG* and *BTV AG* were also accounted for in the Consolidated Financial Statements using the equity method—even though our stakes in *Oberbank AG* and *BTV AG* were below 20 per cent—as syndicate agreements were in place that allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group.* If there was objective evidence of impairment of an investment accounted for using the equity method, a value in use was calculated on the basis of the estimated future cash flows that were to be expected from the associate. Present value was measured on the basis of a discounted cash flow model. A two-phase mathematical model was used. No impairment losses were incurred in the year under review.

Loans and receivables, other liabilities

The category *Loans and receivables* includes all non-derivative financial assets with fixed or determinable payments that were not listed in an active market. At BKS Bank, this category corresponded to the line items *Receivables from other banks* and *Receivables from customers*. They were measured at amortized cost. Impairments were allowed for by recognizing impairment allowances. If there were premiums and discounts, they were spread over the term of the asset and recognized in profit or loss. Other liabilities comprises *Payables to other banks* and *Payables to customers*. These liabilities were recognized at the amounts payable.

Impairment allowance balance

Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing individual impairment charges (in the case of material exposures, these were calculated on the basis of the discounted cash flow method), by recognizing individual impairment charges applying class-specific criteria and by way of portfolio impairment assessments carried out in accordance with IAS 39.64. The latter captured incurred but not yet identifiable losses. Provisions were recognized for risks arising from contingent liabilities in accordance with IAS 37. An assessment of impairment of the portfolio arising from country risks was recognized at the reporting date, with the exposures outstanding in each country being broken down into risk classes. The total impairment allowance balance is disclosed as a deduction on the assets side of the Balance Sheet (impairment account). The criteria for charging or writing off receivables deemed to be irrecoverable were their complete uncollectibility and the final realization of all the collateral security associated with the receivables.

Investment property

This line item encompasses property intended for letting to third parties. It was measured at amortized cost (cost method). The fair value of investment property is disclosed in the Notes. It was mainly based on estimates (by certified appraisers). Depreciation rates were between 1.5 per cent and 3.0 per cent. Depreciation was immediate and linear.

Trading assets and trading liabilities

Within the line item *Trading assets*, primary financial instruments were measured at fair value. Derivative financial instruments were measured at fair value. Financial instruments with negative fair values were recognized on the Balance Sheet in the line item *Trading liabilities*. Revaluation gains and losses on this line item were recognized in the Income Statement in the line item *Net trading income*. Interest expenses incurred in the financing of trading assets were reported in the line item *Net interest income*. Spot transactions were accounted for and charged off at their settlement dates.

Derivatives

Derivative financial instruments were measured at fair value. Changes in value were generally recognized through profit or loss in the Income Statement.

Property and equipment

The line item *Property and equipment* consists of land, buildings and other property and equipment comprising primarily office furniture and business equipment. Property and equipment was recognized at the amortized cost of acquisition or conversion. Ordinary depreciation was linear based on an asset's usual useful life and lay within the following bands:
– immovable assets: 1.5 per cent to 3.0 per cent (i.e. between 33.3 and 66.7 years);
– office furniture and business equipment: 10 per cent to 20 per cent (i.e. between 5 and 10 years).

Impairments were allowed for by recognizing extraordinary depreciation, which was recognized in the Income Statement in the line item *General administrative expenses*. If an impairment no longer existed, a write-back was made up to the asset's amortized cost. No extraordinary depreciation or write-backs were recognized during the period under review.

Intangible assets

The line item *Intangible assets* comprises goodwill and other intangible assets. The *Other intangible assets* were all purchased and had limited useful lives; they consisted primarily of software. Ordinary amortization was linear based on an asset's usual useful life. The amortization rate for software was 25 per cent (i.e. 4 years).

Purchased goodwill was recognized at cost at the date of acquisition. It is not amortized. Instead, an impairment test is carried out at least once a year. When goodwill on the Balance Sheet was tested for impairment, its carrying amount was compared with the present value of the company's interest in all future cash flows (value in use). Present value was measured on the basis of a discounted cash flow model. A two-phase mathematical model was used:

Phase 1: In phase 1, cash flows in the ensuing five years were calculated and discounted on the basis of the Company's budgets.
Phase 2: In phase 2, a perpetual annuity was calculated on the basis of the cash flow in the most recent plan year.

No goodwill was shown on the Balance Sheet as at 31 December 2015.

Leasing
The leased assets within the Group required recognition as assets leased under finance leases (the risks and rewards being with the lessee for the purposes of IAS 17). Leased assets were recognized as receivables in the amount of the present values of the agreed payments taking into account any residual values.

Other assets and other liabilities
Besides deferred items, the line items *Other assets* and *Other liabilities* comprise 'other' assets and liabilities and the fair values of derivative instruments. They were recognized at amortized cost or measured to fair value.

Liabilities evidenced by paper
The line item *Liabilities evidenced by paper* comprises bonds in circulation, debt securities and other liabilities evidenced by paper (own issuances). As a rule, liabilities evidenced by paper were recognized at amortized cost. In exceptional cases (decided by the Asset/Liability Management Committee), liabilities evidenced by paper were measured to fair value (fair value option).

Subordinated debt capital
Subordinated debt capital and subordinated obligations are liabilities that, by contractual arrangement, will, in the event of BKS Bank's liquidation or bankruptcy, only be settled after the claims of other creditors. As a rule, subordinated debt capital was recognized at amortized cost.

Deferred tax assets and deferred tax liabilities
The reporting and calculation of income tax expense took place in accordance with IAS 12. The calculation for each taxed entity was carried out applying the tax rates that, according to the applicable legislation, were to be applied in the tax period in which a temporary difference was going to reverse. Deferred taxes were computed on the basis of differences between the tax base and the carrying amounts of assets or liabilities for the purposes of IFRSs. These would cause additional tax burdens or reduce tax burdens in the future.

Provisions
Provisions were created in accordance with IAS 37 if there was a reliably determinable current obligation to a third party arising from an event in the past likely to cause a drain on resources. BKS Bank mainly created 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 was also calculated in accordance with the IFRS principles contained in IAS 19. As of 31 December 2000, the pension expectancies of all active employees were transferred to *VBV-Pensionskasse AG* as the legal successor to *BVP-Pensionskasse AG*.

Equity

Equity consisted 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 ploughing back its profits. An additional Tier 1 note was issued during the period under review. Under IAS 31, it required classification as equity.

Notes to Individual Line Items in the Income Statement

Net interest income

The line item *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 were accounted for on an accrual basis. Income from equity investments in entities accounted for using the equity method was disclosed in the line item *Net interest income* net of financing costs. The historically low interest rates led to negative interest earnings. According to the IFRIC Interpretations Committee (IC), these should not be presented as income within the meaning of IAS 18. Instead, they must be presented in an 'appropriate expense classification'. As a result, negative interest income is presented as interest expense. Likewise, positive interest expenses are presented as interest income.

Impairment charge on loans and advances

This line item captures impairment allowances, impairment reversals and the creation of provisions for contingent liabilities. Recoveries on receivables previously written off were also accounted for in this line item. See also note 2 for details.

Net fee and commission income

The line item *Net fee and commission income* comprises income from services rendered to third parties net of the expenses attributed to such services. Fees and commission connected with newly granted loans with original durations of more than one year were recognized in the Income Statement *pro rata temporis*.

General administrative expenses

The line item *General administrative expenses* includes staff costs, other administrative costs and depreciation and amortization. They were accounted for on an accrual basis.

Net trading income

This line item comprises income and expenses arising from our proprietary trading activities. Positions in the trading book were marked to market. Net trading income also includes revaluation gains and losses.

Other operating income net of other operating expenses

This line item comprises fees, levies, damages, compensation for damages, proceeds from property sales and similar items. They were accounted for on an accrual basis.

IV. Discretionary Decisions and Estimates

Estimates and assumptions were required to account for some of the items on the Balance Sheet in conformity with the International Financial Reporting Standards. Such estimates and assumptions were based on historical experience, plans, expectations and forecasts regarding future events that were likely from our current perspective. The assumptions upon which the estimates were based were regularly reviewed. Possible uncertainties in the estimates mean that adjustments to the carrying amounts of assets and liabilities may be necessary in future periods.

BKS Bank was operating in the Austrian, Croatian, Slovenian, northern Italian, western Hungarian and Slovakian markets. In a number of areas in which discretionary decisions, assumptions and estimates were made, the economic environments in the aforementioned markets were precisely analyzed and the results were brought into the decision-making process. Material discretionary decisions, assumptions and estimates were made in the following areas:

Impairment of financial assets: impairment charges
Financial assets recognized at cost are tested for objective evidence of impairment at each balance sheet date. This requires estimates of the amounts and times of future cash flows. See the Risk Report for further details.

Measuring the fair value of financial assets and liabilities
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 regulates the measurement to fair value, with validity for all standards, of financial assets and liabilities that must or may be measured to 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 quoted prices in the primary market or, if there is no primary market, in the market that produces the most advantageous results.
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 mainly used yield curves and foreign exchange rates as input factors.
Level 3: There are no indirectly or directly observable input factors for financial instruments in this category. Here, generally accepted valuation methods are used depending on the financial instrument.

Generally, reclassifications take place at the end of a reporting period.

Using the fair value option
The ALM Committee decided when to use the fair value option (i.e. designate a financial instrument as at fair value). See the Risk Report for further details.

Provisions for 'social capital' (*Sozialkapitalrückstellung*)
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 changing the interest rate materially affects the amount of the provision. See note 29 for further details.

Other provisions
The amounts of other provisions were calculated on the basis of experience and expert assessments.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	2014	2015	+/(–) Change, %
Interest income from:			
Credit operations	146,009	130,320	(10.7)
Fixed-interest securities designated as at fair value through profit or loss	2,449	1,516	(38.1)
Fixed-interest securities classified as available for sale	2,381	1,622	(31.9)
Fixed-interest securities classified as held to maturity	22,492	20,397	(9.3)
Lease receivables	8,699	8,460	(2.7)
Shares	2,447	1,600	(34.6)
Positive interest expenses [2]	0	4,836	—
Investment property	2,773	3,197	15.3
Other equity investments	4,924	4,103	(16.7)
Total interest income	**192,174**	**176,051**	**(8.4)**
Interest expenses on:			
Deposits from customers and other banks [1]	35,339	24,347	(31.1)
Liabilities evidenced by paper	27,355	24,477	(10.5)
Negative interest income [2]	0	2,852	—
Investment property	699	917	31.2
Total interest expenses	**63,393**	**52,593**	**(17.0)**
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	28,802	42,986 [3]	49.2
Financing costs of investments in entities accounted for using the equity method [2]	(240)	0	(100.0)
Profit from investments in entities accounted for using the equity method	**28,562**	**42,986**	**50.5**
Net interest income	**157,343**	**166,444**	**5.8**

[1] Net of financing costs of investments in entities accounted for using the equity method.
[2] This consists of interest expenses that are positive or interest income that is negative as a result of the historically low interest rates.
[3] *Income from investments in entities accounted for using the equity method* takes account of a dilution effect of €2.8 million.
[4] Based on the average 3-month Euribor.

The line item *Interest income* includes recoveries on defaulted receivables in the amount of €5.5 million (2014: €8.6 million) and income from unwinding (i.e. from changes in the present values of cash flows) in the amount of €2.3 million (2014: €2.3 million).

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	2014	2015	+/(–) Change, %
Impairment allowances	60,419	58,393	(3.4)
Impairment reversals	(11,172)	(9,954)	(10.9)
Direct write-offs	744	908	22.0
Recoveries in respect of receivables previously written off	(471)	(800)	69.9
Impairment charge on loans and advances	**49,520**	**48,547**	**(2.0)**

This line item contains impairment charges on lease receivables in the amount of €1.3 million (2014: €1.3 million).

(3) NET FEE AND COMMISSION INCOME

€k	2014	2015	+/(–) Change, %
Fee and commission income from:			
Payment services	20,278	21,314	5.1
Securities operations	13,105	14,858	13.4
Credit operations	13,338	14,780	10.8
Foreign exchange operations	2,812	3,835	36.4
Other services	1,128	1,367	21.2
Total fee and commission income	**50,661**	**56,154**	**10.8**
Fee and commission expenses arising from:			
Payment services	1,538	1,635	6.3
Securities operations	850	803	(5.5)
Credit operations	294	368	25.2
Foreign exchange operations	277	240	(13.4)
Other services	125	126	0.8
Total fee and commission expenses	**3,084**	**3,172**	**2.9**
Net fee and commission income	**47,577**	**52,982**	**11.4**

(4) NET TRADING INCOME

€k	2014	2015	+/(–) Change, %
Price-based contracts	(10)	(10)	0.0
Interest rate and currency contracts	1,383	2,330	68.5
Net trading income	**1,373**	**2,320**	**69.0**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	2014	2013	+/(–) Change, %
Staff costs	69,872	68,768	(1.6)
– Wages and salaries	50,955	50,871	(0.2)
– Social security costs	13,521	13,212	(2.3)
– Costs of old-age benefits	5,396	4,685	(13.2)
Other administrative costs	28,959	29,282	1.1
Depreciation/amortization	6,978	7,070	1.3
General administrative expenses	**105,809**	**105,120**	**(0.7)**

Expenditure on old-age benefits included defined contribution plan payments to a pension fund in the amount of €1.5 million (2014: €1.4 million).

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	2014	2015	+/(–) Change, %
Other operating income	5,973	10,034	68.0
Other operating expenses	(8,485)	(15,708)	85.1
Other operating income net of other operating expenses	**(2,512)**	**(5,674)**	**>100**

The most important items in *Other operating income* were proceeds from the sale of fixed assets in the amount of €3.3 million (2014: €0.1 million), non-interest income from leases in the amount of €0.8 million (2014: €0.9 million) and rental income in the amount of €0.2 million (2014: €0.2 million). No expense was incurred for goodwill write-offs in 2014 or 2015.

The most important items in *Other operating expenses* were the stability levy of €4.1 million (2014: €4.5 million), the resolution mechanism levy in the amount of €2.1 million (2014: 0), payments into the deposit guarantee scheme in the amount of €0.8 million (2014: 0) and a tax provision in the amount of €3.5 million (2014: 0).

(7) PROFIT/(LOSS) FROM FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

€k	2014	2015	+/(–) Change, %
Revaluation gains and losses on and gains and losses on disposals of derivatives	1,623	1,379	(15.0)
Gain/(loss) as a result of using the fair value option	(3,704)	(1,270)	(65.7)
Profit/(loss) from financial assets designated as at fair value through profit or loss	**(2,081)**	**109**	**(>100)**

Fixed-interest loans to customers in the amount of €73.6 million (2014: €87.1 million), bonds in the asset portfolio in the amount of €41.2 million (2014: €62.3 million) and BKS Bank's own issuances in the amount of €103.5 million (2014: €106.3 million) were hedged by means of interest rate swaps using the fair value option. The effect of these hedges totalled negative €1.3 million (2014: negative €3.7 million). The effect of the fair value option essentially reflects the amount that can be attributed to counterparty risk rather than changes in market risk.

(8) PROFIT/(LOSS) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	2014	2015	+/(–) Change, %
Revaluation gains and losses	(746)	(4,523)	>100
Gains and losses realized on disposal	3,763	2,448	(34.9)
Profit/(loss) from available-for-sale financial assets	**3,017**	**(2,075)**	**(>100)**

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

€k	2014	2015	+/(–) Change, %
Revaluation gains and losses	—	—	—
Gains and losses realized on disposal	4,687	287	(93.9)
Profit/(loss) from held-to-maturity financial assets	**4,687**	**287**	**(93.9)**

(10) INCOME TAX EXPENSE

€k	2014	2015	+/(–) Change, %
Current taxes	(5,953)	(9,919)	66.6
Deferred taxes	620	2,809	>100
Income tax expense	**(5,333)**	**(7,110)**	**33.3**

RECONCILIATION

€k unless stated otherwise	2014	2015
Profit for the year before tax	54,075	60,726
Applicable tax rate	25%	25%
Computed tax expense	13,519	15,182
Effect of differing tax rates	(102)	(355)
Tax savings		
– Arising from tax-exempt profit from equity investments	(1,608)	(326)
– Arising from use of the equity method	(7,140)	(8,769)
– Arising from other tax-exempt income	(173)	(202)
– Arising from other valuation adjustments	(35)	(95)
Additional tax incurred		
– As a result of non-allowable expenses	803	1,004
– Arising from other tax effects	69	560
Aperiodic tax expenses	0	112
Income tax expense in period	**5,333**	**7,110**
Effective tax rate	9.9%	11.7%

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2014	31/12/2015	+/(–) Change, %
Cash in hand	34,693	36,700	5.8
Credit balances with central banks of issue	180,576	153,610	(14.9)
Cash and balances with the central bank	**215,269**	**190,310**	**(11.6)**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Receivables from Austrian banks	167,323	153,143	(8.5)
Receivables from foreign banks	102,159	210,719	>100
Receivables from other banks	**269,482**	**363,862**	**35.0**

RECEIVABLES FROM OTHER BANKS, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2015	+/(–) Change, %
Due on demand	102,024	114,234	12.0
Up to 3 months	164,982	245,759	49.0
From 3 months to 1 year	653	3,031	>100
From 1 year to 5 years	110	522	>100
From 5 years and over	1,713	316	(81.6)
Receivables from other banks	**269,482**	**363,862**	**35.0**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Corporate and business banking customers	3,827,652	3,974,127	3.8
Retail banking customers	1,182,277	1,139,740	(3.6)
Receivables from customers	**5,009,929**	**5,113,867**	**2.1**

The restructuring of our sales organization led to adjustments to our segment definitions. Amounts for the comparative period were also restated accordingly. See note 39 for further details.

The line item *Receivables from customers* includes receivables under leases in the amount of €296.2 million (31 December 2014: €296.0 million). No material sale and leaseback transactions were carried out in the year under review.

RECEIVABLES FROM CUSTOMERS, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2015	+/(–) Change, %
Due on demand	313,847	368,708	17.5
Up to 3 months	791,459	806,084	1.8
From 3 months to 1 year	738,674	691,439	(6.4)
From 1 year to 5 years	1,400,364	1,469,559	4.9
From 5 years and over	1,765,585	1,778,077	0.7
Receivables from customers	**5,009,929**	**5,113,867**	**2.1**

RECEIVABLES ARISING FROM FINANCE LEASES, BY REMAINING TERM TO MATURITY

€k	2014	< 1 Year	1 – 5 Years	> 5 Years	2015	+/(–) Change, %
Gross investment value	162,043	33,794	85,296	48,380	167,470	3.3
Unrealized financial gains	27,721	6,916	17,965	4,222	29,103	5.0
Net investment value	**134,322**	**26,878**	**67,331**	**44,158**	**138,367**	**3.0**

Most receivables from leases were in maturity bands of more than one year.

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2014	31/12/2015	+/(–) Change, %
At beginning of year under review	176,109	194,161	10.3
Change in consolidation policies [1]	28,285	—	—
+ Added	55,566	54,587	1.8
– Reversed	(13,147)	(11,957)	9.1
– Used	(52,607)	(43,021)	18.2
+/(–) Exchange differences	(45)	(22)	51.1
At end of year under review	**194,161**	**193,748**	**(0.2)**

[1] Because of the proportionate consolidation of *ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.* (*ALGAR*), *ALGAR*'s dedicated provisions and provisions in respect of provisional guarantee declarations were accounted for as specific risk allowances.

The line item *Impairment allowance balance* includes provisions for the economic risks arising in connection with leasing operations and impairment charges on lease receivables in the amount of €11.7 million (31 December 2014: €16.8 million). The Risk Report contains further notes on the impairment allowance balance.

(15) TRADING ASSETS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Bonds and other fixed-interest securities	0	0	—
Positive fair values of derivative financial instruments			
– Currency contracts	0	0	—
– Interest rate contracts	46	46	—
Trading assets	**46**	**46**	**—**

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

€k	31/12/2014	31/12/2015	+/(–) Change, %
Bonds and other fixed-interest securities	62,339	41,236	(33.9)
Loans	87,060	73,627	(15.4)
Financial assets designated as at fair value through profit or loss	**149,399**	**114,863**	**(23.1)**

FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2015	+/(–) Change, %
Up to 3 months	1,677	1,431	(14.7)
From 3 months to 1 year	35,832	39,823	11.1
From 1 year to 5 years	52,139	17,651	(66.1)
From 5 years and over	59,751	55,958	(6.3)
Financial assets designated as at fair value through profit or loss	**149,399**	**114,863**	**(23.1)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Bonds and other fixed-interest securities	82,636	67,303	(18.6)
Shares and non-interest-bearing securities	42,281	42,811	1.3
Investments in other associates and in subsidiaries	4,393	4,457	1.5
Other equity investments	54,000	52,150	(3.4)
Available-for-sale financial assets	**183,310**	**166,721**	**(9.0)**

AVAILABLE-FOR-SALE FINANCIAL ASSETS, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2015	+/(–) Change, %
Bonds and other fixed-interest securities			
– Up to 3 months	13,384	192	(98.6)
– From 3 months to 1 year	17,090	5,135	(70.0)
– From 1 year to 5 years	52,162	59,905	14.8
– From 5 years and over	0	2,071	—
Available-for-sale financial assets	**82,636**	**67,303**	**(18.6)**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Bonds and other fixed-interest securities	678,757	724,891	6.8
Held-to-maturity financial assets	**678,757**	**724,891**	**6.8**

HELD-TO-MATURITY FINANCIAL ASSETS, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2015	+/(–) Change, %
Bonds and other fixed-interest securities			
– Up to 3 months	25,053	31,399	25.3
– From 3 months to 1 year	56,223	64,990	15.6
– From 1 year to 5 years	262,015	206,989	(21.0)
– From 5 years and over	335,466	421,513	25.6
Held-to-maturity financial assets	**678,757**	**724,891**	**6.8**

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

€k	31/12/2014	31/12/2015	+/(–) Change, %
Oberbank AG	259,001	278,308	7.5
Bank für Tirol und Vorarlberg AG	132,631	155,671	17.4
Drei-Banken Versicherungs-AG	4,264	4,640	8.8
Investments in entities accounted for using the equity method	**395,896**	**438,619**	**10.8**

(20) INTANGIBLE ASSETS AND GOODWILL

€k	31/12/2014	31/12/2015	+/(–) Change, %
Other intangible assets	1,993	1,868	(6.3)
Intangible assets	**1,993**	**1,868**	**(6.3)**

(21) PROPERTY AND EQUIPMENT

€k	31/12/2014	31/12/2015	+/(–) Change, %
Land	7,856	7,870	0.2
Buildings	41,232	42,307	2.6
Other	9,952	8,260	(17.0)
Property and equipment	**59,040**	**58,437**	**(1.0)**

(22) INVESTMENT PROPERTY

€k	31/12/2014	31/12/2015	+/(–) Change, %
Land	11,842	8,667	(26.8)
Buildings	17,143	21,023	22.6
Investment property	**28,985**	**29,690**	**2.4**

At 31 December 2015, the fair values of our investment properties totalled €46.9 million (31 December 2014: €44.6 million). Rental income during the year under review came to €3.2 million (2014: €2.8 million). Expenses associated with achieving this rental income came to €0.9 million (2014: €0.7 million).

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS (NON-CURRENT) UND INVESTMENT PROPERTY

€k	Property and Equipment	Intangible Assets[1]	Property[2]	Total
Cost at 1 January 2015	124,125	10,931	50,830	185,886
Added	4,081	904	4,771	9,756
Disposals	(2,696)	(215)	(3,576)	(6,487)
Exchange differences	12	10	1	23
Reclassified	1,209	0	(1,209)	0
Cost at 31 December 2015	**126,731**	**11,630**	**50,817**	**189,178**
Accumulated depreciation/amortization	68,294	9,762	21,127	99,183
Carrying amount at 31 December 2015	**58,437**	**1,868**	**29,690**	**89,995**
Carrying amount at 31 December 2014	59,040	1,993	28,985	90,018
Depreciation/amortization in 2015	5,005	1,032	1,033	7,070

[1] 'Other' intangible assets.
[2] Investment property.

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS (NON-CURRENT) UND INVESTMENT PROPERTY

€k	Property and Equipment	Intangible Assets[1]	Property[2]	Total
Cost at 1 January 2014	127,791	9,638	42,919	180,348
Added	5,182	1,311	3,233	9,726
Disposals	(3,499)	(4)	(650)	(4,153)
Exchange differences	(21)	(14)	0	(35)
Reclassified	(5,328)	0	5,328	0
Cost at 31 December 2014	**124,125**	**10,931**	**50,830**	**185,886**
Accumulated depreciation/amortization	65,085	8,938	21,845	95,868
Carrying amount at 31 December 2014	**59,040**	**1,993**	**28,985**	**90,018**
Carrying amount at 31 December 2013	63,251	1,907	22,814	87,972
Depreciation/amortization in 2014	4,801	1,223	953	6,977

[1] 'Other' intangible assets.
[2] Investment property.

(23) DEFERRED TAX ASSETS

€k	31/12/2014	31/12/2013	+/(–) Change, %
Receivables from customers	3,438	3,858	12.2
Trading assets and trading liabilities	24	15	(37.5)
Impairment allowance balance	5,906	8,057	36.4
Available-for-sale financial assets	307	354	15.3
Held-to-maturity financial assets	259	390	50.6
Property and equipment	624	609	(2.4)
Other assets and liabilities	3,849	2,708	(29.6)
Liabilities evidenced by paper	2,289	2,410	5.3
Provisions (for post-employment and termination benefits, other provisions)	8,262	7,040	(14.8)
Tax loss carryforwards	0	0	—
Deferred tax assets	**24,958**	**25,441**	**1.9**

The deferred tax assets were mainly the result of impairment allowances recognized in accordance with IAS 39, derivatives in the banking book with negative fair values, use of the fair value option for debt securities, deferrals of the upfront fees contained in receivables from customers and valuations of 'social capital' in accordance with IAS 19 that differed from the tax base. Deferred taxes taken directly to equity in conformity with IAS 19 came to negative €1.0 million (31 December 2014: €2.1 million).

(24) OTHER ASSETS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Positive fair values of derivative financial instruments	15,821	10,788	(31.8)
Other items	13,566	15,405	13.6
Deferred items	2,351	2,373	0.9
Other assets	**31,738**	**28,566**	**(10.0)**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Payables to Austrian banks	593,228	724,001	22.0
Payables to foreign banks	267,289	180,573	(32.4)
Payables to other banks	**860,517**	**904,574**	**5.1**

PAYABLES TO OTHER BANKS, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2015	+/(–) Change, %
Due on demand	3,905	21,390	>100
Up to 3 months	424,127	456,476	7.6
From 3 months to 1 year	163,009	396,569	>100
From 1 year to 5 years	262,987	24,706	(90,6)
From 5 years and over	6,489	5,433	(16.3)
Payables to other banks	**860,517**	**904,574**	**5.1**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Savings deposit balances	**1,705,479**	**1,629,833**	**(4.4)**
Corporate and business banking customers	195,651	218,263	11.6
Retail banking customers	1,509,828	1,411,570	(6.5)
Other payables	**2,518,487**	**2,721,883**	**8.1**
Corporate and business banking customers	1,741,031	1,927,113	10.7
Retail banking customers	777,456	794,770	2.2
Payables to customers	**4,223,966**	**4,351,716**	**3.0**

The restructuring of our sales organization led to adjustments to our segment definitions. Amounts for the comparative period were also restated accordingly. See note 39 for further details.

PAYABLES TO CUSTOMERS, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2015	+/(–) Change, %
Due on demand	2,083,269	2,443,389	17.3
Up to 3 months	564,868	565,906	0.2
From 3 months to 1 year	892,895	752,670	(15.7)
From 1 year to 5 years	669.296	577.826	(13.7)
From 5 years and over	13,638	11,925	(12.6)
Payables to customers	**4,223,966**	**4,351,716**	**3.0**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2014	31/12/2015	+/(–) Change, %
Issued bonds	500,655	485,071	(3.1)
Other liabilities evidenced by paper	92,959	91,275	(1.8)
Liabilities evidenced by paper	**593,614**	**576,346**	**(2.9)**

€103.5 million (31 December 2014: €106.3 million) of the liabilities evidenced by paper were measured at fair value (use of the fair value option). During the year under review, the fair value of such liabilities changed by €0.5 million (2014: €0.6 million). This was a result of BKS Bank's own counterparty risk.

LIABILITIES EVIDENCED BY PAPER, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2015	+/(–) Change, %
Up to 3 months	36,610	12,127	(66.9)
From 3 months to 1 year	33,530	76,145	>100
From 1 year to 5 years	268,030	215,066	(19.8)
From 5 years and over	255,444	273,008	6.9
Liabilities evidenced by paper	**593,614**	**576,346**	**(2.9)**

(28) TRADING LIABILITIES

€k	31/12/2014	31/12/2015	+/(–) Change, %
Interest rate contracts	45	46	2.2
Trading liabilities	**45**	**46**	**2.2**

(29) PROVISIONS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Provisions for post-employment benefits and similar obligations	78,917	74,498	(5.6)
Provisions for taxes (current taxes)	117	5,739	>100
Other provisions	49,485	45,736	(7.6)
Provisions	**128,519**	**125,973**	**(2.0)**

The line item *Provisions for post-employment benefits and similar obligations* contains provisions for termination benefits in the amount of €22.0 million (31 December 2014: €22.0 million), provisions for post-employment benefits in the amount of €47.2 million (31 December 2014: €51.7 million) and provisions for jubilee benefits in the amount of €5.3 million (31 December 2014: €5.2 million). The line item *Other provisions* contains a provision in the amount of €29.5 million (31 December 2014: €33.6 million) resulting from the proportionate consolidation of *ALGAR*. The other material provisions included provisions for death benefits in the amount of €3.6 million (31 December 2014: €4.0 million) and provisions for unused vacation time and remunerations in the amount of €2.6 million (31 December 2014: €2.6 million).

Provision for termination benefits

According to the requirements of the *Angestelltengesetz* (Austrian salaried employees act) and the *Abfertigungsgesetz* (Austrian termination benefits act), Austrian employees of BKS Bank whose employment began before 1 January 2003 are entitled to a termination benefit insofar as suitable grounds for the termination exist. Moreover, the *Kollektivvertrag für Banken und Bankiers* (collective agreement for banks and bankers) generally gives people who have been in service for more than 5 years the right to two additional months' salary if the employer gives notice.

Provisions for post-employment benefits

Post-employment benefit obligations existed on the basis of the collective agreement revising post-employment benefit law as amended on 23 December 1996. Essentially, the post-employment benefit promises embraced old-age pensions, occupational disability pensions and widow(er)s' and orphans' pensions. In the 2000 financial year, the existing benefit promises were transferred to *VBV-Pensionkassen AG* as the legal successor to *BVP-Pensionskassen AG*. BKS Bank's benefit obligations were the result of post-employment benefits that were already being paid to former employees or their surviving dependants.

ACTUARIAL ASSUMPTIONS

%	2014	2015
Financial assumptions		
Interest rate	2.20%	2.40%
Salary trend	2.00%	1.80%
Career dynamic	0.25%	0.25%
Demographic assumptions		
Increase in retirement age to	65 years	65 years
Mortality table	AVÖ 2008	AVÖ 2008

The interest rate was calculated in conformity with IAS 19.83 on the basis of yields on fixed-interest blue chip industrial bonds. As in 2014, use was made of the table produced by *Mercer (Austria) GmbH*.

PROVISIONS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Provision balance at 1 January	69,814	78,917	13.0
+ Interest cost	2,228	1,685	(24.4)
+ Service cost	1,536	1,454	(5.3)
– Payments during the year under review	(3,800)	(3,770)	(0.8)
+/(–) Actuarial gains and losses [1]	9,139	(3,788)	(>100)
Provision balance at 31 December	**78,917**	**74,498**	**(5.6)**

[1] Based on changed financial assumptions.

BREAKDOWN OF PROVISIONS

€k	Total in 2014	Post-emp. Benefits & Similar Obligations	Taxes and Other	Total in 2015	+/(–) Change, %
Provision balance at 1 January	83,992	78,917	49,602	128,519	53.0
+/(–) Change in scope of consolidation	33,598[1]	0	0	0	(100.0)
+/(–) Exchange differences	(3)	2	1	3	(>100)
+/(–) Transferred	0	1	(1)	0	—
+ Added	17,888	3,136	11,397	14,533	(18.8)
– Used	5,796	(3,770)	(7,881)	(11,651)	>100
– Reversed	1,160	(3,788)	(1,643)	(5,431)	>100
Provision balance at 31 December	**128,519**	**74,498**	**51,475**	**125,973**	**(2.0)**

[1] First-time proportionate consolidation of *ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.* (*ALGAR*).

SENSITIVITY ANALYSIS OF POST-EMPLOYMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

Sensitivity Analysis of DBO, Present Values of Obligations, €k	Termination Benefits 31/12/2014	Post-employment Benefits 31/12/2014	Termination Benefits 31/12/2015	Post-employment Benefits 31/12/2015
Discount rate plus 1.0%	19,312	46,153	19,430	42,388
Discount rate minus 1.0%	23,384	58,605	23,185	53,180
Salary increase plus 0.5%	22,247	52,221	22,145	47,658
Salary increase minus 0.5%	20,217	51,244	20,268	46,829
Pension increase plus 0.5%	—	54,208	—	49,401
Pension increase minus 0.5%	—	49,409	—	45,215
Increase of roughly one year in life expectancy	—	—	—	49,394

Since 1 January 2013, IAS 19.145 (a) has required a sensitivity analysis. This sensitivity analysis shows the effect that changes in the key actuarial assumptions would have had on the provisions for termination and post-employment benefits at 31 December 2015.

MATURITY ANALYSIS

Cash Flows, €k	Termination Benefits 31/12/2015	Post-employment Benefits 31/12/2015
Expected payments in 2016	781	3,342
Expected payments in 2017	671	3,410
Expected payments in 2018	1,473	3,478
Expected payments in 2019	1,850	3,545
Expected payments in 2020	3,346	3,615
Total expected payments (2016 bis 2020)	**8,121**	**17,390**
Weighted average maturity	9.04	11.86

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 2015 financial year came to €3.8 million.

(30) DEFERRED TAX LIABILITIES

€k	31/12/2014	31/12/2015	+/(–) Change, %
Receivables from customers	0	0	—
Trading assets and trading liabilities	34	22	(35.3)
Financial assets designated as at fair value through profit or loss	3,273	2,515	(23.2)
Available-for-sale financial assets	4,628	4,500	(2.8)
Held-to-maturity financial assets	441	594	34.7
Property and equipment	0	0	—
Other assets and liabilities	2,101	1,681	(20.0)
Liabilities evidenced by paper	0	0	—
Provisions (for post-employment and termination benefits) and other provisions	28	0	(100.0)
Deferred tax liabilities	**10,505**	**9,312**	**(11.4)**

The deferred tax liabilities were mainly attributable to the measurement of financial investments to fair value and the derivatives in the banking book whose fair value was positive.

(31) OTHER LIABILITIES

€k	31/12/2014	31/12/2015	+/(–) Change, %
Negative fair values of derivative financial instruments	26,257	29,587	12.7
Other items	13,928	18,284	31.3
Deferred items	5,988	5,601	(6.5)
Other liabilities	**46,173**	**53,472**	**15.8**

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2014	31/12/2015	+/(–) Change, %
Supplementary capital	155,453	141,752	(8.8)
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**195,453**	**181,752**	**(7.0)**

Subordinated debt capital is presented with accrued interest. It had a nominal value of €178.2 million.

SUBORDINATED DEBT CAPITAL, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2015	+/(–) Change, %
Up to 3 months	10,781	3,559	(67.0)
From 3 months to 1 year	15,003	7,695	(48.7)
From 1 year to 5 years	96,270	119,595	24.2
From 5 years and over	73,399	50,903	(30.6)
Subordinated debt capital	**195,453**	**181,752**	**(7.0)**

Supplementary capital notes in the amount of €7.7 million will mature during the 2016 financial year (2015: €25.0 million). In conformity with CRR Article 484, €40 million of hybrid capital was counted towards consolidated own funds (31 December 2014: €40.0 million). It did not constitute a component of consolidated equity.

DETAILS OF BKS BANK'S SUBORDINATED DEBT CAPITAL (NOMINAL VALUES) [1]

€k	31/12/2014	31/12/2015	Full Term
Variable Ergänzungskapital-Obligation 2006-2021/PP	2,350	2,350	15 years
4 ¾% Ergänzungskapital-Obligation 2007-2015/1	10,000	0	8 years
5% Ergänzungskapital-Obligation 2007-2017/3	9,100	9,100	10 years
5% Ergänzungskapital-Obligation 2007-2015/6	15,000	0	8 years
4 ½% Ergänzungskapital-Obligation 2008-2016/2	7,700	7,700	8 years
Stufenzins-Ergänzungskapital-Obligation 2008-2020/4	15,000	15,000	12 years
5% Ergänzungskapital-Obligation 2009-2017/3	20,000	20,000	8 years
4 ¾% Ergänzungskapital-Obligation 2009-2017/8	19,500	19,500	8 years
Stufenzins-Ergänzungskapital-Obligation 2010-2020/2	16,000	16,000	10 years
4 ¾% Ergänzungskapital-Obligation 2011-2019/3	20,000	20,000	8 years
7,35% Hybridanleihe der BKS Hybrid alpha GmbH 2008	20,000	20,000	Unlimited
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 2014-2025/2	0	8,512	10 years
Total subordinated debt capital	**194,650**	**178,162**	

[1] This does not constitute an offer or an inducement to buy or sell the notes mentioned. Nor does it constitute a recommendation to buy or sell. Since May 2009, issuances have taken place on the basis of the base prospectus published by BKS Bank in each case, all supplements and the final terms and conditions published in each case. These are available free of charge from the issuer's website at www.bks.at and from the branches of *BKS Bank AG*, St. Veiter Ring 43, 9020 Klagenfurt, Austria, during normal business hours.

Expenditure on subordinated obligations during the financial year came to €9.9 million (2014: €10.3 million).

(33) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Subscribed capital	72,072	72,072	0.0
– Share capital	72,072	72,072	0.0
Capital reserves	143,056	143,056	0.0
Retained earnings and other reserves	580,721	621,714	7.1
Additional equity instruments (AT1 note)	—	23,400	—
Shareholders' equity before minority interests	**795,849**	**860,242**	**8.1**
Minority interests	(12)	(15)	25.0
Shareholders' equity after minority interests	**795,837**	**860,227**	**8.1**

The share capital was represented by 34,236,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. Each share had a nominal value of €2.0. *Capital reserves* contains premiums arising from the issuance of shares. *Retained earnings and other reserves* consists essentially of ploughed back profits. *Additional equity instruments* consists of the additional Tier 1 note issued during the period under review. Under IAS 32, it required classification as equity. The liability reserve (*Haftrücklage*) required by *§ 57 (5) BWG* in the amount of €79.9 million is contained in *Retained earnings*.

(34) CAPITAL MANAGEMENT

Capital management at BKS Bank consisted of two elements of equal importance, namely management within the scope of the regulatory minimum capital ratio requirements and internal management within the scope of ICAAP (the Internal Capital Adequacy Assessment Process).

The aim was 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 was 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 utilization of all risk limits was checked and reported upon within the management information process. The core variables used for analysis and management purposes in the capital management process were the own funds ratio, the Tier 1 ratio, the degree of utilization 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 and to conform to 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 associated with the regulatory adjustments are successively being introduced. At the reporting date, the regulatory scope of consolidation and the scope of consolidation in accordance with IFRSs were the same.

BKS BANK KREDITINSTITUTSGRUPPE: OWN FUNDS FOR THE PURPOSES OF CRR

€m	31/12/2014	31/12/2015
Eligible share capital	71.4	71.0
Reserves net of intangible assets	714.5	748.0
Deductions	(242.2)	(243.4)
Common equity Tier 1 capital [1]	**543.7**	**575.6**
Common equity Tier 1 ratio	11.2%	11.8%
Hybrid capital	32.0	28.0
AT1 note	—	23.4
Deductions	(32.0)	(51.4)
Additional Tier 1 capital	—	—
Tier 1 capital	**543.7**	**575.6**
Tier 1 ratio (including additional Tier 1 capital)	11.2%	11.8%
Ancillary capital items and instruments	117.8	114.7
Deductions	(80.6)	(90.4)
Ancillary capital	**37.2**	**24.3**
Total own funds	**580.9**	**599.9**
Own funds ratio	12.0%	12.3%
Basis of assessment	4,846.6	4,883.4
Surplus own funds	**193.2**	**209.2**

[1] Includes profit for the year 2015. Formal adoption is still outstanding.

The external minimum capital adequacy requirements were met throughout the 2015 reporting year. The minimum common equity Tier 1 ratio requirement was 4.5% per cent, and the minimum total own funds ratio requirement was 8.0 per cent.

(35) FAIR VALUES

31 DECEMBER 2015

€k	LEVEL 1 'Market Values'	LEVEL 2 'Based on Market Data'	LEVEL 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 31/12/2015	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	363,976	0	363,976	363,862	115
Receivables from customers	0	5,175,621	0	5,175,621	5,113,867	61,755
Trading assets	0	46	0	46	46	—
Financial assets designated as at fair value through profit or loss	41.236	0	73,627	114,863	114,863	—
Available-for-sale financial assets	146,128	0	20,593	166,721	166,721	—
Held-to-maturity financial assets	791,709	0	0	791,709	724,891	66,818
Investments in entities accounted for using the equity method	338,871	0	4,640	343,511	438,619	(95,108)[1]
Investment property	0	0	46,894	46,894	29,690	17,204
Other assets (derivatives)	0	10,788	0	10,788	10,788	—
Equity and liabilities						
Payables to other banks	0	907,737	0	907,737	904,574	3,163
Payables to customers	0	4,366,180	0	4,366,180	4,351,715	14,464
Liabilities evidenced by paper	411,918	80,311	103,512	595,741	576,346	19,395
– Of which designated as at fair value through profit or loss	0	0	103,512	103,512	103,512	0
Subordinated debt capital	182,339	2,354	0	184,693	181,752	2,941
Trading liabilities	0	46	0	46	46	0
Other liabilities (derivatives)	0	29,587	0	29,587	29,587	0

[1] As in 2014, the internal valuation of the entities accounted for using the equity method on the basis of planned values did not reveal any need for impairment allowances at the reporting date.

The above two tables present the fair values of the respective balance sheet items. 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.

31 DECEMBER 2014

€k	LEVEL 1 'Market Values'	LEVEL 2 'Based on Market Data'	LEVEL 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 31/12/2015	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	269,535	0	269,535	269,482	53
Receivables from customers	0	5,096,551	0	5,096,551	5,009,929	86,622
Trading assets	0	46	0	46	46	0
Financial assets designated as at fair value through profit or loss	62,338	0	87,061	149,399	149,399	0
Available-for-sale financial assets	158,345	0	24,965	183,310	183,310	0
Held-to-maturity financial assets	758,106	0	0	758,106	678,757	79,349
Investments in entities accounted for using the equity method	316,811	0	4,264	321,075	395,896	(74,821)[1]
Investment property	0	0	44,520	44,520	28,986	15,534
Other assets (derivatives)	0	15,821	0	15,821	15,821	0
Equity and liabilities						
Payables to other banks	0	863,933	0	863,933	860,517	3,416
Payables to customers	0	4,242,935	0	4,242,935	4,223,966	18,969
Liabilities evidenced by paper	431,111	78,488	106,316	615,915	593,614	22,301
– Of which designated as at fair value through profit or loss	0	0	106,316	106,316	106,316	0
Subordinated debt capital	197,585	2,354	0	199,939	195,453	4,486
Trading liabilities	0	45	0	45	45	0
Other liabilities (derivatives)	0	26,257	0	26,257	26,257	0

[1] As in 2013, the internal valuation of the entities accounted for using the equity method on the basis of planned values did not reveal any need for impairment allowances at the reporting date,

Valuation policies and classification

The fair values shown in the category *Level 1 'Market Values'* were determined using prices quoted on active markets (stock exchange).

If market values were unavailable, fair value was ascertained using customary valuation models based on observable input factors and market data and presented in the category *Level 2 'Based on Market Data'* (e.g. by discounting future cash flows from financial instruments). In general, fair values shown in this category were ascertained on the basis of market data that were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). In general, items in the category *Level* 2 were measured using present value techniques.

In the category *Level 3 'Internal Valuation Methodology'*, the values of individual financial instruments were measured on the basis of special generally accepted valuation methods. If their fair value could not be reliably ascertained, available-for-sale equity investments and investments in entities accounted for using the equity method in the category *Level* 3 were recognized at their carrying amounts. In general, liabilities evidenced by paper in the category *Level* 3 were measured on the basis of market data that were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). The factors affecting the values of positions in the category *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 present value techniques.

LEVEL 3: CHANGES BETWEEN 1 JANUARY AND 31 DECEMBER 2015

€k	Available for Sale FAs	Investments in Entities Accounted for using the Equity Method	FAs Designated as at Fair Value Through Profit or Loss	Liabilities Evidenced by Paper, of which at Fair Value Through Profit or Loss
At 1 January 2015	24,965	4,264	87,061	106,316
Reclassified	0	0	0	0
Income Statement [1]	(5,085)	376	(1,307)	(2,804)
Other profit or loss	47	0	0	0
Purchased	665	0	0	0
Sold	0	0	(12,127)	0
At 31 December 2015	**20,592**	**4,640**	**73,627**	**103,512**

[1] Revaluations through profit or loss.

LEVEL 3: CHANGES BETWEEN 1 JANUARY AND 31 DECEMBER 2014

€k	Available for Sale FAs	Investments in Entities Accounted for using the Equity Method	FAs Designated as at Fair Value Through Profit or Loss	Liabilities Evidenced by Paper, of which at Fair Value Through Profit or Loss
At 1 January 2014	19,052	5,138	—	—
Reclassified	5,946[1]	(974)[2]	101,622	115,525
Income Statement [3]	(72)	100	(14,561)	(9,209)
Other profit or loss	—	—	—	—
Purchased	39	—	—	—
Sold	0	—	—	—
At 31 December 2014	**24,965**	**4,264**	**87,061**	**106,316**

[1] Change in scope of consolidation.
[2] Change in consolidation policies.
[3] Revaluations through profit or loss.

Reclassification
Reclassifications between the individual categories were carried out if market values (*Level* 1) or reliable input factors (*Level* 2) were no longer available or if market values (*Level* 1) became newly available for individual financial instruments (e.g. because of an IPO).

Changes in the ratings of assets and liabilities measured to fair value
Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of those financial instruments and their remaining term to maturity. The change in the period under review in the default risk associated with liabilities measured at fair value was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining term to maturity. In the 2015 reporting year, the changes in the ratings of the receivables from customers measured to fair value took their fair value to €0.3 million (31 December 2014: €1.9 million). In the 2015 reporting year, the change in BKS Bank's credit standing took the value of the liabilities evidenced by paper that were measured to fair value to €0.5 million (31 December 2014: €0.6 million).

Sensitivity analysis
To test the sensitivity of the approaches used to measure equity investments in the category *Level* 3, entity valuations were carried out for material equity investments. The result of the sensitivity analysis of receivables from customers assuming an improvement or deterioration in ratings of 10 basis points in the credit spread was an accumulated change in value of €0.3 million (2014: €0.4 million). Analysis assuming an improvement or deterioration in BKS Bank's rating of 10 basis points in the credit spread predicted an accumulated change in the value of the liabilities evidenced by paper that were designated at fair value of €0.6 million (2014: €0.7 million).

(36) INCOME STATEMENT BY VALUATION CATEGORY

€k	31/12/2014	31/12/2015
Net interest income in the held for trading portfolio	113	54
Gains/(losses) in the held for trading portfolio	1,260	2,266
Net income in the held for trading portfolio	**1,373**	**2,320**
Net interest income from FAs designated as at fair value through profit or loss [1]	(177)	2,180
Gains/(losses) on items designated as at fair value through profit or loss	(2,081)	109
Net income from FAs designated as at fair value through profit or loss [2]	**(2,258)**	**2,289**
Net interest income in the portfolio of available-for-sale FAs	5,690	7,325
Gains/(losses) in the portfolio of available-for-sale FAs	3,763	2,447
Impairment losses in the portfolio of available-for-sale FAs	(746)	(4,522)
Net income in the portfolio of available-for-sale FAs	**8,708**	**5,250**
Net interest income from loans and receivables	150,851	140,713
Impairment losses (impairment charge) on loans and receivables	(49,520)	(48,547)
Net fee and commission income on loans and receivables	34,319	37,687
Net income from loans and receivables	**135,650**	**129,853**
Net interest income in the portfolio of held-to-maturity FAs	22,492	20,397
Gains/(losses) in the portfolio of held-to-maturity FAs	4,687	287
Impairment losses in the portfolio of held-to-maturity FAs	0	**0**
Net income in the portfolio of held-to-maturity FAs	**27,179**	**20,684**
Interest expenses on financial liabilities measured at amortized cost	(56,394)	(49,349)
Net income on financial liabilities measured at amortized cost	**(56,394)**	**(49,349)**
Other operating income net of other operating expenses [3]	**(60,182)**	**(50,321)**
Profit for the year before tax	**54,076**	**60,726**

[1] FAs = financial assets.
[2] Effect of using the fair value option and revaluation gains and losses on *Other assets* and *Other liabilities*.
[3] Includes the line items *Other net interest income* and *Other net fee and commission income*, *General administrative expenses* and *Other operating income net of other operating expenses*.

(37) INVESTMENTS IN ASSOCIATES

Of the entities accounted for using the equity method, *Oberbank AG* and *BTV AG* were, for the following reasons, thus accounted for in the Consolidated Financial Statements even though a stake of at least 20 per cent was not held: A syndicate agreement is in place between *BKS Bank AG*, *BTV AG* and *Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH* pertaining to their equity investments in *Oberbank AG*, and a syndicate agreement is in place between *BKS Bank AG*, *Oberbank AG*, *Generali 3 Banken Holding AG* and *Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH* pertaining to their equity investments in *BTV AG*.

Because tight schedules meant that the figures in their IFRS-compliant consolidated financial statements to year-end were not available, *Oberbank AG* and *BTV AG* were included in the Consolidated Financial Statements with a cutoff date of 30 September 2015. The carrying amount of the equity investment in *Drei-Banken Versicherung Aktiengesellschaft*, which was accounted for using the equity method, was €4.6 million at 31 December 2015 (31 December 2014: €4.3 million). Its profit for the year before tax was €2.3 million (2014: €0.8 million).

ASSOCIATES

At 31 December	Relationship	Head Office	Voting Interest, % 2014	Voting Interest, % 2015	Equity Interest, % 2014	Equity Interest, % 2015	Fair Value of Interest 2014	Fair Value of Interest 2015
Oberbank AG	Strategic investment to secure our autonomy	Linz	18.51	16.52	16.95	15.30	244,278	258,898
BTV AG	Strategic investment to secure our autonomy	Innsbruck	15.10	14.95	13.59	13.59	72,533	79,973
Drei-Banken Versicherungs-AG	Strategic investment to sell insurance	Linz	20.00	20.00	20.00	20.00	4,264	4,640

FINANCIAL INFORMATION ABOUT THE MATERIAL ASSOCIATES

€m	Oberbank 31/12/2014	Oberbank 31/12/2015	BTV 31/12/2015	BTV 31/12/2015
Net interest income	372.9	381.2	180.1	161.7
Net fee and commission income	119.3	132.7	43.7	49.2
Consolidated profit for the year after tax	136.5	166.4	77.2	138.7
Assets	17,774.9	18,243.3	9,620.5	9,426.3
Receivables from customers after impairment charge	11,801.8	12,351.7	6,180.9	6,359.6
Equity	1,534.1	1,925.7	1,024.0	1,148.7
Primary funds	12,288.6	12,620.0	6,913.8	7,020.7
– Of which savings deposit balances	3,098.5	2,912.6	1,176.3	1,200.8
– Of which liabilities evidenced by paper, including subordinated debt capital	2,295.0	2,098.5	1,390.7	1,377.9
Dividend received, €k	2,439	2,683	1,004	1,019

Joint arrangement, joint operation

Under the provisions of IFRS 11, *ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.* (*ALGAR*) required classification as a joint operation and had to be included in the scope of consolidation on a proportionate basis. *ALGAR* was run jointly by *Oberbank AG*, *BTV AG* and *BKS Bank AG*. It was set up to secure the large loans granted by the three banks that are its shareholders. Each bank appointed one director. It was represented by two directors together. The decisions of its general meeting were always unanimous.

Non-controlling interests

Non-controlling interests played a minimal role in the BKS Bank Group, so disclosures thereof have not been provided on the grounds of immateriality.

(38) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

The following tables contain the mandatory disclosures of BKS Bank's relations with related entities and persons required by *UGB § 245a* and IAS. Entities and persons are deemed to be related entities or persons if they could exercise a controlling or significant influence over the enterprise.

IAS 24.9 defines key management personnel as those persons having authority and responsibility for planning, directing and supervising the activities of the entity, whether directly or indirectly, and these must be taken to include the members of the Management Board and Supervisory Board.

DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

	Outstanding Balances		Guarantees Received		Guarantees Provided	
€k	At 31/12/2014	At 31/12/2015	At 31/12/2014	At 31/12/2015	At 31/12/2014	At 31/12/2015
Unconsolidated subsidiaries			0	0	0	0
Receivables	5,597	5,369				
Payables	1,165	1,108				
Associates and joint arrangements			0	0	0	0
Receivables	59,585	12,869				
Payables	145,108	158,949				
Key management personnel			0	0	0	0
Receivables	440	366				
Payables	479	812				
Other related persons			0	0	109	109
Receivables	16	14				
Payables	592	451				

Transactions with related entities and persons were on arm's length terms. During the financial year, there were no provisions for doubtful receivables and there was no expenditure on irrecoverable or doubtful receivables from related entities or persons.

RELATED PERSON DISCLOSURES

€k	2014	2015
Average number of staff	**992**	**999**
– Blue-collar workers (*Arbeiter*) employed in the BKS Bank Group	49	49
– White-collar staff (*Angestellte*) employed in the BKS Bank Group	943	950
Average number of people employed by entities accounted for on a proportionate basis	**3,380**	**3,407**
Remunerations paid to the Management Board		
– Remunerations paid to active members of the Management Board	1,194	1,059
– Remunerations paid to former members of the Management Board and their surviving dependants	726	1,037
Remunerations paid to the Supervisory Board		
– Remunerations paid to active members of the Supervisory Board	207	193
– Remunerations paid to former members of the Supervisory Board and their surviving dependants	0	0
Management compensation for the purposes of IAS 24	**1,962**	**1,263**
– Short-term employee benefits	1,291	1,138
– Post-employment benefits	671	125
– Other long-term benefits	0	0
– Termination benefits	0	0
– Share-based payment benefits	0	0
Loans and advances granted		
– Loans and advances granted to members of the Management Board	165	92
– Loans and advances granted to members of the Supervisory Board	275	274
Expenditure on termination and post-employment benefits		
– Expenditure on termination and post-employment benefits for members of the Management Board	(4,689)	73
– Expenditure on termination and post-employment benefits for other employees	2,408	6,849

All loans and advances to and deposits from members of the Management Board and Supervisory Board were granted or taken on arm's length terms.

(39) SEGMENTAL REPORTING

Our segmental reporting was based on the organizational structure of the Group that underlies its internal management reporting system. In 2014 and in the first half of 2015, BKS Bank focused intensively on optimizing its sales structure and sales organization with a clear focus on its redefined retail banking segment and its corporate and business banking and financial markets segments. In detail, in the course of restructuring, retail business customers—small businesses and professionals—were moved from the retail banking segment to the corporate and business banking segment. Members of the so-called healing professions were left in the retail banking segment. This has led to minor changes in our segmental reporting. Figures for the comparative period have been restated retrospectively in conformity with IFRS 8.29.

SEGMENTAL BREAKDOWN

	Retail Banking		Corporate and Business Banking		Financial Markets	
€k	2014	2015	2014	2015	2014	2015
Net interest income	32,528	27,218	82,843	82,870	41,006	54,981
– Of which from investments in entities accounted for using the equity method	—	—			28,562	42,986
Impairment charge on loans and advances	(1,209)	(2,115)	(47,832)	(44,095)	(479)	(2,337)
Net fee and commission income	20,060	23,238	27,567	28,603	189	218
Net trading income	0	0	0	0	1,373	2,320
General administrative expenses	(49,456)	(49,636)	(43,775)	(43,166)	(6,779)	(7,363)
Other operating income net of other operating expenses	35	(182)	682	129	(143)	(100)
Profit/(loss) from financial assets	—	—	—	—	5,623	(1,679)
Profit/(loss) for the year before tax	**1,958**	**(1,477)**	**19,485**	**24,341**	**40,790**	**46,040**
Average risk-weighted assets	515,565	499,676	3,137,762	3,062,491	721,542	861,928
Average allocated equity	41,245	39,974	251,021	244,999	455,108	533,557
Segment liabilities	2,839,303	2,672,175	2,407,880	2,677,441	1,423,111	1,514,932
ROE based on profit for the year	**4.7%**	**(3.7%)**	**7.8%**	**9.9%**	**9.0%**	**8.6%**
Cost:income ratio	**94.0%**	**98.7%**	**39.4%**	**38.7%**	**16.0%**	**12.8%**
Risk:earnings ratio	**3.7%**	**7.8%**	**57.7%**	**53.2%**	**1.2%**	**4.3%**

	Other		Total	
€k	2014	2015	2014	2015
Net interest income	966	1,375	157,343	166,444
– Of which from investments in entities accounted for using the equity method	0	0	28,562	42,986
Impairment charge on loans and advances	0	0	(49,520)	(48,547)
Net fee and commission income	(238)	923	47,578	52,982
Net trading income	0	0	1,373	2,320
General administrative expenses	(5,799)	(4,955)	(105,809)	(105,120)
Other operating income net of other operating expenses	(3,086)	(5,521)	(2,512)	(5,674)
Profit from financial assets	0	0	5,623	(1,679)
Profit/(loss) for the year before tax	**(8,157)**	**(8,178)**	**54,076**	**60,726**
Average risk-weighted assets	44,407	51,390	4,419,276	4,475,485
Average allocated equity	7,632	9,515	755,006	828,045
Segment liabilities	194,210	198,884	6,864,504	7,063,433
ROE based on profit for the year			**7.2%**	**7.3%**
Cost:income ratio			**51.9%**	**48.7%**
Risk:earnings ratio			**31.5%**	**29.2%**

Method: *Net interest income* was subdivided using the *market interest rate method*. Incurred costs were allocated to the individual business segments on a cost-by-cause basis. So-called *structural income* was allocated to the financial markets segment. Capital was allocated according to regulatory criteria. Average allocated equity was recognized applying an interest rate of 5 per cent and the result was recognized as income from investing equity in the line item *Net interest income*. The performance of each business segment was measured in terms of the profit before tax recorded in that segment. Alongside the cost:income ratio, return on equity was one of the principal benchmarks for managing business segments. Our segmental reporting was based on our internal management processes. The Management Board as a whole was responsible for the enterprise's management.

In detail, the reports used for internal management purposes comprised the following:
– monthly reporting of results at the profit centre level;
– reporting of all relevant types of risk at least once a quarter;
– *ad-hoc* reports in the event of exceptional occurrences.

Corporate and business banking segment
We were servicing some 18,100 corporate and business banking customers in this segment at the end of December 2015. BKS Bank having originally been conceived as a corporate and business bank, this business segment was still the enterprise's most important pillar. Corporate and business banking customers still accounted for the larger part of the loan portfolio and made an essential contribution to profit for the period. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, the income and expenses of *BKS Bank d.d.* in Croatia and of our leasing companies insofar as they arose from business done with companies were also assigned to this segment.

Retail banking segment
All the income and expenses arising from business with personal banking customers and jobholders carried on by *BKS Bank AG*, *BKS Bank d.d.*, *BKS-Leasing Gesellschaft m.b.H.*, *BKS-leasing d.o.o.*, *BKS-leasing Croatia d.o.o.* and *BKS-Leasing s.r.o.* were collected together in the retail banking segment. Some 132,250 customers were assigned to this segment at the end of December 2015.

Financial markets segment
The financial markets segment encompassed the profits from *BKS Bank AG*'s proprietary trading activities, from securities held in its own portfolios, from equity investments, from derivatives in the banking book and from inter-bank transactions as well as earnings from its interest-rate term structure management activities.

The **'Other' segment** encompasses everything not directly connected with business segments, items of income and expense that could not be allocated to the other segments and those contributions to profit that could not be attributed to any one segment.

(40) NON-INTEREST ASSETS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Non-interest assets	**235,941**	**295,899**	**25.4**

Non-interest receivables from customers less impairments came to €187.2 million (31 December 2014: €138.7 million).

(41) SUBORDINATED ASSETS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Receivables from customers	15,655	3,530	(77.5)
Bonds and other fixed-interest securities	—	—	—
Shares and other variable-yield securities	—	—	—

(42) BALANCES IN FOREIGN CURRENCIES

€k	31/12/2014	31/12/2015	+/(–) Change, %
Assets	597,965	491,644	(17.8)
Liabilities	189,234	172,029	(9.1)

(43) ADMINISTRATION AND AGENCY SERVICES

€k	31/12/2014	31/12/2015	+/(–) Change, %
Administration and agency services	**1,542**	**1,764**	**14.4**

(44) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2014	31/12/2015	+/(–) Change, %
Guarantees	392,244	385,094	(1.8)
Letters of credit	2,948	1,777	(39.7)
Contingent liabilities	**395,192**	**386,871**	**(2.1)**
Other commitments	868,499	1,057,680	21.8
Commitments	**868,499**	**1,057,680**	**21.8**

Other commitments consists mainly of credit lines already promised but not yet used. The likelihood of these credit lines being used was monitored. Drawdown probability was analyzed on a regular basis.

(45) EVENTS AFTER THE BALANCE SHEET DATE

No material or reportable business transactions took place between the end of the financial year and the preparation of the Annual Financial Statements and their certification by the Auditor.

(46) ASSETS SERVING AS COLLATERAL FOR LIABILITIES

Liabilities	Assets	31/12/2014	31/12/2015
Money held in trust pursuant to § *230a ABGB*	Securities	12,983	12,987
Arrangement deposit for stock exchange trading	Securities	1,578	1,581
Deposit for *EUREX* trading	Securities	551	550
Xetra collateral	Securities	1,237	1,482
Euroclear pledge	Securities	15,044	15,031
Repos margin	Securities	1,001	0
Financial futures margin	Receivables from other banks	17,850	32,670
Collateral for *OeNB* funding	Loans	219,015	264,355
Cover pool of mortgage loans for covered bonds	Loans	152,126	168,911
Cover pool of public sector debt for covered bonds	Loans	14,751	13,640
OeKB CCPA solidarity pledge	Receivables from other banks	25	25

Trust money savings deposits were secured in conformity with the legal requirements set out in *§ 68 BWG*. The cover pool for covered bonds was governed by the *Gesetz für fundierte Bankschuldverschreibungen* (FBSchVG: Austrian covered bonds act). In addition, the Group had pledged assets as collateral for liabilities arising from derivative transactions.

(47) FEES PAID TO THE BANK AUDITOR

€k	2014	2015	+/(–) Change, %
Fees for auditing separate and consolidated financial statements	353	307	(13.0)
Other fees	109	78	(28.4)
Total fees	**462**	**385**	**(16.7)**

(48) RISK REPORT

Regarding the Risk Report disclosures required by IFRS 7 paras. 31 to 42, we have made use of the option provided for in the provisions contained in IFRS 7.B6 under which a separate Risk Report that is a part of the Management Report can replace disclosures in the Notes. The Risk Report is published together with the business report and financial report and made accessible to the addressees of the Annual Financial Statements on the same terms and at the same time as the Annual Financial Statements.

(49) BALANCE OF DERIVATIVES OUTSTANDING (BANKING BOOK)

€k	Nominal, by Term to Maturity < 1 Year	1–5 Years	> 5 Years
Interest rate contracts	**106,000**	**82,250**	**221,652**
OTC products	106,000	82,250	221,652
Interest rate swaps	106,000	82,250	221,652
– Calls	53,000	41,125	110,826
– Puts	53,000	41,125	110,826
Interest rate options	—	—	—
– Calls	—	—	—
– Puts	—	—	—
Currency contracts	**1,442,492**	**349,233**	**—**
OTC products	1,442,492	349,233	—
Currency forwards	824,182	—	—
– Calls	413,600	—	—
– Puts	410,582	—	—
Capital market swaps	73,807	349,233	—
– Calls	36,890	164,646	—
– Puts	36,917	184,587	—
Money market swaps (currency swaps)	544,503	—	—
– Calls	271,177	—	—
– Puts	273,326	—	—
Securities contracts	**—**	**—**	**—**
Exchange traded products	—	—	—
Equity options	—	—	—
– Calls	—	—	—
– Puts	—	—	—

BALANCE OF DERIVATIVES OUTSTANDING (TRADING BOOK)

€k	Nominal, by Term to Maturity < 1 Year	1–5 Years	> 5 Years
Interest rate contracts	**820**	**19,912**	**—**
OTC products	820	19,912	—
Interest rate swaps	—	1,080	—
– Calls	—	540	—
– Puts	—	540	—
Interest rate options	820	18,832	—
– Calls	410	9,416	—
– Puts	410	9,416	—
Currency contracts	**—**	**—**	**—**
OTC products	—	—	—
Currency options	—	—	—
– Calls	—	—	—
– Puts	—	—	—

FINANCIAL INSTRUMENTS (TRADING BOOK)

€k	31/12/2014	31/12/2015
Interest-bearing securities	—	—
Treasury shares	9,233	11,512

Nominal		Fair Value (Positive)		Fair Value (Negative)	
31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015
638,160	**409,902**	**8,274**	**6,591**	**11,557**	**7,204**
638,160	409,902	8,274	6,591	11,557	7,204
638,160	409,902	8,274	6,591	11,557	7,204
319,080	204,951	139	133	11,412	7,110
319,080	204,951	8,135	6,458	145	94
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
1,996,014	**1,791,725**	**6,743**	**3,563**	**13,094**	**21,875**
1,996,014	1,791,725	6,743	3,563	13,094	21,875
576,419	824,182	5,309	3,347	322	746
290,731	413,600	5,213	3,250	7	695
285,688	410,582	96	97	315	51
947,804	423,040	667	5	10,224	19,083
466,146	201,536	—	—	—	—
481,658	221,504	667	5	10,224	19,083
471,791	544,503	767	211	2,548	2,046
234,953	271,177	767	11	26	—
236,838	273,326	—	200	2,522	2,046
—	**—**	**—**	**—**	**—**	**—**
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

Nominal		Fair Value (Positive)		Fair Value (Negative)	
31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015
27,238	**20,732**	**46**	**47**	**46**	**47**
27,238	20,732	46	47	46	47
1,560	1,080	28	15	28	15
780	540	—	—	28	15
780	540	28	15	—	—
25,678	19,652	18	32	18	32
12,839	9,826	18	32	—	—
12,839	9,826	—	—	18	32
—	**—**	**—**	**—**	**—**	**—**
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

Positions (securities and derivatives) entered into by our Money, Foreign Exchange and Securities Trading organizational unit to make market gains or take advantage of interest rate fluctuations were assigned to the trading book. Market value is the amount that could be obtained from the sale of a financial instrument in an active market or would need to be paid to purchase it. If a market price was available, this was taken to be a position's fair value. Where market prices were unavailable, we used internal valuation models, including in particular present value techniques.

The Company's Boards and Officers

The Management Board
Herta Stockbauer, Chairwoman
Dieter Krassnitzer, Member
Wolfgang Mandl, Member

Representatives of the Equity Holders on the Supervisory Board
Peter Gaugg, Chairman
Franz Gasselsberger, Vice-Chairman
Christina Fromme-Knoch
Peter Hofbauer (from 20 May 2015)
Reinhard Iro
Waldemar Jud (to 20 May 2015)
Dietrich Karner (to 20 May 2015)
Josef Korak
Heimo Penker
Karl Samstag
Sabine Urnik
Klaus Wallner (from 20 May 2015)

Staff Representatives on the Supervisory Board
Maximilian Medwed
Herta Pobaschnig
Manfred Suntinger (to 15 June 2015)
Hanspeter Traar
Gertrude Wolf
Ulrike Zambelli (from 15 June 2015)

Klagenfurt am Wörthersee
11 March 2016

Herta Stockbauer
Chairwoman
of the Management Board

Dieter Krassnitzer
Member
of the Management Board

Wolfgang Mandl
Member
of the Management Board

Closing Remarks by the Management Board

Management Board's Statement Pursuant to § 82 Absatz 4 BörseG

The Management Board of *BKS Bank AG* declares that these Annual Financial Statements were prepared in conformity with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as effective and as adopted by the EU as well as interpretations thereof by the International Financial Reporting Interpretations Committee (IFRIC) and that they present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group. Furthermore, it declares that the Management Report presents the BKS Bank Group's business operations as well as the results of its operations and its position in such a way as to present fairly, in all material respects, its assets, liabilities, financial position and profit or loss as well as presenting the material risks and uncertainties to which it is exposed.

Klagenfurt am Wörthersee
11 March 2016

The Management Board

Herta Stockbauer
Chairwoman
of the Management Board

Dieter Krassnitzer
Member
of the Management Board

Wolfgang Mandl
Member
of the Management Board

Member of the Management Board with responsibility for Risk Management, Risk Controlling, BKS Bank's Credit Back Office and Service Companies, the Treasury Back Office, Business Organization, IT and Technical Services and *DREI-BANKEN-EDV Gesellschaft m.b.H.*; abroad, he is responsible for the Back Office, Risk Management and IT.

Chairwoman of the Management Board with responsibility for Corporate and Business Banking, Accounts and Sales Controlling, Human Resources, Treasury and Proprietary Trading, Public Relations, Marketing and Investor Relations, Property, Subsidiaries and Equity Investments; abroad, she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

Member of the Management Board with responsibility for Retail Banking, Private Banking and Securities Operations, New Banking, Custodian Operations and collaboration with sales partners; abroad, he is responsible for the Italy region.

Profit Appropriation Proposal

BKS Bank AG's 2015 financial year closed with net profit of €8,468,458.40. We propose that a dividend of €0.23 per share be distributed out of the reported net profit as at 31 December 2015. The resulting distribution on 36,036,000 shares would be €8,288,280.00. Subject to *§ 65 Abs. 5 Aktiengesetz*, we propose that the remainder be carried forward to a new account.

Klagenfurt am Wörthersee
11 March 2016

The Management Board

Herta Stockbauer
Chairwoman
of the Management Board

Dieter Krassnitzer
Member
of the Management Board

Wolfgang Mandl
Member
of the Management Board

Auditor's Report

[Translation Provided by the Auditor]

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of

BKS Bank AG,

Klagenfurt am Wörthersee,

for the fiscal year from 1 January 2015 to 31 December 2015. These consolidated financial statements comprise the consolidated statement of financial position as of 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year 2015 and the notes.

Management's Responsibility for the Consolidated Financial Statements

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, and the additional requirements pursuant to § 245a UGB and 59a BWG (Austrian Commercial Code) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing – ISA. In accordance with International Standards on Auditing, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and other legal or regulatory requirements.

Report on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Klagenfurt
11 March 2016
KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Signed by:

MMag. Dr. Peter Fritzer
Wirtschaftsprüfer
(Austrian Chartered Accountants)

Additional Notes

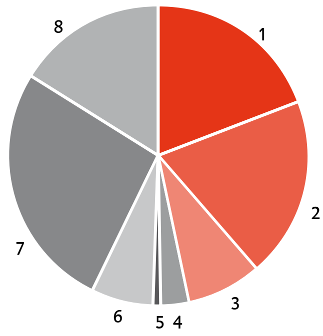
Overview of the 3 Banken Group

SHAREHOLDER STRUCTURE OF BKS BANK AG

%	By Voting Interest	By Equity interest
1 *Oberbank AG*	19.44	18.52
2 *Bank für Tirol und Vorarlberg Aktiengesellschaft*	19.57	18.89
3 *Generali 3 Banken Holding AG*	7.84	7.44
4 *Wüstenrot Wohnungswirtschaft reg. Gen. m.b.H.*	3.10	2.99
5 *BKS-Belegschaftsbeteiligungsprivatstiftung*	0.42	0.73
6 *UniCredit Bank Austria AG*	6.74	7.29
7 *CABO Beteiligungsgesellschaft m.b.H.*	26.81	25.47
8 Free float	16.08	18.67

Share capital, €	**72,072,000**
Number of ordinary no-par shares	34,236,000
Number of no-par preference shares	1,800,000

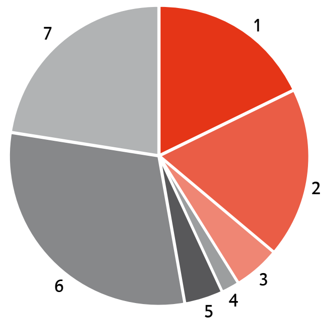
The shareholders shown in red have entered into syndicate agreements.



SHAREHOLDER STRUCTURE OF OBERBANK AG

%	By Voting Interest	By Equity interest
1 *BKS Bank AG*	16.52	15.30
2 *Bank für Tirol und Vorarlberg Aktiengesellschaft*	17.49	16.24
3 *Wüstenrot Wohnungswirtschaft reg. Gen. m.b.H.*	4.94	4.50
4 *Generali 3 Banken Holding AG*	1.94	1.76
5 Staff shares	3.80	3.59
6 *CABO Beteiligungsgesellschaft m.b.H.*	28.69	26.02
7 Free float	26.62	32.59

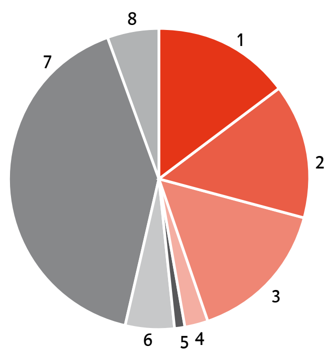
Share capital, €	**96,711,300**
Number of ordinary no-par shares	29,237,100
Number of no-par preference shares	3,000,000



SHAREHOLDER STRUCTURE OF BANK FÜR TIROL UND VORARLBERG AG

%	By Voting Interest	By Equity interest
1 *BKS Bank AG*	14.95	13.59
2 *Oberbank AG*	14.54	13.22
3 *Generali 3 Banken Holding AG*	15.44	14.03
4 *Wüstenrot Wohnungswirtschaft reg. Gen. m.b.H.*	2.59	2.35
5 *BTV Privatstiftung*	0.40	0.45
6 *UniCredit Bank Austria AG*	5.42	9.85
7 *CABO Beteiligungsgesellschaft m.b.H.*	41.29	37.53
8 Free float	5.37	8.98

Share capital, €	**55,000,000**
Number of ordinary no-par shares	25,000,000
Number of no-par preference shares	2,500,000



INCOME ACCOUNT, €m	BKS Bank Group 2014	BKS Bank Group 2015	Oberbank Group 2014	Oberbank Group 2015	BTV Group 2014	BTV Group 2015
Net interest income	157.3	166.4	372.9	381.2	180.1	161.7
Impairment charge on loans and advances	(49.5)	(48.5)	(78.0)	(47.1)	(29.0)	(15.7)
Net fee and commission income	47.6	53.0	119.3	132.7	43.7	49.2
General administrative expenses	(105.8)	(105.1)	(236.9)	(243.3)	(163.1)	(163.3)
Other operating income net of other operating expenses	(2.5)	(5.7)	(25.0)	(41.8)	57.9	61.9
Profit for the year before tax	54.1	60.7	157.6	191.5	92.1	172.5
Consolidated profit for the year after tax	48.7	53.6	136.5	166.4	77.2	138.7

BALANCE SHEET DATA, €m						
Assets	6,854.6	7,063.4	17,774.9	18,243.3	9,620.5	9,426.3
Receivables from customers after impairment charge	4,815.8	4,920.1	11,801.8	12,351.7	6,180.9	6,359.6
Primary deposit balances	5,013.0	5,109.8	12,288.6	12,620.0	6,913.8	7,020.7
– Of which savings deposit balances	1,705.5	1,629.8	3,098.5	2,912.6	1,176.3	1,200.8
– Of which liabilities evidenced by paper, including subordinated debt capital	789.1	758.1	2,295.0	2,098.5	1,390.7	1,377.9
Equity	795.8	860.2	1,534.1	1,925.7	1,024.0	1,148.7
Customer assets under management	12,972.0	13,212.1	23,441.9	25,245.1	12,150.7	12,732.3
Of which in customers' securities accounts	7,959.0	8,102.3	11,153.3	12,625.1	5,236.8	5,711.6

OWN FUNDS WITHIN THE MEANING OF CRR, €m						
Basis of assessment for own funds	4,846.6	4,883.4	11,935.2	12,216.7	6,212.8	6,262.7
Own funds	580.9	599.9	1,874.4	2,158.0	930.1	977.8
– Of which common equity Tier 1 capital (CET1)	543.7	575.6	1,306.9	1,650.8	796.1	950.9
– Of which total Tier 1 capital (CET1 and AT1)	543.7	575.6	1,385.2	1,733.3	796.1	950.9
Common equity Tier 1 ratio, %	11.2	11.8	11.0	13.5	12.8	15.2
Tier 1 ratio, %	11.2	11.8	11.6	14.2	12.8	15.2
Own funds ratio, %	12.0	12.3	15.7	17.7	15.0	15.6

PERFORMANCE, %						
Return on equity before tax	7.2	7.3	10.7	11.2	9.3	15.9
Return on equity after tax	6.5	6.5	9.3	9.7	7.8	12.8
Cost:income ratio	51.9	48.7	50.1	50.5	57.7	58.6
Risk:earnings ratio (credit risk in % of net interest income)	31.5	29.2	20.9	12.4	16.1	9.7

RESOURCES						
Average number of staff	915	923	2,004	2,025	1,347	1,354
Branches and other business units	57	59	156	156	38	36

Key Dates in the Enterprise's History

1922	A. v. Ehrfeld enters into a limited partnership with *Bayerische Hypotheken- und Wechselbank* called *Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co.* The bank is headquartered in Klagenfurt. In the same year, it acquires branches in Villach and Spittal/Drau. A branch in Wolfsberg follows a year later. Initially, the bank only services corporate and business banking customers.
1928	Years of effort to transform the limited partnership into a stock corporation lead to the formation of *Bank für Kärnten* (Bank for Carinthia). Despite the global crisis, the bank develops well.
1932	A block of shares is acquired by *Creditanstalt*, Vienna.
1939	The company's name is changed from *Bank für Kärnten* to *Bank für Kärnten Aktiengesellschaft*.
1953	One third of the shares in each of the *3 Banks* (Oberbank, BKS and BTV) held by *Creditanstalt* are transferred to the two other sister banks and cooperation between the *3 Banks* and *CA* is regulated in a syndicate agreement.
1964	The bank adds small personal loans to its range as a new line of business. In the years that follow, it gradually enlarges its branch network.
1965	The bank enters into its successful alliance with the *Wüstenrot* building and loan association, enabling it to offer its customers building and loan products and services.
1970	The first joint *Drei-Banken* (3 Banks) bond is issued in partnership with *Bank für Oberösterreich und Salzburg* and *Bank für Tirol und Vorarlberg*.
1983	The bank's first expansion across the Carinthian border takes place when it opens a branch in Graz. The company's name is changed to *Bank für Kärnten und Steiermark Aktiengesellschaft* (BKS: Bank for Carinthia and Styria). *ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.* (*ALGAR*), Linz, is set up. This company safeguards BKS Bank, Oberbank and Bank für Tirol und Vorarlberg against possible losses on big loans.
1986	IPO of BKS ordinary stock, which is traded in the *Amtlicher Handel* (official trading) segment on the Vienna Stock Exchange. At the time, BKS Bank's share capital is divided into 3.0 million shares with a nominal value of öS100 each.
1988	BKS enters the leasing market and sets up insurer *Drei-Banken Versicherungs-AG* with its sister banks.
1990	The first branch in Vienna opens.
1991	BKS and its sister banks set up IT subsidiary *DREI-BANKEN-EDV Gesellschaft mbH*. Construction of the BKS Bank Head Office building at *St. Veiter Ring* 43 begins to plans by architect Wilhelm Holzbauer.
1993	We move into the new offices on *St. Veiter Ring* on schedule in November 1993.

1998	Conclusion of a sales and cooperation agreement with the *Generali Vienna Group* covering the insurance and investment fund sectors. After the departure of the bank's long-standing shareholder *Bayerische Hypotheken- und Wechselbank AG*, the *Generali Group* acquires roughly 7.44 per cent of BKS Bank's ordinary shares. International expansion begins with the opening of a representative office in Zagreb, Croatia, and the acquisition of a leasing company in Ljubljana, Slovenia, now called *BKS-leasing d.o.o.*
2000	BKS and its sister banks make their first highly-publicized joint appearance as the *3 Banken Group*.
2002	Formation of *BKS-leasing Croatia d.o.o.* in Croatia. It is headquartered in Zagreb.
2003	Acquisition of a majority stake in *Die Burgenländische Anlage & Kredit Bank AG* (*Die BAnK*).
2004	The first banking branch in Slovenia opens, in Ljubljana, and a representative office is set up in Italy.
2005	*Die BAnK* in Burgenland is merged into BKS. A representative office is set up in Hungary. Reflecting its expansion in recent years, the company is renamed as *BKS Bank AG*.
2006	BKS acquires *Kvarner banka d.d.*, Rijeka, to enter the Croatian banking market.
2007	Acquisition of *KOFIS Leasing* in Slovakia. It is assimilated into the BKS Bank Group and renamed as *BKS-Leasing a.s.*
2008	*Kvarner banka d.d.* is renamed as *BKS Bank d.d.* and a branch is opened in Zagreb.
2010	Securities operations begin in Slovenia, enabling BKS to provide all the products and services that are normally available from a so-called *universal bank*. Retail customer operations in Croatia are expanded.
2011	BKS enters the banking market in Slovakia, opening a branch in Bratislava.
2012	Retail customer operations are launched in Slovakia. The Vienna Regional Head Office is relocated from *Lugeck* to *Renngasse*. *BKS Bank AG* celebrates its 90th anniversary.
2013	The leasing subsidiaries in Austria are merged. *BKS Service GmbH* is set up to handle the bank's back office activities.
2014	BKS Bank is admitted to the list of Austrian companies of excellence with the title of *Recognized for excellence* 5* and is voted Austria's 'Best Branch Based Bank'. It attracts some 700 new shareholders during the increase in share capital carried out in October, broadening the free float. In Slovenia, it takes over the securities operations of *Factor banka d.d.*, which is in liquidation.
2015	BKS Bank's profit for the year of €53.6 million is the best result in the enterprise's history. The respected rating agency *oekom research AG* awards it 'Prime' status, which means that it is one of the industry's global leaders in sustainability. It is named best 'Sustainable Designer' in a survey of Austrian companies with over 100 employees.

Glossary

Amendment: When changes, additions or improvements are made to existing IFRS standards, they are issued in the form of so-called amendments.

ALM Committee: The Asset/Liability Management Committee is an internal committee at BKS Bank with responsibility for managing the structure of the balance sheet and liquidity.

Entities accounted for using the equity method are entities in which equity investments are held that are not controlled but upon whose financial and business policy decisions a significant influence can be exercised. On a consolidated balance sheet, they are recognized in the amount of a group's interest in their equity. In a consolidated income statement, the group's interest in their profit for the year is recognized according to the equity interest held.

The **banking book** contains all on-balance sheet and off-balance sheet items recognized on a bank's balance sheet that are not assigned to the trading book.

BaSAG (*Bundesgesetz zur Sanierung und Abwicklung von Banken*: Austrian bank recovery and resolution act) implements the recovery and resolution directive for banks and securities firms (see also BRRD) in which Europe has jointly agreed new bank resolution rules. As part of the preventative measures, banks are required to prepare preventative recovery plans and disclose what action they intend to take if their financial position deteriorates. These plans must be examined and evaluated by the responsible regulatory authority (in Austria, the *Finanzmarktaufsichtsbehörde* or FMA). The resolution plans that are to be prepared by the FMA must state how a bank's orderly resolution or restructuring is to take place. In addition, the regulatory authority has been given extensive powers of intervention. Among other things, it can require the holding of additional equity capital and order that measures and arrangements in the recovery plan shall be put into effect.

Basel III: The package of measures known under the heading of Basel III contains the changes to the international regulatory requirements for banks adopted by the Basel Committee on Banking Supervision (BCBS) in December 2010. These requirements supplement or amend the capital adequacy framework for banks adopted in 2004 (Basel II). The overall aim of the changes is to strengthen regulation, supervision and risk management in the banking sector and thus to make it more crisis resistant. Major elements of the Basel Committee's recommendations for Basel III were incorporated in CRD IV and CRR I (see also *Capital Requirements Directive* and *Capital Requirements Regulation*).

The **basis of assessment within the meaning of CRR** is the sum of the assets, off-balance-sheet items and special off-balance sheet items in the banking book, weighted for counterparty risk, as determined in accordance with Austrian bank regulators' rules.

GDP: GDP is the total value of all goods (i.e. goods and services) produced in an economy in a year less all inputs. In order to view GDP without the effect of changes in prices, one uses 'real' GDP, where all good and services are valued at the prices ruling in a base year.

BRRD: The Bank Recovery and Resolution Directive (2014/59/EU) has created the legal framework for crisis management in the financial sector. The aim is to make it possible to resolve every bank, regardless of its size or complexity, without endangering the stability of the financial market.

The **Capital Requirements Directive IV (CRD IV)** has smoothed the path towards a more solid and secure European financial system. The Member States were required to transpose this directive into their national law by 31 December 2013. However, all competing provisions and those that were not consistent with the regulation (CRR) had to be removed from existing national legal standards. In Austria, by far the larger part of the changes to the law had to take place in the *Bankwesengesetz* (BWG: Austrian banking act) and related regulatory legislation. These were comprehensively amended.

The **Capital Requirements Regulation (CRR I)**, which is directly effective in Austria's legal system, introduced a common minimum set of instruments for national regulatory authorities and, therefore, binding regulations for every Member State. Among other things, they cover the components of own funds, own fund requirements, big loans (large investments), liquidity, indebtedness (leverage) and disclosures.

Corporate social responsibility (CSR) is a corporate concept whereby enterprises combine social justice and environmental concerns with commercial goals and do so systematically, traceably, transparently and voluntarily.

The **cost:income ratio** measures a bank's operating expenses against its operating income, comparing its general administrative expenses with its operating income in a particular financial year. 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 up by general administrative expenses, providing information about an entity's cost management and cost efficiency. The lower the ratio, the more economically a company is operating.

Counterbalancing capacity (CBC) in the name of the liquidity buffer made up of assets that are easily liquidated or eligible for repo transactions.

DBO stands for defined benefit obligation, which is the value of an obligation under a company pension plan based on the *projected unit credit method*.

Derivatives are financial instruments whose own value changes in response to changes in the market prices or expected prices of other financial instruments. They can therefore be used both to hedge against falls in value and to speculate on gains in the value of the hedged item. Options, futures and swaps are the most common types of derivative.

Fair value is defined as the amount for which an asset could currently be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Insofar as market prices exist on exchanges or other functioning markets, these are taken to be the fair value of an asset or liability.

The United States Congress enacted **FATCA** (the Foreign Account Tax Compliance Act) on 18 March 2010 to ensure that US subjects with accounts abroad meet their tax obligations. Under the act, all banks are obliged to identify customers with US ties and, if they consent, to report their names to the US tax authorities.

FATF (Financial Action Task Force on Money Laundering) is an international anti-money laundering body based at the OECD in Paris. Its task is to analyze money laundering and terrorism financing methods and develop measures to combat them.

Available-for-sale (AFS) financial assets are the financial assets of an entity that are designated as available for sale.

Held-to-maturity (HTM) financial assets are acquired financial instruments with a fixed maturity and determinable payments that an entity has the positive intention to hold to maturity.

Forbearance is the term for concessions made to debtors (e.g. modifications of agreements) if they are in danger of no longer being able to meet their payment obligations. The term encompasses loans, bonds and revocable and irrevocable loan commitments with the exception of held-for-trading exposures. According to European Banking Authority (EBA) guidance, forbearance status must be reported on a quarterly basis.

Maturity transformation is the professional management of differing maturities and the associated differences between the rates of interest receivable and payable on assets and liabilities on a bank's balance sheet while taking account of current and expected market interest rate curves and maturity structures.

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.

The **trading book** contains all positions held by a bank within the scope of its proprietary trading in financial instruments that it holds for re-sale or has acquired so as to exploit, on a short-term basis, existing or expected differences between buying and selling prices or movements in prices or interest rates. Positions not included in the trading book are assigned to the banking book.

Hedging is used to protect existing or future positions against the exposure to risks such as currency and interest rate risks. It involves taking a counter-position to another position so as to completely or partially offset risk.

Historical simulation is a statistical method for measuring value at risk using historical time series data.

ICAAP (the Internal Capital Adequacy Assessment Process) is the name of the extensive process and associated strategy with which banks decide the amount, composition and distribution of their (internal) capital resources. The distribution of economic capital steers and limits all the material operational and other banking risks.

ILAAP (Internal Liquidity Adequacy Assessment Process) is a process that exists alongside ICAAP. It is used to assess the adequacy of internal liquidity for the purposes of Pillar 2 and is, therefore, a risk management tool that is of importance to banks.

IFRS earnings per share are consolidated profit for the year after tax divided by the average number of an entity's shares in issue.

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 *Unternehmensgesetzbuch* (UGB: Austrian enterprises code) 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. It replaced Austria's national securities codes (*WKN*: *Wertpapierkennnummer*) in 2003. An ISIN is a 12-character alphanumerical code comprising a two-character international country ID (e.g. AT for Austria), a nine-character national code and a one-digit control key. The ISIN of the ordinary *BKS Bank AG* share is AT0000624705; that of the preference share is AT0000624739.

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.

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 bases for comparing P/E ratios are the interest rate, the P/E ratios of comparable entities, average P/E ratios in the past and, in the case of growth stocks, the expected rate of growth.

LAR stands for *loans and receivables*.

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.

Liquidity coverage ratio (LCR): The Basel Committee implemented the minimum liquidity coverage requirement to ensure that a bank always has short-term liquidity in a stress situation lasting for 30 days. This is to be achieved by making sure that the net cash outflows under stress—know as a bank's liquidity shortfall—are covered by a liquidity buffer consisting of highly liquid quality assets.

Market capitalization 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 (the Markets in Financial Instruments Directives) lay down common rules for securities services within the European Economic Area. MiFID's primary goals are to increase market transparency and promote competition between providers of financial services and, therefore, to improve investor protection. MiFID II addresses numerous weaknesses and shortcomings in the existing regime. It focuses on trade on regulated platforms and on increasing the transparency of

high frequency trading. In view of the highly technical challenges it presents, the requirements of the amended directive must be met by 3 January 2018.
Modified duration is a measure of the sensitivity of a financial investment to interest rates. It provides a means of approximating future changes in market value.

Net stable funding ratio (NSFR): This structural ratio gauges the stability of funding over a horizon of more than one year. It is part of the new liquidity requirements. The NSFR is designed to ensure that the amount of longer-term (stable) funding employed is at least sufficient relative to the liquidity profiles of the assets funded. The aim is to reduce banks' dependence on the functioning and liquidity of the inter-bank market.

ÖNACE is the Austrian version of the European system for the industrial classification of economic activities called NACE (*Nomenclature statistique des activités économiques dans la Communauté européenne*). The current NACE-compatible nomenclature is called ÖNACE 2008.

OTC (over-the-counter) derivatives are financial instruments traded directly between participants in the market and not on an exchange.

Primary deposit balances consist of the customer assets made available to a bank in the form of savings, sight and time deposit balances, liabilities evidenced by paper and subordinated debt capital.

The **projected unit credit method** is an actuarial valuation method used to measure obligations under company retirement benefit schemes stipulated in the international financial reporting standard IAS 19 and in many foreign accounting standards. 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.

Payment Services Directive: The Payment Services Directive (PSD, PSD II) provides the legal basis for creating a single market for payments in the EU.

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. The higher this figure is, the more profit the entity has made in relation to its equity.

The **risk:earnings ratio** (RER) expresses the relationship between credit risk costs and net interest income. This percentage states what proportion of net interest income has been used to cover credit risk.

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.

Supervisory Review and Evaluation Process (SREP): Under the Pillar 2 framework of the New Basel Capital Accord (bank supervision review process), the Supervisory Review and Evaluation Process is part of the process of reviewing and evaluating a bank's risk management and the adequacy of its ICAAP alongside the internal capital adequacy assessment process itself. In Austria, it is carried out in respect of less significant banks by the FMA as the responsible regulatory authority. It also

includes reviewing adherence to all the relevant regulations, identifying breaches and imposing regulatory sanctions.
Parties to a **swap** exchange financial obligations, fixed-interest obligations being exchanged for variable ones (interest rate swap) or sums in various currencies being exchanged (currency swap). Interest rate swaps make it possible to hedge against interest rate risks, resulting in a fixed interest rate that provides a solid foundation for calculations. Currency swaps make it possible to hedge against foreign exchange risks by swapping amounts denominated in different currencies together with the associated interest payments.

Unwinding means capturing the change in the present value of impaired receivables as interest income.

Value-at-risk analysis is one means of quantifying risk. It measures the potential future loss that, within a specified holding period and with a specific probability, will not be exceeded.

Consolidated entities are material, controlled entities whose assets, equity, liabilities, income and expenses net of consolidation items are accounted for in their entirety in consolidated financial statements.

Abbreviations

ABGB	*Allgemeines Bürgerliches Gesetzbuch* (Austria's general civil code)
AfA	*Absetzung für Abnutzung* (depreciation and amortization)
AfB	*"Arbeit für Menschen mit Behinderung"; mildtätige und gemeinnützige Gmbh*
AFRAC	Austrian Financial Reporting and Auditing Committee
AfS	Available-for-sale financial assets
AktG	*Aktiengesetz* (Austrian stock corporation act)
ALGAR	*ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H.*
AML	Anti-money laundering
APA-OTS	*APA-OTS Originaltext-Service GmbH*
ALM	Asset/liability management
APP	Asset Purchase Programme
AR-Mandat	*Aufsichtsrats-Mandat* (post on the Supervisory Board)
ATS/öS	Austrian schilling
ATX	Austrian Traded Index (Austrian equity index)
AT1	Additional Tier 1 capital
AVM	*Aktives Vermögensmanagement* (active asset management)
AVÖ	*Aktuarvereinigung Österreichs*
BaSAG	*Bundesgesetz zur Sanierung und Abwicklung von Banken* (Austrian federal bank recovery and resolution act)
BCBS	Basel Committee on Banking Supervision
BIP	*Bruttoinlandsprodukt* (gross domestic product)
BörseG	*Börsegesetz* (Austrian stock exchange act)
BP	Basis point
BSG	*BKS Service GmbH*
BTV AG	*Bank für Tirol und Vorarlberg Aktiengesellschaft*
BWG	*Bankwesengesetz* (Austrian banking act)
CBC	Counterbalancing capacity
CET1	Common equity Tier 1 capital
CFT	Combating the Financing of Terrorism
CHF/SFr	Swiss franc
CIA©	Certified Internal Auditor
CIR	Cost:income ratio
CNY	Chinese renminbi
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRD IV	Capital Requirements Directive IV
C-Regeln	'Comply or Explain' rules
CRR	Capital Requirements Regulation
CRS	Common Reporting Standards
CSR	Corporate social responsibility
DAX	*Deutscher Aktienindex* (German equity index)
DBO	Defined benefit obligation
DCF method	Discounted cash flow method
DJ EUR Stoxx 50	Dow Jones EURO Stoxx 50
DJIA	Dow Jones Industrial Average
EAP	Employee Assistance Programme
EBA	European Banking Authority

ECV	*Emittenten-Compliance-Verordnung* (issuer compliance directive)
EFQM	European Foundation for Quality Management
ELBA	Electronic banking
ESCB	European System of Central Banks
EUREX	European Exchange (derivatives exchange)
Eurostat	Statistical office of the European Union
EWB	*Einzelwertberichtigung* (individual impairment charge)
ECB	European Central Bank
FASB	Financial Accounting Standards Board
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force on Money Laundering
FBSchVG	*Fundierte Bankschuldverschreibung* (covered bond)
FED	Federal Reserve System
FinTechs	Company in the financial technology industry
FMA	Austrian Financial Market Authority
FSC	Forest Stewardship Council
FTE	Full time equivalent
FV	*Finanzielle Vermögenswerte* (financial assets)
FX-Quote	*Fremdwährungsquote* (foreign exchange ratio)
GA	Granularity adjustment
GBP/£	Pound sterling
GC	General collateral
GRI	Global Reporting Initiative
GuV-Rechnung	*Gewinn- und Verlustrechnung* (income statement)
GWh	Gigawatt hour
HQLA	High quality liquid assets
HRK	Croatian kuna
HtM	Held to maturity
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IAS	International Accounting Standard
IC	IFRIC Interpretations Committee
ICAAP	Internal Capital Adequacy Assessment Process
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IKS	*Internes Kontrollsystem* (internal control system)
ILAAP	Internal Liquidity Adequacy Assessment Process
IR	Investor relations
ISA	International Standards on Auditing
ISIN	International Securities Identification Number
iVV	*individuelle Vermögensverwaltung* (individual asset management)
JÜ v. St.	*Jahresüberschuss vor Steuern* (profit for the year before tax)
KAG	*Kapitalanlagegesellschaft* (asset management company)
KGV	*Kurs-Gewinn-Verhältnis* (P/E ratio)
KMU	*Kleine und mittlere Unternehmen* (SMEs: small and medium-sized enterprises)
KR	*Kommerzialrat*
KStG	*Körperschaftsteuergesetz* (Austrian corporation tax act)
LAR	Loans and receivables

LCR	Liquidity coverage ratio
LR	Leverage ratio
L-Regeln	‘Legal Requirement’ rules
MiFID; MiFiD II	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MOEL-Staaten	*mittel- und osteuropäische Staaten* (CEECs: Central and Eastern European countries)
MSCI World	Equity index published by US American financial service provider Morgan Stanley Capital International Inc.
NSFR	Net stable funding ratio
ÖCGK	*Österreichischer Corporate Governance Kodex* (Austrian Code of Corporate Governance)
OECD	Organization for Economic Cooperation and Development
OeKB	*Oesterreichische Kontrollbank AG*
OeNB	*Oesterreichische Nationalbank* (central bank of the Republic of Austria)
OePR	*Österreichische Prüfstelle für Rechnungslegung*
ÖGVS	*Österreichische Gesellschaft für Verbraucherstudien*
ÖNACE	Austrian version of NACE (*Nomenclature statistique des activités économiques dans la Communauté européenne*)
OPEC	Organization of Petroleum Exporting Countries
OpEX	Internal project (Operational Expenditures)
OR Committee	Operational Risk Committee
OTC products	Over-the-counter products
PD	Probability of default
PJ	*Personaljahre* (staff years)
PSD	Payment Services Directive
Repo	Repurchase agreement
RER	Risk:earnings ratio
ROA	Return on assets
ROE	Return on equity
R-Regeln	‘Recommendations’ rules
RTU	Risk-taking unit
SIC	Standing Interpretations Committee
SPPI criterion	Solely payments of principal and interest
SREP	Supervisory Review and Evaluation Process
UGB	*Unternehmensgesetzbuch* (Austrian enterprises code)
USD/US$	US dollar
US$/bbl	US dollar/barrel
US$/Oz	US dollar/ounce
VAR	Value at risk
VStG	*Verwaltungsstrafgesetz* (Austrian administrative penalty act)
WAG	*Wertpapieraufsichtsgesetz* (Austrian securities supervision act)
WIFO	*Österreichisches Institut für Wirtschaftsforschung*
Xetra	Exchange Electronic Trading
ZCR/RC	Controlling Department (Risk Controlling)
ZEA	Proprietary Trading and International Operations Department
ZKM	Credit Management Department
ZVB	Office of the Management Board
3BEG	*DREI-BANKEN-EDV Gesellschaft m.b.H.*
3BV-AG	*Drei Banken Versicherungs-Aktiengesellschaft*

Forward-looking statements

This Annual Report contains statements and forecasts concerning the future performance and development of the BKS Bank Group. Such forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 11 March 2016. If the assumptions upon which those forecasts were based prove wrong or if risk events —like those described in the Risk Report— transpire, actual results may differ from those that are currently expected. This Annual Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

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