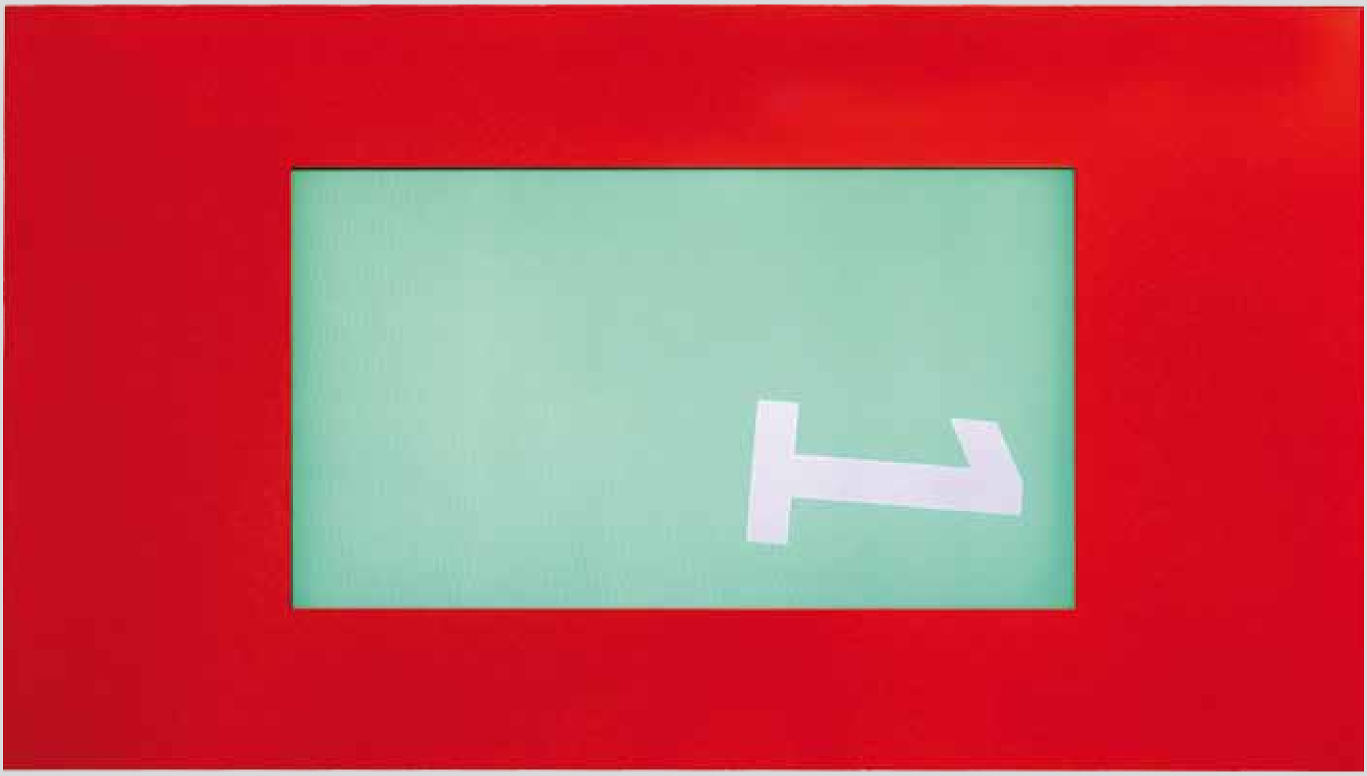
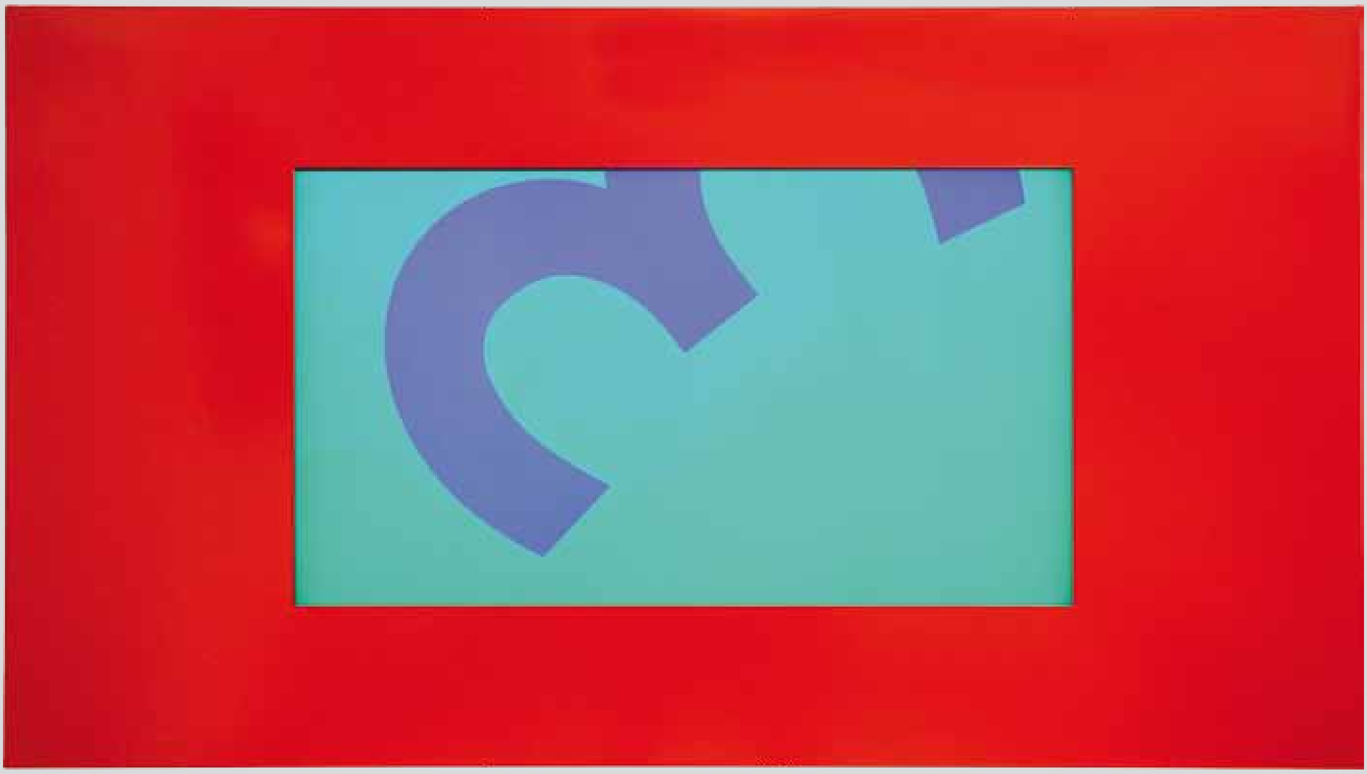
Annual Report 2013

BKS Bank
3 Banken Gruppe

Acting responsibly is what matters to us …

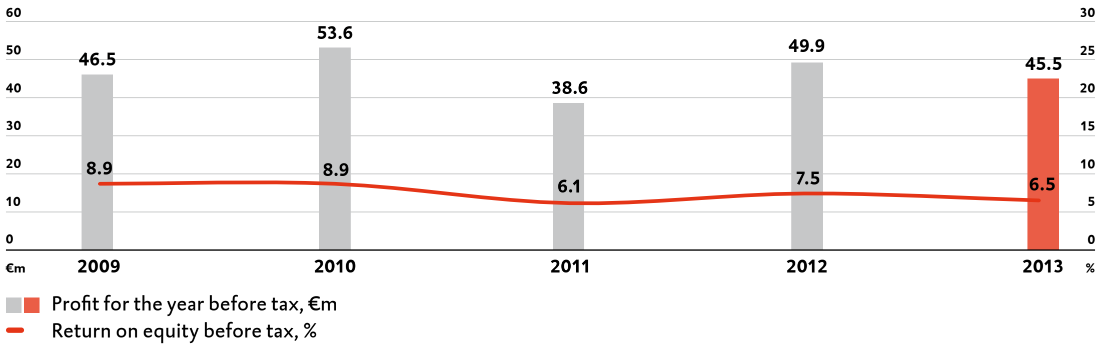
… so it's BKS Bank you can count on when it really matters.



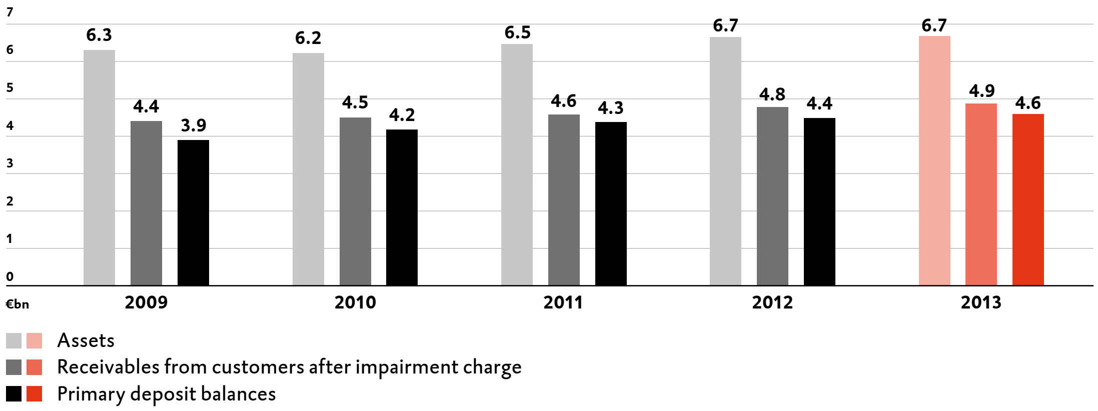


Richard Kriesche has turned BKS Bank's Regional Head Office in Vienna into a work of art. His dynamic numerical installation spread across the bank's premises at *Renngasse 8* is an analogy for banks' omnipresent number systems. For the first time, it has made the essence of a bank visible and thus humanly accessible.

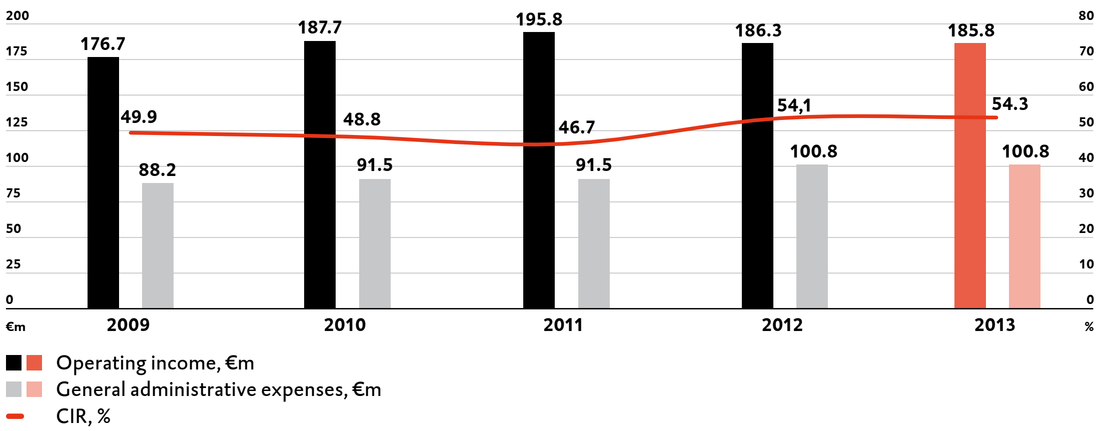
PROFIT



BALANCE SHEET



COST:INCOME RATIO



THREE-YEAR COMPARISON

INCOME ACCOUNT, €m	2013	2012	2011
Net interest income	146.2	143.1	150.4
Impairment charge on loans and advances	(42.7)	(38.6)	(33.2)
Net fee and commission income	45.4	44.4	42.3
General administrative expenses	(100.8)	(100.8)	(91.5)
Profit for the year before tax	45.5	49.9	38.6
Consolidated profit for the year after tax	40.6	43.1	36.4

BALANCE SHEET DATA, €m			
Assets	6,743.8	6,654.4	6,456.0
Receivables from customers after impairment charge	4,874.2	4,794.2	4,647.8
Primary deposit balances	4,597.5	4,362.4	4,251.4
Of which savings deposit balances	1,741.2	1,797.9	1,786.3
Of which liabilities evidenced by paper, including subordinated debt capital	813.9	816.6	715.7
Equity	714.2	688.3	644.9
Customer assets under management	11,383.4	10,674.9	10,025.5
Of which in customers' securities accounts	6,785.9	6,312.5	5,774.1

OWN FUNDS WITHIN THE MEANING OF BWG, €m			
Risk-weighted assets	4,423.3	4,457.9	4,415.2
Own funds	707.6	709.5	681.9
Of which Tier 1 capital	662.5	630.7	599.5
Surplus own funds before operational risk	353.8	352.9	328.7
Surplus own funds after operational risk	326.8	325.8	301.9
Tier 1 ratio, %	13.92	13.10	12.46
Own funds ratio, %	16.00	15.92	15.44

PERFORMANCE, %			
Return on equity before tax	6.5	7.5	6.1
Return on equity after tax	5.8	6.5	5.7
Cost:income ratio	54.3	54.1	46.7
Risk:earnings ratio (credit risk in % of net interest income)	29.2	27.0	22.1

RESOURCES			
Average number of staff	910	930	901
Branches	56	55	55

BKS BANK'S SHARES			
No. of ordinary no-par shares (ISIN: AT0000624705)	30,960,000	30,960,000	30,960,000
No. of no-par preference shares (ISIN: AT0000624739)	1,800,000	1,800,000	1,800,000
High: ordinary/preference share, €	17.6/15.3	17.6/15.5	18.6/15.6
Low: ordinary/preference share, €	17.0/14.5	17.2/14.9	17.6/14.8
Close: ordinary/preference share, €	17.5/15.3	17.3/15.0	17.6/15.5
Market capitalization, €m	569.3	562.6	572.8
Dividend per share, €	0.25[1]	0.25	0.25
P/E: ordinary/preference share	14.1/12.3	13.1/11.4	15.9/14.0

[1] Proposal to the 75th Ordinary General Meeting (AGM) of *BKS Bank AG* on 15 May 2014.

Contents

Preface by the Management Board

Heimo Penker, CEO

Dear Shareholder,

Banks were a topic that dominated reports in the Austrian media for a long time during 2013. Discussion about saving the *Hypo Alpe-Adria Bank*, the associated creation of a bad bank and calls for banks to cover more of the costs further harmed the reputation of our industry, which had already come under pressure because of the financial and economic crisis. As a result of this discussion, a small number of black sheep are now felt to typify the large number of banks that are both solid and profitable. Your BKS Bank too is in the latter group. As you know, we have successfully mastered every challenge presented by the crisis and remain well positioned. In a challenging 2013, we made another respectable profit for the year before tax of €45.5 million. Thanks to our solid business policy, our growth has always been sustainable — despite the fact that that was out of fashion for many years. We know now that our path was the right one and that many more banks should have followed it. Unfortunately, though, numerous responsible banks must now also pay — literally — for the mistakes of others.

In our view, the Austrian government's stability levy on banks is already too high. Above all, it has not been earmarked for rescuing banks. Instead, it is being used as a general contribution to the budget. The stability levy that BKS Bank will have to pay in the future will correspond to roughly one month's profit a year. This is a serious matter for an enterprise of our size — so it is quite understandable that we are perfectly willing to make a contribution but feel that an amount this big is no longer fair. Especially as allowance seems not to have been made for the burdens already imposed on the banking industry in recent years and the fact that Basel III is, at the same time, telling us to take action to strengthen our capital base. Thanks to our own funds ratio of 16.00 per cent and Tier 1 ratio of 13.92 per cent, we will be able to satisfy future regulations and are confident of continuing to thrive even if additional levies will be a big hurdle on this path.

13.92%

A focus on primary deposit balances

We assume that the pressure on retail customer operations remains unlikely to ease in years to come. Most of our business with personal banking customers is still conducted in-branch. Although we are seeing online advice getting more popular and customers making growing use of apps for simple transactions like payments, these can only supplement, not replace, a well-functioning and therefore resource-intensive customer communication infrastructure. As you will read in the segmental reports, our corporate and business banking and financial markets segments made material contributions to our profit for the year of €27.5 million and €23.4 million, respectively, whereas the retail banking segment more or less broke even. Nonetheless, the retail banking segment was indispensable to us. We used our primary deposit balances of €4.60 billion to meet roughly 91 per cent of our funding needs, and most of those balances come from retail customers. Our reputation as a solid and secure bank helps us attract these deposits and also has a cross-border impact. We have thus been able to achieve consistently high and very satisfactory rates of growth in savings and time deposit balances across our international markets.

However, the primary funds market is still hotly contested, so a situation already made difficult by the low interest rates is being exacerbated by the rivalry for deposits. Nonetheless, we are pleased to report that we were still able to increase our net interest income before the impairment charge by €3.1 million or 2.2 per cent to €146.2 million. Above all, we are heartened by the fact that our net interest income in the fourth quarter came to €38.5 million, which was our best figure since the beginning of 2012. We hope that this trend will continue in the current 2014 financial year. Nonetheless, the continuing economic slump means that we had to increase our impairment charge on loans and advances. Unfortunately, our

Herta Stockbauer, Member of the Management Board

Carinthian home market was one of the regions in Austria that suffered a particularly large number of insolvencies during the year under review. The second big component of profit — net fee and commission income — also grew, increasing to €45.4 million. Combined with an improvement in our earnings from financial assets and static general administrative expenses, the result was the respectable profit for the year before tax of €45.5 million that we have already mentioned.

The popular BKS smartphone app

We introduced a raft of innovations during 2013 to ensure our continued success in the marketplace. They included important progress in the digital field. Since autumn, it has been possible to download a BKS app for Android and iOS smartphones and tablets. This app puts our bank in the customer's pocket. It displays current, savings, securities and credit card accounts and can, among other things, be used to order payments. It also includes a QR code reader for transferring payment slip data directly into payment instruction forms. This excellently rated app had been downloaded 3,800 times by the end of 2013. In addition, we are now using a new online advice and staff training tool that is saving travel time and costs and reducing our environmental footprint.

Continuing the development of our business structures

The creation of our new Private Banking and Securities Department at Head Office bore fruit during the year under review. Our private banking units became firmly established in the market and acquired large numbers of new customers. After a long barren period, securities operations in general picked up a little, but they are still a long way from the successes achieved before the economic crisis. We used 2013 to continue the optimization of our internal structure. Inside Austria, we looked at payment operations, securities processing and standard loan processing in the retail banking segment to identify possible improvements. We found potential savings in the personal loan back office and branch services department. As a result, both units were outsourced to a special service company called *BKS Service GmbH* that began operating on 1 January 2014. We also restructured our real estate operations during 2013, concentrating all construction related activities within *BKS Immobilien-Service Gesellschaft m.b.H.* (BKS IS). We believe that this will enable us to manage our total of roughly 60 properties more efficiently.

An international success

The economic numbers in our foreign markets in Slovenia and Croatia were not as good as Austria's. Slovakia was alone in achieving slightly improved economic growth. We were correspondingly cautious and risk conscious in our operations in those markets and focused more on deposit and service operations than on lending. We are particularly pleased with the development of our bank branches in Slovenia, which reported strong growth in their customer base. At year-end, our staff in Slovenia were servicing 58 per cent more corporate and business banking customers and 48 per cent more retail banking customers than at the beginning of the year. The Republic of Slovenia itself is also one of BKS Bank's valued business associates. We are proud to have been chosen to take over the securities customers of *Factor banka d.d.*, which is one of the smaller banks currently being liquidated by Slovenia. We have now been servicing those customers since the end of February 2014. We welcomed Croatia's accession to the EU and focused our marketing activities in that country on our offerings for retail customers. We are pleased to report that we also achieved growth in deposit balances in Croatia. Slovakia — our newest foreign market — developed in line with our expectations. In future, we want to make greater use of synergies between our Slovakian leasing operations and our banking branch.

Dieter Krassnitzer, Member of the Management Board

Having a sense of responsibility matters

As you have come to expect from BKS Bank, we lived up to our responsibilities to society and the environment. At this point, we would like to emphatically affirm our commitment to the 10 principles set out in the UN Global Compact and the sustainable management vision of *respACT* (the Austrian Business Council for Sustainable Development). Among other things, we introduced sustainable investment, saving and loan offerings and invited our customers to attend a variety of events that focused on corporate social responsibility. The highlight was undoubtedly the TRIGOS Steiermark (Styria) award ceremony, during which a number of Styrian companies were spotlighted and honoured for their corporate citizenship. Our goals include giving every section of society the easiest possible access to financial services. Our construction team is making ambitious efforts to create barrier-free access to every one of the bank's branches, facilities and services. We collaborated with an architectural office that specializes in this field to develop a catalogue of related measures that are to be put in place in years to come.

Another of our focuses was on extending our efforts to protect the environment. Between the end of summer and the close of 2013, the photovoltaic system on the roof of our Head Office building produced as much electricity as 15 households consume in a year. The 157 panels cover a large part of our electricity needs at Head Office. In addition, the system has cut our CO_2 emissions by 23,000 kg. We see this as a first step in further reducing our carbon footprint, which we had measured during the year under review. In the middle of 2013, we tasked an outside company to collect together all of BKS Bank's relevant environmental data in Austria. It calculated our total CO_2 production to be 2,110 metric tonnes of CO_2 equivalents (at 54 locations). It turned out that our biggest sources of CO_2 emissions were electricity, remote heating and diesel fuel. A working party has now begun developing measures to achieve another cut in these emissions.

We continued to offer our employees an attractive health scheme. The year's theme was *Aufgeweckt durch die Bank* (banking on being well rested). It was devoted to sleeping healthily and making the best possible use of one's personal resources. We were pleased that we were again awarded the Quality Seal for Workplace Health Promotion by Austria's minister of health in the first quarter. At the same time, BKS Bank became the first company in Carinthia (and one of the first four in Austria) to win another award for its efforts to integrate chronically ill employees into the enterprise. Furthermore, during the summer a team of employees worked hard on preparations for a *berufundfamilie* 'JobAndFamily' re-audit, and it was successfully completed soon after. BKS Bank now holds for another three years this award for companies that are particularly committed to enabling people to combine having a family with having a career.

An era is coming to an end

We would like to close by saying a few words about ourselves. An era drew to a close at BKS Bank during the 2013 financial year. Since 28 February 2014, our CEO Heimo Penker has become slightly less active. After 42 years with our bank, during 30 of which he was a member of the Management Board, he has now retired. His prudent and farsighted management of the enterprise played an important part in setting BKS Bank on such healthy foundations. Many crucial decisions were made during his time as a member of the Management Board, including the IPO in 1986, the launch of leasing and banking operations in Slovenia, Croatia and Slovakia and the acquisition of the former *Burgenländische Anlage- und Kredit Bank AG*, which was merged into BKS Bank in 2005 and closed the gap between our branches in Carinthia, Styria and Vienna.

To give you a brief impression of the extent to which the enterprise flourished under the auspices of Heimo Penker, we would like to provide you with a few key corporate numbers. In 1984, when our outgoing CEO

Wolfgang Mandl, Member of the Management Board was made a member of the Management Board, BKS Bank had assets (still calculated in conformity with HGB) of €1.18 billion. Today, it has assets of €6.74 billion. The loan portfolio was still worth far less than a billion euros at €608.6 million. At the end of 2013, it was worth €4.87 billion. The growth in primary deposit balances was just as striking, as they expanded from €351.1 million to €4.60 billion. Profit for the year also increased considerably. In 1984, the bank's profit for the year before tax came to €1.5 million. In the year under review, it was €40.6 million. The labour market too benefited from this growth. Our bank employs 910 people at 56 branches, compared with 625 people at 27 branches in 1984.

Heimo Penker is not just an outstanding strategist and valued expert, as the many functions he performs outside the scope of his activities for BKS Bank show. Above all, he has been an esteemed colleague in the Management Board and also boss. He stands for and has constantly stood for high credibility; he has always been prepared to listen to the needs of every member of staff; and we are all very proud to have been allowed to work with him. We wish him all the best in this new phase of his life.

Committed staff are a crucial factor in our success

Year after year, BKS Bank's success has been founded on its motivated and dedicated workforce. We would like to thank them all very much for their hard work and outstanding commitment. During the financial year under review, their high levels of professional expertise and unfailing performance were among the essential success factors that enabled us to achieve the majority of our ambitious corporate goals. We know that this is not something one can take for granted. We would also like to thank the staff's representatives. With them, we were always able to find solutions that benefited both the enterprise and its employees.

Herta Stockbauer
Member 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

Hermann Bell, Chairman of the Supervisory Board

Dear Sir or Madam,

In the 2013 reporting year, the Supervisory Board closely monitored BKS Bank's financial situation and that if its subsidiaries and performed all the advisory and controlling duties that were incumbent upon it by virtue of the law, the Memorandum and Articles of Association (*Satzung*) and Austria's Code of Corporate Governance. The members of the Supervisory Board and I in my capacity as the Chairman of this body were at the service of the Management Board in an advisory role as it managed the BKS Bank Group. We focused our attention on the state of the individual business segments, enterprise planning, the development of the Group's financial and liquidity position and profits, the validity and operability of its risk management systems and investment and personnel planning. The Management Board gave us regular, close to real time and extensive written and verbal reports on all major developments at the bank, including between plenary meetings and meetings of the various committees. If additional information was asked for in the course of our critical scrutiny of the Management Board's reports, the Management Board provided it promptly and to our satisfaction. The Supervisory Board was thus to the requisite extent involved in all decisions of essential importance to the enterprise and, where necessary, approved them after discussing and examining them in detail.

Four ordinary meetings of the Supervisory Board took place during the financial year. In addition, in order to comply with the legal requirements and to increase the efficiency of its plenary activities, the Supervisory Board set up five expert committees. In 2013, they were the Audit, Working, Credit, Nominations and Remuneration committees. Generally, resolutions were passed and approvals were granted during plenary meetings, but they were also passed or granted by the respective committee in the cases specified by law or the rules of procedure. Urgent matters such as loan applications were also decided by circulated ballot. In each case, however, business transactions approved by circulated ballot or directly by a committee were reported on at plenary meetings of the Supervisory Board close to real time. The core topics dealt with at each ordinary meeting were the enterprise's business position, including its risk position and risk management activities, its strategic development and other significant events and occurrences. These were always discussed in detail with the Management Board. This also applied in particular to risk management measures and compliance. In addition, in the light of the implementation of the European Banking Authority's extensive list of requirements (the EBA Guidelines), a training session for the members of the Management Board and Supervisory Board lasting several hours took place after the Supervisory Board Meeting on 20 November. It was moderated by *KPMG Austria AG*. The topics dealt with were bank supervision law, corporate governance, financial reporting and financial indicators.

During the meeting on 27 March 2013, which was also attended by the auditors from *KPMG Austria AG*, our deliberations centred on the Annual Financial Statements and Management Report for the 2012 financial year, the IFRS-compliant Consolidated Financial Statements and Group Management Report for 2012 and the outlook for the 2013 financial year. In the discussion that followed, we examined the plausibility of the expectations and corporate goals that had been presented — in particular against the backdrop of an economic horizon that was still gloomy — and discussed various alternative courses of action. This meeting also dealt with more detailed reports by the Remuneration Committee and by the Audit Committee, which met immediately before the meeting of the Supervisory Board, as well as with credit matters, transactions by board members, the Corporate Governance Report and preparations for the 74th Ordinary General Meeting. In addition, the Supervisory Board carried out a self-evaluation of its activities in accordance with C Rule 36 of the *Österreichischer Corporate Governance Kodex* (ÖCGK: Austrian Code of Corporate Governance) and concluded that its existing organization and operating procedures should be retained because they ensure that it performs its tasks efficiently and responsibly. In addition, we noted that, in our estimation, all the members of the Supervisory Board were and are independent for the purposes of the independence criteria.

The principal purpose of the meeting held immediately after the 74th Ordinary General Meeting on 15 May 2013 was to appoint the presiding members of the Supervisory Board and the members of the Supervisory Board's five committees. My election as Chairman and the elections of Peter Gaugg and Franz Gasselsberger as 1st and 2nd Vice-Chairman were unanimous. The current members of the committees are listed from page 32 of this Annual Report. In addition, the agenda included a report on loan applications already considered and approved by the Credit Committee, staff matters and the progress made implementing aptitude tests for members of the Management Board and Supervisory Board and holders of key posts based on the final version of an FMA 'Fit & Proper' circular. Furthermore, the members of the Supervisory Board concurred with the annual Compliance Activity Report for 2012 prepared in conformity with ECV (Austrian issuer compliance directive) and WAG 2007 (Austrian securities supervision act). Among other things, it contained information about project-related confidentiality areas, directors' dealing reports, training measures and compliance-relevant FMA circulars.

During the meeting on 25 September 2013, the Management Board reported on the course of business and earnings in the first half with the help of extensive documentation. Furthermore, in the course of this meeting, it also reported on the corporate and business banking, retail banking and financial markets segments. Likewise, audit actions carried out by Internal Audit during the second quarter and the catalogue of topics dealt with in the meeting of the Audit Committee held beforehand — which, among other things, focused on the revision of the *Bankwesengesetz* (Austrian banking act) and new fields of action connected with EMIR, FATCA and AIFMG — were discussed. Moreover, the Credit Committee's periodic report on credit operations and staff matters was also on the agenda. I note that the Auditor *KPMG Austria AG* reported to me on the operability of the risk management system in accordance with C Rule 83 of the ÖCGK, and this report was also discussed by the Audit Committee and reported on to the Supervisory Board.

To ensure that the appointment of Herta Stockbauer, which will expire at the end of June 2014, is extended in time, the Nominations Committee recommended to the plenary meeting that she be reappointed to the Management Board until 30 June 2019 subject to the maximum term of office allowed by stock corporation law. My motion to this end was passed unanimously.

There was a very positive response to the Management Board's remarks (under the heading of 'Any other business') on the implementation of the requirements of Basel III — which were incorporated into European law by way of the revision of the European banking directive called the Capital Requirements Directive 4 (CRD 4) and the directly applicable European regulation called the Capital Requirements Regulation (CRR) — and its comments on the revision of BWG (Austrian banking act), which entered into force on 1 January 2014. Finally, the Supervisory Board was also told about the successful employee stock ownership campaign and about the share buyback scheme approved by the 73rd AGM, which had already been carried out. The upshot was that a total of 100,000 ordinary no-par shares corresponding to 0.31 per cent of our capital stock were repurchased on the stock exchange and over the counter between 19 June 2013 and 24 June 2013. The employee stock ownership campaign approved in a circulated ballot of the Working Committee on 14 August came to an end on 16 September 2013. Employees subscribed for 29,702 ordinary no-par shares of *BKS Bank AG*.

29,702

During the fourth and last meeting in the year under review, on 20 November, the Management Board commented on the BKS Bank Group's performance on the basis of the segmental, risk and audit reports and presented the budget for 2014 to the plenary meeting of the Supervisory Board. Alongside credit operations, the strategy for the years to come was one of the things also discussed. In addition, the investment budget and the volume of issuances of the bank's own notes planned for 2014 were approved and the annual Anti-Corruption Report was presented. Changes were made to the authorization limits contained in *§ 4 Abs. 1* of the Management Board's standing orders. The allocation of duties and the associated regulation of representative powers is now an integral part of this body of rules and regulations, which entered into force on 1 January 2014. Furthermore, allowance has already been made for the new provisions of BWG. The standing orders of the Supervisory Board also required amendment as a result of the changes in BWG in that *§ 39d BWG* requires the creation of a Risk Committee to which the members of the Credit Committee must belong. Since the beginning of 2014, it has been known as the Risk and Credit Committee (*Risiko- und Kreditausschuss*). Finally, the revised provisions of *§ 29 BWG* give the Nominations Committee responsibility for regularly and at least annually evaluating the knowledge, abilities and experience of both the members of the Management Board and the individual members of the Supervisory Board and of those bodies as a whole ('collective suitability')and reporting thereon to the Supervisory Board. Last of all, the plenary meeting of the Supervisory Board also underscored the fitness and properness of the members of the Nominations Committee.

The Supervisory Board's committees carried out efficiently and conscientiously the tasks assigned to them by the Supervisory Board as a whole. The Supervisory Board's Audit Committee met immediately prior to the plenary meetings of the Supervisory Board on 27 March and 25 September. In its spring meeting, it discussed in detail the auditing and preparation of the adoption of both the Annual Financial Statements of *BKS Bank AG* for 2012 and the Consolidated Financial Statements for 2012, the Management Board's reports on BKS Bank's risk position, adherence to the Code of Corporate Governance and compliance and anti-money laundering regulations. As planned, the certified public accountants at *KPMG Austria GmbH* who had been consulted regarding the respective item on the agenda supplemented the written documents with presentations of the focuses and results of the audits of the separate financial statements and Consolidated Financial Statements and Risk Report that had been carried out. Among other things, the Audit Committee voted to recommend that the plenary meeting of the Supervisory Board approve the Annual Financial Statements and Consolidated Financial Statements in accordance with *§ 96 Abs. 4 AktG*. In addition, the Corporate Governance Report, Risk Report and Compliance Report were discussed, as were the Auditor's Report and Auditor's remarks. Furthermore, the Audit Committee agreed on a proposal for the election of the Auditor, *KPMG Austria AG*, and, in that connection, also evaluated that company's cost estimate and declaration of independence. The core focuses of the autumn meeting were the preparation of the year-end audit for 2013 and changes in the financial reporting process. In addition, this Supervisory Board committee discussed the Risk Report and the assessment of the operability of the Risk Management System in accordance with C Rule 83 of the ÖCGK and the Internal Control System (ICS).

In the year under review, the Credit Committee made decisions on 54 credit applications by circulated ballot. A detailed report on each of those applications was presented to the plenary meeting thereafter.

The Remuneration Committee met on 26 March. In the discharge of its statutory duties, it reviewed the principles underlying BKS Bank's remuneration policy and its application on the basis, above all, of Group Audit's report on the conformity of remuneration practice to the guidance issued by the Remuneration Committee. According to the report, it was applied in full and in accordance with the law within BKS Bank. A copy of the modified Remuneration Guideline was distributed to the members of the Supervisory Board with the documents for the meeting. In addition, the variable components of the remuneration of the members of the Management Board for the 2012 financial year were set and the remunerations of key management personnel in risk management and compliance roles were reviewed to assess their conformity with the legal requirements and the arrangements laid down in the Remuneration Guideline.

In the year under review, the Nominations Committee, whose core tasks include the regular and need-based evaluation of the structure, size, composition and performance of the Supervisory Board and Management, met ahead of the Supervisory Board's third meeting. As I have already said, it initiated the extension of Herta Stockbauer's membership of the Management Board until 30 June 2019. In addition, it evaluated the fitness and properness of all the members of the Supervisory Board who are not members of the Nominations Committee by way of circulated ballots.

The 10 representatives of the equity holders on the Supervisory Board were unchanged during the year under review. According to *§ 11 Abs. 2* of *BKS Bank AG*'s Memorandum and Articles of Association (*Satzung*), at least one fifth of the members of the Supervisory Board must leave the Supervisory Board each year at the end of the Ordinary General Meeting. In conformity with this requirement, Reinhard Iro and Christina Fromme-Knoch left the Supervisory Board according to the duration of their membership. The 74th Ordinary General Meeting extended both appointments to the maximum duration allowed by the Memorandum and Articles of Association. As for the staff representatives on the Supervisory Board, Gertrude Wolf succeeded the long standing member Helmuth Binder as of 1 November 2013.

The attendance rate of the representatives of the equity holders and the staff representatives at the four meetings of the Supervisory Board was roughly 88 per cent. Josef Korak was unable to attend two plenary meetings. Waldemar Jud, Dietrich Karner, Karl Samstag, Helmuth Binder and Maximilian Medwed each apologized for their absence from one meeting.

As the Auditor of the annual accounts, *KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft* audited *BKS Bank AG*'s accounts, Annual Financial Statements and Management Report for the 2013 financial year. The Auditor of the annual accounts did not have any objections to raise and confirmed this in an unqualified Auditor's Report. The Annual Financial Statements and Management Report and the Auditor's audit reports were distributed to all the members 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 as well as the Profit Appropriation Proposal. During its meeting on 28 March 2014, the Audit Committee examined the Consolidated Financial Statements and reported thereon to the Supervisory Board. In particular, it presented the separate financial statements of *BKS Bank AG* for 2013 prepared in accordance with UGB (Austrian enterprises code) together with the Notes and Management Report and the dividend distribution proposal as well as the IFRS-compliant Consolidated Financial Statements for 2013 together with the Notes and Management Report. Furthermore, it presented the development of the assets, liabilities, financial position and profit or loss of the Group and its segments, a Corporate Governance Report, a Risk Report and the Auditor's Report and Notes. The Supervisory Board endorsed the results of the audit, approved the Annual Financial Statements and Management Report presented by the Management Board and adopted the company's Annual Financial Statements for 2013, which are thus final for the purposes of *§ 96 Abs 4 Aktiengesetz*.

The Supervisory Board concurred with the Management Board's proposal that an undiminished dividend of €0.25 per share should be distributed out of the net profit for the year 2013, resulting, as in the previous year, in a distribution of €8,190,000, and that the remaining profit should be carried forward to a new account.

€8,190,000

The Consolidated Financial Statements as at and for the year ended 31 December 2013, which were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the Group Management Report, which was prepared in accordance with Austrian commercial law, were audited by *KPMG Austria AG 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 2013 and its profit or loss and cash flows during the financial year from 1 January to 31 December 2013. The Supervisory Board endorses the results of the audit and expresses its approval of the Consolidated Financial Statements and Group Management Report submitted to it by the Management Board.

I would like to thank Helmuth Binder, who has left the Supervisory Board, for his many years of dedicated service. In addition, I thank the Management Board and every member of staff for their personal commitment and achievements during a challenging 2013 financial year.

Klagenfurt am Wörthersee
February 2014

Hermann Bell

Corporate Governance Report

Corporate Governance at BKS Bank

The Austrian Code of Corporate Governance (ÖCGK) is a voluntary code of behaviour developed by a representative corporate governance committee. It establishes principles of exemplary corporate governance. It aims to strengthen the trust of investors and the interested public in the upper echelons of the corporate sector. The ÖCGK was first published in October 2002. Since then, it has been revised several times in line with foreign and Austrian practice. The latest revision took place in July 2012. This code is based on the requirements of Austrian stock corporation, stock market and capital markets law, internationally accepted standards for good corporate governance, EU recommendations regarding the duties of the members of supervisory boards and the corporate governance guidelines propagated by the OECD.

Responsible and transparent corporate governance and control geared to the sustainable creation of value added have always been a high priority at BKS Bank. Close cooperation between the Management Board and the Supervisory Board, a reasonable remuneration system that reflects the bank's financial situation, the avoidance of conflicts of interest and up-to-date, transparent and detailed business reporting are key manifestations of this ethos. A compliance management system based on integrity and behaviour by every member of staff and all management personnel that conforms to the law and rules and regulations is also core to our self-image. The members of the Supervisory Board and Management Board of BKS Bank therefore expressly and comprehensively affirm their commitment to the principles, goals and intentions set forth in the ÖCGK.

Notes on the Code

Besides the relevant legislative requirements, the ÖCGK also includes international practices and regulations non-adherence to which must be declared and explained as well as rules that go beyond these requirements and are to be put into effect on a voluntary basis. These standards for responsible corporate governance are regularly revised by the *Österreichischer Arbeitskreis für Corporate Governance* (Austrian Working Group for Corporate Governance). They are divided into three categories: the L Rules (*Legal Requirements*), which comprise mandatory legal standards; the C Rules (*Comply or Explain*), where non-compliance is allowed but must be explained; and finally, the R Rules (*Recommendations*), which are mere proposals and do not require any declarations or explanations in the event of non-compliance.

BKS Bank's Declaration of Conformity to the ÖCGK

Once a year, BKS Bank issues a declaration stating whether the Commission's conduct recommendations have been adhered to and explains why some rules have not been applied word for word because of the specific circumstances of *BKS Bank AG* or the *3 Banken Group* or the legislative provisions governing banks. This Declaration of Conformity by the Management Board and Supervisory Board is published on BKS Bank's website at http://www.bks.at. In addition, the current version of the ÖCGK, the guidelines regarding the independence of the members of the Supervisory Board and our Memorandum and Articles of Association (*Satzung*) are likewise available from our website at any time. Click on 'Investor Relations'. The ÖCGK is also available from the website of the *Österreichischer Arbeitskreis für Corporate Governance* at http://www.corporate-governance.at. The Supervisory Board of BKS Bank most recently reaffirmed its commitment to the ÖCGK during its meeting on 27 March 2013 in the course of the Supervisory Board's self-evaluation in accordance with C Rule 36. During the 2013 reporting year, BKS Bank continued to comply with the Code by declaring and explaining any non-compliance with C Rules.

BKS BANK'S EXPLANATIONS OF NON-COMPLIANCE WITH C (*Comply or Explain*) RULES

Rule	Explanation
Rule 2 C	Besides ordinary shares, BKS Bank has also issued non-voting no-par preference shares (*Stückaktie*). The preferred interest in profits offers its preference shareholders an attractive investment variant.
Rule 16 C	In accordance with the provisions of the *Bankwesengesetz* regarding the dual control or 'four-eyes' principle, the Management Board of BKS Bank does not have a chairperson. [1]
Rule 31 C	The remuneration of the members of the Management Board is 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 is not broken down into fixed and variable components.
Rule 45 C	Because of the way our shareholder structure has evolved, representatives of the largest single equity holders have been elected to the Supervisory Board. Since our principal equity holders are likewise banks, their representatives also hold positions on the boards of other banks that compete with BKS Bank.

It should be noted that this Corporate Governance Report takes account of the new provisions of the *Aktiengesetz* and the *Unternehmensgesetzbuch* (Austrian enterprises code: *§ 243b UGB*) that became relevant when they entered into force on 1 July 2012 and, in addition, examines the main features of BKS Bank's risk management system. Other topics connected with the ÖCGK such as the equity holders and AGM, corporation communication and the dissemination of information, the internal control system, compliance and anti-money laundering activities are addressed in the Group Management Report, in the Risk Report, in the section on Investor Relations and in the Notes to the Consolidated Financial Statements.

The Management Board and Supervisory Board

The Management Board's operating procedures

The members of BKS Bank's Management Board manage the enterprise on their own responsibility in conformity with clearly defined principles that are anchored in the bank's overall strategy. They concern themselves primarily — on the basis of extensive reporting — with the bank's strategic orientation and with defining its corporate goals within their own remits and within the companies group as a whole. In doing so, they are obliged to defend the interests of equity holders, customers, employees and other groups connected with the bank with the goal of creating sustainable value added. In addition, the Management Board takes suitable precautions to ensure that the relevant legislative provisions are adhered to while safeguarding the distinct interests allowed for by the *Aktiengesetz*.

[1] The Management Board — a body with shared responsibility — had four members until 28 February 2014 and three members with equal rights from 1 March 2014. Decisions made by the Management Board that relate to the assumption of business obligations and risks by BKS Bank must be unanimous. Generally, the Management Board's spokesperson (*Sprecher*) chairs meetings and represents the company externally.

The member of the Management Board responsible for a division has primary responsibility for that area of activity. However, the other members of the Management Board are always kept fully informed about the enterprise as a whole, and fundamental decisions are submitted to the Management Board as a whole for approval. Within his or her own areas of responsibility, each member of the Management Board is embedded into day-to-day operations and kept continuously informed about business developments and specific transactions. Matters of note, strategic issues and measures that are to be taken are discussed during scheduled meetings and meetings held for specific reasons or by means of circulated information. Measures are put into effect by each member of the Management Board within his or her sphere of action or by the Management Board as a whole. Regular communication between the members of the Management Board is facilitated by the spatial arrangement of their offices. If possible, Management Board decisions are made unanimously. In addition, the dual-control or 'four-eyes' principle also applies within the Management Board when contracts are signed and in the event of internal approvals that are risk-relevant. An extensive internal reporting system ensures that Management Board decisions are carefully prepared. The Management Board members' work together is regulated by the board's standing orders. The Management Board also has a trusting working relationship with the other boards and committees of BKS Bank and with the employees' representatives.

The members of the Management Board

During the 2013 financial year, the Management Board of *BKS Bank AG* had four members. Since March 2014, it has had three members, Heimo Penker having retired

THE MANAGEMENT BOARD	Date of Birth	Date of Initial Appointment	End of Term of Office
Heimo Penker, CEO	1947	1/6/1984	28/2/2014
Herta Stockbauer	1960	1/6/1984	30/6/2019
Dieter Krassnitzer	1959	1/9/2010	31/8/2015
Wolfgang Mandl	1969	1/1/2013	31/12/2015

Heimo Penker

Heimo Penker began his professional career as an assistant lecturer at the Institute of Financial Science of the *Hochschule für Welthandel* (now Vienna's University of Economics and Business Administration) in Vienna. In 1972, he joined BKS Bank, where he worked in various areas closely connected with corporate and business banking. He was appointed to the Management Board in 1984 and became its official Spokesperson in 1997. His term of office ended on 28 February 2014. Within the Management Board of BKS Bank, Heimo Penker was responsible for the Retail Banking and Corporate and Business Banking, Human Resources, Public Relations, Marketing and Investor Relations divisions during the 2013 financial year. In addition, he had regional responsibility for the bank's business operations in its Carinthian and Styrian catchment areas inside Austria as well for Italy.

HEIMO PENKER: POSTS AND FUNCTIONS

Posts at entities accounted for in the Consolidated Financial Statements:

Vice-chairman of the supervisory board of *Oberbank AG*
Vice-chairman of the supervisory board of *Bank für Tirol und Vorarlberg AG*

Posts at other entities in Austria and abroad not accounted for in the Consolidated Financial Statements:

Member of the supervisory board of *Oesterreichische Kontrollbank AG*
Member of the supervisory board of *Generali Bank AG*

HEIMO PENKER: POSTS AND FUNCTIONS

Other posts and functions:
Vice-president of the *Vereinigung Österreichischer Banken und Bankiers* (Austrian Banks' and Bankers' Association)
Chairman of the professional association of banks and bankers at *Wirtschaftskammer Österreich* (Austrian economic chamber)
Chairman of the banking and insurance division of *Wirtschaftskammer Kärnten* (Carinthian economic chamber)
Member of the Board of *Bankwissenschaftliche Gesellschaft Österreich* (Austrian Banking Science Society)
Honorary Consul of the Republic of Italy in the Province of Carinthia

Herta Stockbauer

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 on 1 July 2004. Her present term of office will last until 30 June 2014. On 25 September 2013, her appointment was extended until 30 June 2019 by a decision made by the Supervisory Board on the basis of a structured decision-making process. During the year under review, Herta Stockbauer was responsible within the Management Board of BKS Bank for the International Operations, Accounts and Sales Controlling, Treasury and Proprietary Trading, Capital Markets Law and Construction divisions and for BKS Bank's subsidiaries and equity investments in Austria and abroad. Inside Austria, she has most recently been responsible for the bank's regional head offices in Burgenland and Vienna. Abroad, she has been responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

HERTA STOCKBAUER: POSTS AND FUNCTIONS

Posts at entities accounted for in the Consolidated Financial Statements:
Chairwoman 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 *Drei-Banken Versicherungs-AG*
CEO of *BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH* (to 30 September 2013)

Posts at other entities in Austria and abroad not accounted for in the Consolidated Financial Statements:
Member of the supervisory board of *SW Umwelttechnik AG*

Other posts and functions:
Member of the management board of *Vereinigung Österreichischer Industrieller für Kärnten*
Vice-president of *respACT - austrian business council for sustainable development*
Member of the *Wirtschaftsparlament* (business parliament) of *Wirtschaftskammer Österreich*
Member of the management board of *Europahaus Klagenfurt*
Member of the council of *Wirtschaftsethik Institut Stift St. Georgen GmbH -"WEISS"*
Honorary Consul of Sweden in the province of Carinthia

Dieter Krassnitzer

Born in Waiern in 1959; a member of the Management Board since 1 September 2010. After graduating in business studies, Dieter Krassnitzer 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 joined BKS Bank in 1987. He became Head of Internal Audit at BKS Bank in 1992. In 2006, he qualified as a Certified Internal Auditor (CIA©) at the Institute of Internal Auditors in the United States. His present term of office ends on 31 August 2015. Within the Management Board of BKS Bank, Dieter Krassnitzer is responsible for the Risk Management, Risk Controlling, Credit Back Office, IT, Business Organization, Technical Services and *Drei-Banken-EDV Gesellschaft mbH* divisions.

DIETER KRASSNITZER: POSTS

Posts at entities accounted for in the Consolidated Financial Statements:
Vice-chairman of the supervisory board of *BKS Bank d.d.*
Chairman of the supervisory board of *BKS-leasing Croatia d.o.o.*

Wolfgang Mandl
Born in Spittal in 1969; at BKS Bank since 1990 with a five-year educational break; a member of the Management Board since 1 January 2013. Wolfgang Mandl began his career as a personal banking account manager at our Spittal/Drau branch and graduated in applied business administration as a mature student in 1997. He then held various positions in corporate and business customer care at our Klagenfurt Regional Head Office before becoming Head of that Regional Head Office in 2003 with responsibility for retail operations. As a member of *BKS Bank AG*'s Management Board, he ran BKS Bank's Retail Customer, Private Banking and Securities divisions, online shop and social media activities with our CEO Heimo Penker until the end of Heimo Penker's term of office and coordinated relations with the bank's sales partners. Wolfgang Mandl's present term of office as a member of BKS Bank's Management Board will last until 31 December 2015.

MANAGEMENT BOARD REMITS

Heimo Penker[1] Wolfgang Mandl[1]	Herta Stockbauer	Dieter Krassnitzer
Internal Audit	Internal Audit	Internal Audit
Compliance	Compliance	Compliance
Corporate and Business Banking	International Operations	Risk Management
Retail Banking[M]	Accounts and Sales Controlling	Risk Controlling
Private Banking[M]	Treasury and Proprietary Trading	Credit Back Office
Human Resources	Capital Markets Law	IT, Business Organization, Technical Services
Public Relations, Marketing, Investor Relations	Construction	3-Banken-EDV Gesellschaft
BKS Bank's Sales Partners[M]	Subsidiaries and Equity Investments	
Online Shop and Social Media[M]	Regional Remits Austria: Burgenland, Vienna. Abroad: Slovenia, Croatia, Hungary, Slovakia.	
Regional Remits Austria: Carinthia, Styria. Abroad: Italy.		

[1] Until the end of the period of office of Management Board member Heimo Penker on 28 February 2014, divisions marked with an M in the chart above were run jointly by him and Wolfgang Mandl. Remits within the Management Board were extensively revised when Heimo Penker left the board.

The Supervisory Board's operating procedures

The Supervisory Board consists of 10 representatives of the equity holders and five members delegated by BKS Bank's Staff Council on a one-third basis. It appoints and dismisses members of the Management Board and takes care of long-term succession planning in collaboration with the Management Board. It supervises the enterprise's management as required by the legal provisions, the Memorandum and Articles of Association and its standing orders, discusses the realization of strategic plans and projects with the Management Board and makes the decisions regarding Group matters that are assigned to it. It is, in particular, responsible for examining the annual financial statements of *BKS Bank AG* and the BKS Bank Group in accordance with international auditing standards (ISAs). The rights and duties of the staff representatives are basically the same as those of the representatives of the equity holders. This applies, in particular, to their rights to information, their supervisory rights, their duties of care, their obligations of secrecy and any liability in the event of a breach of duty. Like the representatives of the equity holders, the staff representatives must abstain from voting if they have a personal conflict of interest.

The Members of the Supervisory Board

REPRESENTATIVES OF THE EQUITY HOLDERS

Name/Posts in Supervisory Boards and Comparable Posts at Listed Companies in Austria and Abroad	Year of Birth	Date of Initial Appointment	Planned End of Term of Office
Hermann Bell Chairman – Chairman of the supervisory board of *Oberbank AG*	1932	24/4/1972	AGM in 2017
Franz Gasselsberger Vice-Chairman – Chairman of the supervisory board of *Bank für Tirol und Vorarlberg AG* – Member of the supervisory board of *voestalpine* AG – Member of the supervisory board of *AMAG AG* – Member of the supervisory board of *Lenzing AG*	1959	19/4/2002	AGM in 2015
Peter Gaugg Vice-Chairman – Vice-chairman of the supervisory board of *Oberbank AG*	1960	29/4/1998	AGM in 2016
Christina Fromme-Knoch	1970	15/5/2012	AGM in 2018
Reinhard Iro	1949	26/4/2000	AGM in 2018
Waldemar Jud – Chairman of the supervisory board of *DO & CO Aktien-gesellschaft* – Chairman of the supervisory board of *Ottakringer Getränke AG* (Vice-chairman to 28/6/2013) – Member of the supervisory board of *Oberbank AG* – Member of the supervisory board of *Bank für Tirol und Vorarlberg AG* – Member of the supervisory board of *CA Immobilien Anlagen AG*	1943	19/5/2010	AGM in 2015
Dietrich Karner – Member of the supervisory board of *Bank für Tirol und Vorarlberg AG*	1939	22/5/1997	AGM in 2015
Michael Kastner	1947	19/4/2002	AGM in 2017
Josef Korak	1948	26/4/2005	AGM in 2014
Karl Samstag – Member of the supervisory board of *Oberbank AG* – Member of the supervisory board of *Bank für Tirol und Vorarlberg AG* – Member of the supervisory board of *Porr AG* – Member of the supervisory board of *Schoeller-Bleckmann Oilfield Equipment AG*	1944	19/4/2002	AGM in 2016

STAFF REPRESENTATIVES

Name	Year of Birth	Date of Initial Appointment	End of Term of Office
Helmuth Binder	1950	1/1/2005	31/10/2013
Maximilian Medwed	1963	1/12/2012	
Herta Pobaschnig	1960	1/6/2007	
Manfred Suntinger	1966	1/11/2011	
Hanspeter Traar	1956	1/1/2003	
Gertrude Wolf	1960	1/11/2013	

REPRESENTATIVES OF THE REGULATORY AUTHORITY

Name	Year of Birth	Date of Appointment	End of Term of Office
Alois Schneebauer	1954	1/8/1999	
Johann Wittmann	1959	1/8/2003	31/3/2013
Richard Warnung	1950	1/4/2013	

In the 2013 financial year, the Supervisory Board as a whole held four scheduled meetings during which it performed its controlling function. The Management Board kept the Supervisory Board promptly and fully informed at all times regarding the enterprise's strategic orientation and anything requiring its approval. Moreover, the Management Board also informed the Supervisory Board — including, in particular, the Chairman of the Supervisory Board — in the periods between meetings about exceptional business transactions of particular relevance to the assessment of BKS Bank's position and development. The list of transactions that require approval and the limits on amounts set to correspond to the enterprise's size are laid down in the standing orders of the Management Board.

The report by the Chairman of the Supervisory Board, Hermann Bell, commencing on page 19 of this Annual Report, provides details about the Supervisory Board's activities and the activities of the responsible committees during the year under review.

Committees set up by the Supervisory Board

As a rule, the Supervisory Board as a whole performs its duties during its plenary meetings. However, because of BKS bank's specific circumstances, it delegates certain specialized matters to expert committees. Their members are elected by the Supervisory Board as a whole from among the representatives of the equity holders and are supplemented by the required number of staff representatives. The Audit Committee and the Working Committee consist respectively of five and four representatives of the equity holders. The Risk and Credit Committee and the Remuneration Committee each consist of three representatives of the equity holders and the Nominations Committee consists of two representatives of the equity holders. The setting up of committees and their decision-making powers are regulated in the Supervisory Board's standing orders. Each of the applications for appointments to Supervisory Board committees made during the year under review were approved unanimously. Nominations of members of committees by the Staff Council took place in accordance with the provisions of the *Arbeitsverfassungsgesetz* (Austrian works constitution act).

Audit Committee

The responsibilities of the Audit Committee include:
– 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 entity;
- 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 Group 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;
- handling the Auditor's Management Letter;
- monitoring the enterprise's management.

The Audit Committee held two scheduled meetings during the year under review and executed in full the tasks assigned to it. During the first meeting, it mainly concerned itself with the Annual Financial Statements and Consolidated Financial Statements and the Auditor's Report and the audit plan for 2013. The focus during the second meeting was on the preparation of the audits for 2013. During both of those meetings, there was an opportunity for an exchange of information between the Audit Committee and the Auditor of the (Consolidated) Financial Statements in the Management Board's absence in accordance with C Rule 81. Similarly, in accordance with the law, representatives of the Auditor took part in all meetings.

In accordance with *§ 63 Abs. 4 BWG*, the Bank Auditor audited the legality of the Annual Financial Statements, the extensive precautions taken to limit operational and other banking risks and the procedures used to assess the adequacy of own funds. The results of this risk assessment were presented both in the Audit Report and in the Notes to the Audit Report in accordance with *§ 63 Abs. 5 BWG*, discussed by the Audit Committee and covered by the Chairman of the Audit Committee in his reports to the Supervisory Board as a whole.
The members of the Audit Committee were:
Hermann Bell, Chairman; Franz Gasselsberger, Peter Gaugg, Waldemar Jud, Michael Kastner, Maximilian Medwed, Herta Pobaschnig and Hanspeter Traar.

Working Committee
The Working Committee was responsible for making decisions on urgent matters assigned in the standing orders neither to plenary meetings of the Supervisory Board nor to the Credit Committee. This committee was convened as required. It was in close contact with the Management Board, giving it a suitable basis for monitoring the enterprise's management. Cases referred to it had subsequently to be brought to the attention of the Supervisory Board as a whole. During the 2013 financial year, it passed a resolution approving BKS Bank's staff share ownership scheme.
The members of the Working Committee were:
Hermann Bell, Chairman; Franz Gasselsberger, Peter Gaugg, Michael Kastner, Herta Pobaschnig and Hanspeter Traar.

Risk and Credit Committee
The Risk and Credit Committee made decisions — as a rule by means of circulated ballot — 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 standing orders and *§ 27 BWG*. The Supervisory Board as a whole was subsequently informed about decisions made by the members of the Risk and Credit Committee at its next plenary meeting. During the year under review, the Credit Committee decided on 74 credit applications. Because of the need for quick decisions, votes were always taken by circulated ballot.

The members of the Risk and Credit Committee were:
Hermann Bell, Chairman; Franz Gasselsberger, Peter Gaugg, Herta Pobaschnig and Hanspeter Traar.

Nominations Committee
This committee made recommendations regarding the filling of vacant posts on the Management Board and Supervisory Board on the basis of candidates' personal and professional qualifications and with the professionally balanced composition of those boards and the underrepresented gender on them in mind. Like all the other committees, the Nominations Committee reported in detail to the plenary meeting of the Supervisory Board that followed any decision. The Nominations Committee met once during the year under review, when it recommended to the plenary meeting of the Supervisory Board that Herta Stockbauer's membership of the Management Board, which was to expire on 1 July 2014, should be extended until 30 June 2019 according to the maximum term permitted by stock corporation law. When making this unanimously agreed appointment, the Nominations Committee verified that Herta Stockbauer already had all the qualifications that would be required by law upon the entry into force of the revision to BWG (Austrian banking act) on 1 January 2014. Among other things, these include the 'Fit & Proper' criteria for directors, members of supervisory boards and holder of key posts, which are based on EBA guidance and an FMA circular. Possession of the necessary qualifications for membership of the Nominations Committee was, in turn, assessed and confirmed by the plenary meeting of the Supervisory Board with the two gentlemen named below abstaining from voting. The assessment of the fitness and properness of all the members of the Supervisory Board that the Nominations Committee is required to carry out took place at the end of the year.
The members of the Nominations Committee were:
Hermann Bell, Chairman; Peter Gaugg.

Remuneration Committee
The Remuneration Committee regulated relations between the company and the members of the Management Board in accordance with C Rule 43 of the ÖCGK and monitored BKS Bank's remuneration policy, remuneration practice and remuneration-related incentives in accordance with *§ 39b BWG* and the associated annex. In the year under review, all three members continued to apply their in-depth expertise in the field of remuneration policy and reported accordingly to the Supervisory Board as a whole. During its meeting on 26 March 2013, the Remuneration Committee reviewed the foundations of BKS Bank's remuneration policy and their application on the basis, in particular, of Group Audit's report on the conformity of remuneration practice to the guidance issued by the Remuneration Committee, and it approved an amendment to the remuneration guidance for the *Kreditinstitutsgruppe* (credit institution group). In addition, it evaluated remunerations paid to senior management personnel in risk management and compliance roles.
The members of the Remuneration Committee were:
Hermann Bell, Chairman; Peter Gaugg and Dietrich Karner. The provisions of *§ 39c Abs.3 BWG* having entered into force, Herta Pobaschnig was appointed to the Remuneration Committee as of the beginning of 2014.

Independence of the members of the Supervisory Board

C Rule 53 of the Austrian Code of Corporate Governance requires the majority of the representatives on the Supervisory Board to be independent. This means that they should not maintain any personal or business relationship with BKS Bank or its Management Board that could give rise to a material conflict of interest and could therefore influence their conduct. The Supervisory Board took care when making proposals to the Ordinary General Meeting regarding the filling of vacant posts on the board to ensure that the board was diversified with respect to the nationalities of its members, the representation of both sexes and its age structure and to ensure that its members had the requisite knowledge and capabilities. The representatives of the equity holders on BKS Bank's Supervisory Board were, without exception, banking and/or business experts with pertinent experience in the banking and financial fields, extensive knowledge and the ability to assert themselves. All of them had, in a personal statement, declared their independence in line with the five criteria listed below. These declarations can also be accessed on BKS Bank's website. Click on Investor Relations » Corporate Governance. Even outside the scope of its ordinary banking activities, BKS Bank did not have any business dealings with related entities or persons that could affect 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, every requirement of *§ 87 Abs. 2 AktG* having being met, there are no doubts that the office is being exercised independently.
A member of the Supervisory Board shall not maintain a 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 relationships 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 of 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 company 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.

Remuneration Report

Below, the Remuneration Report states the criteria applied when setting the remuneration for the members of BKS Bank's Management Board and Supervisory Board and elucidates the amounts and structures of payments to the members of the Management Board and Supervisory Board as well as the Auditor's auditing fees and auditing services. Regarding the remuneration system for the Management Board, we point out that the Supervisory Board transferred responsibility for all matters concerning remuneration of the members of the Management Board to the Remuneration Committee during its meeting on 25 November 2010. This committee put into effect a Remuneration Guideline that both contains the fundamentals of the bank's remuneration policy and documents in writing the proportionality analyses and parameters that are to be used during the measurement and revision of variable components of remuneration.

Remuneration of the members of the Management Board

In principle, the remuneration of each active member of the Management Board of BKS Bank depended on that member's areas of activity and responsibility, his or her contribution to the enterprise's business performance and reasonable standards in the industry for entities of a comparable size. The intention was to achieve a balance of fixed components of remuneration that depended on the respective areas of activity and variable components. In the year under review, the fixed components of remuneration came to €1,267 thousand (2012: €1,171 thousand). The variable components were linked to the sustainable, long-term fulfilment of BKS Bank's business and risk strategy and its sustainable business performance. If a lasting shortfall in these areas was ascertained, it had to be taken into account when the current variable components of annual remuneration were calculated. The variables used to calculate the variable components in a financial year were BKS Bank's overall operational business performance and its performance in the corporate and business banking and retail banking segments. In addition, risk-dependent variables were also taken into account when fixing the variable components of remuneration.

Besides regular pay, members of the Management Board were also entitled to the following benefits: old-age pensions, occupational disability benefits and pensions for surviving dependants after the death of the entitled Management Board member. When a member's duties on the Management Board end, his or her termination benefit entitlement will depend mainly on the legislative provisions (*Angestelltengesetz* [Austrian salaried employees act] and the *Banken-Kollektivvertrag* [collective agreement for bank employees]). The amount of company pension as promised to a member of the Management Board by contract will depend on his or her duration of service and will be based on his or her pensionable fixed remuneration component. The company pensions for members of the Management Board appointed in or after the year 2014 are being accumulated in a pension fund on a contractual basis by way of monthly contributions. The total remuneration paid to the members of the Management Board during the financial year is also presented in note (37) to the Annual Financial Statements from page 156. Retirement pensions paid to former members of the Management Board and their surviving dependents came to €742 thousand (2012: €749 thousand). Provisions for termination and post-employment benefits for members of the Management Board were reduced by €28 thousand during the year under review (2012: addition of €571 thousand). Under the standing orders of the Management Board, additional functions of members of the Management Board must be approved by the Supervisory Board with the exception of positions held within subsidiaries of BKS Bank, for which no remuneration was paid.

The requirements of C Rule 27a of the ÖCGK will be adhered to if a Management Board member leaves the board prematurely. According to this rule, agreements regarding settlement payments must take

TOTAL REMUNERATIONS PAID TO THE MEMBERS OF THE MANAGEMENT BOARD DURING THE YEAR UNDER REVIEW

€k	2013	2012
Total emoluments of active members of the Management Board during the year under review	1,418	1,450
– Of which of Heimo Penker	485	667
– Of which of Herta Stockbauer	409	429
– Of which of Dieter Krassnitzer	281	354
– Of which of Wolfgang Mandl	243	n.a.
Retirement pensions paid to former members of the Management Board and their surviving dependants	742	749
Expenditure on termination and post-employment benefits for members of the Management Board	(29)	571

account of the circumstances in which the member leaves the board and the bank's financial position. If there are no compelling reasons for the member to leave the board prematurely, settlement payments may only be made in respect of the remaining term of the Management Board membership agreement and may not exceed two years' total remuneration. They shall not be paid at all if a member of the Management Board leaves the board prematurely for reasons for which he or she is responsible. No variable components of remuneration or parts thereof may be paid out in the form of stock or stock options.

In the year under review, remunerations paid to the active members of the Management Board totalled €1,418 thousand (2012: €1,450 thousand). Roughly 89 per cent of the total consisted of fixed payments and about 11 per cent comprised variable components. In conformity with the Remuneration Guideline, just 60 per cent of the variable components of remuneration were actually paid out and 40 per cent were allocated to reserves for five years. Variable components were not awarded in the form of instruments. As described above, the amount of the variable components in relation to total remuneration was limited and took into account both the joint and the individual performances of the members of the Management Board and the results of BKS Bank's business and risk strategy. Great importance was attached to safeguarding BKS Bank's sustainable risk bearing capacity in accordance with overall bank management requirements (ICAAP). Non-financial criteria were also taken into account in assessments.

The concrete sources and target variables used when setting variable components of remuneration were the consolidated financial statements, the return on equity before tax, the cost:income ratio, the risk:earnings ratio, the staff fluctuation rate, the development 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 and operational risk targets were also used as yardsticks when awarding variable components of remuneration. In detail, these included the level of utilization of economic capital, measures of concentration risk in credit operations (big loans, proportion of foreign borrowers, foreign currency loans), interest rate risk as a percentage of own funds, the loan:deposit ratio and the extent of operational risk. If it turns out that variable components of remuneration have been paid on the basis of data that are clearly wrong, BKS Bank can insist that they be returned.

The rules regarding variable components of remuneration were thus broadly unchanged compared with the previous year. One can therefore conclude that the variable components of remuneration of the members of the Management Board as well as the compensation system for the second tier of management and the tiers below it did not provide a heightened incentive to take unreasonably big risks.

A directors and officers (D&O) liability insurance policy was in place during the year under review. It was paid for entirely by BKS Bank. As a result, the Management Board and Supervisory Board and the boards and officers of the entities in the Group had and have insurance cover for compensation claims brought against them in respect of financial losses.

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. If necessary, they are adjusted by the Ordinary General Meeting. In the 2013 financial year, the Chairman of the Supervisory Board was awarded remuneration of €17,000 *per annum* on the basis of a decision of the 72nd Ordinary General Meeting on 18 May 2011; his deputies were each awarded remuneration of €13,000 *per annum;* and the other representatives of the equity holders were each awarded remuneration of €11,000 *per annum*. The attendance fee paid to each member of the Supervisory Board in 2012 was €120 per meeting attended by that member. Supervisory Board members

REMUNERATIONS PAID TO THE MEMBERS OF THE SUPERVISORY BOARD

€	Total in 2013	Fixed Board Member's Fee,	Committee Memberships	Attendance Fees	Total in 2012
Hermann Bell	29,480	17,000	12,000	480	29,480
Franz Gasselsberger	23,480	13,000	10,000	480	23,480
Peter Gaugg	25,480	13,000	12,000	480	25,480
Christina Fromme-Knoch	11,480	11,000		480	7,273
Reinhard Iro	11,480	11,000		480	11,480
Waldemar Jud	15,360	11,000	4,000	360	15,480
Dietrich Karner	12,360	11,000	1,000	360	12,480
Michael Kastner	17,480	11,000	6,000	480	17,480
Wolf Klammerth	—	—	—	—	4,207
Josef Korak	11,240	11,000		240	11,120
Karl Samstag	11,360	11,000		360	11,360
Staff representatives	2,040				2,080
Total	**171,240**	**120,000**	**45,000**	**4,200**	**171,400**

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*. Members performing their functions on an honorary basis and staff representatives performing their functions within the scope of their jobs did not receive remuneration other than attendance fees.

During the 2011 reporting year, *Univ. Prof. DDr. Waldemar Jud Corporate Governance Forschung CGF GmbH*, in which Supervisory Board member Waldemar Jud has a significant economic interest as its indirect majority shareholder, was tasked with providing services in connection with the auditor's examination of the Corporate Governance Reports for the financial years from 2011 to 2013. A fixed annual fee of €15,000 (plus VAT) was set for its services.

The members of the Supervisory Board were awarded remuneration comprising committee membership and attendance fees totalling €171.2 thousand in the year under review (2012: €124.0 thousand). It is noteworthy that, as already mentioned in the report by the Chairman, Hermann Bell, on page 23, no member of the Supervisory Board was unable to attend more than half of its plenary meetings. The attendance rate of the representatives of the equity holders and staff representatives was roughly 88 per cent, which was just up on the previous year (2012: 87.5 per cent).

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. At the end of the year under review, BKS Bank had a portfolio of loans to members of the Supervisory Board and their close relatives within the scope of its ordinary business activities totalling €313 thousand (31 December 2012: €468 thousand) and of loans to members of the Management Board totalling €192 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. Outside the scope of its banking activities, BKS Bank did not have any business dealings with related entities or persons that could affect its independence.

Fees paid to the Bank Auditor

The 73rd Ordinary General Meeting tasked *KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft* with auditing the annual financial statements of *BKS Bank AG* and its group for the 2013 financial year. The fees charged for the audit of the annual financial statements and for related services rendered in accordance with the Memorandum and Articles of Association and regulatory requirements and for rendering audit related services came to €353 thousand (2012: €353 thousand). The other consultancy fees came to €92 thousand, compared with €112 thousand in 2012. Immediately after its election as Bank Auditor and prior to the conclusion of an agreement regarding the execution of the audit, *KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft* presented to the Supervisory Board summaries of the probable scope of the audit, broken down into service categories, and the total fees received for the previous financial year, informed the Supervisory Board about its integration into the quality assurance system and provided a conclusive declaration of its impartiality.

FEES PAID TO THE BANK AUDITOR

€k	2013	2012
Fees for statutory audits	353	353
Other fees	92	112
Total fees	**445**	**465**

Report on the Operability of the Risk Management System

According to C Rule 83, the Auditor must assess the operability 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 must in turn ensure that the report is examined by the Audit Committee and discussed in detail by the plenary meeting of the Supervisory Board.

KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as Auditor was therefore tasked with assessing and analyzing the design and implementation of BKS Bank's risk management system in conformity with the framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Among other things, the assessment encompassed the risk policy, the Risk Strategy, the organization of the risk management system and risk identification practice, the analysis and assessment of risks, risk management measures and the monitoring thereof and reporting efficiency. The Auditor's Report on the Operability of the Risk Management System as of 31 July 2013 was submitted to the Chairman of the Supervisory Board and discussed in detail by the Supervisory Board.

To supplement the Auditor's assessment of the operability of the Risk Management System, BKS Bank maintained an internal auditing unit in conformity with BWG that acted in according with an auditing plan initiated by the Management Board and coordinated with the Management Board, the Audit Committee and the plenary meeting of the Supervisory Board. This plan provided for the group-wide assessment of the risks associated with all of the enterprise's activities and operational processes, identified ways of increasing efficiency and monitored adherence to legislative provisions and internal guidelines. In addition, in recent years, we have continued to refine our internal control system (ICS) for the early recognition and monitoring of risks as well as taking related measures and monitoring how they are put into effect.

Report on Measures for the Advancement of Women

BKS Bank strives to be a trailblazer when it comes to filling management posts with women. Agreeing working hour models that suit employees' life phases is an important part of doing so. They offer our employees greater flexibility and freedoms of choice that fit in with their individual situations in life and, therefore, ensure that they can combine having a family with having a career. Among other things, back in 2010, BKS Bank decided to undergo a *berufundfamilie* 'JobAndFamily' re-audit, which was carried out by ISCON in the summer of 2013. Women's career opportunities in particular should benefit from this audit thanks to our flexible flexitime models, extensive basic and advanced training during working hours, the care of small children in the *Kinki* crèche, made-to-measure holiday offers for employees' children and the explicit encouragement of fatherhood leave.

THE FILLING OF SENIOR POSITIONS WITH WOMEN

At 31 December 2013	No. of Women	Ratio	No. of Men	Ratio
Management Board	1	25%	3	75%
Supervisory Board (representatives of the equity holders)	1	10%	9	90%
Supervisory Board (staff representatives)	2	40%	3	60%
Other management positions	46	29%	115	71%

Although the proportion of female staff at BKS Bank has risen steadily in recent years, reaching 56.8 per cent, and despite the fact that equal career opportunities are given to every member of staff whenever a management post is filled, regardless of sex, age and cultural background, the group-wide proportion of women in management positions — i.e. 46 out of 161, which translates into a ratio of 28.6 per cent — was still behind that of men in the year under review. Nine management posts were newly filled with women during 2013.

28.6%

We therefore placed a particular focus on gradually increasing the proportion of women at every tier of BKS Bank's management. We were encouraged by the steadily rising proportion of women in younger age groups. Another essential building block in the process of attracting women with the right skills to senior management posts was a far-reaching qualification improvement programme called *Frauen.Perspektiven.Zukunft* (Women.Prospects.Future).

In addition, we are striving to raise the average retirement age of our female employees von 57.3 to 59 years, and we attach particular importance to eliminating the differences that still exist between the salaries of women and those of their male colleagues on an equal pay for equal work basis.

In 2013, women accounted for 25 per cent of the Management Board. At the moment, since an enlargement of the Management Board seems unnecessary for the time being following the resignation of Heimo Penker, another women is unlikely to be appointed to the Management Board. Women currently make up 20 per cent of BKS Bank's Supervisory Board. We look forward with interest to the impact of the revision to BWG that entered into force at the beginning of 2014. It will make the Supervisory Board's Nominations Committee responsible for setting a target ratio of members of the underrepresented sex. This is to prepare the ground for broader decision-making by the Supervisory Board as a whole when appointing new members to the Management Board and recommending candidates for election to the Supervisory Board.

Klagenfurt am Wörthersee
February 2014

Heimo Penker
CEO

Herta Stockbauer
Member of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Investor Relations

BKS Bank's Shares

A conciliatory year in the stock markets

The uptrend in the international equity markets continued. It was subject to the usual seasonal effects, but looking back, it reflected investors' growing willingness to take risks. In their search for returns in an environment of historically low interest rates, their investment preferences increasingly favoured the capital markets.

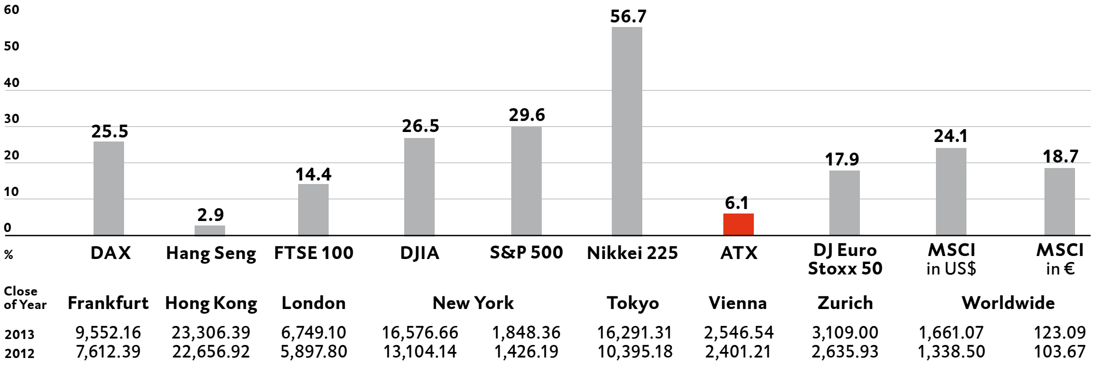
The crucial question in the international financial markets was when the US central bank (the Federal Reserve) would initiate the generally expected change in its monetary policy course and start tapering its bond repurchases, namely from US$40 billion a month of mortgage backed securities of government-sponsored mortgage issuers and US$45 billion of long-term US Treasuries. Hints to this effect from the Federal Reserve in the course of the year, shocking news from, above all, crisis regions in the Middle East, signs of a budgetary emergency in the United States in the autumn (government shutdown) and debate about the debt ceiling increased nervousness and interrupted equity bull markets several times at the beginning of June, the beginning of August and from the middle of September. In the meantime, the minutes of meetings of the Fed have signalled that it will be extending its bond purchases until at least the end of 2014 despite the fall in the jobless rate.

Both the Federal Reserve System and the ECB stuck to their pragmatic cheap money policy. The Federal Reserve Open Market Committee left its overnight interest rates in a narrow corridor of between zero and 0.25 per cent throughout the year; on 7 November, the ECB Council cut its minimum bid rate on main refinancing operations by 25 basis points to 0.25 per cent at the same time as cutting its peak refinancing rate, likewise by 25 basis points, to 0.75 per cent. At the end of December, the 3-month and 12-month Euribor rates were 0.284 per cent and 0.555 per cent, respectively. The benchmark yield on AAA rated long-term EU government bonds stood at 1.93 per cent, compared with 1.32 per cent at the beginning of the year. The return on comparable US treasuries at the end of December was 3.03 per cent.

The international equity markets were in a stable state at the end of 2013. Encouraging quarterly reports from global companies, positive economic and interest rate outlooks, an increase in merger and takeover activities and easing energy prices were contributing factors. Having gained 26.5 per cent over the year, the Dow Jones reached a record high of 16,576.66 points, and the DAX closed the stock market year at 9,552.16 points after rising 25.5 per cent. Prices in the European equity markets measured in terms of the broad Dow Jones EuroStoxx rose to 3,109.00 points, compared with 2,635.93 points at the beginning of the year. The MSCI World Equity Index in euros had reached 123.09 points at the end of December, having risen 18.7 per cent during 2013.

After four quarters, the ATX on the Vienna Stock Exchange stood at 2,546.54 points, or 6.1 per cent more than at the end of 2012. The BKS Bank ordinary no-par share closed the stock market year at €17.50, and the BKS Bank no-par preference share was trading at €15.3.

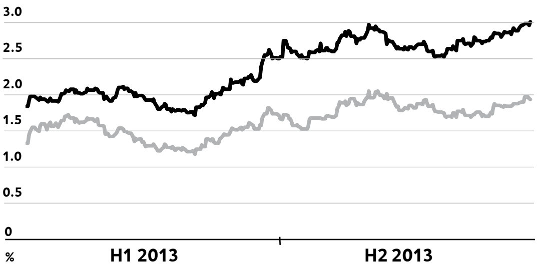
PERFORMANCE OF THE KEY STOCK INDICES



Percentage movement in the index versus the end of the previous year

Sources: Yahoo, OnVista.

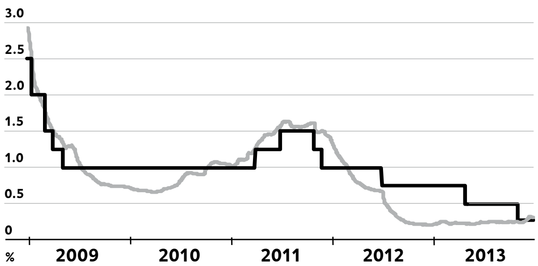
LONG-TERM GOVERNMENT BOND YIELDS



Eurozone United States

Source: Bloomberg.

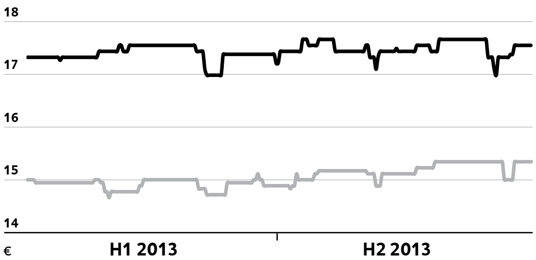
EURO INTEREST RATES



Key rate 3-month Euribor

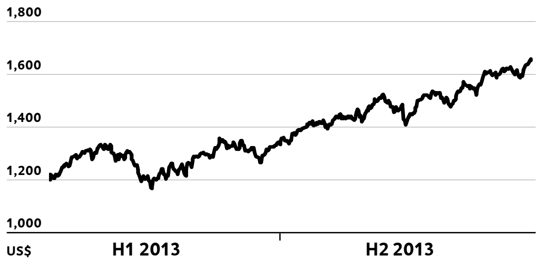
Source: OeNB.

PERFORMANCE OF BKS BANK'S SHARES



Ordinary no-par share
No-par preference share

PERFORMANCE OF THE EQUITY MARKETS



MSCI World

Source: Bloomberg.

BASIC INFORMATION ABOUT BKS BANK'S SHARES

	2013	2012	2011
Ordinary no-par shares in issue (ISIN AT0000624705)	30,960,000	30,960,000	30,960,000
No-par preference shares in issue (ISIN AT0000624739)	1,800,000	1,800,000	1,800,000
High: ordinary/preference share, €	17.6/15.3	17.6/15.5	18.6/15.6
Low: ordinary/preference share, €	17.0/14.5	17.2/14.9	17.6/14.8
Closing price: ordinary/preference share, €	17.5/15.3	17.3/15.0	17.6/15.5
Market capitalization, €m	569.3	562.6	572.8
IFRS earnings per share in issue, €	1.26	1.34	1.13
Dividend per share, €	0.25[1]	0.25	0.25
P/E: ordinary/preference share (basis: *BKS Bank AG*)	14.1/12.3	13.1/11.4	15.9/14.0
Dividend yield: ordinary no-par share, %	1.43	1.45	1.42
Dividend yield: no-par preference share, %	1.63	1.67	1.61

[1] Proposal to the 75th Ordinary General Meeting on 15 May 2014.

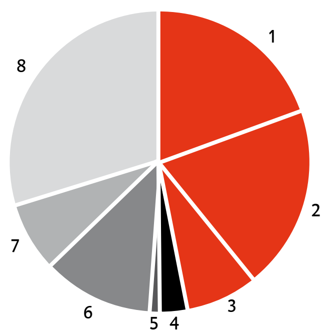
Achieving a sustainable increase in enterprise value as a business creed

As our enterprise's history in recent decades shows, BKS Bank has also been able to successfully assert itself in economically turbulent times. It has done so on the basis of a risk-aware growth policy aimed at stability and sustainability. Over that period, BKS Bank shares have proven to be a solid longer-term investment for private and institutional investors. Allowing for all the changes in nominal capital, dividend distributions and price movements that have taken place in the interim, the annual average return up to the end of the 2013 reporting year on a BKS ordinary share purchased on 17 June 1986, the day when the BKS shares were launched on the Vienna Stock Exchange at an issue price of öS425 (öS100 nominal), was about 7 per cent after tax. This sustained growth was reflected by a substantial increase in market capitalization from €92.7 million at the time to €569.3 million at the end of 2013. IFRS earnings per share in the year under review were 8 basis points down on 2012 to €1.26. Based on year-end prices, the ordinary no-par share had a P/E of 14.1 and the no-par preference share's P/E was 12.3.

A stable shareholder structure ensures our independence

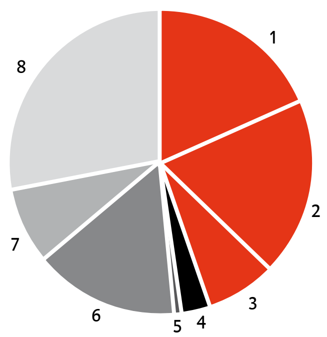
BKS Bank AG's subscribed share capital was represented by 30,960,000 ordinary no-par shares and 1,800,000 no-par preference shares. Instead of each share having a par value, it is the number of shares in issue that is fixed at any one time. In other words, one no-par share represents the corresponding interest of €2.0 in the company's capital (i.e. share capital divided by the number of shares in issue). All *BKS Bank AG* shares are bearer shares. *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. The preference shares, which account for about 5.5 per cent of the company's capital, give their holders preferential treatment in respect of distributions of

SHAREHOLDER STRUCTURE OF BKS BANK



By voting interest

1	*Oberbank AG*	**19.54%**
2	*Bank für Tirol und Vorarlberg AG*	**19.65%**
3	*Generali 3 Banken Holding AG*	**7.88%**
4	*Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	**3.11%**
5	*BKS-Belegschaftsbeteiligungsprivatstiftung*	**0.33%**
6	Free float	**12.39%**
7	*UniCredit Bank Austria AG*	**7.46%**
8	*CABO Beteiligungs GmbH*	**29.64%**



By equity interest

1	*Oberbank AG*	**18.52%**
2	*Bank für Tirol und Vorarlberg AG*	**18.90%**
3	*Generali 3 Banken Holding AG*	**7.44%**
4	*Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	**2.98%**
5	*BKS-Belegschaftsbeteiligungsprivatstiftung*	**0.66%**
6	Free float	**15.47%**
7	*UniCredit Bank Austria AG*	**8.02%**
8	*CABO Beteiligungs GmbH*	**28.01%**

The shareholders shaded red in these charts have concluded a syndicate agreement.

dividends. The associated minimum dividend, payable immediately or, if that is not possible, in a later period, is 6 per cent of the interest in the share capital that it represents. This minimum dividend must always be paid if it is covered by 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.

Oberbank AG, Linz, holds 19.54 per cent of the voting rights in *BKS Bank AG* and *Bank für Tirol und Vorarlberg AG*, Innsbruck, holds 19.65 per cent. *Generali 3 Banken Holding AG*, Vienna, holds 7.88 per cent of the ordinary no-par shares. In 1997, these three core shareholders concluded a syndicate agreement; together, they own 47.07 per cent of the voting rights. Syndication of the shareholdings strengthens BKS Bank's independence and autonomy, and the syndicate partners' interests are united within the scope of their cooperation and sales alliance. This 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 is *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* in the amount of 7.46 per cent, the *UniCredit* shareholder group therefore held roughly 37.1 per cent of the voting rights. *Wüstenrot Wohnungswirtschaft reg. Gen. mbH*, Salzburg, accounted for about 3.11 per cent. The free float of shares of *BKS Bank AG* accounted for another 12.39 per cent of the voting rights, a large part of which was held by employees of BKS Bank and investors close to BKS 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 roughly 0.33 per cent.

At the reporting date of 31 December 2013, Oberbank held an equity interest of 18.52 per cent, BTV held an equity interest of 18.90 per cent and *Generali 3 Banken Holding AG* held an equity interest of 7.44 per cent. *UniCredit Bank Austria AG* held an equity interest of 8.02 per cent directly. Including the equity interest of 28.01 per cent held by *CABO Beteiligungsgesellschaft mbH*, its equity interest totalled 36.03 per cent. *Wüstenrot Wohnungswirtschaft gem. reg. Gen. mbH* held 2.98 per cent. Free float accounted for 15.47 per cent of the ordinary no-par shares and no-par preference shares.

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 are required to prevent an abuse of control. At the end of the period under review, the held-for-trading portfolio of treasury shares consisted of 478,479 ordinary no-par shares and 85,774 no-par preference shares.

Resolutions Passed at the 74th Ordinary General Meeting

The 74th Ordinary General Meeting took place at BKS Bank's Head Office in Klagenfurt on 15 May 2013. About 90 per cent of the voting stock was represented at this meeting of the shareholders, as was over 21 per cent of the voting free float. The Annual Financial Statements and Consolidated Statements for 2012, the Supervisory Board's Report and the Corporate Governance Report were presented to the audience. The discharge from liability of the members of the Management Board and the members of the Supervisory Board in respect of the 2012 financial year that then followed in separate ballots and voting on the appropriation of net profit in the 2012 financial year and the election of *KPMG Austria GmbH, Wirtschaftsprüfungs-und Steuerberatungs AG* as Bank Auditor for the 2014 financial year were all unanimous. In addition, the general meeting unanimously voted to reelect Reinhard Iro and Christina Fromme-Knoch as members of the Supervisory Board for the maximum period permitted by the Memorandum and Articles of Association.

Looking at this meeting in more detail, the shareholders present at the meeting adopted, among other things, the recommendation to distribute a dividend of €0.25 per share from the net profit reported as at 31 December 2012. Given the total of 32,760,000 ordinary no-par shares and no-par preference shares in issue, this resulted in an aggregate distribution of €8.19 million. The dividend payment date was 21 May 2013. It was also agreed that the remaining profit should be carried forward to a new account subject to *§ 65 Abs 5 Aktiengesetz*.

Profit Appropriation Proposal

Another big dividend

In accordance with our vision and as anchored in BKS Bank's mission statement, we aim to offer our shareholders a long-term rise in the value of their investment and an adequate annual return on their shares. Consequently, when appropriating net profit, BKS Bank strives primarily to achieve a balance between the strengthening of its equity base that is indispensable for business reasons and offering its shareholders an appropriate return. In the continuing pursuit of an ambitious dividends policy, we will be recommending to the shareholders of BKS Bank at the 75th Ordinary General Meeting on 15 May 2014 that another dividend of €0.25 per share be paid out of *BKS Bank AG*'s net profit of €8,373,299.75. This would result in a total distribution of roughly €8.19 million. Based on their prices at the end of 2013, this corresponds to a return of 1.43 per cent on the ordinary no-par shares and 1.63 per cent on the no-par preference shares. The resulting payout ratio based on *BKS Bank AG*'s profit for the year after tax would be 40.2 per cent, giving us leeway to continue to strengthen BKS Bank's capital base and thus make us even more crisis-resistant.

€8.19 m

Investor Relations Communication

In the interests of fair disclosure, BKS Bank gives its shareholders, employees, customers and the media and interested members of the public close-to-real-time detailed information about the state of the enterprise. The preferred Internet platform for all enterprise information of relevance for corporate governance purposes is the website at http://www.bks.at. Click on Investor Relations. In addition, regular publications required under the *ad hoc* criteria set out in the EU Transparency Directive are also available from OeKB's Issuer Information Upload Platform, from the *APA-OTS euro adhoc* service and via *pressetext*. They mainly comprise publications of annual and semi-annual financial reports and the interim reports on results as at 31 March and 30 September as well as information about new bond issuances, planned changes to important investment thresholds and other capital-related measures that require disclosure. Information about the *Offenlegungsverordnung* (OffV: Austrian disclosure directive) is available in German from our website at www.bks.at. Click on Investor Relations » Berichte & Veröffentlichungen. Other information about the enterprise, including press releases, is also published on BKS Bank's website. Click on Newsroom » BKS News.

Having gained enormously in popularity, the role of social media networks as sources of information and communication platforms has long since ceased to be limited to leisure activities. Since May 2013, BKS Bank has therefore been posting news about the enterprise, contributions, tips and recommendations via the Facebook, XING and Twitter channels.

FINANCIAL CALENDAR FOR 2014

Date(s)	Event
10 January – 31 March 2014	Quiet period
31 March 2014	Press conference to present the Annual Financial Statements for 2013
1 April 2014	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2013 in the Internet and in the official *Wiener Zeitung* gazette
2 May – 23 May 2014	Quiet period
15 May 2014	75th Ordinary General Meeting
19 May 2014	Ex-dividend date
22 May 2014	Dividend payment date
23 May 2014	Interim Report as at and for the 3 months ended 31 March 2014
1 August – 22 August 2014	Quiet period
22 August 2014	Semi-Annual Report
7 November – 28 November 2014	Quiet period
28 November 2014	Interim Report as at and for the 9 months ended 30 September 2014

INVESTOR RELATIONS CONTACT

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

Group Management Report

Management and Shareholder Structure

The Members of the Supervisory Board and its Committees

HONORARY PRESIDENT

Heinrich Treichl

REPRESENTATIVES OF THE EQUITY HOLDERS	STAFF REPRESENTATIVES	REPRESENTATIVES OF THE REGULATORY AUTHORITY
Hermann Bell Chairman **Franz Gasselsberger** Vice-Chairman **Peter Gaugg** Vice-Chairman **Christina Fromme-Knoch** **Reinhard Iro** **Waldemar Jud** **Dietrich Karner** **Michael Kastner** **Josef Korak** **Karl Samstag**	**Maximilian Medwed** **Herta Pobaschnig** **Manfred Suntinger** **Hanspeter Traar** **Gertrude Wolf**	**Alois Schneebauer** *Ministerialrat* **Richard Warnung** *Ministerialrat*

SUPERVISORY BOARD COMMITTEES

Audit Committee
Hermann Bell, Chairman
Franz Gasselsberger
Peter Gaugg
Waldemar Jud
Michael Kastner
Maximilian Medwed
Herta Pobaschnig
Hanspeter Traar

Working Committee
Hermann Bell, Chairman
Franz Gasselsberger
Peter Gaugg
Michael Kastner
Herta Pobaschnig
Hanspeter Traar

Nominations Committee
Hermann Bell, Chairman
Peter Gaugg

Risk and Credit Committee
Hermann Bell, Chairman
Franz Gasselsberger
Peter Gaugg
Herta Pobaschnig
Hanspeter Traar

Remuneration Committee
Hermann Bell, Chairman
Peter Gaugg
Dietrich Karner
Herta Pobaschnig

As in February 2014.
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 section on Corporate Governance from page 28.

Management Structure

MANAGEMENT BOARD

Heimo Penker (to 28 February 2014)
Herta Stockbauer
Dieter Krassnitzer
Wolfgang Mandl

CENTRAL ADMINISTRATIVE DEPARTMENTS

Office of the Management Board
Herbert Titze
Jörg Fellner (Compliance)

Controlling and Accounts
Hubert Cuder

Personnel Management
Werner Laure

Internal Audit
Robert Raunig

HEAD OFFICE

Corporate, Business and Retail Banking
Viktor König

Credit Management
Michael Oberwalder

Credit Back Office
Georg Köferle

Treasury and International Operations
Josef Morak

Private Banking and Securities Operations
Georg Svetnik

Operations
Klaus Patterer

REGIONAL HEAD OFFICES

Klagenfurt
Karl Mertel
Diethmar Wölle

Villach
Georg Ahammer
Sabine Lax

Spittal/Drau
Gottfried Kindler

Styria
Nikolaus Juhász
Alfred Kordasch

Vienna
Gunnar Haberl
Thomas Litschauer

Burgenland
Bernhard Bauer
Joachim Reitmeier

SERVICE COMPANIES IN AUSTRIA

BKS Immobilien-Service
Manfred Isopp
Hubert Cuder

BKS Service GmbH
Jaroslav Zvolensky
Klaus Patterer

LEASING COMPANIES IN AUSTRIA

BKS-Leasing GmbH
Heimo Hebein
Karl Schabus

ABROAD

Branches
Branches abroad

Subsidiaries
BKS Bank d.d. (Rijeka)
BKS-Leasing s.r.o.[1] (Bratislava)
BKS-leasing d.o.o. (Ljubljana)
BKS-leasing Croatia d.o.o. (Zagreb)

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

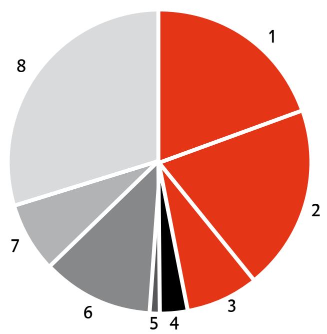
[1] *BKS-Leasing a.s.* until 30 September 2013.
As in February 2014.

Shareholder structure

BKS Bank had share capital of €65,520,000 represented by 30,960,000 ordinary no-par bearer shares and by 1,800,000 non-voting no-par bearer preference shares carrying 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 they represent. Under Austrian law, each share represents the same interest in the subscribed capital. As a result, the computed nominal value of each share of €2 is obtained by dividing the subscribed capital by the number of shares. *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 Vienna Stock Exchange's *Standard Market Auction* segment. At the end of 2013, BKS Bank's market capitalization was €569.3 million.

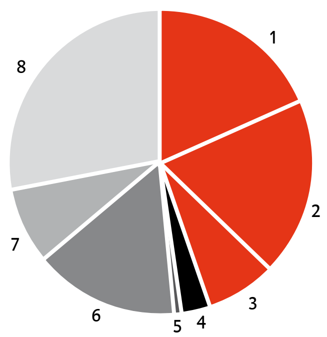
At the end of the year under review, the free float accounted for about 12.4 per cent of the total voting share capital. It was held by corporates, institutional investors and private shareholders. Institutional investors with positions in excess of the mandatory reportable threshold of 5 per cent at the end of 2013 accounted for roughly 84.2 per cent of the voting rights. 39.19 per cent thereof was accounted for by our two sister banks — *Oberbank AG* and *Bank für Tirol und Vorarlberg AG* — and *Generali 3 Banken Holding AG* accounted for 7.88 per cent. These three equity holders have brought their stakes into a syndicate agreement. The biggest single indirect shareholder was *UniCredit S.p.A. Holding*, which is based in Rome and Milan, with a stake of 37.10 per cent. Two subsidiaries in its group, *UniCredit Bank Austria AG* and *CABO Beteiligungs GmbH*, held 7.46 per cent and 29.64 per cent, respectively, of the 30,960,000 ordinary no-par shares. At the end of the reporting period, *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH* had a stake of 3.11 per cent. On the same date, *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 103,480 ordinary no-par shares, which corresponded to 0.33 per cent of the voting rights. The held-for-trading portfolio of treasury shares consisted of 478,479 ordinary no-par shares and 85,774 no-par preference shares.

SHAREHOLDER STRUCTURE OF BKS BANK



Shareholder structure by voting interest

1	*Oberbank AG*	**19.54%**
2	*Bank für Tirol und Vorarlberg AG*	**19.65%**
3	*Generali 3 Banken Holding AG*	**7.88%**
4	*Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	**3.11%**
5	*BKS-Belegschaftsbeteiligungsprivatstiftung*	**0.33%**
6	Free float	**12.39%**
7	*UniCredit Bank Austria AG*	**7.46%**
8	*CABO Beteiligungs GmbH*	**29.64%**



Shareholder structure by equity interest

1	*Oberbank AG*	**18.52%**
2	*Bank für Tirol und Vorarlberg AG*	**18.90%**
3	*Generali 3 Banken Holding AG*	**7.44%**
4	*Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	**2.98%**
5	*BKS-Belegschaftsbeteiligungsprivatstiftung*	**0.66%**
6	Free float	**15.47%**
7	*UniCredit Bank Austria AG*	**8.02%**
8	*CABO Beteiligungs GmbH*	**28.01%**

The shareholders shaded red in these charts have concluded a syndicate agreement.

The Economic Environment

The world economy enters quieter waters

The world economy continued to pick up in 2013, growing by 2.4 per cent in real terms. However, the major economic regions continued to perform very differently during the year under review. This was mainly because of poor labour market outlooks, runaway sovereign debt in Europe and the United States and, not least, uncertainty about the possible consequences of a tighter monetary policy in the United States. Talk about the possibility that the Federal Reserve Bank might taper its bond purchasing in the period up to early summer triggered capital outflows and currency depreciation, especially in the threshold and developing countries. India, Mexico and Brazil as well as China suffered in part major declines in GDP growth compared with 2012 against the backdrop of increasingly tough financing terms and slackening goods demand from the United States and Europe. The Japanese economy firmed up following massive depreciation of the yen versus the US dollar and the euro as a consequence of its expansionary financial and monetary policy (Abenomics) to achieve real growth of 1.8 per cent.

The US economy was slowed more than had generally been expected by the cut in central government spending and rise in central government taxes that took effect at the beginning of 2013 as a result of budget cuts. However, public sector demand at the state and municipal level made up for most of this effect. The uptrend that set in at the beginning of the second half was given wings by a robust increase in domestic demand, including, in particular, private consumer demand, in investment and in currency-driven exports. In addition, the growing number of planning permissions and a recovery in house prices boosted confidence in the property markets. The jobless rate — a central US monetary policy indicator within the scope of so-called *forward guidance* — flattened to about 7 per cent in the course of the year. The US economy, the world's biggest, grew by about 3.0 per cent in 2013, and the government in Washington is aiming for real GDP growth of between 3.0 per cent and 3.5 per cent this year.

Despite a small decline of 0.4 per cent in GDP in the eurozone, the economic horizon brightened perceptible towards year-end. Industrial output recovered in anticipation of 2014 and 2015. It was mainly stimulated by improvements in domestic demand and exports. Most of the repercussions of the financial crisis in the eurozone were contained by painful reforms, and the first signs of easing tension were felt above all in Spain, Portugal and Ireland. However, indebtedness in the southern peripheral countries was still a burden. Combined with structural problems in a number of core countries, including France and the Netherlands, this meant that the European economy was still very prone to disruptions.

The German economy picked up speed again with GDP growth of 0.4 per cent. Its robust state was evidenced by a comparatively low jobless rate of roughly 5 per cent, sustained employment growth and perceptible income growth. Foreign trade having dominated in the recovery phase that followed the financial and economic crisis, Germany's domestic economy has recently become more prominent. In contrast, Italy — the eurozone's third-largest economy and one of Austria's major trading partners — was slow to emerge from the severest and longest economic slump since the war. The economies of the EU Member States in Central, Eastern and Southeastern Europe also suffered a perceptible loss of momentum against the backdrop of the poor international climate. The stubborn economic slump in the eurozone, more problematic international financing conditions and weaker consumer demand were contributing factors. Whereas, for instance, the Baltic states, Slovakia and Poland again achieved positive GDP growth of between 1.4 per cent and 2.1 per cent in 2013, a number of other countries including Croatia (which became the European Union's 28th Member State at the beginning of July 2013), Hungary, Slovenia and the Czech Republic remained in the economic doldrums.

In general, the state of labour markets in the eurozone was still a worry. Only a few benefited from the modest economic upwind, and they did so with a time lag. The jobless rate in the year under review was 12.1 per cent. *Eurostat* estimates that a total of 19.4 million men and women were unemployed in the region at the end of 2013. The level of youth unemployment was particularly troubling EU-wide (EU-28: 23.6 per cent; eurozone: 24.3 per cent) and already exceeded 50 per cent in Spain and Greece at the end of 2013. Austria was again among the countries with the lowest rates both of registered unemployed (5.1 per cent) and jobseekers under the age of 25 (8.6 per cent).

As for exchange rates, having already been relatively stable in the previous year, Europe's single currency continued to stand its ground well versus the currencies of the eurozone's most important trading partners in 2013. The expansionary monetary policy of Japan's central bank — undertaken to achieve recovery in an economy hit by structural problems — had already led to significant appreciation of the euro against the Japanese yen of more than 14 per cent in 2012, and the euro strengthened massively versus the yen again in 2013, advancing by 27.4 per cent to €¢1.4472/¥. The euro's drop of 4.5 per cent versus the US dollar to US$1.3791/€ against the backdrop of the aggressive monetary policies of the Federal Reserve and the ECB was comparatively small. Similarly, the minimum exchange rate meant that the euro was virtually unchanged versus the Swiss franc, strengthening by 1.7 per cent to SFr 1.2276/€. The euro firmed up slightly versus the Chinese renminbi yuan (CNY).

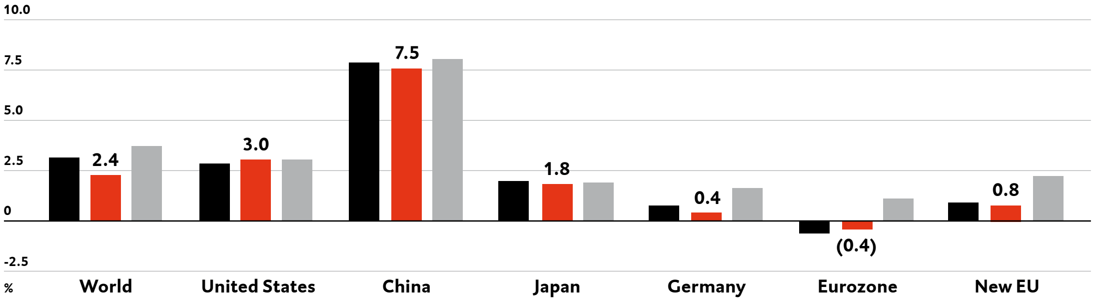
The market price of Brent crude stayed relatively stable until the end of 2013 after briefly dropping to below US$100 in mid-April. At the end of December, Brent crude was trading at US$110.82 a barrel, which was roughly 1 per cent less than at the beginning of the year. In the wake of the shale oil boom, a barrel of the American reference WTI Cushing crude was trading at US$98.71 on the New York Nymex market. Crude oil futures for delivery in December 2015 suggest that participants in the oil market expect oil prices to fall slightly in the medium term. As for precious metals, the 'crisis currency' gold in particular suffered a sharp drop in price. The shift away from gold by, above all, institutional investors slashed the price of a fine ounce by over a quarter from US$1,673.78 at the beginning of the year to US$1,205.65 at the end of December.

A modest economic recovery in Austria

From the beginning of the year, a number of leading indicators were pointing to a perceptible recovery of economic momentum. However, according to WIFO research, the persistently difficult foreign trade environment kept the economic upturn modest in the year under review, with real GDP growing by 0.3 per cent. Demand from Austria's most important trading partners in the EU — Germany, Italy and Austria's other neighbours — was comparatively muted, so real export growth in 2013 as a whole stayed slow and below expectations at 2.5 per cent. Following modest growth of 0.5 per cent in 2012, the increase in private household consumption expenditure fell to nearly zero. Similarly, capital expenditure by companies was cautious and significantly down on 2012, falling by 3.5 per cent. Construction spending was also slow to grow, increasing by 0.5 per cent on the previous year. Because of the global downturn in raw material prices and as a result of the energy revolution, the rise in prices was slow, reducing the rate of inflation from 2.4 per cent in 2012 to 2.0 per cent in 2013.

The situation in the labour market remained tense throughout the year. The number of jobholders was just 0.7 per cent up on 2012. This increase was too small to make up for the rise in the number of working women, the supply of foreign workers and limitations on opportunities to transfer from unemployment to early retirement. The number of registered unemployed averaged about 288,000 during 2013. The problem of finding jobs for older and poorly qualified people, who accounted for a large proportion of the long-term unemployed, was still unsolved. The seasonally adjusted jobless

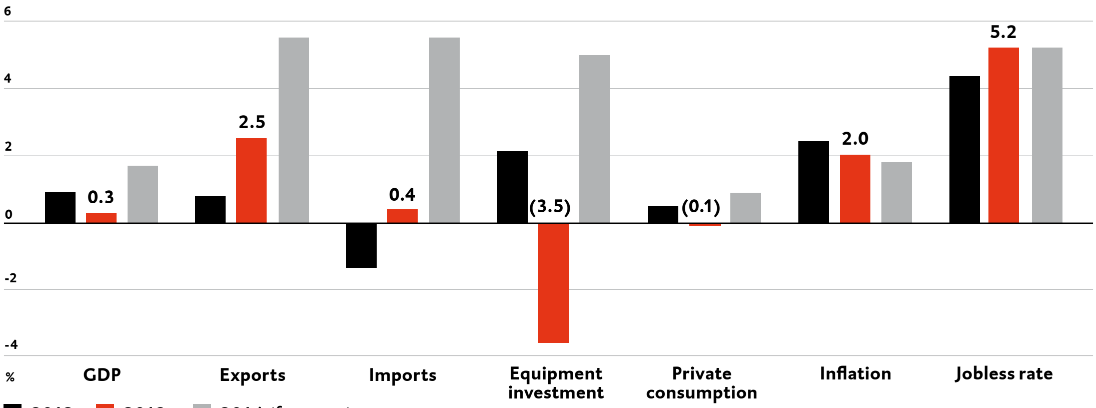
THE INTERNATIONAL ECONOMY



Real GDP growth versus previous year, %
2012 2013 2014 (forecast)

Sources: WIFO, World Bank.

ECONOMIC INDICATORS IN AUSTRIA



2012 2013 2014 (forecast)

Source: WIFO.

CRUDE OIL PRICES

Brent crude oil, US$

Source: Bloomberg.

GOLD PRICES

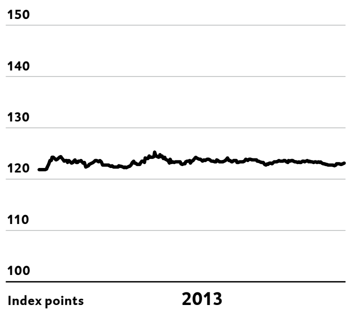
Gold, US$

Source: Bloomberg.

KEY EXCHANGE RATES

US$/€

¥100/€



SFr/€

Source: OeNB.

rate calculated by *Arbeitsmarktservice* (AMS: Austria's labour market service) was 7.6 per cent of the working population in 2013. Applying the *Eurostat* definition, the rate increased from 4.3 per cent in 2012 to 5.2 per cent in 2013.

5,459 companies with debts of an estimated €6.3 billion slid into insolvency during the year under review. That was 9.6 per cent fewer than in 2012. The courts opened 3,266 insolvency proceedings. The number of employees affected by the failure of their company increased by 8,500 to 31,800. Most were working in the construction, engineering, metal and staple and luxury food industries, in the corporate services sector and in the hospitality trade. The number of private bankruptcies also fell slightly, with 9,022 debt regulation procedures opened in respect of estimated total debts of €1.14 billion. These figures were 5.3 per cent and 7.5 per cent, respectively, down on 2012.

2013 was a difficult year for the banking industry

The Austrian banking industry had a much tougher 2013 financial year than had been expected as the economic recovery that had been predicted had yet to happen at year-end. In its initial assessment, OeNB (the Austrian national bank) reported a drop in net interest income caused by the low interest rates and persistently strong competitive pressures as well as weak growth in net fee and commission income in the face of investors' clear preference for highly liquid low commission investment variants together with high operating expenses and costs that were attributable to external factors. In addition, impairment charges for problem loans were stuck at a high level, further denting Austrian banks' profitability. On the other hand, the Austrian banks' traditional business model, which is based mainly on loan and deposit operations, once again proved to be crisis resistant in 2013. The cutback in domestic interbank operations and reduction in other domestic receivables and payables reduced the Austrian banks' assets by 5.4 per cent to €929 billion during the year under review. In the light of the new liquidity standards, OeNB confirmed that the Austrian banks' liquidity situation improved noticeably. This trend is likely to continue in early 2014 and in years to come as regulatory concepts like the liquidity coverage ratio (LCR) and the leverage ratio are implemented. In the first three quarters, the solvency ratio of the Austrian banking industry as a whole rose from 14.2 per cent to 15.0 per cent, and its Tier 1 ratio rose from 11.0 per cent to 11.6 per cent. These figures are still based on the Basel II regime, so the logic underlying their calculation will change fundamentally from 2014.

Throughout the European Union, regulation, structural transformation and competition significantly increased the pressure for change in the banking industry. The end of June 2013 saw the passing of the laws and legal amendments that transformed Basel III into valid law at the beginning of 2014. The Capital Requirements Regulation (CRR) mainly contains provisions (with sometimes very complicated transitional arrangements) regarding the components of capital, minimum capital requirements, big loans (previously large investments), liquidity reporting, indebtedness (leverage) and disclosures. The Capital Requirements Directive IV (CRD IV) primarily contains provisions regarding access to the services of banks and securities firms, governance modalities and the regulatory framework. Otherwise, European regulators focused mainly on plans to transfer the regulation of big banks to the ECB and on creating initially national and later European restructuring and resolution rules.

As for the European banks' traditional banking operations, we note that profits were slow to pick up during the year under review. Although there was a ready supply of liquidity from the central banks, the need to reduce risks meant that opportunities to use it for the benefit of the assets side of a bank's balance sheets were limited.

Corporate Strategy

'Solid', 'responsible' and 'dependable' have long been adjectives associated with our bank. Among other things, our reputation is based on a business strategy that has always been directed towards sustainable growth.
It is founded on the following principles:
– we strive for long-term successes, not short-term profits;
– we grow without outside help and only expand gradually;
– BKS Bank only transacts business that is transparent and where it has the necessary expertise;
– we only enter into risks that we can bear without outside help; those risks are continuously evaluated to assess whether they are tolerable and worthwhile from an risk versus return point of view;
– equity investments are only acquired if they serve our banking operations;
– BKS Bank is a reliable and secure bank whose word is its bond and whose decision-making chains are short;
– highly trained employees who work in the region that they come from put customers' needs at the centre of what they do.

Our bank continued to consistently pursue this strategy in 2013, which was a year moulded by the financial and economic crisis. With its help, we performed respectably compared with other banks. We did not need any state aid or carry out any significant staff cuts, and we were always profitable.

Naturally, to stay competitive, we regularly revise our plans to fit current circumstances. Our management discuss and evaluate market opportunities and risks during an annual strategy process. Among other things, our defined strategic goals for the years to come are to continue to develop our market position in Vienna and Styria, cut back office costs, integrate stationary and digital sales channels, restructure our sales organization and sales controls and go on increasing our Tier 1 ratio and enlarging the customer base. We will also continue to place particular emphasis on overall bank risk. To this end, our strategic goals will also encompass measures to limit and manage risk such as introducing an IT supported risk early warning system for credit operations. Some of the projects to attain these goals have already been begun.

In years to come, our customer acquisition activities will centre on developing a younger customer base, paying more attention to the self-employed segment and continuing to expand our services for customers in the agricultural sector. There will be a special focus on improving our earnings in the retail banking segment, which is under severe pressure around the world and which experts expect to suffer another fall in profits. At the same time, we will be exploiting opportunities to cut costs with a cost:income ratio of below 50 per cent in mind.

Consequently, we will be intensifying our online customer acquisition activities to supplement traditional branch based sales. Our customers have had the use of a smartphone app since the autumn of 2013, and we stepped up our presence in the social media in the second quarter. Our digital customer portal will replace the online banking system in 2014, and we are in addition planning to offer advice sessions via a videoconferencing tool to saving customers having to go to a branch.

We will also be staying on our sustainable growth path when it comes to the branch network. We believe that our Viennese and foreign markets still have a lot of potential. However, the economic crisis has hit some of our foreign markets even harder than Austria, so we have slightly put back our plans to open new branches.

Membership of the 3 *Banken* three banks group, which consists of us together with Oberbank and Bank für Tirol und Vorarlberg (BTV) is an essential part of our strategy. The three banks are linked by mutual equity investments, and a syndicate agreement signed in 1997 ensures their independence. Joint ventures like IT company *3-Banken-EDV Gesellschaft* generate synergistic effects that save money. We have other long-standing alliances with building society *Bausparkasse Wüstenrot AG* and insurer *Generali Versicherung AG*. Their products and services make up a balanced addition to our range of offerings.

Markets

The company now called BKS Bank was founded 91 years ago in Klagenfurt as *Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co.* In 2013, we employed an average of 910 people and were active in the banking and leasing markets in Carinthia, Styria, Burgenland, Vienna and Lower Austria as well as in Slovenia, Croatia and Slovakia.

BKS BANK'S CORE MARKETS

● Regional head offices, headquarters of leasing companies, representative offices.

BKS BANK'S BUSINESS ACTIVITIES BY REGION

Country	Banking	Leasing	Representative Offices
Austria	*BKS Bank AG* 6 regional head offices, 48 branches	*BKS-Leasing GmbH*	
Slovenia	5 bank branches: Ljubljana (2), Maribor, Celje, Domžale	*BKS-leasing d.o.o.*	Ljubljana
Croatia	*BKS Bank d.d.* Rijeka (Head Office); Zagreb Branch	*BKS-leasing Croatia d.o.o.*	Zagreb
Slovakia	1 branch: Bratislava	*BKS-Leasing s.r.o.*	
Italy	Cross-border activities		Padova
Hungary	Cross-border activities		Sopron

CORE AREAS OF EXPERTISE	
Austria	Retail customers: home construction loans and investment advice. Corporate and business banking customers: corporate finance, export finance, giving SMEs in the manufacturing, business and trading sectors advice about subsidies; payments.
Slovenia	High level of financial expertise, high service quality, made-to-measure offerings.
Croatia	Corporate finance, deposit services for retail and corporate and business banking customers; *BKS Bank d.d.* scores points for its high service quality and individualized offerings.
Slovakia	Lending to SMEs, attractive savings products, high service quality, made-to-measure offerings.
Italy, Hungary	We assist Austrian companies entering these markets.

Austria

542

BKS Bank's success story began in Carinthia—Austria's southernmost province—and the group's Head Office is still in its capital Klagenfurt. BKS Bank employed 542 people in Carinthia and had 23 branches affiliated to its Klagenfurt, Villach and Spittal regional head offices. Roughly two thirds of the group's business was generated in the Carinthian market, where BKS Bank is one of the most important providers of banking products and services to retail and corporate and business banking customers. The Carinthian economy had a tough time last year. There was a record number of insolvencies, and many companies were also hard hit by the insolvency of *Alpine Bau GmbH*. In addition, there was a constant stream of adverse reports in the media in connection with a variety of legal proceedings that also harmed the province's reputation as a business location. In this setting, companies were rather cautious, especially in the Greater Klagenfurt area. However, Villach profited from the presence of a number of flagship enterprises and good accessibility as a hub within the *Alpen-Adria* (Alps and Adriatic) region, enabling it to develop better than the province's capital during the year under review. Although our competitors also stepped up their efforts to acquire medium-sized enterprises as customers, the penetration rates of our regional head offices in the corporate and business banking segment were still very high and they were able to finance a large number of prime projects.

Our bank began its expansion in the Styrian market. We opened our first branch outside Carinthia on *Kaiserfeldgasse* in Graz 30 years ago. On International Savings Day, Thomas Spann, Director of the Styrian *Wirtschaftskammer* (economic chamber), marked this anniversary by presenting a Certificate of Recognition to the heads of the Styria Regional Head Office, Nikolaus Juhász and Alfred Kordasch, for 30 years of business success and for our contribution to the region's economy. We have steadily enlarged our branch network in Styria since opening the first branch. It now consists of 12 branches, and the branches in Hartberg (25 years) and Feldbach (10 years) also had anniversaries to celebrate. In mid- 2014, another branch will open its doors in western Graz. Our many corporate and business banking and personal banking customers were serviced by 80 staff members in the region during 2012. The recently created Private Banking Department developed very well. It has been setting new standards for asset management since 2012 and was able to acquire a large number of prime customers last year. The personal loan portfolio in Styria also grew satisfactorily, with fresh lending coming to €30.5 million. In the corporate and business banking segment, Styrian companies' low propensity to invest meant that the demand for corporate loans was generally rather sluggish, especially during the first half of 2013. Nonetheless, our Styrian Regional Head Office was able to demonstrate its expertise, especially when it came to the types of project that are eligible for subsidies and structuring working capital credit lines. Thanks to our efforts to help medium-sized enterprises in rural regions and not just in cities, we again saw numerous enterprises switching to BKS Bank as their principal banking provider. In addition, we experienced a big increase in deposits from corporate and business banking customers in Styria.

BKS Bank is still a small player in the banking landscape in Eastern Austria with five branches in Vienna, six in Burgenland and two in Lower Austria. However, we have been noticing that many customers want a dependable banking partner who offers them an alternative to the big banking groups. This enabled our regional head office in Vienna to achieve a significant increase in both retail and corporate and business banking customers during the year under review. To meet demand, we therefore opened another branch in *Billrothstrasse* in Vienna in 2013, and further branches are planned. Our Vienna Regional Head Office with its 36 employees accounted for about 7 per cent of our assets at year-end, having achieved significant growth on both the assets and the equity and liabilities sides of the balance sheet.

BKS Bank made its first move into the Burgenland market 10 years ago when it acquired *Burgenländische Anlage- und Kreditbank AG* (BAnK), and BAnK's merger into BKS Bank followed in 2005. At year-end, 51 people were working at our Burgenland Regional Head Office in Mattersburg and at the branches affiliated to it, and this regional head office accounted for 6 per cent of our assets. In comparisons between Austria's provinces, Burgenland's economy did well during the year under review. Given its geographical location, our line of products and services for foreign workers in this region was probably also a contributing factor. Growth in the output of material goods — already stimulated by the nonrecurring effects of company relocations in the previous year — was again above average in 2013 on the heels of real growth of 8.2 per cent in 2012. Our new business account managers too were able to exploit this energy. For instance, the number of retail customers in Burgenland topped 15,000 for the first time, and there was also a big increase in the number of securities customers. Furthermore, we successfully positioned ourselves as an important supplier to the public sector and acquired a number of well-known enterprises as new customers.

Slovenia

Slovenia was one of the countries particularly hard hit by the economic and financial crisis in 2013. To date, Slovenia has been able to avoid having to ask for help from the EU bailout fund thanks to drastic spending cuts and the government's ambitious privatization programme. In addition, the government liquidated two small bad banks in Slovenia (*Probanka d.d.* and *Factor banka d.d.*). These developments alone suffice to illustrate that the situation in our most important foreign market can rightly be described as difficult in the year under review. We acted correspondingly cautiously.

9%

BKS Bank had five branches in Slovenia. They accounted for roughly 9 per cent of our consolidated assets. As in Austria, we serve our Slovenian retail and corporate and business banking customers as a so-called *universal bank*. In the course of 2013, our 78 Banking staff in Slovenia increased their customer base to over 6,500 retail customers and roughly 1,850 corporate and business banking customers. Once again, lending accounted for the larger part of their operations. The Slovenian loan portfolio was worth €0.6 billion at the end of 2013, which was slightly down on the end of the previous year. This makes Austria's southern neighbour the group's third-largest loan market behind Carinthia and Styria. Despite the difficult market environment, the level of credit risk was still acceptable. During the crisis, it became apparent that Slovenian customers too value a stable banking provider. Our employees in Slovenia achieved significant growth in both the retail and the corporate and business banking customer base. Deposit balances grew from €86.3 million to €317.1 million, reflecting our customers' trust in BKS Bank. We are also represented in Slovenia by our leasing company *BKS-leasing d.o.o.*, which employs 11 people. Its lease portfolio was worth €67.1 million at year-end (31 December 2012: €68.7 million), and its profit from ordinary activities came to €0.8 million (2012: €0.7 million).

Preparations for another big increase in the customer base began at the end of 2013 when we opened negotiations with the management board of *Factor banka d.d.*, which is in liquidation, regarding the takeover of its securities customers. This small Slovenian bank, having run into difficulties, is being liquidated by the government. We are pleased to report that the negotiations could be completed in January 2014 and the migration of its roughly 3,000 securities customers took place in February. As in Austria, BKS Bank in Slovenia gives its customers access to personal asset management services [1] as well as offering them brokerage services. In addition, *BKS Bank AG* is a member of the Ljubljana Stock Exchange, so customers can easily do business through stock brokers either directly or using our online banking service.

Croatia

Croatia took an important step when it joined the EU in 2013. Nonetheless, the country was still hard hit by the economic crisis and was struggling with high jobless and insolvency rates.

BKS Bank has been operating as a bank in this market for six years. It does so via its subsidiary *BKS Bank d.d.* (formerly *Kvarner Banka d.d.*), which is headquartered in Rijeka. It also had a branch in Zagreb and employed 56 people in the year under review. *BKS Bank d.d.* had assets of €164.6 million, which was €21.6 million up on the figure of €143.0 million recorded at the end of 2012. It deliberately held back as a lender, resulting in a correspondingly small increase in the loan portfolio, which grew from €103.9 million to €111.9 million. The difficult macroeconomic environment increased the impairment charge on loans and advances by €1.6 million to €1.8 million. The company made a loss for the year of €1.14 million. The impairment test carried out as of 30 September 2013 on the basis of this result led to a write-off of €5.4 million of the goodwill of *BKS Bank d.d.* in the parent company's accounts.

€21.6m

BKS Bank d.d. had only been offering its customers a full range of banking products and services (apart from securities services) since 2010. It had originally specialized in lending to small and medium-sized enterprises. Consequently, its communication activities during the year under review focused on accelerating the development of retail customer operations. The slogan *The Customer is King* was employed to highlight *BKS Bank d.d.*'s advisory services, which are significantly better than those of its rivals.

Besides banking, BKS Bank also carries on leasing business in Croatia via *BKS-leasing Croatia d.o.o.* Because of the slack state of the economy, Croatia's leasing market continued to shrink. This reduced the company's lease portfolio by €5.8 million to €32.5 million. It made a profit from ordinary activities of €0.9 million, which was a respectable result in this difficult economic environment. Twelve people were working for *BKS-leasing Croatia d.o.o.* at 31 December.

[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 or extensive risk advice. Each securities product entails a different level of risk. 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.

Slovakia

Slovakia is the BKS Bank Group's newest foreign market. BKS Bank has had a branch there, in Bratislava, since 2011. It employed 18 people. It did not begin retail customer operations until the fourth quarter of 2012, but they were at the centre of its efforts during the year under review. As the figures show, those efforts were successful. Deposit balances were substantially up on 31 December 2012 to €17.1 million. Our customers valued the security that BKS Bank offers them, leading to the growth in the customer base that we had anticipated. Our balance sheet total in Slovakia were roughly 16 per cent up on the end of 2012 to €45.9 million. Most of the increase on the assets side of the balance sheet was accounted for by receivables from customers. As in all its other markets, BKS Bank was very selective in granting new loans in Slovakia in order to keep credit risk as small as possible. BKS Bank also operates in the Slovenian leasing market. Its leasing company *BKS-Leasing a.s.* was transformed into *BKS-Leasing s.r.o.* during 2013, which means that the stock corporation became a limited liability company. The comparatively small Slovakian leasing market with its emphasis on movables and motor vehicle leasing remained trapped in the economic shadows during 2013. As a result, the lease portfolio at *BKS-Leasing s.r.o.* was static on the year at €30.3 million. The company employed an average of 14 people.

16%

Italy and Hungary

We have a representative office in Padova and one in Sopron. They service customers from Italy and Hungary and only provide products and services on a cross-border basis. We do not have any plans to set up banks or leasing companies in those markets in 2014.

Customers, Products and Services

The BKS Bank Group was servicing roughly 130,000 retail banking customers and 13,300 corporate and business banking customers at the end of 2013. This was 2.3 per cent and 4.6 per cent more, respectively, than a year earlier. While the number of retail banking and corporate and business banking customers was unchanged in our Carinthian core market, there was significant growth in Eastern Austria and, above all, in Slovenia. We offer customers all the usual products and services provided by a universal bank. We have strategic alliances with building society *Bausparkasse Wüstenrot AG*, insurer *Generali Versicherung AG* and *3 Banken-Generali Investment-Gesellschaft m.b.H.* so as to be able to provide building society, insurance and fund products and services.

The target groups addressed by BKS Bank are corporate and business banking customers, personal banking customers in the retail segment and smaller business banking customers included in the retail banking segment. At the time of its founding in 1922, it only serviced corporate and business banking customers. Personal banking customers have only been part of the customer base since the 1960s. Because it was originally set up as a pure corporate and business bank, BKS Bank has strong roots in the corporate sector and its customer base includes numerous companies in the business, manufacturing and trade sectors. The personal banking customers serviced in BKS Bank's retail banking segment included jobholders from every age group. The business customers serviced in the retail banking segment were small business proprietors and professionals.

The competitive landscape is such that the products and services provided by different banks in the saving, investment and loan markets are fairly similar. This makes it all the more important for an institution like BKS Bank to stand out from the mass of often much larger rivals by providing more expert advice that benefits *every* target group. As in prior periods, customers appreciated and accepted our positioning as a dependable and solid provider of banking services.

Our banking relationships with many companies in the corporate and business banking segment go back several generations. BKS Bank's advisory services focus on helping medium-sized enterprises in the trade, business and manufacturing fields. In addition to our expertise, those customers value our short decision-making chains, being able to negotiate with us at eye level and the fact that our bank is rooted in the region. Thanks to our transparent account models, high service orientation, outstanding advisory support in the investment and export loan fields and the extensive subsidy advice we offer, our recommendation rate is good and customer loyalty is high. During 2013, we helped our corporate and business banking customers prepare for the changeover to SEPA and kept them informed about the changes to the European Union's subsidies landscape that are entering into force in 2014. Our bank's core areas of expertise in the retail banking segment are home finance and investment counselling. As the high level of saving and primary deposit balances showed, we continued to enjoy savers' confidence in turbulent times. Our new private banking offerings were also very well received, and we acquired significant numbers of new customers in every Austrian province. Our line of products and services for farmers was enlarged by the addition of our agricultural service. Among other things, the former EU Commissioner for Agriculture, Franz Fischler, has said that sustainability is also the basis for future success for farmers.

Digitization: smartphone app and online customer advisory services

We are pleased to report that we were able to significantly improve our line of services in two areas during 2013 thanks to the bank's substantial investments in digitization. We launched a smartphone app for android and iOS phones at the beginning of the fourth quarter that had been downloaded 3,800 times by year-end and received excellent ratings in the app stores. This app puts the bank in our customers' pockets, enabling them to carry out their most important transactions comfortably on their mobile phone. The app displays cash, securities and credit card accounts and can, among other things, be used to order payments. There is a QR code reader that can be used to transfer data directly from payment slips to the payment instruction form, making the tiresome manual entry of BICs and IBANs unnecessary. In addition, the app includes an extensive service section that contains travel information, a currency calculator and an ATM and branch finder that is likewise useful for people who are not BKS Bank customers.

3,800

Our personal communication activities also made growing use of digital channels during the year under review. We bought an online meeting tool that will in the future enable us to offer customers advice via videoconferences. At the moment, it is being used for online staff training seminars — so-called *webinars* — and for internal meetings that span several locations. We will be testing the tool on a limited scale before we start offering customers advice at home or at work. Head Office specialists were already being hooked up online to provide expert advice during in-branch customer meetings. In addition, in October, investment customers were invited to attend an online talk by Alois Wögerbauer, CEO of 3 *Banken-Generali Investment-Gesellschaft m.b.H.*, as a pilot experiment. We were pleased with the result, namely more than 250 participants. We will continue to enlarge our range of digital offerings by introducing a digital customer portal in 2014.

Enlargement of our sustainable line of products and services

Besides digitization, the bank also focused on building sustainability into its core operations during the year under review. By the end of 2014, a total of four sustainability orientated products will have been added to the line. For instance, in the summer of 2013, BKS launched its *Aktives Vermögensmanagement nachhaltig*[1] (*AVM nachhaltig* proactive sustainable asset management) service. This is the first asset management service in Austria to be awarded Austria's *Umweltzeichen für nachhaltige Finanzprodukte*[2] (environmentally sustainable financial products mark). *AVM nachhaltig* invests exclusively in sustainable, ethical and environmental funds that carry Austria's environmentally sustainable financial products mark or meet its high standards. This portfolio is proactively managed by BKS Bank experts. BKS Bank launched a 'green' passbook account in time for International Savings Day. Since December 2013, we have been offering retail and corporate and business banking customers an environmental loan on attractive terms to finance appropriate investments. Details of our sustainable products are provided in our Sustainability Report, which is available online at www.bks.at.

Communication

Our communication activities addressed every group with whom we needed to communicate on an equal footing. Marketing and public relations tools were the core of our communications policy. Since BKS Bank did not have full branch coverage in any of its markets, we did without TV advertising and designed our campaigns to minimize wastage. We used regional media, our branches and our online media as means of communication. We focused more closely on the Internet in the year under review and advertised selectively on the websites and portals that are strongly frequented by our target groups.

In order to approach younger customers in the retail banking segment, BKS Bank invested in the launch of its social media activities in Austria during 2013. It set up a Facebook page (https://www.facebook.com/bksbank) and a Twitter account (https://twitter.com/bksbank). For the first time, October — the month of International Savings Day — was used to link a product campaign for a *Kapitalsparbuch* fixed-term, fixed-rate passbook account to a Facebook campaign. The slogan was *Knacken Sie das Sparschwein* (break the piggy bank). Facebook users were able to guess a changing three-character code and win a *Kapitalsparbuch* account worth up to €1,000. 8,888 high score entries and an average stay of more than 10 minutes in the game were proof of the game's popularity in the Facebook community. At the same time, we also marketed the *Kapitalsparbuch* with the help of offline advertising media such as in-branch posters, displays, adverts on buses and so on. XING is an attractive social media channel for our bank alongside Facebook when it comes both to attracting new staff and communicating with

[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. *BKS Bank AG*, St. Veiter Ring 43, 9020 Klagenfurt, Austria.

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

prospective customers. Since XING is not just an online medium and also initiates personal contacts between members through network meetings, we see potential there. At the same time as launching our social media presences, we trained every interested member of staff in the dos and donts of social media in a series of webinars. Alongside advice on how best to present oneself in each channel and how to avoid getting it wrong, they also focused on data protection and data security. The other key digitization processes in 2013, which have already been described in the section on *Customers, Products and Services*, were the introduction of the smartphone app and the purchase of an online videoconferencing tool that can be used to train up to 500 employees at a time during webinars and for customer meetings and online talks and lectures for customers.

The bank's events in its regions remained popular. For instance, in addition to jubilee celebrations — which took place in Hartberg, Feldbach, Graz, Hermagor und St. Ruprecht (Klagenfurt) — our regional head offices and branches organized financial symposia, cabaret evenings, expert lectures, wine tastings, visits to the Porcia comedy theatre and the Kvarner Festival and much more. We again held our usual big autumn events for corporate and business banking customers in Velden, Baden and Graz during which the renowned labour and social law expert Professor Wolfgang Mazal gave us an insight into tomorrow's working environment. Company proprietors were of course particularly interested in the SEPA preparation workshops held jointly with representatives of the Austrian National Bank and *STUZZA-Studiengesellschaft für Zusammenarbeit im Zahlungsverkehr GmbH*.

We did largely without mass communication activities in our foreign markets and instead prioritized addressing customers directly. This enabled us to approach prospective customers selectively and not go under in the flood of big banks. One particularly successful example of this was the *Jeder ist ein König* (everybody is a king) campaign held by our subsidiary *BKS Bank d.d.* during which it approached prospective customers in the biggest shopping malls in Zagreb and Rijeka. Interested parties were able to have themselves professionally photographed on a throne and wearing a crown and their photographs then took part in a competition.

Internal communication with staff members takes place through our Intranet, where they can find important news items and information about any changes in a clearly arranged form. Our staff magazine, *Cocktail*, also brings colour into our everyday lives. The new videoconferencing tool was well received. It gives employees an uncomplicated way of holding meetings with colleagues in other branches or provinces from their desk. The system reduced travel costs by 5.7 per cent. Personal communication with our employees is important to us. The Management Board keeps them informed about key strategies, performance figures and other news during presentations that are held at all our regional head offices twice a year. *Jours fixes* that take place at the department, regional head office and branch levels round off the ways information is shared. Events and outings organized primarily by the Staff Council are also a pleasant informal setting for exchanging views with our employees.

5.7%

Staff

Thanks to their exceptional dedication, skills and loyalty to BKS Bank, our hard-working and highly motivated staff made another essential contribution to our bank's success in the year under review. The upheaval that hit the entire banking landscape also had a massive impact on jobs in our industry. Many of our competitors have already announced plans for extensive staff cuts. BKS Bank too regularly analyzes its staff levels. After all, staff costs are the biggest item of expenditure in the Income Statement. In recent months, we have carried out and put into effect a number of efficiency enhancement projects within the bank so as to use natural attrition as a means of reducing the workforce. The number of staff (individuals) was 16 down on the end of 2012 to 1,086, and the annual average fell from 930 to 910. We believe that this trend will continue in 2014, but we do not have any drastic plans to cut staffing.

1,086

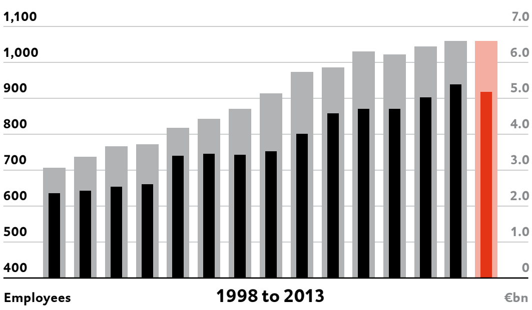
NUMBER OF EMPLOYEES (INDIVIDUALS)

	2013	2012	2011
Total	**1,086**	**1,102**	**1,098**
– Of which in Austria	876	894	907
– Of which in Slovenia	94	93	76
– Of which in Croatia	74	73	773
– Of which in Slovakia	38	38	38
– Of which in Italy	3	3	3
– Of which in Hungary	1	1	1
– Of which women	617	621	621
– Of which men	469	481	477
Full-time employees	**853**	**872**	**866**
– Of which women	396	401	401
Part-time employees	**233**	**230**	**232**
– Of which women	221	220	232
Number of older staff doing part-time work	15	14	18
Disabled employees	20	19	18

As the chart below shows, the average workforce grew steadily until 2012 despite the obstinate financial and economic crisis. However, the number of employees grew by less than our balance sheet assets. Our productivity (assets per member of staff) grew by about two thirds in 15 years, rising from €4.53 million in 1998 to €7.41 million at the end of 2013.

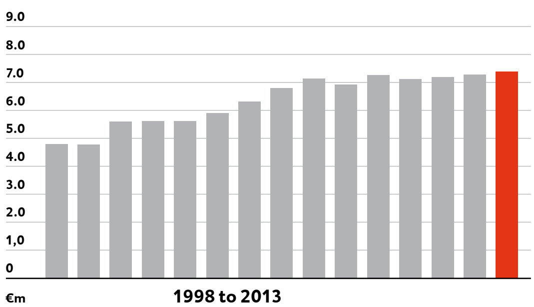
The average period of service with BKS Bank was 14.2 years, and 153 employees had been with us for more than 30 years. We are also pleased about the number of people wanting to work for us. Personnel Management processed 1,594 applications during the year under review. We increasingly used

SIZE OF WORKFORCE AND BALANCE SHEET ASSETS



Annual average workforce
Consolidated assets, €bn

BALANCE SHEET ASSETS PER EMPLOYEE



Assets per employee, €m

online career portals to recruit staff and stepped up our presence in XING and Facebook accordingly. Our many investments in the basic and advanced training of staff members are one key to our success. In 2013, the training programme consisted of 163 different professional and personality development modules. To take one example, the many training measures included the completion of our first qualification improvement programme for women called *Frauen.Perspektiven.Zukunft* (Women.Prospects. Future). Several of the first 16 graduates have already filled senior positions at BKS Bank.

As a socially responsible employer, we strive to make it easier for our employees to combine having a family and a career. To this end, we had a *berufundfamilie* (JobAndFamily) re-audit carried out in the summer. Among other things, we set ourselves the goal of developing a concept for sustainable and efficient generation management and starting an exchange of information between employees with relatives who need care. Our health management programme with our *Durch die Bank gesund* (banking on health) scheme at its heart was permitted to continue to carry the *Gütesiegel für Betriebliche Gesundheitsförderung* (Austrian quality seal for workplace health promotion). Austria's minister of health Alois Stöger honoured our efforts to integrate chronically ill employees into the enterprise as a *Model of good practice. Move Europe – Work. Adapted for all.* More detailed information about the workforce and staff numbers are contained in our Sustainability Report, which is available online at www.bks.at.

Organization, Construction and IT

Every bank needs a stable IT landscape, necessitating correspondingly big investments. BKS Bank makes use of the alliance created by the *3 Banken Group* to keep them as efficient and economic as possible. It operates *3-Banken-EDV Gesellschaft mbH* (3BEG), which is responsible for its IT operations and IT projects, together with its sister banks. In addition to the purchases accounted for in the financial statements of 3BEG, our bank invested another €1.5 million in information technology during the year under review. It spent €2.0 million on construction projects and other investments.

The major IT projects that were directly apparent to customers were the introduction of the banking app (see page 65 for more information), the extension of the online banking system to include eps (e-payment standard) payments — these can be used to pay directly and particularly securely via online banking in over 1,000 online shops — and our preparations for the migration to SEPA. Having done all the changeover work on schedule, BKS Bank was excellently prepared for SEPA. Among other things, online banking payment and standing order forms were converted to the SEPA format and we held a large number of advice workshops for corporate and business banking customers. Similarly, the implementation of the IT adaptations made necessary by FATCA (the Foreign Account Tax Compliance Act) began in good time and will be completed in 2014. Modernization of all the hardware and software used in the customer self-service field commenced, and every branch should have been equipped with new self-service equipment by the end of 2016.

The digital customer portal that will replace the present online banking system and which BKS Bank has been working on together with 3BEG will be finished in 2014. Every customer can obtain personalized individual information from this portal. At the same time, an electronic mailbox is being developed with *Fabasoft* from which customers will in future be able to collect account statements, transaction summaries and other documents. The portal will of course be protected by the latest security and encryption standards, *Fabasoft* having repeatedly won awards for its high security standards.

During 2013, we initiated and/or implemented a number of projects designed to make processing more efficient. The personal loan processing software that had been newly developed in 2012 was extended and refined, making it even simpler for our staff to handle loan processing. In the course of 2013, processes in the corporate and business banking segment were shortened through the technical amalgamation of our rating update and working capital loan extension procedures. In addition, we introduced a new interest and account fee management system in 2013.

These gradual optimizations will continue in years to come. During 2014, we will among other things be upgrading the technical basis for processing corporate and business loans and setting up a new early warning system for detecting non-performing loans as promptly as possible.

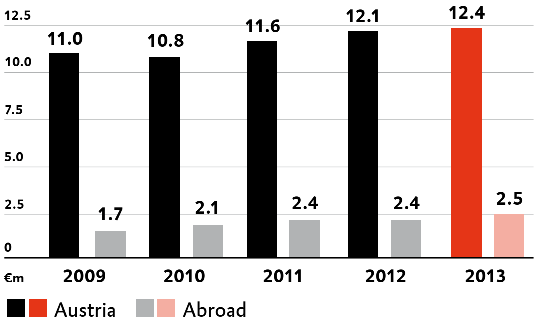
BKS Bank and 3BEG also had challenges to master in foreign markets. A banking app was already in use in Slovenia and was very well received by our customers. The app was close to completion in Croatia, where we also began replacing the present payments system. In addition, in the course of 2014, we will be looking at whether the national core banking system could be replaced by the system we use in Austria. One thing BKS Bank and 3BEG intend to do is harmonize IT processes and applications in Austria and abroad even more closely. To this end, all our systems are gradually being internationalized.

At the strategic level, we expanded the cooperation between *3-Banken-EDV GmbH* and *GRZ-IT-Center GmbH* that dates back to the beginning of the 1990s. *GRZ-IT-Center GmbH* operates the backup computer centre for 3BEG. This cooperation was contractually restructured by setting up a syndicate (*ARGE IT Services Linz*) in which each party holds a 50 per cent stake, and the scope of the services provided by GRZ-IT was expanded. As a first step, the start of cooperation in the mainframe field is planned for 2014. The *3 Banken Group*'s computer centre and backup computer centre in Linz are state of the art and again passed their annual reliability tests with flying colours in 2013.

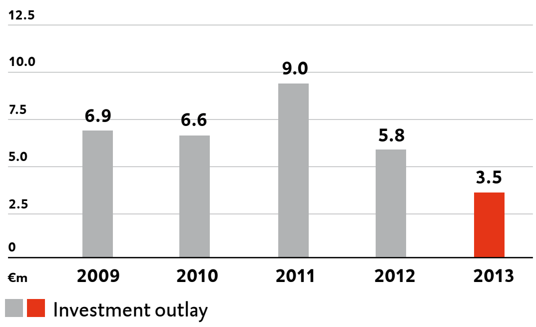
In future, a new operating system will be used on employees' workstations. A standard client based on the Windows 7 64-bit operating system with MS Office 2013 has been developed to replace the standard clients running the Windows Vista 32-bit operating system and MS Office 2007 that are currently in use everywhere. We have been rolling it out since the beginning of 2014.

We always attach a great deal of importance to security at BKS Bank. There is a particular focus on data protection and data security. We continued to give employees training in this area in 2013 as well as implementing other projects such as limiting the risk of unauthorized access to particularly sensitive data.

IT COSTS



INVESTMENT OUTLAY



BKS Service GmbH: an organizational innovation

When optimizing processes, BKS Bank does more than just improve its IT systems. It also continuously re-evaluates the organization of its processes and organizational structure. Within Austria, we examined the potential for improvements to payment, securities and standard credit processes in the retail banking segment within the scope of a project carried out at the level of the *3 Banken Group* during 2013. Data comparisons were undertaken not just with the data of our sister banks Oberbank and Bank für Tirol und Vorarlberg but also with the data of a peer group made up of other regional banks in Austria. It became apparent that some savings were possible within the associated processing units.

Personal loan back office and branch services were outsourced to a separate service company called *BKS Service GmbH* as a first step in the realization of the potential savings. These services were outsourced as of 1 January 2014. At the same time, we worked on the development of further cost-cutting measures in the corporate and business banking back office. They will take place in 2014.

Reorganization of our real estate activities

We reorganized our real estate activities in 2013 and concentrated all construction related functions within *BKS Immobilien-Service Ges.m.b.H.* (BKS IS). Since then, BKS IS has had responsibility for construction and facility management — whether it involves buildings that are in operational use or buildings used by third parties — as well as property management, security, company vehicles and waste management. Among other things, we believe that this concentration will make the management of our real estate more efficient. BKS Bank owns a total of roughly 60 properties.

Our construction team was under enormous pressure in the summer, when it installed a photovoltaic system on the roof of our Head Office in Klagenfurt in just a few weeks. The 157 panels were mounted on two sections of BKS Bank's Head Office roof. Depending on the amount of sunshine, the photovoltaic system will generate between 40,000 and 50,000 kWh of electricity a year. This is what 15 households use in a year and is enough to meet a large part of our Head Office's power needs. We do not plan to feed electricity into the public grid. Experts have calculated that the system will also save 23,000 kg of CO_2 a year. BKS Bank spent €120,000 on it. A screen next to the entrance to our Head Office building provides a clear overview of how much electricity has already been generated and how much CO_2 has been saved. Since the entirety of this project was carried out by Carinthian companies, all the value added stayed within BKS Bank's home market. Other major projects in the construction field included the opening of the *Billrothstrasse* branch in Vienna, refurbishment works at our Mattersburg Regional Head Office and the renovation of our Hartberg branch, which celebrated its 25th anniversary in 2013.

23,000

Our experts also worked intensively on measures to improve barrier-free access. We collaborated with *Planungsbüro Architekt Dipl.-Ing. Wolf* to assess barrier freedom at our Head Office and the *St. Veiter Ring* branch in Klagenfurt. Based on the results, we developed a catalogue of measures that will be put into effect over the next two years. Initial simple steps like creating disabled parking at our Head Office, appropriately marking glass surfaces, etc. have already been carried out. Larger projects like equipping an event hall at Head Office with an induction loop system will follow. The new branch in western Graz that is opening in the summer of 2014 will be structurally completely barrier free.

The team also put many hours of work into calculating BKS Bank's carbon footprint (details are provided in the Sustainability Report available at www.bks.at). Key indicators like dimensions, electricity consumption, heating systems, fuel used for heating, etc. at every branch and regional head office in Austria and at Head Office were painstakingly recorded, as were business trips. The data were used by the team of experts at *denkstatt GmbH* to calculate our carbon footprint. This survey provided the basis for the development of an environmental management system.

Important Equity Investments

EQUITY INVESTMENTS IN BANKS AND OTHER FINANCIAL SERVICES 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			16.95%	
Bank für Tirol und Vorarlberg AG			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%	

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%

No material changes to our shareholding structures took place during 2013. However, we merged *BKS-Leasing GmbH* into *BKS Immobilien-Leasing GmbH* to streamline them. We sold our 1.44 per cent stake in *PayLife Bank GmbH* to *SIX Austria Holding GmbH*. This sale was carried out together with the overwhelming majority of the equity holders of *PayLife Bank GmbH*. Among other things, the purchaser's companies group owns the Zurich Stock Exchange.

Notes on the Scope of Consolidation

BKS Bank has been preparing its financial statements in conformity with the International Financial Reporting Standards since 2005. These Consolidated Financial Statements too were prepared in conformity with the IFRSs as adopted by the EU.

THE MEMBERS OF THE CONSOLIDATED GROUP

Banks and Other Financial Service Providers

BKS Bank AG, Klagenfurt	*BKS-Leasing Gesellschaft mbH*, Klagenfurt	*Oberbank AG*, Linz
BKS-leasing Croatia d.o.o., Zagreb	*BKS-leasing d.o.o.*, Ljubljana	*Bank für Tirol und Vorarlberg AG*, Innsbruck
BKS Bank d.d., Rijeka	*BKS-Leasing s.r.o.*, Bratislava[1]	*Alpenländische Garantie-GmbH*, Linz
		Drei-Banken Versicherungs-Aktiengesellschaft, Linz

[1] *BKS-Leasing s.r.o.* makes up a subgroup with *BKS-Finance s.r.o.*

Other Consolidated Entities

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH, Klagenfurt	*IEV Immobilien GmbH*, Klagenfurt	*Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG*, 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

Consolidated   Accounted for using the equity method

The members of the consolidated group

The overview on the previous page lists the entities required by the International Financial Reporting Standards to be classified as members of the BKS Bank Group. In order to simplify our operating structures and cut costs, we merged our two Austrian leasing companies in the third quarter of 2013, joining *BKS-Leasing GmbH* with *BKS Immobilien-Leasing GmbH*. The merger took place with retrospective effect as of 31 December 2012, and the company's name was also changed, becoming *BKS-Leasing Gesellschaft mbH*. At year-end, *BKS Service GmbH*, to which we have outsourced the work of the personal loan back office and branch services, became a member of the consolidated group, as did *BKS Immobilien-Service GmbH*. The consolidated group on which Group analyses are based, which also met the requirements of *§§ 59a BWG* and *245a UGB* regarding exempting consolidated financial statements prepared in conformity with internationally accepted financial reporting standards, consisted of 19 banks and other financial service providers and entities rendering banking-related ancillary services. Those entities included our leasing companies in Austria and abroad as well as *Alpenländische Garantie-Gesellschaft mbH* and *Drei-Banken Versicherungs-Aktiengesellschaft*.

Given the sizes of the various entities in the Group, its consolidated profit was predominantly accounted for by *BKS Bank AG*. The consolidated members of the BKS Bank Group comprised the banks and other financial service providers and entities rendering banking-related services that were controlled by *BKS Bank AG*. During the elimination of investments in and equity of subsidiaries on consolidation, an entity's cost was compared with the Group's interest in that entity's measured equity, materiality being judged applying common, Group-wide criteria. These Consolidated Financial Statements are thus based on the separate financial statements of all the consolidated entities, which were prepared applying common, Group-wide policies. Investments in material associates were accounted for using the equity method. All other equity investments were classified as available for sale. The carrying amount of an equity investment was adjusted in line with the change in the net assets of the entity in question.

Our investments in our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg AG* — which make up the *3 Banken Group* together with *BKS Bank AG* — were also accounted for in the Consolidated Financial Statements, using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of these banks, holding stakes of 18.51 per cent and 15.10 per cent, respectively, the exercise of voting rights was regulated by syndicate agreements. They allowed participation in those two banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them. Consolidated profit includes BKS Bank's interest in these banks' profit for the year. The other consolidated entities, most of which were designated as real estate companies, rendered banking-related ancillary services.

Banks and other financial service providers

BKS Bank AG

The parent of the BKS Bank Group is *BKS Bank AG*, which is headquartered in Klagenfurt. *BKS Bank AG* recorded profit from ordinary activities of €30.2 million, thus making a substantial contribution to consolidated profit in 2013. Its dominant role was also underlined by its assets of roughly €6.42 billion. It accounted for about 97 per cent of consolidated receivables from customers and 98 per cent of the Group's primary deposit balances.

BKS-Leasing Gesellschaft mbH

BKS-Leasing Gesellschaft mbH is the general successor to BKS Bank's two Austrian leasing companies, which were merged as of 31 December 2012. It operates in the motor vehicle, movables and property leasing segments in BKS Bank's core catchment areas in Austria. It is a 99.75 per cent subsidiary of *BKS Bank AG*. On the balance sheet date, it had share capital of €40.0 thousand and assets of €149.8 million. *BKS Bank AG* provides nine employees and the infrastructure it uses to sell leases. In order to simplify operating structures and cut costs, a downstream merger within the meaning of *§ 1 Abs 1 Z 1 UmgrStG* was carried out in the third quarter of 2013, merging *BKS-Leasing GmbH* (founded in 1988) as transferor with *BKS Immobilien-Leasing Gesellschaft mbH* as transferee so as to be able to operate both entities as one company within the BKS Bank banking group in the future. The name of the transferee was in turn changed to *BKS-Leasing Gesellschaft mbH*. This company is a member of the same taxable group as BKS Bank.

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

Two other 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 — take account of 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 €75.3 million. Within the BKS Bank organization, its 11 employees were responsible for working the Slovenian market, where it focuses on motor vehicle, movable property and property leasing. Our Croatian leasing subsidiary, which is headquartered in Zagreb, was set up in 2002. Its 12 employees also specialize in the sale of a broad range of lease products.

BKS-Leasing s.r.o.

BKS-Leasing s.r.o. was acquired as *KOFIS Leasing a.s.* in 2007. It is headquartered in Bratislava, and its customer network is based around the nodal points of Bratislava, Žilina and Banská Bystrica. It had 14 employees and capital stock of €15.0 million at year-end. This leasing subsidiary, which makes up a subgroup together with *BKS-Finance s.r.o.*, had assets of roughly €43.0 million at the end of the 2013 financial year. It was transformed from an *a.s.* into an *s.r.o.* as of 30 September 2013, changing its legal form from that of a stock corporation to that of a limited liability company.

BKS Bank d.d.

BKS Bank entered the Croatian banking market in 2006 when it acquired a majority shareholding in *Kvarner banka d.d.* Subsequently, it gradually increased its stake to 100 per cent. In 2008, this bank, which is registered as a stock corporation, was renamed as *BKS Bank d.d.* and it opened a branch in Zagreb. It had share capital of HRK 200 million on the reporting date. This entity with its 59 employees had assets of HRK 1.26 billion at the end of the year under review. *BKS Bank d.d.* specializes mainly in lending to small and medium-sized manufacturers and businesses. It now offers its customers the infrastructure of a fully fledged bank with the sole exception of securities products and services, which are not yet included in its offerings.

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 has branches in Vienna, Lower Austria, Bavaria, the Czech Republic, Slovakia and Hungary. It had an average workforce of about 2,000, 150 branches in Austria and abroad, share capital of €86.3 million and consolidated assets of €17.6 billion. It posted profit for the year before tax of €141.7 million, making it, once again, one of Austria's most profitable and strongly capitalized banks in 2013.

Bank für Tirol und Vorarlberg AG

Bank für Tirol und Vorarlberg AG (BTV) was founded in 1904. It is anchored in its core markets of Tirol and Vorarlberg province, which are in western Austria. It is the third independent bank in the *3 Banken Group*, on an equal footing with Oberbank and BKS Bank. BTV, which operates under the brand name *BTV VIER LÄNDER BANK*, also has a presence in Vienna, eastern Switzerland, Veneto, South Tyrol, Bavaria and Baden-Württemberg. Together with its 766 employees, it increased its consolidated assets to nearly €9.6 billion during the 2013 financial year. This company had share capital of €50.0 million. The BTV Group recorded profit for the year before tax of €82.1 million in the year under review.

Alpenländische Garantie-Gesellschaft mbH

Alpenländische Garantie-Gesellschaft mbH (ALGAR), Linz, is a *3 Banken Group* joint venture. It was set up as a bank in 1983. ALGAR is not profit-orientated. Its purpose is to mitigate the big 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. Fifty per cent of ALGAR's share capital of €3.0 million was held by Oberbank. Twenty-five per cent stakes were held by BTV and BKS Bank. The BKS Bank Group accounted for its investment in ALGAR using the equity method.

Drei-Banken Versicherungs-Aktiengesellschaft

Insurer *Drei-Banken Versicherungs-Aktiengesellschaft* (3BV-AG), Linz, was set up in 1988. It sells its own risk insurance products and brokers the endowment and non-life insurance products of *Generali Versicherung AG* as an insurance agent. This long-standing ally of the *3 Banken Group* held 20 per cent of 3BV-AG's stock. The Oberbank held a stake of 40 per cent in its share capital of €7.5 million. BTV and BKS Bank held 20 per cent each.

Other consolidated entities

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH

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

Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG;
IEV Immobilien GmbH

Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG purchases, lets and sells land and buildings and carries out construction projects of all kinds. As a BKS Bank subsidiary, it is primarily responsible for building and letting business premises within the BKS Bank Group. It is 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 provisions of the *Bankwesengesetz* that applied in the year under review, the proceeds from the issuance of hybrid capital instruments had the character of equity and thus qualified as core Tier 1 capital of *BKS Bank Kreditinstitutsgruppe*.

VBG-CH Verwaltungs- und Beteiligungs GmbH;
LVM Beteiligungs Gesellschaft mbH

BKS Bank AG also 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 mbH*. These companies' principal object is to grant funds to foreign subsidiaries in the BKS Bank Group.

BKS Service GmbH

This wholly owned subsidiary of BKS Bank, which is headquartered in Klagenfurt, has share capital of €35 thousand. It is a provider of banking related services and support that is mainly responsible for handling BKS Bank's standardized credit back office and branch service activities. It became a member of the consolidated group as of 31 December 2013.

BKS Immobilien-Service GmbH

This company was founded in 1973 as *Liegenschaftsverwaltungs- und Verwertungs GmbH* and renamed as *BKS Immobilien-Service GmbH* in 1994. It has share capital of €40 thousand. It primarily lets, buys and sells real estate. BKS Bank has assigned four employees to this company, which is a wholly owned subsidiary headquartered in Klagenfurt. Its addition to the consolidated group on the grounds of materiality took place as of 31 December 2013.

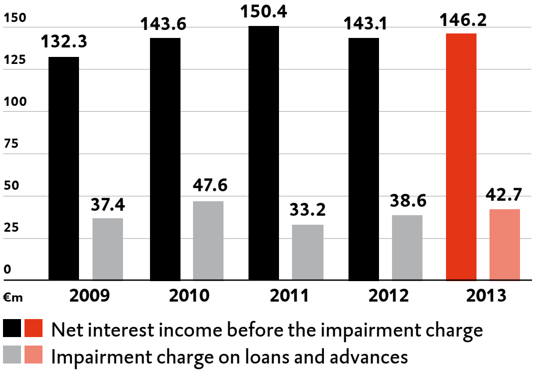
Profit

Looking back, 2013 was another challenging and difficult financial year. However, thanks to our responsible growth strategy and rigorous cost and risk discipline, we mastered it well. Market interest rates were again significantly down on the previous year and the macroeconomic environment was gloomy, especially in our Carinthian, Slovenian and Croatian core markets. This dented operating profit. The economy improved gradually towards year-end, as did the customer confidence that had been lost in many areas during the financial crisis.

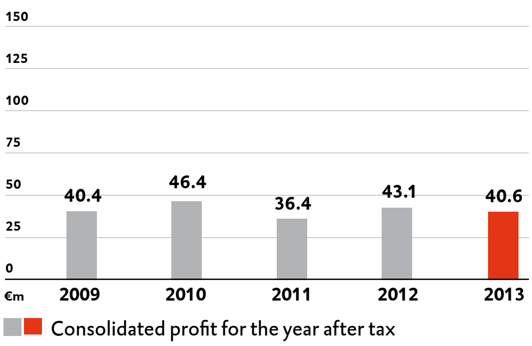
Mixed interest rate earnings, no improvement in impairment charges

Net interest income before the impairment charge came to €146.2 million, which was €3.1 million or 2.2 per cent up on the previous year. This followed what had still been a decline of 1.7 per cent in the first half of 2013. In the second half, it was not just our efforts to actively manage our interest rate operations that bore fruit. Our earnings from entities accounted for using the equity method — in particular Oberbank and BTV — also played their part in this comparatively robust growth. Looking forward to 2014 financial year, we gain confidence from the fact that we recorded net interest income of €38.5 million in the fourth quarter alone. This was the best figure since the beginning of 2012. That notwithstanding, the economic slump in Austria and Southeastern Europe remained deep until the middle of 2013, necessitating an impairment charge on loans and advances of €42.7 million, or €4.1 million more than in 2012. On the other hand, the impairment charge in the second half of 2013 was already €1.1 million smaller than in the first half. Net interest income after the impairment charge was therefore just 1 per cent down on the same period of 2012 to €103.5 million.

NET INTEREST INCOME AND IMPAIRMENT CHARGE ON LOANS AND ADVANCES



CONSOLIDATED PROFIT FOR THE YEAR AFTER TAX



IMPAIRMENT CHARGE ON LOANS AND ADVANCES

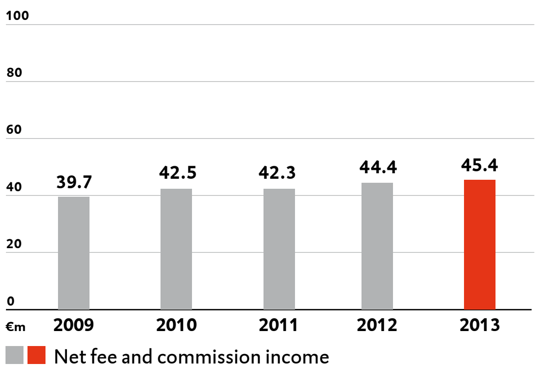
€m	2013	2012	2011
Direct write-offs	1.4	0.7	0.9
Impairment allowances	47.0	45.4	39.6
Impairment reversals	(5.4)	(7.1)	(6.9)
Recoveries on receivables previously written off	(0.4)	(0.4)	(0.3)
Impairment charge on loans and advances	**42.7**	**38.6**	**33.2**

The line item *Impairment charge on loans and advances* is the sum of impairment allowances and reversals thereof, subsequent recoveries of written-off receivables, direct write-offs and commission payments to ALGAR—the *3 Banken Group* joint venture set up to mitigate big loan risks—as well as assessments of impairments of portfolios carried out in accordance with IAS 39.64 in the amount of €1.9 million. With the number of insolvencies still a problem in Austria, direct write-offs increased by €0.7 million to €1.4 million during the year under review and impairment allowances came to €47.0 million. On the other hand, we were able to carry out impairment reversals totalling €5.4 million. The impairment charge on loans and advances came to 0.79 per cent of the average exposure inclusive of contingent liabilities. As for the impairment charges at our foreign subsidiaries, the impairment charge at *BKS Bank d.d.* came to €1.8 million and the impairment charge at *BKS-leasing Croatia d.o.o.* came to €0.7 million. *BKS-leasing Croatia d.o.o.* recognized impairment allowances totalling €0.5 million. Impairment reversals and allowances at our Slovakian leasing subsidiary balanced each other out.

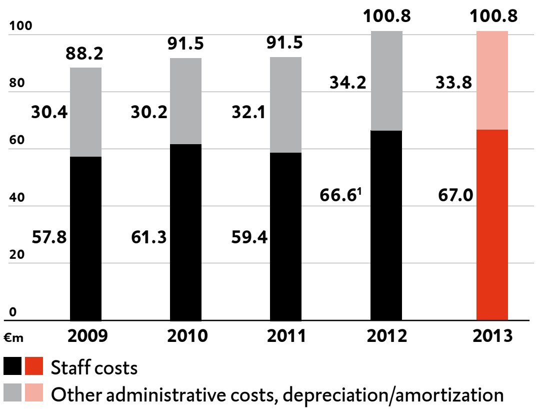
Net fee and commission income still high

Despite extremely tough competition, net fee and commission income came to €45.4 million, compared with €44.4 million in 2012. It therefore remained a stable and essential pillar of our earnings during the year under review. As you can see from note (3) on page 143, higher earnings from securities, credit and payment operations all contributed to this growth. For instance, net fee and commission income from securities operations benefited from the following wind in the international stock markets, growing from €10.4 million in the year ended 31 December 2012 to €11.3 million in the year under review. This positive trend was also mirrored by the value of customers' securities portfolios, which increased by €473 million or 7.5 per cent during the year under review to stand at €6.79 billion on 31 December 2013. Our securities operations should be strengthened further by the addition of the securities customers of the distressed *Factor banka d.d.*, about 3,000 of its customers having been taken over by us by the end of February 2014. The gradual assimilation of the volumes of business and the customers that have been taken over will take place within the existing structure of our branches in Slovenia.

NET FEE AND COMMISSION INCOME



GENERAL ADMINISTRATIVE EXPENSES



[1] Adjusted in conformity with the changes to IAS 19.

Net fee and commission income from credit operations was €0.6 million or 5.1 per cent up on the previous year to €13.2 million, and net fee and commission income from payment operations grew by 2.0 per cent to €17.8 million. On the other hand, net fee and commission income from foreign exchange trading declined by over a quarter to €2.1 million. This was because there were fewer switches out of foreign currency loans, and we were hit by the sharp drop in the price of gold.

Better earnings from financial assets

Our profit from financial assets came to €3.2 million, compared with €3.0 million in 2012. Profit from available-for-sale financial assets came to €1.6 million, which was roughly one third down on the previous year. Among other things, this line item included an accounting profit of €1.4 million from the sale of our stake in *PayLife Bank GmbH* and our earnings from the active management of financial instruments within the scope of the asset liability management process, which came to €3.7 million. The impairment losses of €3.5 million accounted for in this line item resulted primarily from adjustments carried out to reflect the fair values of investment fund holdings.

We made a profit of €1.6 million from financial assets designated as at fair value through profit or loss, compared with €2.4 million in 2012. This line item includes revaluation gains and losses on hedges within the scope of the fair value option and revaluation gains and losses on derivatives. The line item *Profit/(loss) from held-to-maturity financial assets* did not include any revaluation gains or losses or gains or losses on disposals in the period under review. The line item *Net trading income*, which consists of earnings from foreign exchange trading and trading in derivatives, came to €1.5 million in

KEY COMPONENTS OF THE INCOME STATEMENT

€m	2013	2012	2011
Net interest income	146.2	143.1	150.4
Impairment charge on loans and advances	(42.7)	(38.6)	(33.2)
Net fee and commission income	45.4	44.4	42.3
Net trading income	1.5	2.3	1.3
Profit/(loss) from financial assets	3.2	3.0	(32.5)
General administrative expenses	(100.8)	(100.8)	(91.5)
Profit for the year before tax	45.5	49.9	38.6
Income tax expense	(4.9)	(6.7)	(2.2)
Consolidated profit for the year after tax	40.6	43.1	36.4

2013. Proprietary trading is not a focus of our business activities, so overall, trading activities made only a small contribution to total profit.

Staff costs stay constant

For both structural and economic reasons, earnings still failed to grow. Together with the added burden of fiscal and regulatory demands, this made it necessary to continue to focus particularly closely on finding ways of cutting costs during 2013. The Income Statement benefited. Thanks to the improvements in efficiency that we achieved and the commitment to cutting costs shown by every decision maker and member of staff at BKS Bank, general administrative expenses were still clearly on a path of consolidation at €100.8 million. This was achieved despite the average hike in salaries of 2.4 per cent plus €3.50 under collective agreements that took place on 1 April 2013. One must bear in mind that the application of IAS 19 (revised) meant that actuarial components of provisions for so-called 'social capital' (*Sozialkapitalrückstellung*) could no longer be recognized through profit or loss. Consequently, roughly €0.7 million had to be reclassified from *Staff costs* to *Other comprehensive income* (OCI). The figures for 2012 were also restated accordingly. Specifically, the parameters used when calculating provisions for social capital (for retirement benefits, termination benefits, jubilee benefits and mortality allowances) were brought into line with IAS 19 (revised). On the one hand, the interest rate was cut from 3.75 per cent to 3.70 per cent. On the other, the valorization rate was increased from 2.00 per cent to 2.10 per cent. After allowing for a career trend of 0.25 per cent, the net discount factor was 1.35 per cent, compared with 1.50 per cent in 2012.

The Group's average workforce shrank from 930 staff years as of 31 December 2012 to 910 staff years as of the end of the period under review. This was a result of our cost-aware use of human resources. We are aiming for another reasonable cut in the workforce. To this end, Personnel Management is critically reviewing any requests for staff or personnel changes.

We were able to keep *Other administrative costs* and *Depreciation/amortization* below or close to the levels achieved in 2012 at €27.1 million and €6.8 million, respectively. Our Group-wide cost discipline, the careful management of office costs and other overheads, the reduction of our investment plans to absolutely essential projects and the careful evaluation of discretionary spending were all contributing factors. Income tax in the period under review came to €4.9 million, compared with €6.7 million in 2012. In addition, we paid €2.1 million in bank tax, which is accounted for in the Income Statement in the line item *Other operating expenses*.

Reflecting the fact that the macroeconomic climate in Croatia was still difficult, an impairment test as at 30 September 2013 led to a write-down of €5.4 million to the goodwill of *BKS Bank d.d.* We decided to carry it out based on a forecast prepared for this company. Following the creation of a provision of €1.9 million for possible damages payments in the securities segment, the negative balance of *Other operating income net of other operating expenses* increased by €3.7 million to €7.3 million over the year.

Profit

€45.5m

After allowing for all items of income and expense and the impairment charge, the BKS Bank Group made a profit for the year before tax of €45.5 million in 2013, compared with €49.9 million in 2012. Tax expense reduced profit for the year by 5.9 per cent to €40.6 million, which was still a respectable figure given the weak economic outlook.

Profit appropriation proposal and share repurchasing programme

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 through 31 December 2013 of €20.4 million, as against €20.3 million in 2012. €12.3 million thereof was taken to retained earnings. Allowing for a profit carryforward of €0.3 million, *BKS Bank AG* thus posted net profit of €8.4 million. As we want to continue to offer our equity holders an attractive return, we will, by agreement with the Supervisory Board, be recommending to the 75th Ordinary General Meeting that net profit in the 2013 financial year now ended be used as follows: distribution of a dividend of €0.25 on each ordinary no-par share and no-par preference share that is entitled on the day of the Ordinary General Meeting to a dividend in respect of the financial year ended, giving a total of €8.19 million; and carryforward of the remainder to a new account. The resulting payout ratio based on profit for the year after tax would be 40.2 per cent.

Shares worth €1,735 thousand were repurchased during the 2013 financial year within the scope of the programme publicly announced by BKS Bank. We purchased on the stock exchange or over the counter between 19 June 2013 and 24 June 2013 a total of 100,000 of our ordinary shares corresponding to 0.31 per cent of our share capital. 29,702 of those shares were sold on to members of our staff as part of a staff share ownership scheme.

Corporate performance indicators

As one can see from the BKS Bank Group's enterprise performance barometer — which is based on growth in the loan portfolio and primary deposit balances, costs and operating profit — overall performance was balanced during the 2013 financial year. The return on equity (ROE) before tax was slightly down on the 2012 figure of 7.5 per cent but met our expectations for 2013 at 6.5 per cent. The return on assets (ROA) of 0.7 per cent built on the Group's performance in 2011 and 2012. The cost:income ratio was also at the same level as in 2012, at 54.3 per cent. However, this ratio, which reflected our bank's success managing its costs in past financial years, remained one of the best in the Austrian banking industry. The requisite impairment charges have increased since the beginning of the financial crisis and this affected the risk:earnings ratio, which increased by 220 basis points from 27.0 per cent in 2012 to 29.2 per cent in the year under review. Nonetheless, this was still a respectable figure and was well below the high of 33.1 per cent recorded in 2010. In the medium term, we want to return this gauge of the proportion of net interest income used to cover credit risk closer to the bank's internal benchmark of 20 per cent. The Tier 1 ratio of 13.9 per cent and own funds ratio of 16.0 per cent — see the section on *Own funds* from page 84 for more detailed information — mean that our bank is well equipped to cope with the serious changes to the capital adequacy and liquidity regime for banks that Basel III will introduce.

KEY CORPORATE PERFORMANCE INDICATORS

	2013	2012	2011
ROE before tax (profit for the year in % of average equity)	6.5%	7.5%	6.1%
ROE after tax	5.8%	6.5%	5.7%
ROA before tax (profit for the year in % of average assets)	0.7%	0.8%	0.6%
Cost:income ratio	54.3%	54.1%	46.7%
Risk:earnings ratio (credit risk in % of net interest income)	29.2%	27.0%	22.1%
Tier 1 ratio	13.9%	13.1%	12.5%
Own funds ratio	16.0%	15.9%	15.4%
IFRS earnings per share in issue, €	1.26	1.34	1.13

Assets, Liabilities and Financial Position

Assets

The BKS Bank Group's balance sheet assets increased by €89.4 million to €6.74 billion, which was 1.3 per cent up on the end of 2012. Receivables from customers increased by €88.0 million or 1.8 per cent to €5.05 billion. The impairment allowance balance (whose deduction from receivables from customers is required by IFRSs) was increased by €8.0 million or 4.8 per cent to €176.1 million during 2013. There was a small increase in the line item *Financial assets*, which totalled €1,52 billion at the end of December as against €1.51 billion at 31 December 2012.

€6.74bn

As in prior periods, *BKS Bank AG* dominated the Group's corporate and business banking and retail banking operations. Despite the stubborn economic slump, which hit Carinthia and Styria particularly hard, we felt a slight uptrend at the beginning of autumn. After the elimination of intragroup receivables, the Group's parent *BKS Bank AG* accounted for €4.64 billion of consolidated assets. That translates into an increase of €93.1 million or 2.0 per cent. In the Austrian market, the budgeted volume of new business in the corporate and business banking segment was exceeded, but new retail lending was still slightly below target. In the Slovenian market, it was again personal banking customers who stimulated retail mortgage credit demand. We were able to welcome our 6,000th personal banking customer in Slovenia in the fourth quarter, and the customer base had grown to 6,513 by year-end.

As planned, the foreign currency loan portfolio continued to shrink. At the end of 2013, foreign currency loans accounted for just 10.9 per cent of the total loan portfolio, compared with 13.0 per cent at 31 December 2012. Overall, Swiss franc receivables fell by SFr 89.2 million during the year under review. One of our focuses was on converting Swiss franc bullet loans into instalment loans. By giving suitable advice, we were able to persuade many of our customers to take action to reduce their foreign currency debt. This enabled us to meet the FMA's minimum standards for foreign currency lending, which were revised in January 2013.

Although competitive pressures had mushroomed, our lease portfolio in Austrian was worth just €3.2 million less than at the end of 2012, totalling €149.4 million. Overall, we were satisfied with the volume of new business, which came to €35.7 million as we held our own in the hotly contested leasing market. We successfully merged our two leasing companies in Austria in the third quarter of 2013. Although volumes are still not growing strongly, the resulting cost savings should help increase our earnings. Lease portfolios in our foreign markets in Slovenia, Slovakia and Croatia were worth €146.8 million at 31 December 2013, which was likewise slightly down on the prior-year figure of €154.3 million. There was growth in Slovenia, but the portfolios in Croatia and Slovakia shrank. *BKS Bank d.d.* increased its loan portfolio by €8.0 million to €111.9 million during 2013. However, lending in what was still a very difficult Croatian market was very selective.

Interbank operations were cut back in moderation and in line with our liquidity requirements during the year, reducing the balance sheet total. While there was a small fall of 9.0 per cent or €11.5 million in receivables from other banks to €116.9 million at the reporting date, there was a much bigger reduction of 10.0 per cent or €144.1 million in payables to other banks, which came to €1.30 billion. This was because we were able to replace that source of funds through an increase in the inflow of primary deposits.

As we have already mentioned, the line item *Financial assets* increased by 0.2 per cent to €1.52 billion. Most of the increase took place in the sub-items *Held-to-maturity* (HTM) *financial assets* and *Available-for-sale* (AFS) *financial assets*, which grew to €715.5 million and €361.1 million, respectively. We began increasing them at the beginning of the year to give us an adequate liquidity buffer. We mainly bought European government bonds rated as investment grade by the international agencies. New investments during the year under review totalled €166.5 million, while redemptions came to €143.2 million. As hedges matured, the line item *Financial assets designated as at fair value through profit or loss* was deliberately reduced to €188.6 million, which was 8.3 per cent down on the beginning of the year. On the other hand, investments in entities accounted for using the equity method increased by 5.8 per cent to €361.1 million.

As a result of the first-time consolidation of *BKS Immobilien-Service GmbH*, the line item *Investment property* increased by €6.3 million or 38.3 per cent to €22.8 million.

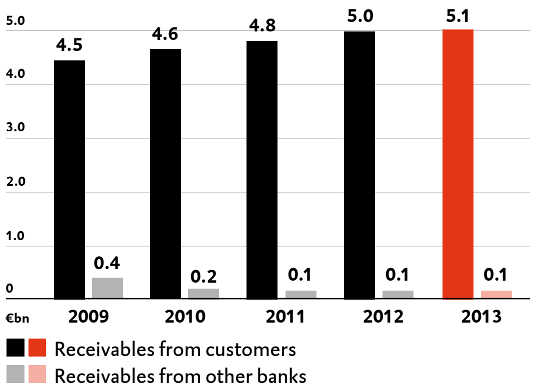
Equity and liabilities

Growth on the equity and liabilities side of the Balance Sheet during the year under review was primarily a reflection of the pleasing inflow of €235.1 million of deposits, resulting in a primary deposit balance of €4.60 billion at 31 December. Adding subordinated debt capital, our primary funds sufficed to fund about 91 per cent of the loans and advances to customers in the portfolio. Primary deposit balances accounted for approximately 68 per cent of total equity and liabilities. However, because of the historically low interest rates, attracting savings deposits was very difficult even on market based terms and despite our branches' strong regional roots. Consequently, our bank was unable to escape the nationwide downtrend. Savings deposit balances at BKS Bank thus fell by €56.7 million or 3.2 per cent compared with the end of December 2012 to end the period under review at €1.74 billion. Meanwhile, savings deposit balances across the Austrian banking industry fell by more than 2.8 per cent. Nonetheless, we are aiming for a small increase again over 2014 as a whole.

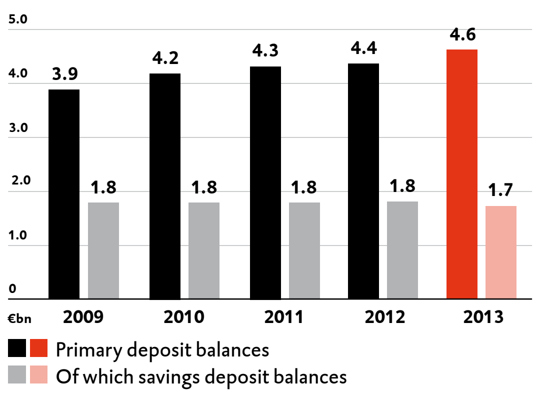
€4.60bn

On the other hand, sight and time deposit balances increased significantly, growing by €294.5 million or 16.8 per cent to €2.04 billion in the course of 2013. The growth of deposit balances at our Slovenian and Slovakian branches played a particularly important role. We profited from the widespread uncertainty in the Slovenian market.

LOAN PORTFOLIO



PRIMARY DEPOSIT BALANCES



We focused particularly on issuing long-term bonds. We kept the value of our issued bonds static on the previous year at €813.9 million. In view of the low interest rates — the yield on 10-year German *bunds* was just 1.94 per cent at the end of December — this was a very satisfactory figure. To enable us to meet the brisk demand for covered bonds, we increased the cover pool by €59.5 million to €137.4 million in the course of the year. This compared with issuances totalling €72.9 million that will give us additional strong foundations for a healthy increase in loans and advances to customers.

The Group's consolidated equity — which comprises subscribed capital, capital reserves, retained earnings and other reserves — increased by €25.9 million or 3.8 per cent to €714.2 million. As the details provided in the table entitled Statement of Changes in Equity on page 129 show, €35.1 million was (*inter alia*) taken from profit for the year to retained earnings. The dividend distribution in the amount of €8.1 million carried out in May 2013 also had to be deducted from equity.

Own Funds

In 2013, BKS Bank continued to calculate its own funds ratio and basis of assessment in accordance with the solvency regime established by Basel II. BKS Bank used the standardized approach to calculate its own funds requirement. The basis of assessment fell by €34.6 million compared with the end of 2012 to end the period under review at €4.42 billion.

Eligible own funds came to €707.6 million, building on the high level recorded at the end of 2012. Tier 1 capital increased by €31.6 million. This was achieved, among other things, by increasing reserves and as a result of measures taken in connection with accounting for investments using the equity method. Most of the €33.7 million drop in eligible ancillary own funds to €138.8 million was due to a cutback in subordinated notes. Since Basel III and the Capital Requirements Regulation (CRR) will significantly alter the prerequisites for recognizing the eligibility of ancillary own funds, we did not issue any more notes of that kind during 2013. We point out that a 5 per cent BKS Bank subordinated note (2014-2023/2) has been available for subscription since mid-February 2014 to strengthen our ancillary own funds. Its terms meet the criteria for eligibility that will apply under the new own funds regime (CRR).

13.9%

Our Tier 1 ratio was just below the 14 per cent mark at the end of 2013, at 13.9 per cent. The own funds ratio reached 16.0 per cent for the first time, having been 15.9 per cent at the end of 2012. Surplus own funds came to €353.8 million. After taking account of the capital charge for operational risk, €326.8 million remained, giving us sufficient leeway for lending growth requiring capital charges in future financial years.

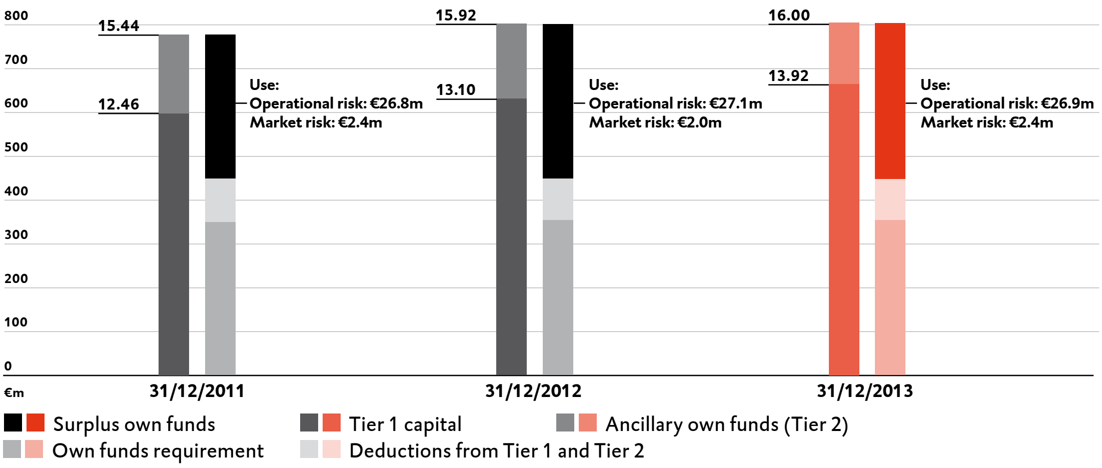
We are now devoting our attention to applying the Basel III rules on the basis of the Capital Requirements Directive 4 (CRD 4) and the Capital Requirements Regulation (CRR). Another essential step in the process of ensuring that the European financial sector always has sufficient liquidity and, therefore, making it more crisis-resistant, was initiated in January 2014 with the introduction of liquidity rules, which have been established for the first time at the international level. In future, the own funds and basis of assessment of *BKS Bank Kreditinstitutsgruppe* will be calculated on the basis of the IFRS figures. To make this possible, our databases need to be adapted accordingly and augmented with the IFRS figures.

OWN FUNDS OF BKS BANK KREDITINSTITUTSGRUPPE

€m	31/12/2013	31/12/2012	31/12/2011
Share capital	65.5	65.5	65.5
Hybrid capital	40.0	40.0	40.0
Reserves net of intangible assets	557.0	525.2	494.0
Tier 1 capital	**662.5**	**630.7**	**599.5**
Tier 1 ratio	13.92%	13.10%	12.46%
Hidden reserves within the meaning of § 57 *BWG*	5.6	5.6	5.6
Eligible supplementary capital	99.8	109.6	134.6
Balance of gains and losses taken to equity	25.3	38.9	19.9
Eligible subordinated liabilities	8.0	18.4	20.7
Ancillary own funds (Tier 2)	**138.8**	**172.5**	**180.8**
Deductions from Tier 1 and Tier 2 [1]	93.7	93.7	98.4
Eligible own funds	**707.6**	**709.5**	**681.9**
Own funds ratio	16.00%	15.92%	15.44%
Basis of assessment for the banking book	4,423.3	4,457.9	4,415.2
Own funds requirement	**353.9**	**356.6**	**353.2**
Own funds requirement for market risk	2.4	2.0	2.4
– Of which arising from open currency positions	1.4	1.2	1.4
Own funds requirement for operational risk	26.9	27.1	26.8
Surplus own funds (disregarding operational risk)	**353.8**	**352.9**	**328.7**
Surplus own funds (taking account of operational risk)	**326.8**	**325.8**	**301.9**

[1] In the year under review, 50 per cent of the value of stakes held in other banks was deducted when calculating this ratio.

BREAKDOWN OF THE OWN FUNDS OF BKS BANK KREDITINSTITUTSGRUPPE



Segmental Reports

In association with its Group members and the 3 *Banken Group*, BKS Bank, which is a listed company, has for decades been positioning itself and making its mark as a significant regional bank on the basis of its independence, its closeness to the market, the professional expertise of its employees and its transparent and lean decision-making structures. In addition to the usual banking products, the broad range of financial services available from BKS Bank's 56 branches and its subsidiaries, associates and allies includes as well the associated banking related offerings like leasing, insurance and building society services. Our strategy is also directed at consistently exploiting business opportunities in the digital world.

In order to meet our customers' needs as well as possible and handle investment projects effectively and transparently, we have divided BKS Bank's operational activities into three segments. They are the corporate and business banking segment, the retail banking segment and the financial markets segment. Segmental reporting is based on the organizational structure of the Group that underlies its internal management reporting systems. Consequently, this segmentation was also used as the basis for internal control of the BKS Bank Group. We measured the performance of each segment 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.

The Corporate and Business Banking Segment
About 13,300 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 enterprise's leasing companies insofar as they arose from business done with corporates and businesses.

The Retail Banking Segment
A total of roughly 130,000 customers were being serviced in the retail banking segment. In addition to personal banking customers and jobholders, this segment also included small business owners, doctors and self-employed customers. Besides the retail operations of *BKS Bank AG*, it also encompassed the retail operations of *BKS Bank d.d.* and the Group's leasing companies. Because of its dependence on branch operations, this was our most resource and cost intensive segment. However, at the same time, it was indispensable because about 87 per cent of savings deposit balances and over a quarter of sight and time deposit balances — that is, roughly 57 per cent of our payables to customers — were accounted for by retail customers, making this segment the bank's most important source of funds.

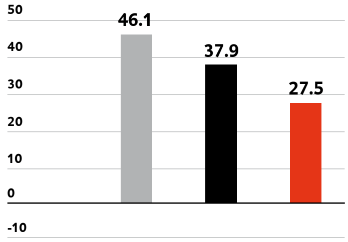
The Financial Markets Segment
The financial markets segment encompassed the profits from BKS Bank's financial assets. These consisted of profits from equity investments, from securities held in BKS Bank's own portfolios and from receivables from and payables to other banks as well as earnings from BKS Bank's interest rate term structure management activities.

Corporate and Business Banking

BKS Bank's target group in its corporate and business banking segment consists mainly of manufacturing, business and trading enterprises. We primarily address small and medium-sized enterprises (SMEs) and play a leading role in this market in Carinthia. However, we are increasingly focusing on Styria, Burgenland and the Greater Vienna area. Our made-to-measure range of advisory services and products covers working capital and complex investment loans, lease finance, foreign currency and

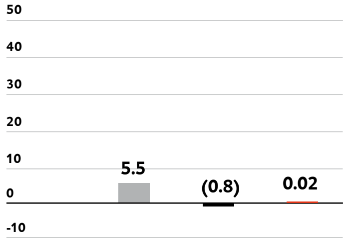
PROFIT FOR THE YEAR BEFORE TAX, BY SEGMENT

CORPORATE AND BUSINESS BANKING



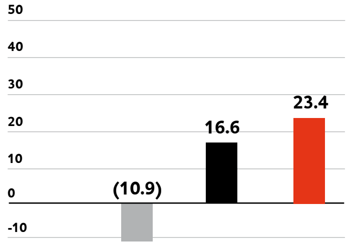
	2011	2012	2013
ROE	18.3%	14.7%	10.5%
CIR	32.1%	34.7%	36.1%
RER	34.6%	40.9%	50.0%

RETAIL BANKING



	2011	2012	2013
ROE	12.2%	(1.8%)	0.1%
CIR	87.4%	100.2%	96.6%
RER	3.6%	2.4%	5.5%

FINANCIAL MARKETS



	2011	2012	2013
ROE	(3.3%)	4.6%	6.0%
CIR	18.9%	29.2%	23.6%
RER	2.9%	6.9%	2.7%

export loans, instruments for hedging foreign trade transactions, the professional management of foreign exchange and liquidity risks and innovative investment products. As an efficient interface to Austrian and foreign institutions such as, in particular, *Oesterreichische Kontrollbank*, *Österreichischer Exportfonds GmbH* and *Austria Wirtschaftsservice GmbH*, we are one of the country's most important export subsidy agents, especially in the SME market. BKS Bank is Austria's seventh largest user of export funds directly behind the country's big banks.

Because of their specific requirements, our corporate and business banking customers continued to need prompt and flexible solutions for all their routine banking transactions and an extensive range of Internet and electronic banking offerings in addition to quality credit and capital market services. Our customer advisors' commitment to the 'know your customer' principle has proven its worth. It is founded on regular contacts between customers and their account managers. Loan decisions are made on the basis of a structured risk analysis process within a reasonable lead time. We are very careful how we manage new large loan applications so as not to unnecessarily increase credit risk. Nonetheless, our bank was able to beat its competitors in bids for a number of large subsidized investment projects and export loans, demonstrating the skills of our corporate and business banking advisors.

€3.95bn

The portfolio of loans to corporate and business banking customers was worth €3.95 billion, which was roughly 1.9 per cent up on the end of 2012. In other words, over three quarters of all lending by the BKS Bank Group was to companies. *BKS Bank AG* accounted for about €3.29 billion of the euro loans and the equivalent of €0.28 billion of the foreign currency loans.

CORPORATE AND BUSINESS BANKING SEGMENT

€k	2013	2012	2011
Net interest income	79,941	88,606	90,261
Impairment charge on loans and advances	(40,003)	(36,258)	(31,222)
Net fee and commission income	24,433	23,732	22,341
General administrative expenses	(38,184)	(39,399)	(36,595)
Other operating income net of other operating expenses	1,318	1,240	1,316
Profit for the year before tax	**27,505**	**37,921**	**46,101**
ROE before tax	10.5%	14.7%	18.3%
Risk:earnings ratio	50.0%	40.9%	34.6%
Cost:income ratio	36.1%	34.7%	32.1%

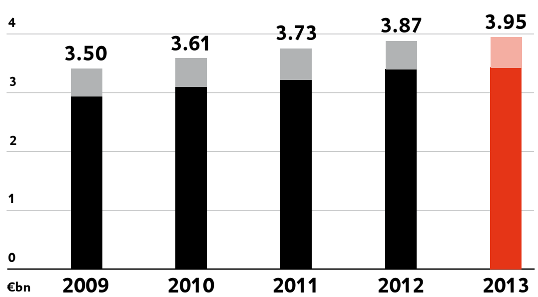
For corporate and business banking customers, loans were still the most important aspect of BKS Bank's offerings. However, many companies learnt a lesson from the crisis and massively increased their cash holdings. Consequently, deposit and investment products too were increasingly in demand. For instance, the corporate and business banking segment accounted for roughly €1.62 billion of our payables to customers. In contrast to the market driven 6.5 per cent drop in savings deposit balances to €228.8 million, we registered an increase to over €1.39 billion in other liabilities in the form of sight and time deposit balances in the corporate and business banking segment. We note that corporate and business banking customers in Slovenia accounted for a large part of that inflow of primary funds.

Company pension schemes continued to be an important element of our corporate and business customer operations during 2013. Among other things, they took the form of collective corporate insurance products, state subsidized retirement saving schemes for company employees and long term saving products for business proprietors designed to close pension gaps. Consequently, we also strove to selectively increase our cross-selling rate in the corporate and business banking segment, and we did so successfully with insurance during 2013. In this business segment, BKS Bank collaborated with broker *3 Banken Versicherungsmakler GmbH*—a *3 Banken* joint venture—in the insurance market. The company's specially trained advisors accompany our corporate and business banking account managers on their visits to customers, making it possible to cater smoothly for our customers' insurance needs—which are often complex. The steady uptrend in electronic payments also continued. Over a quarter of our corporate and business banking customers were already carrying out transactions using the electronic banking service, and numerous small and one-person enterprises were using BKS Bank's online banking facilities.

BKS Bank's leasing companies offered customers in Austria, Slovenia, Croatia and Slovakia lease finance as an alternative to 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 leases in the portfolio in the corporate and business banking segment came to €296.3 million at the end of the year under review. Roughly 50 per cent was accounted for by foreign markets. Whereas our performance in the motor vehicle and movable property markets was relatively respectable, our property leasing operations failed to build on their positive development in prior periods. This was because conditions for this form of finance were still adverse.

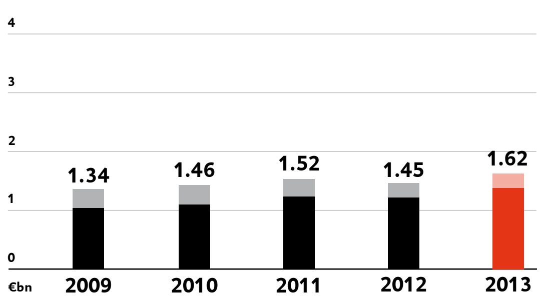
Although profit for the year before tax in the corporate and business banking segment fell by €10.4 million to €27.5 million as a result of higher risk costs and the fall in net interest income, it was still far better than in our other segments. The difficult economic environment increased risk costs by €3.7 million to €40.0 million during the year. Margins continued to decline, reducing net interest income by €8.7 million to €79.9 million in the year to 31 December 2013. General administrative expenses fell

RECEIVABLES FROM CORPORATE AND BUSINESS BANKING CUSTOMERS



Euro receivables
Foreign currency receivables

PAYABLES TO CORPORATE AND BUSINESS BANKING CUSTOMERS



Sight and time deposit balances
Savings deposit balances

by €1.2 million to €38.2 million. Two management indicators — return on equity and the cost:income ratio — were satisfactory at 10.5 per cent and 36.1 per cent, respectively. However, the risk:earnings ratio deteriorated from 40.9 per cent in 2012 to an unsatisfactory 50.0 per cent.

Retail Banking

As part of the strategic reorientation of our business activities, which was carried out with a view to achieving improvements in a number of core areas — quality, growth and profitability — our activities in the retail banking segment during the year under review were aimed at meeting our customers' needs even more precisely. We want both existing and new customers to see BKS Bank as a fair and capable service provider. To this end, we continued to rigorously fine tune our products and services to cement this positioning during 2013.

Our 56 branches were again the pivot of our customer relationships and our primary interface to our retail customers. The infrastructure they require, which much be kept up to date at all times, has always been one of the reasons why corporate and business banking is a more profitable area of activity than retail banking. However, new factors have put added pressure on this segment in recent years. For instance, competition has already got out of hand in some areas. This in combination with customers' risk aversion motivated restraint in the capital markets, the tough competition for primary deposits and macroeconomic downside factors made things difficult throughout 2013, forcing sales departments to step up their efforts.

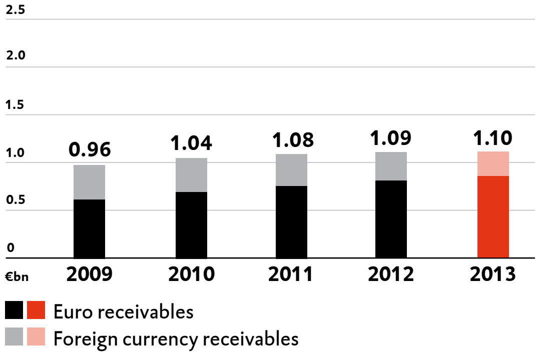
We are happy to report that those efforts were mirrored by the retail banking segment's performance. Following a loss of €0.8 million in 2012, it made a profit again in 2013, albeit a small one. Profit for the year before tax in this segment came to €24 thousand. Net interest income and net fee and commission income were the biggest contributors to profit. On the income side of the account, thanks to our consistent margin policy, net interest income increased by €1.9 million or 6.1 per cent to €32.6 million. The growth in net fee and commission income from services was slightly weaker, resulting in an advance of 2.9 per cent to €20.6 million. This was because securities operations still lacked the momentum we had been expecting. Despite a rise in the fixed costs associated with our branch infrastructure, costs charged to this segment were just 0.6 per cent up on 2012 to €52.3 million. The more favourable development of income and expenses improved the segment's cost:income ratio by 360 basis points to 96.6 per cent. We are assuming that the structure of costs in the retail customer sector will continue to improve in years to come. The return on equity calculated on the basis of profit for the year went from negative 1.8 per cent in 2012 to positive 0.1 per cent in 2013. The segment's risk

6.1%

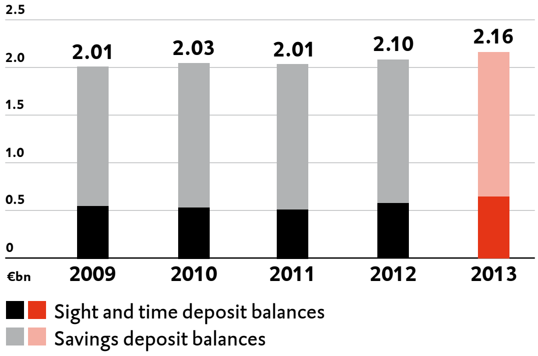
RETAIL BANKING SEGMENT

€k	2013	2012	2011
Net interest income	32,623	30,756	33,980
Impairment charge on loans and advances	(1,810)	(742)	(1,230)
Net fee and commission income	20,620	20,035	18,607
General administrative expenses	(52,275)	(51,947)	(46,832)
Other operating income net of other operating expenses	866	1,062	983
Profit for the year before tax	**24**	**(836)**	**5,508**
ROE before tax	0.1%	(1.8%)	12.2%
Risk:earnings ratio	5.5%	2.4%	3.6%
Cost:income ratio	96.6%	100.2%	87.4%

RECEIVABLES FROM RETAIL BANKING CUSTOMERS



PAYABLES TO RETAIL BANKING CUSTOMERS



situation had an equally positive impact, with the charge for impairment losses coming to just €1.8 million. This compared with €0.8 million in 2012. The segment's risk:earnings ratio was still outstanding, increasing just marginally to 5.5 per cent. This was a reflection of the minimal impairment losses it incurred. It was the fruit both of our risk-aware management of new business and of the high level of collateralization in this segment.

Our line of products and services for retail customers was based on product bundles tailored for specific target groups and fine-tuned to a customer's financial needs in each phase of his or her life. What set them apart was the balanced relationship between quality and price. They ranged from standardized account services to made-to-measure credit and lease financing variants to individualized retirement saving products and discrete asset management.

At first sight, the retail banking segment currently only makes a small contribution to profit for the year compared with the other two segments, but it is nonetheless indispensable to us. The primary deposit balances that our customers entrust to us are the bedrock of our funding. In the year under review, retail customers were the source of €1.5 billion or nearly 87 per cent of savings deposit balances. *BKS Kapitalsparbuch* accounts were particularly popular because their fixed terms meant that they could still offer savers attractive returns compared with investment variants that were repayable on demand. Retail customer savings and investments contained in the line item *Other payables to customers* were also substantial at €0.65 billion or nearly 32 per cent of the total.

However, we point out that a large part of the growth in deposit balances took place in Slovenia. In the wake of the continuing economic and banking crisis, a number of Slovenian banks that had got into difficulties were liquidated by the government, giving Slovenians willing to take risks one more reason to seek a responsible banking provider. BKS Bank's branches in Slovenia are so-called EU branches, which means that they are covered by the Austrian deposit protection system. This gave many new customers an additional incentive to entrust their savings to our solid and conservatively minded bank. BKS Bank's first branch in Slovakia, which was set up in 2011, also made a pleasing contribution to primary deposits.

Our reasonably priced quality products retained their attractiveness in 2013. As in prior years, home and home construction loans were the motor of new business. The focuses were on first home buying, building or renovating one's own home, home construction subsidies, saving energy and second homes. *WohnCoach* (home coach) is the brand name we used as we continued to live up to our service promises during the year under review. The brand has established itself as the leading source of quality financial advice in our catchment area. We granted €1.10 billion of personal loans in the course of 2013. That was 1.2 per cent more than in 2012. Most were highly collateralized mortgage loans. As for foreign currency loans, which were mainly in Swiss francs, we continued to work to reduce the proportion of foreign currency loans in relation to total loans in the retail customer portfolio during the year under review. To this end, we kept borrowers with foreign currency debts regularly informed about alternative possibilities. This resulted both in an appreciable number of foreign currency loans being changed over from bullet to installment loans as well as conversions into euro loans and executions of stop loss orders. Foreign currency loans accounted for 22.2 per cent of total loans outstanding in the retail customer portfolio at the end of 2013, compared with 25.6 per cent at the end of 2012.

Securities operations recovered slightly during 2013, but they suffered from the fact that foreign investors were gradually reducing their investments in Austria as a result of Europe-wide discussion about changing data sharing laws. Nevertheless, against the backdrop of a globally improved climate in the world's financial centres, customer funds under management by us grew by 6.6 per cent to €11.38 billion and the value of the securities deposited with BKS Bank increased by 7.5 per cent to €6.79 billion. These totals also include portfolios at *3 Banken-Generali Investment-GmbH*, which acts as BKS Bank's custodian bank. Fund assets under management by *3 Banken-Generali Investment-GmbH* came to roughly €6.6 billion. In 2013 alone, they increased by €0.54 billion or 8.9 per cent, with the biggest increase taking place in special funds set up for large investors.

8.9%

The new *Private Banking und Wertpapiergeschäft* (private banking und securities operations) department set up by us in 2012 with units at our Graz, Burgenland, Vienna and Klagenfurt regional head offices scored its first successes. Our private banking service is specifically tuned to the demanding requirements of high net worth customers with liquid assets of over €200 thousand. In addition to skilled advice from specially trained private banking advisors, we offer this group of customers a special range of products and services. Among other things, they include our individual asset management and brokerage services. They target customers with years of experience in the capital markets who mainly want to make short-term investment decisions. Our brokerage specialists see themselves as sparring partners for our customers, helping them reach decisions. Furthermore, we offer these customers special fund solutions as well as investments in buy to let properties and property developers models.

We were pleased with the development of the iVV (individual asset management) range during the period under review. This is our professional asset management line, within the scope of which we invest the assets of customers with at least €150 thousand to invest in accordance with their requirements and wishes and precisely defined guidelines. Our *AVM nachhaltig* product introduced in July 2013 is also subject to very strict criteria. This is the first asset management product to be awarded the *Österreichisches Umweltzeichen für nachhaltige Finanzprodukte* (Austrian environmentally sustainable financial products mark). Investments are limited exclusively to ecologically, ethically and socially responsible securities.

Insurance made a valuable contribution to BKS Bank's fee and commission income. In this market, we work together with insurer *3-Banken Versicherungs-AG*, which is a joint venture of the *3 Banken Group* and *Generali Versicherung AG*. We offered our customers both classical retirement saving products like life insurance and term insurance. *3-Banken Versicherungs-AG* sold a total of 36,330 policies during 2013. *Generali Versicherung AG*'s endowment insurance policies were still much in demand, and the total of 5,457 policies sold was up on 2012. However, sales of term insurance policies were dented by the weak development of credit operations, reducing the number of policies sold to 29,101. On the other hand, premium income looks better when one includes brokered policies, which grew by 0.9 per cent to €69.4 million. BKS Bank accounted for 22.2 per cent or €15.4 million of this total. The growth in premium income was driven by our growing endowment insurance operations and corporate pension insurance.

Financial Markets

The responsibility for and foresighted management of so-called *structural income* earned in the financial markets segment were in the hands of BKS Bank's Asset Liability Management (ALM) Committee. Structural income includes earnings from interbank trading, proprietary securities trading, derivatives in the banking book and the bank's internal reference interest rate settlements. Once again, our terms and conditions policy mirrored the low reference interest rates. The trend was followed by the ECB, which cut its key rate by 25 basis points to 0.25 per cent November 2013 in response to a significant drop in core inflation in the eurozone. The ECB's actions led to a small recovery in market and customer activities, especially in the fourth quarter. To facilitate our interest rate operations, we took further steps to precisely calculate funding costs within the scope of an extensive funds transfer pricing process.

Profit for the year in the financial markets segment was shaped by the improvement in structural income over the year alongside a bigger negative balance of *Other operating income net of other operating expenses* and a reduction in the allowance for country risk exposure. Net interest income increased from €23.1 million in 2012 to €33.2 million in the year under review. On the other hand, the €5.4 million write-off of goodwill of *BKS Bank d.d.* was charged to this segment and reported in the line item *Other operating income net of other operating expenses*. Profit from financial assets stabilized at the same level as in 2012, at €3.2 million. Looking at this line item in detail, *Profit/(loss) from financial assets designated as at fair value through profit or loss* contributed positive €1.6 million but was still €0.8 million down on 2012. The decline in the year under review was attributable to a revaluation loss of €1.0 million that resulted from use of the fair value option. At the same time, we recorded revaluation gains on derivatives totalling €2.6 million. Profit from available-for-sale financial assets fell by €1.1 million compared with the previous year to €1.6 million as a consequence of ongoing portfolio regroupings, sales of equity investments, impairments of equity investments and impairments of investment fund units. The held-to-maturity portfolio having still been hit to the tune of €2.2 million by restructuring losses on and impairments of Greek government bonds in 2012, no impairments or gains or losses on disposals were recognized in this asset category at any time in 2013.

The €0.7 million cut in the allowance for country risk exposure reduced the segment's risk:earnings ratio by 420 basis points to 2.7 per cent. As described in more detail on page 108 in the Risk Report, BKS Bank's overall exposure to the PIIGS countries (receivables from customers, securities, receivables from banks) was negligible with the exception of small but securely collateralized exposures to Italy (€32.5 million), Ireland (€5.9 million) and Spain (€1.0 million).

FINANCIAL MARKETS SEGMENT

€k	2013	2012	2011
Net interest income	33,221	23,133	25,560
Impairment charge on loans and advances	(897)	(1,602)	(752)
Net fee and commission income	149	421	615
Net trading income	1,523	2,348	1,325
General administrative expenses	(6,505)	(6,234)	(5,222)
Other operating income net of other operating expenses	(7,338)	(4,551)	118
Profit/(loss) from financial assets	3,222	3,036	(32,516)
Profit for the year before tax	**23,375**	**16,551**	**(10,872)**
ROE before tax	6.0%	4.6%	(3.3%)
Risk:earnings ratio	2.7%	6.9%	2.9%
Cost:income ratio	23.6%	29.2%	18.9%

Besides the big increase in structural income, the principal contributor to the stable growth of this segment's profit was the €25.1 million contribution to earnings made by the entities accounted for using the equity method, which were Oberbank, BTV, ALGAR and *Drei-Banken Versicherungs-AG*. This compared with a contribution of €22.3 million in 2012. These equity investments primarily support and secure our core business segments and help us explore possible synergies.

€134.2m

Our long-term funding needs were met by issuing 14 tranches of our own securities for €134.2 million. Thirteen were issued directly through our bank. One stepped coupon convertible bond — the *Stufenzins-Wandelschuldverschreibung* 2013–2025 — that is tax-privileged for private investors (exemption from withholding tax for up to 4 per cent of the coupon *per annum*) was issued for BKS Bank by *3-Banken Wohnbaubank AG*, in which BKS Bank holds a 10 per cent stake, as trustee.

In the volatile environment of recent quarters, consistent risk management of our interbank operations has been one of the requirements laid down by our strict rating guidelines, which include the appropriate management of limits. BKS Bank's correspondents were all in the top AA to A3 rating classes during 2013. Our network of correspondents consists of some 350 banks with which we have money dealings.

BKS BANK NOTES ORIGINATED IN 2013 [1]

ISIN	Name	Nominal Amount, €m
AT0000A10AE6	*BKS Bank InflationsGarant 2013–2021*	5,000,000
AT0000A0ZCN6	*BKS Bank Stufenzins-Obligation 2013–2018/1*	12,200,000
AT0000A0ZCP1	*3% BKS Bank Obligation 2013–2021/2*	19,800,000
AT0000A0ZD92	*4% BKS Bank Obligation 2013–2026/4/PP*	5,500,000
AT0000A10SJ7	*2% BKS Bank Obligation 2013–2019/3*	8,700,000
AT0000A11U38	*2.5% BKS Bank Obligation 2013–2020/4*	20,000,000
AT0000A0YEH7	*3.21% fundierte BKS Bank Obligation 2013–2028/1/PP*	25,000,000
AT0000A11R82	*2.42% fundierte BKS Obligation 2013–2021/7/PP*	5,000,000
AT0000A146U1	*2.64% fundierte BKS Obligation 2013–2024/8/PP*	10,000,000
AT0000A0Z777	*1.6% BKS Bank Obligation 2013–2016/2/PP*	5,000,000
AT0000A0ZCC9	*1.6% BKS Bank Obligation 2013–2015/3/PP*	3,000,000
AT0000A0ZJJ9	*1.6% BKS Bank Obligation 2013–2016/5/PP*	1,100,000
AT0000A10P44	*1.4% BKS Bank Obligation 2013–2016/6/PP*	1,400,000
AT0000A107M0	*Stufenzins-Wandelschuldverschreibung 2013-2025 der 3-Banken Wohnbaubank AG*	12,500,000

[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 2013 reporting year on the basis of the base prospectuses published by BKS Bank and approved by the FMA on 8 March 2012 and 11 April 2013 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 from the issuer's website at www.bks.at or free of charge from the branches of *BKS Bank AG*, St. Veiter Ring 43, 9020 Klagenfurt, Austria, during normal business hours.

Risk Report

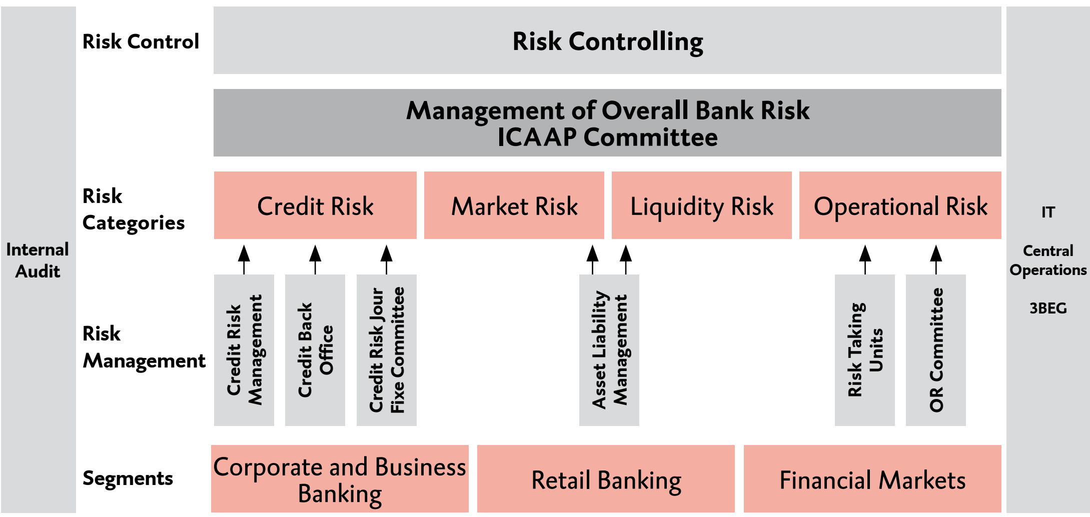
Risk management at BKS Bank complied with the goals and requirements of the BKS Risk Strategy, which is updated and discussed and agreed with the Supervisory Board once a year. The goal of BKS Bank's risk policy was to detect all the relevant operational and other banking risks early and to actively manage and limit them using effective risk management techniques. The aim was to continuously and completely 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. As a general principle, the precept that we only enter into risks that we can bear without outside help is anchored in the Risk Strategy so as not to jeopardize our bank's independence and autonomy.

The capital adequacy requirements under Basel II and § *39a BWG* require banks to introduce suitable procedures and systems to ensure that they have sufficient capital in the light of all their material risks. BKS Bank applied such procedures, which were derived from the ICAAP (Internal Capital Adequacy Assessment) process, in the course of its risk bearing capacity calculations. The quantitative information that follows in accordance with IFRS 7 paras. 31 to 42 is based on the internal reporting that takes place for overall bank risk management purposes.

Structure and organization

BKS Bank's Risk Strategy was characterized by the conservative handling of all operational and other banking risks. BKS Bank's risks were analyzed, measured, 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. Based on official regulatory recommendations, 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 and approved by the Management Board, with close

THE ORGANIZATIONAL FOUNDATIONS OF RISK MANAGEMENT



attention being paid to risk concentration. In addition, the Management Board laid down risk management principles, the limits for all relevant risks and risk monitoring and management procedures.

Risk Controlling — a central, autonomous controlling unit — supported the Management Board in the performance of its tasks. This unit reported regularly to the Management Board and the management personnel 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, Risk Controlling ensured that all risks lay within the limits established by the Management Board. It was responsible for the development and implementation of risk measurement methods, the ongoing development and refinement of the management instruments, independent and neutral risk profile reporting and the development and maintenance of BKS Bank's fundamental rules and regulations.

BKS Bank carries out the annual risk inventory as it revises the Risk Strategy. Identifying risks and assessing their severity was the responsibility of the ICAAP Committee. The risk matrix is an important component of the Risk Strategy. 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 in conformity with our business strategy. In addition, the limits and goals established in the Risk Strategy were revised in accordance with the risk assessment and the business strategy and extended as necessary.

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

Credit risk management as a whole and risk analysis in the corporate and business banking segment took place centrally within the Credit Management Department. This amalgamation of areas of responsibility allowed highly effective and efficient risk management.

An organizational firewall was in place between Credit Risk Management and the Sales Division. This means that primary responsibility for risk lay with the unit servicing the customer, whereas secondary responsibility for risk — and, as a result, the second vote where a transaction entailed counterparty default risk — lay with the Credit Management Department. Monitoring and reporting at the portfolio level was carried out separately by Risk Controlling. This unit's credit risk reports included regular reports on the credit portfolio, making possible the continuous monitoring of risk and the appropriate formulation of management procedures by Management. Collateral management was also the responsibility of the central Credit Management Department. The role of the credit risk *jours fixes* was to develop the essential credit risk management procedures and actions on the basis of credit risk reports.

The following committees and institutions took part in the management of overall bank risk at BKS Bank:
- the ICAAP Committee;
- the Asset Liability Management Committee;
- the Operational Risk Committee;
- the credit risk *jour fixe*.

The ICAAP Committee
The ICAAP Committee met quarterly. It discussed our risk bearing capacity in the light of our economic capital requirement and the available risk covering assets. This committee consisted of the Management Board as a whole, the Head of Controlling and Accounts and the Head of the Risk Controlling Group.

In detail, the following topics in particular were discussed and, if necessary, appropriate measures were taken:
- the allocation of the risk covering assets and setting of the limits in conformity with the Risk Strategy;
- the current risk situation and any measures that needed to be developed as a result;
- utilization of the overall bank limit and the limits on individual risks;
- changes in and the refinement of risk identities and valuation methods.

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 a market risk and liquidity risk point of view and, at the same time, performed essential funding planning tasks and laid down hedging measures. 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

This committee met quarterly. The Operational Risk Committee's tasks were:
- to observe our risk experience and analyze historical data concerning operational risk events in the past;
- to help the RTUs (risk-taking units) and Management actively manage operational risk;
- to take action where improvement were suggested by the RTUs; and
- to further develop the operational risk management system.

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

The Credit Risk Jour Fixe

The Risk Strategy has established that 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 compatibility with BKS Bank's risk bearing capacity is therefore a prerequisite for our bank's sustained success. Credit risk management involved both assessing credit risks (analysis) when new loans were granted and during the term of a loan and managing loan collateral and problem loans.

During the weekly credit risk *jours fixes*, the participants primarily discussed issues arising from day-to-day operations that involved granting or extending loans and other current issues 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 and the Head of the Risk Analysis Group. If necessary, further staff members were also brought in.

Besides the weekly *jours fixes*, an extended Credit Risk Committee met every two months. Its purposes were to press ahead with the ongoing refinement of the credit risk management process and to make it possible to rapidly apply management instruments. In addition to permitting a holistic view of credit risk, the inclusion of the responsible decision makers from various areas of the organization was essential to effective credit risk management. The key tasks of the extended credit risk *jour fixe* included:

– discussing credit risk strategy;
– deciding what measures should be taken in order to adhere to and manage the credit risk limits;
– assessing the credit risk situation and formulating measures to improve our risk position.

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 the Back Office, the Head of Controlling and Accounts and the Head of the Risk Controlling Group. Senior staff from front office units were also asked to attend as the need arose.

Management of overall bank risk

Carrying out risk bearing capacity analysis on the basis 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 as conceived in Basel II (second pillar) once a quarter on the basis of our risks as measured using internal models. The materiality of the respective risks was taken into account when choosing those 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 measured 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 risk and liquidity risk were factored into prices as risk premiums (standard risk costs, liquidity premiums) and were therefore incorporated into the terms and conditions imposed on customers.

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 cover any unexpected losses without suffering serious detriment to its business operations. The individual components of the assets that were available to cover risks were ranked according to their commercial usability while also taking account, above all, of disposability and publicity effects.

When a capital adequacy target is set on a going concern basis, the potential risk and risk bearing capacity must be balanced in such a way that a bank is in a position to absorb an adverse burden while continuing to conduct business in an orderly manner. A capital adequacy target set on a liquidation basis is a regulatory requirement. It serves to protect creditors.

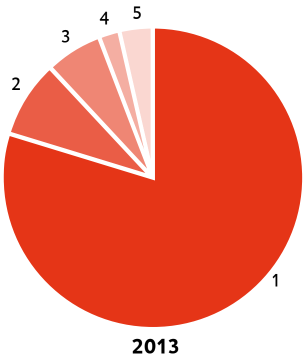
We continuously developed and refined the bank's methods for measuring and analyzing its material risks. For instance, our credit spread risk was measured separately in the 2013 financial year. The credit spread risk captures credit standing and/or risk premium induced movements in market prices in the portfolio of interest rate securities. It was reported separately in the *Market risk* category as risk premium induced risk. When quantifying foreign currency induced credit risk, we also included euro loans to Croatian customers in addition to Swiss franc, US dollar and Japanese yen loans. Additional scenarios were likewise added to our stress tests in order to be able to gauge even more precisely the sensitivity of all the relevant risks.

Our economic capital requirement calculated on a going concern basis was €149.4 million at 31 December 2013, compared with €154.8 million at the end of 2012. Assets available to cover risks came to €350.1 million, compared with €322.3 million at the end of 2012.

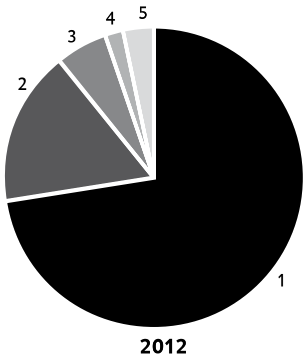
As in the previous year, the economic capital requirement for credit risk was BKS Bank's biggest risk capital requirement. Credit risk was responsible for about 80 per cent of our total potential loss (2012: 72.6 per cent). Market risk was responsible for 8.2 per cent of the total (2012: 16.7 per cent). The economic capital requirement for market risk calculated on a going concern basis was €12.3 million at 31 December 2013, compared with €25.9 million at the end of 2012.

At BKS Bank, unexpected losses within a period of observation of one year were predicted on a going concern basis with a confidence interval of 95 per cent and on a liquidation basis with a confidence interval of 99.9 per cent. To ensure that we can continue to conduct business in an orderly manner and initiate countermeasures early, an advance warning threshold of 80 per cent of the assets available to cover risks on a going concern basis (2012: 80 per cent) was added to the risk bearing capacity monitoring process.

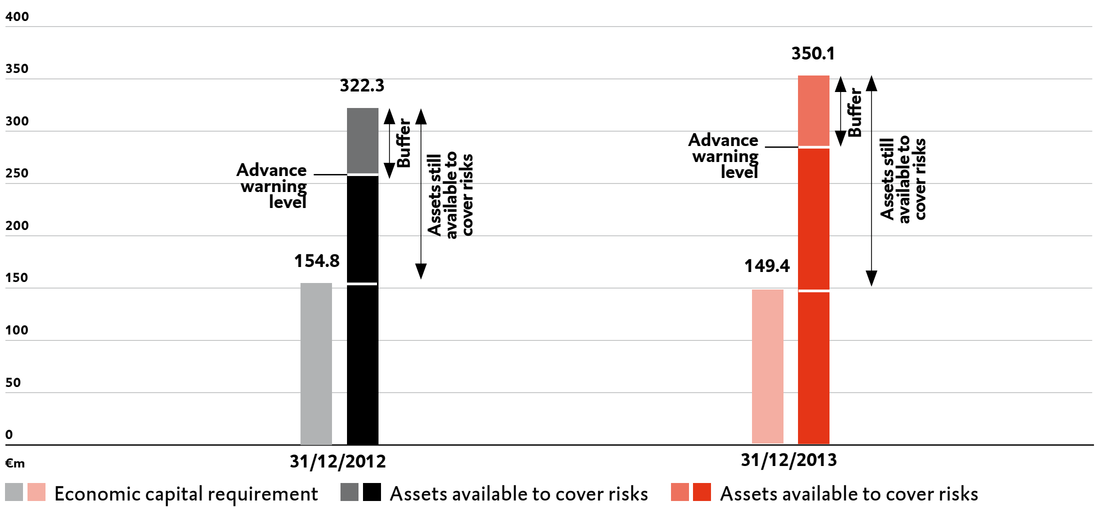
BREAKDOWN OF OVERALL BANK RISK BY RISK CLASS (GOING CONCERN BASIS)



2013			2012
80.0%	1	Credit risk	72.6%
8.2%	2	Market risk	16.7%
6.2%	3	Operational risk	5.6%
2.2%	4	Liquidity risk	1.8%
3.4%	5	Other risks	3.3%



CALCULATION OF RISK BEARING CAPACITY ON A GOING CONCERN BASIS



Stress tests in the overall bank risk management process

Stress tests were carried out during the risk management process to assess BKS Bank's risk bearing capacity during simulated external events. The results were analyzed to ascertain their quantitative impact on our risk bearing capacity. Stress tests supplemented the information provided by value at risk analyses and exposed 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 captured adverse changes in the macroeconomic environment with the help of macroeconomic scenarios. These represented exceptional but plausible adverse developments in the economy. We differentiated between a 'mild recession case', a 'worst case scenario' and a 'greatest relevance scenario' that was reviewed once a quarter. The other scenarios are reviewed annually. Our risk bearing capacity sufficed in every scenario in 2013.

Further refining our stress testing measures remained a focus of BKS Bank's attention. For instance, we carried out additional inverse stress tests during 2013.

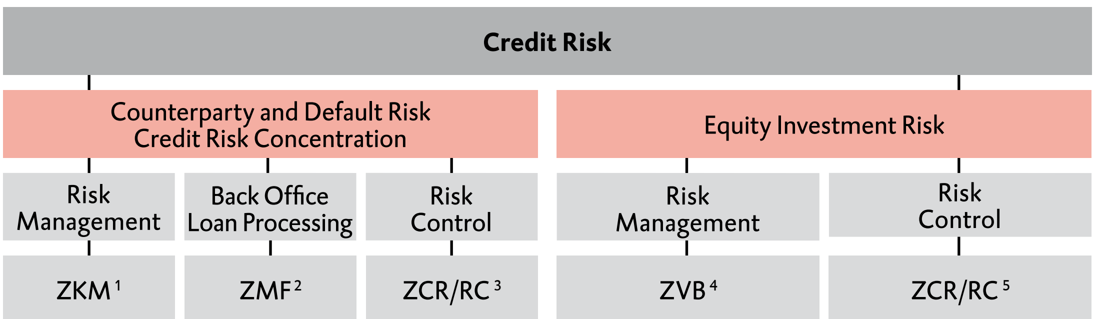
Credit Risk

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. The fair value approaches to valuing collateral took their bearings from average proceeds from liquidation achieved in the past. We did not grant any loans for speculation purposes. Lending in markets outside Austria was regulated by guidelines that were fine tuned to suit the specific features of the country concerned. They depended in particular on the economic setting and allowed for the heightened risk involved in realizing collateral.

Credit Management—a Head Office 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 Controlling (Risk Controlling Group), which is likewise a Head Office department. When we



[1] Central Credit Management Department.
[2] Central Back Office Department.
[3] Central Controlling and Risk Controlling Department.
[4] Central Office of the Management Board.
[5] Central Controlling and Risk Controlling Department.

took on risk positions, adherence to minimum rating class requirements and adequate collateralization given the debtor's credit standing were fundamental aims.

The early detection and systematic processing of risk events were also focuses of our credit management activities. A risk exists if a customer's credit standing is such that one can no longer rule out a loan loss in the near future. The goal was to rapidly identify any need for rehabilitation and take action to have the loan rehabilitated efficiently, promptly and in a structured manner. An account manager's responsibility ended completely as soon as a hazard had been detected. From a certain exposure amount, the customer was then dealt with by our central Credit Risk Management Department. Looking at our credit risk in terms of non-performing loans, such loans accounted for 5.66 per cent of the total portfolio at year-end 2013 (31 December 2012: 5.3 per cent). This figure was calculated on the basis of the non-performing loans contained in the classes 5a – 5c of BKS Bank's rating system (default classes) net of recognized impairment allowances and collateral. The divisor was gross customer loan receivables inclusive of corporate bonds, contingent liabilities and unused credit lines.

CREDIT RISK IN THE ICAAP

€m	Receivables at 31/12/2013[1]	Receivables at 31/12/2012[1]
Receivables from customers	5,640	5,592
Contingent liabilities [2]	151	55
Receivables from other banks	198	217
Securities and funds	891	903
Equity investments [3]	356	119
Total	**7,236**	**6,886**

[1] Figures for the *Kreditinstitutsgruppe* (credit institution group) in accordance with UGB valuations.
[2] Based on internally calculated customer withdrawal patterns.
[3] Equity investments in *BTV AG* and *Oberbank AG* were recognized at their market values.

CREDIT RISK

Carrying Amount or Maximum Default Risk per Category €m	Financial Instruments that were Neither in Default nor Impaired 2013	2012	Financial Instruments that were in Default 2013	2012
Receivables from customers	5,134	5,047	506	545
Contingent liabilities	150	46	1	9
Receivables from other banks	198	217	0	0
Securities and funds	891	903	0	0
Equity investments	356	119	0	0
Total	**6,729**	**6,332**	**507**	**554**

CREDIT RISK

Carrying Amount or Maximum Default Risk per Category €m	Impaired Financial Instruments 2013	2012	Financial Instruments that were in Default but not yet Impaired 2013	2012
Receivables from customers	300	291	218	272
Contingent liabilities	0	0	0	0
Receivables from other banks	0	0	0	0
Securities and funds	0	0	0	0
Equity investments	0	0	0	0
Total	**300**	**291**	**218**	**272**

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

Applying rating classes to credit risk

Our extensive rating system was a major pillar of our risk assessment process. It provided the basis for effective risk control, decision-making processes and risk management within the BKS Bank Group. In all, six different rating methods were used. The bank's internal rating models are subject to regular annual quantitative and qualitative validation reviews during which each rating model is assessed to ensure that it correctly captures the risks being measured.

BKS Bank employed a 13-class rating system. Rating classes AA to 2b accounted for approximately 45 per cent of the loan portfolio. In these rating classes, the capacity of borrowers to repay their borrowings is good to very good. When acquiring new business, the focus was on customers in these rating classes.

BKS Bank's definition of 'default' corresponded to the term 'past due' within the meaning of *§ 22a BWG*. Material receivables were therefore deemed to in default if the account was more than 90 days past due 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 at risk of default or past due 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:

– new impairment charge (item-by-item basis);
– restructuring of the credit exposure combined with deteriorations in the quality of the receivable:
– initiation of collection procedures because of inability or unwillingness to pay or fraud or for other reasons.
– receivable can only be collected at a loss for BKS Bank;
– sale of the receivable at a significant credit standing related loss for BKS Bank;
– the debtor's insolvency;
– the loan is totally irrecoverable for other reasons.

The term 'forbearance' also played an important part in the management of problem exposures. BKS Bank defined loans as 'forborne' if they were restructured in a way that involved BKS Bank, for business or legal reasons connected with the customer's financial difficulties, making concessions that it would not have been willing to make under other circumstances. They had to be treated like newly negotiated loans. A deferment could thus be agreed to make it easier for the debtor to fulfil contractual obligations for a limited period. However, any amount not paid in that period together with the accrued interest had to be made up later. Deferment possibilities were limited and depended on the customer's financial situation and Risk Management's strategy.

LOAN QUALITY, BY CLASS OF RECEIVABLE

Receivables, by BKS Bank Rating €m in 2013	AA–A1	1a–1b	2a–2b	3a–3b	4a–4b	5a–5c	Unrated
Receivables from customers	35	980	1,494	1,693	924	506	8
Contingent liabilities	1	52	49	40	8	1	0
Receivables from other banks	132	57	8	0	0	0	0
Securities and funds	653	160	28	0	0	0	50
Equity investments	307	42	1	2	0	0	4
Total	**1,128**	**1,291**	**1,580**	**1,735**	**932**	**507**	**62**

Receivables by BKS Bank Rating €m in 2012	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	Unrated
Receivables from customers	26	962	1,445	1,685	907	545	22
Contingent liabilities	0	4	7	23	12	9	0
Receivables from other banks	69	121	20	5	0	0	2
Securities and funds	746	67	42	0	0	0	48
Equity investments	75	41	1	1	0	0	1
Total	**916**	**1,195**	**1,515**	**1,714**	**919**	**554**	**73**

Credit risk assessment

Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing impairment charges on an item-by-item basis, by recognizing impairment charges on an item-by-item basis applying class-specific criteria, by carrying out collective portfolio impairment assessments in accordance with IAS 39.64 and by making appropriate provisions in accordance with IAS 37. Objective evidence of impairment of a receivable was deemed to exist in the BKS Bank Group if the Basel II default criteria applied. This was the case if a material obligation of the debtor to the bank was more than 90 days past due or one of the above default criteria had been met.

Impairment losses were calculated by way of a standardized Group-wide 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*. Charges were recognized on an item-by-item basis for loans to corporate and business banking customers and to other banks if the customer in question had a collateral shortfall of €70,000 or more. In the case of retail and personal banking customers, charges were recognized on an

IMPAIRMENT ALLOWANCE BALANCE

€k	At 1/1/2013	Added	Reversed	Exchange Differences	Used	At 31/12/2013
Item-by-item impairment allowances	140,080	40,980	(5,364)	(83)	(30,334)	145,279
Country risk exposure	2,354	898	—	—	—	3,252
Collective assessments of impairment of the portfolio in accordance with IAS 39	25,667	1,911	—	—	—	27,578
Impairment provisions on credit exposures	—	—	—	—	—	—
Total	**168,101**	**43,789**	**(5,364)**	**(83)**	**(30,334)**	**176,109**

item-by-item basis 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. Impairments were assessed collectively for exposures where there was a country risk exposure. In addition, BKS Bank recognized an allowance for incurred but not yet reported losses on the basis of a portfolio analysis in accordance with the International Financial Reporting Standards (IAS 39.64). The impairment process was regulated by one Group-wide guideline.

Impairment charges for irrecoverable receivables are disclosed in BKS Bank's Income Statement. The impairment charge on loans and advances was the sum of impairment allowances and reversals thereof, subsequent recoveries of written-off receivables, direct write-offs, commission payments to ALGAR — which is the *3 Banken Group* joint venture whose object is to protect big loans — and collective assessments of impairments of portfolios carried out in accordance with IAS 39.64. In the year under review, direct write-offs came to €1.5 million (2012: €0.7 million) and impairment allowances came to €43.8 million (2012: €42.3 million). Impairment reversals came to €5.4 million (2012: €7.1 million). The requisite charge for the risks of our foreign subsidiaries was relatively small at €3.0 million (2012: €2.9 million). The impairment allowance balance was increased by 4.7 per cent (2012: 9.7 per cent) to €176.0 million (31 December 2012: €168.1 million). It was mainly accounted for by the corporate and business banking loan portfolio. The impairment charge on loans and advances in the corporate and business banking segment came to €40.0 million in 2013 (2012: €36.3 million), reflecting the fact that economic conditions in our most important markets were still difficult. The impairment charge for country risk exposure was increased by €0.9 million in 2013, and the balance of impairment allowances for country risk exposure increased to €3.3 million.

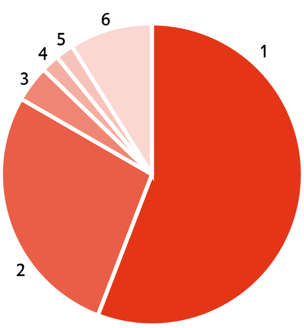
In addition, the line item *Impairment charge on loans and advances* in the Income Statement included the cost of loan loss insurance (ALGAR) in the amount of €3,166 thousand, the impairment allowance for credit risks in the amount of €146 thousand and subsequent recoveries in the amount of €391 thousand.

ANALYSIS OF IMPAIRMENT ALLOWANCES ON RECEIVABLES RECOGNIZED ON AN ITEM-BY-ITEM BASIS

€k	Reduction of Carrying Amounts[1] 2013	Item-by-item Impairment Allowances 2013	Fair Value of Collateral 2013	Reduction of Carrying Amounts 2012	Item-by-item Impairment Allowances 2012	Fair Value of Collateral 2012
Corporate and business banking	395,646	132,726	177,042	332,751	127,093	158,298
Retail banking	23,370	12,553	9,544	27,129	12,987	11,794
Total	**419,016**	**145,279**	**186,586**	**359,880**	**140,080**	**170,092**

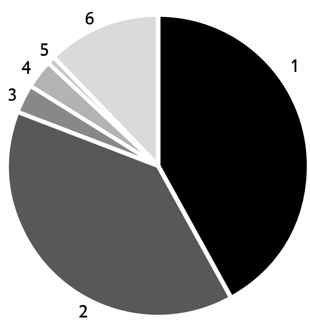
[1] Carrying amounts of impaired receivables.

BALANCE OF IMPAIRMENT ALLOWANCES FOR COUNTRY RISK EXPOSURE



2013

€k	%			€k	%
1,807	**55**	1	Slovenia	**999**	**42**
898	**28**	2	Croatia	**919**	**39**
122	**4**	3	Hungary	**75**	**3**
66	**2**	4	Montenegro	**75**	**3**
65	**2**	5	Serbia	**23**	**1**
293	**9**	6	Other	**243**	**12**
3,250	**100**		Total	**2,350**	**100**



2012

Our risk:earnings ratio in the 2013 financial year was 29.2 per cent (2011: 27.0 per cent). In the retail customer segment, this ratio of risk costs to net interest income deteriorated slightly from 2.4 per cent to 5.5 per cent. It also increased in the corporate and business banking segment, where portfolios were much larger, rising from 40.9 per cent to 50.0 per cent.

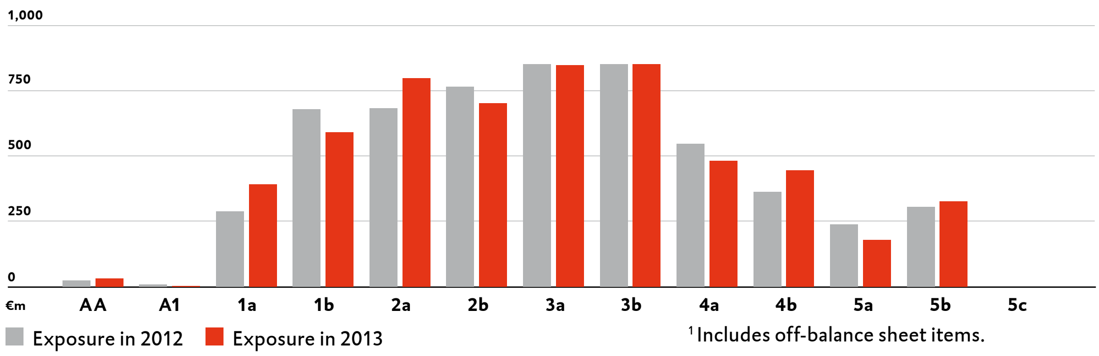
During the measurement of derivatives using credit value adjustments (CVAs) and debit value adjustments (DVAs), account was taken of counterparty default risks. The measurement of credit risks on derivatives with positive fair values took into account possible fluctuations in fair values in the future, the rating class to which the counterparty belonged and the contractually agreed maturity.

The measurement of credit risks on derivatives with negative fair values (DVAs) took into account possible fluctuations in fair values in the future, BKS Bank's rating and the contractually agreed maturity.

Receivables from customers

The chart below presents the distribution of receivables from customers using BKS Bank's 13-class rating matrix.

RECEIVABLES FROM CUSTOMERS, BY RATING CLASS[1]

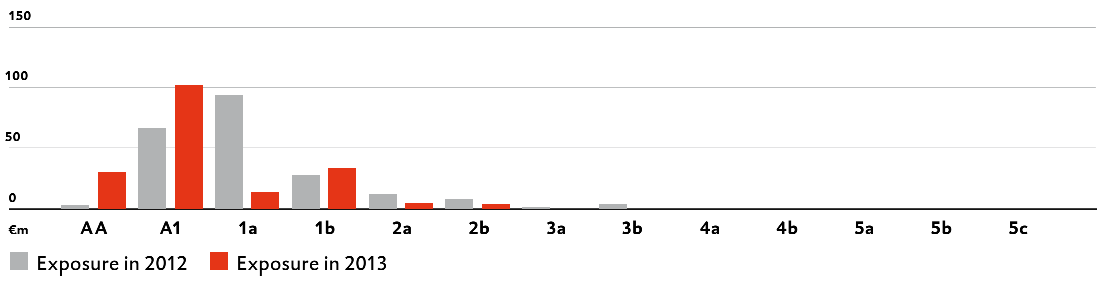


[1] Includes off-balance sheet items.

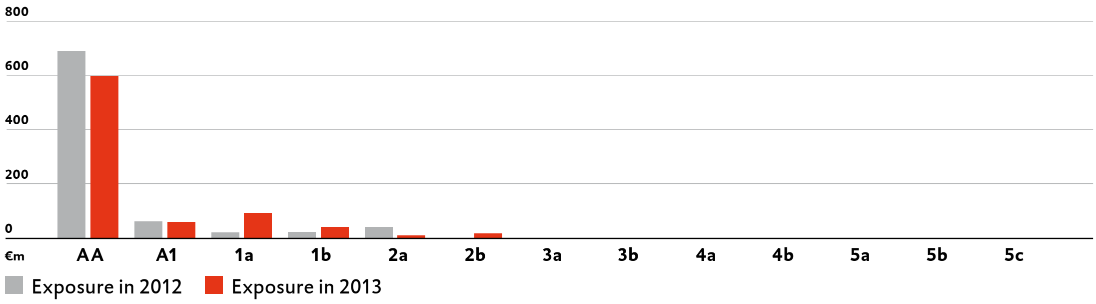
Receivables from other banks and securities

The charts below present the distribution of receivables from other banks and the securities portfolio using BKS Bank's 13-class rating matrix. At year-end, 99.8 per cent of BKS Bank's exposures to other banks were in the top rating classes from AA to 2b. The network of correspondents with which we had money dealings consisted of some 350 banks. At the end of 2013, 98.5 per cent of the securities in BKS Bank's securities portfolio were in the rating classes from AA to 2b.

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 on 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. Equity interests were acquired to serve our banking operations. When investing in subsidiaries, we focused on the acquisition of strategic partners in the banking and financial institution sectors and ancillary, banking-related service industries. We did not focus on acquiring equity investments in countries whose legal, political or economic situations were judged to be risky or on trading on a regular basis in such equity investments.

EQUITY INVESTMENTS:

Consolidated Profit, €m	31/12/2013	31/12/2012
Listed banks	356.0	336.1
Unlisted banks	6.9	7.8
Other, unlisted equity investments	48.2	44.0

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 Controlling and Group Risk Controlling, which is a Head Office department.

The carrying amount of BKS Bank's equity investments calculated in conformity with IFRSs was €411.1 million at 31 December 2013, compared with €387.9 million at the end of 2012. This total included our interests in Oberbank and BTV, which had a carrying amount of €356.0 million (31 December 2012: €336.1 million). BKS Bank's other noteworthy equity investments included its stakes in OeKB (3.06 per cent) and *Alpenländische Garantie-GmbH* (25.0 per cent).

In order to manage and control individual financial risks, we prepared annual overall budgets for the subsidiaries in the Group as well as budgeting for and preparing adapted projections of the profits that were 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. Limits were also set for individual geographical regions. Developments in individual sectors and industries were closely monitored and regularly evaluated, and a clear strategic focus was defined. Concentrations of credit risk were managed by way of appropriate limits. The big loan risks incurred by BKS Bank were secured by a cover pool at *Alpenländische Garantie-GmbH* (ALGAR). ALGAR is a *3 Banken Group* joint venture set up to protect the big loans granted by the three banks in that group. It does so by issuing guarantees and assuming liability in other ways for loans, advances and lease receivables.

Loan size concentration

In addition, BKS Bank captured loan size concentration risk separately when calculating its risk bearing capacity. It measured granularity risk in the loan portfolio. In other words, it especially measured the risks that arise 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 risk and/or unexpected losses resulting from loan size concentrations by way of an 'add-on' to the granularity adjustment (GA). The Herfindahl Hirschman Index calculated in this connection stood at 0.00213 at the end of the year. As this shows, diversification within the structure of the customer base measured in terms of the sizes of loans in BKS Bank's portfolio was well balanced at year-end. 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 BKS Bank's risk management panels.

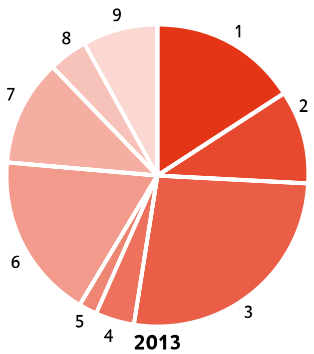
SIZE DISTRIBUTION OF RECEIVABLES FROM CUSTOMERS

Receivables from Customers by Size	Exposure in 2013	Proportion, %	Exposure in 2012	Proportion, %
< €400k	1,442	25.6%	1,438	25.7%
€400k to €1.0m	474	8.4%	514	9.2%
€1.0m to €10.0m	1,836	32.6%	1,786	31.9%
> €10.0m	1,888	33.4%	1,854	33.2%
Total	**5,640**	**100.0%**	**5,592**	**100%**

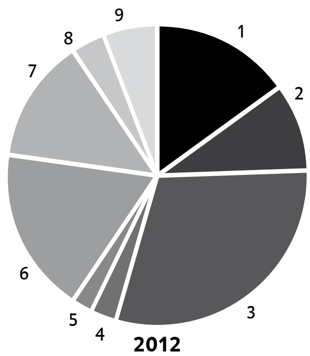
Sector and industry concentrations

As in prior years, the main sector and industry focuses in the loan portfolio in 2013 were *Gewerbe* businesses, the industrial sector and private households. These sectors accounted for roughly 60.1 per cent of total receivables from customers (31 December 2012: 62.5 per cent). They were followed, in percentage terms, by retailing and wholesaling and the professions. This gave BKS Bank's customer loan portfolio a broad and well diversified mix of sizes, sectors and industries. The corporate and business banking segment accounted for over three quarters of the loan portfolio under management.

RECEIVABLES FROM CUSTOMERS, BY SECTOR AND INDUSTRY



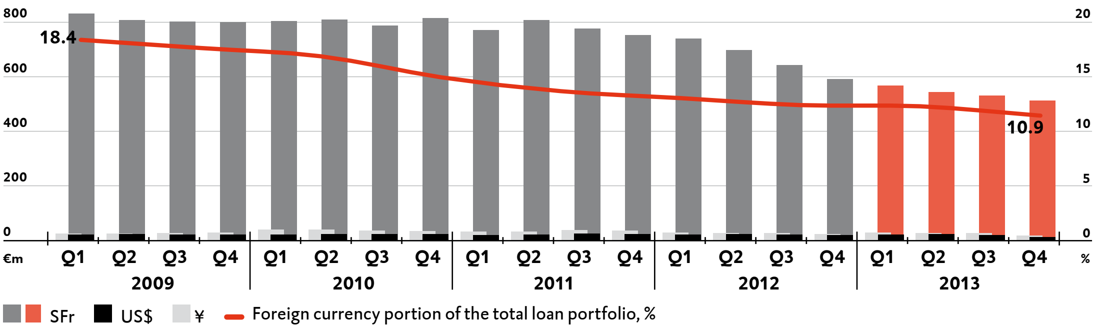
€m	%		€m	%
898	15.9	1 Industry	847	15.1
573	10.2	2 Retailing, wholesaling	542	9.7
1,500	26.6	3 *Gewerbe* businesses	1,674	29.9
227	4.0	4 Transport	167	3.0
118	2.1	5 Public sector	115	2.1
992	17.6	6 Private individuals	982	17.6
649	11.5	7 Professions	746	13.3
231	4.1	8 Tourism	205	3.7
453	8.0	9 Other	313	5.7



Foreign currency induced credit risk

Foreign currency 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 a borrower with a foreign currency loan to repay the debt. FX-induced credit risk was calculated for the foreign currency debts of corporate and business banking and retail customers. We

FOREIGN CURRENCY RECEIVABLES FROM CUSTOMERS



calculated it for *BKS Bank AG*'s main currencies (SFr, ¥, US$) and for euro loans to Croatian customers to cover the potential risk of exchange rate fluctuations.

Since 2009, BKS Bank's strategy has been to steadily and 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 mitigation solutions jointly with them. During 2013, the portfolio of Swiss franc foreign currency loans shrank by €78.8 million (2012: €160.4 million) to €511.9 million (31 December 2012: €590.7 million). The proportion of foreign currency loans in relation to total loans in the portfolio had fallen to 10.9 per cent by year-end (31 December 2012: 13.0 per cent). Foreign currency induced credit risk was managed by setting limits at the profit centre and overall bank level, and adherence to them was continuously monitored.

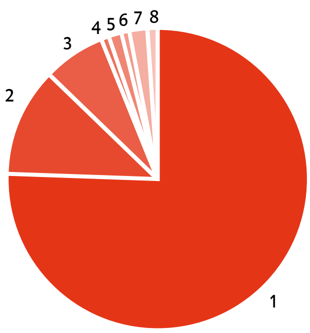
Country Risk

Country or transfer risk is the risk that a counterparty might fail to meet obligations because the central bank of that counterparty's domicile 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 for the purposes of concentration risk are its target markets — Slovenia, Croatia and Slovakia — and, in addition, Germany.

Country risk was captured by a collective impairment charge in the Comprehensive Income Statement and limited in the Risk Strategy. The exposures to each country were monitored on a monthly basis within the scope of the country limit monitoring process.

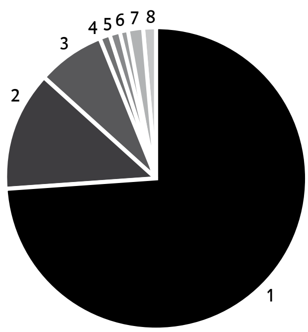
The portfolio of cash loans in foreign markets shrank by 0.8 per cent during the year under review. Our business activities focused on the economic centres close to the Austrian border. For 2013, we set a Group-wide cap of 30 per cent on the proportion of the total cash loan exposure that can be

RECEIVABLES FROM CUSTOMERS, BY COUNTRY



2013

€m	%		€m	%
4,269	75.7	1 Austria	4.141	74.0
687	12.2	2 Slovenia	708	12.7
376	6.7	3 Croatia	416	7.5
38	0.7	4 Hungary	44	0.8
84	1.5	5 Slovakia	84	1.5
17	0.3	6 Italy	18	0.3
105	1.9	7 Germany	112	2.0
63	1.0	8 Other	69	1.2



2012

RECEIVABLES FROM CUSTOMERS AT THE END OF 2013, BY COUNTRY

€k

Region	Receivables[1]	Past Due[2]	Item-by-item Impairment Allowances	Collateral for Overdue Receivables
Austria	4,269,067	322,028	117,829	135,981
Italy	17,476	150	240	0
Germany	105,201	2,277	473	967
Croatia	376,347	75,103	22,694	40,691
Hungary	38,328	14,850	6,121	7,574
Slovenia	687,082	83,518	24,933	51,825
Slovakia	83,763	5,432	3,037	3,288
Other	63,017	2,470	745	521
Total at year-end 2013	**5,640,281**	**506,308**	**176,072**	**240,847**

[1] *Receivables* comprise receivables from customers and guarantee loans, calculated liabilities arising from forward and future transactions and calculated liabilities arising from options.
[2] Overdue within the meaning of BKS Bank's definition of default.

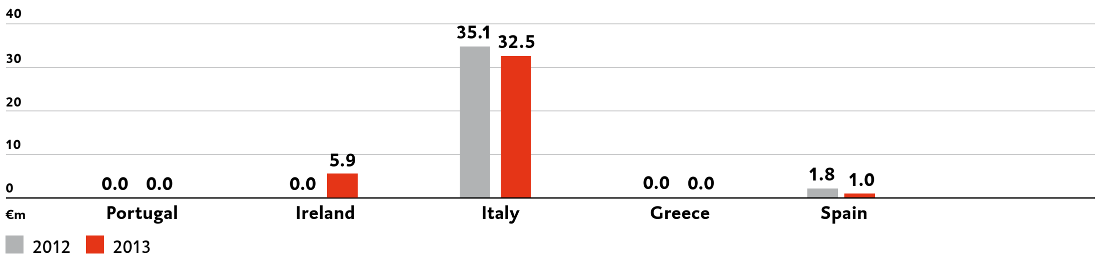
RECEIVABLES FROM CUSTOMERS AT THE END OF 2012, BY COUNTRY

€k

Region	Receivables[1]	Past Due[2]	Item-by-item Impairment Allowances	Collateral for Overdue Receivables
Austria	4,140,813	343,132	122,778	156,563
Italy	18,136	168	166	10
Germany	112,085	2,812	132	1,251
Croatia	416,441	62,587	16,341	34,185
Hungary	43,743	18,704	7,760	8,946
Slovenia	708,287	101,351	15,075	62,039
Slovakia	84,097	13,348	5,191	4,985
Other	68,871	2,472	623	1,183
Total at year-end 2012	**5,592,473**	**544,574**	**168,066**	**269,162**

[1] Receivables comprise receivables from customers and guarantee loans, calculated liabilities arising from forward and future transactions and calculated liabilities arising from options.
[2] Overdue within the meaning of BKS Bank's definition of default.

OVERVIEW OF PIIGS EXPOSURES



accounted for by loans to non-banks abroad (2012: 28 per cent). For risk management and control purposes, we applied different rating standards to domestic and foreign loans. This means that our lending guidelines abroad were more stringent and were tailored to the specific characteristics of the country concerned.

The chart above presents our total PIIGS exposure (receivables from customers, securities, receivables from other banks). 53.7 per cent of the Italian portfolio was accounted for by loans to non-banks (2012: 51.2 per cent), and 72 per cent thereof (2012: 68 per cent) was securely collateralized. In addition, the Italian portfolio contained €15.0 million of covered bonds (2012: €15.0 million).

SECURITIES HOLDINGS, BY COUNTRY

Region €k	Cost 2013	2012	Impairments 2013	2012	IFRS Carrying Amount 2013	2012
Austria	619,901	641,242	2,167	597	616,309	638,798
Germany	119,290	129,273	0	0	119,091	127,600
Belgium	14,914	10,045	0	0	14,796	10,025
Luxembourg	261,945	261,919	0	0	262,333	265,060
France	41,813	32,891	0	0	42,090	32,931
Ireland	5,921	0	0	0	5,925	0
Italy	15,087	17,187	0	0	15,056	17,216
Poland	4,975	0	0	0	4,976	0
Slovenia	5,798	5,486	0	0	5,833	5,533
Slovakia	19,956	19,844	0	0	19,971	19,898

Collateral

Collateral management was another central pillar of risk management. Comprehensive written valuation guidance specified which forms of collateral were permissible and how their value was to be assessed. Standardized collateral valuation policies had been defined across the Group taking account of local market conditions. Generally, they were based on the average proceeds from liquidation achieved in the past and anticipated movements in market prices. Real estate collateral was valued and regularly audited by experts from Credit Management who were not involved in the credit approval process.

COLLATERAL AT THE END OF 2013

€m	Amount at Risk/Max. Default Risk	Total Collateral	Of which Financial Collateral	Of which Personal Collateral	Of which Real Estate Collateral	Of which Other	Credit Risk[2]
Receivables from customers[1]	5,791	3,244	211	231	1,904	898	2,547
Receivables from other banks	198	0	0	0	0	0	198
Securities and Funds	891	106	0	65	0	41[3]	785
Equity Investments	356	0	0	0	0	0	356
Total	**7,236**	**3,350**	**211**	**296**	**1,904**	**939**	**3,886**

[1] Incl. contingent liabilities.
[2] Minus collateral.
[3] Covered bonds covered by cover pool.

COLLATERAL AT THE END OF 2012

€m	Amount at Risk/Max. Default Risk	Total Collateral	Of which Financial Collateral	Of which Personal Collateral	Of which Real Estate Collateral	Of which Other	Credit Risk[2]
Receivables from customers[1]	5,647	3,139	260	225	1,762	892	2,508
Receivables from Other Banks	217	0	0	0	0	0	217
Securities and Funds	903	126	0	85	0	41[3]	777
Equity Investments	119	0	0	0	0	0	119
Total	**6,886**	**3,265**	**260**	**310**	**1,762**	**933**	**3,621**

[1] Incl. contingent liabilities.
[2] Minus collateral.
[3] Covered bonds covered by cover pool.

Market Risk

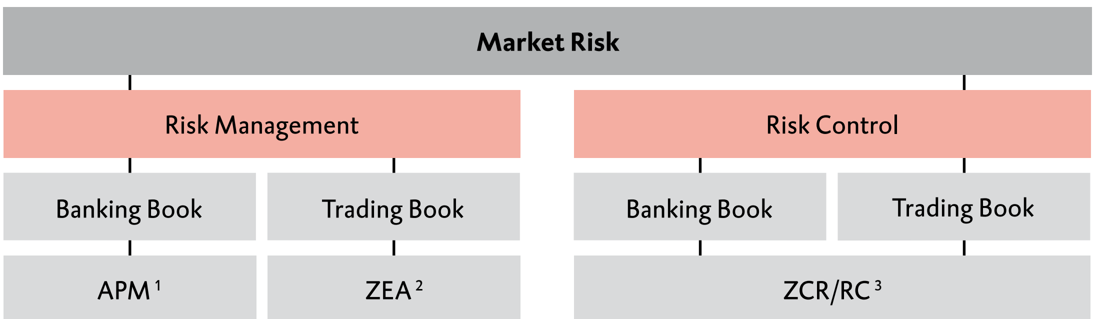
BKS Bank defines market risk as the risk of financial losses that might arise from movements in market prices and rates (e.g. equity and bond prices, foreign exchange rates, interest rates) or other parameters that influence prices (e.g. volatilities and credit spreads). Market risk affected all rate, interest rate and price sensitive positions in the trading and banking books of BKS Bank and the individual institutions within the credit institution group.

BKS Bank subdivided market risk into the following categories:
- interest rate risk (including credit spread risk);
- equity price risk;
- currency risk.

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 the results of present value and duration analyses, value-at-risk analyses and simulations of changes in interest rates once a month.

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 rate and structures, the ALM Committee made decisions to hedge both individual transactions and portfolios. Where applicable, both the hedged item and the corresponding interest rate derivative were designated under the fair value option in accordance with IASs/IFRSs.

Since earning profits from open currency positions is not one of the focuses of our business policy, BKS Bank has always kept its currency risks low. Consequently, open currency positions were only held in small amounts and for short periods. Generally, all loans and deposit balances denominated in a foreign currency were funded or invested in the same currency. To offset currency 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 Central Proprietary Trading and International Operations Department and Money and Currency Trading. Currency positions and adherence to our own funds requirement were monitored by Risk Controlling.



[1] Asset Liability Management.
[2] Central Proprietary Trading and International Operations Department.
[3] Central Controlling and Risk Controlling Department.

BKS Bank also kept its equity position risks small. Equity price risk in the banking book was managed by the ALM Committee. Proprietary trading in equities was discontinued in the year under review. Generally, long-term banking book investments in equities and tangible assets were fund based. Our investments in individual securities were minimal. Investment and disinvestment decisions were made by the ALM Committee. Our equity price risk was capped and adherence to the limit was monitored by Risk Controlling.

Market risk affects both trading book and banking book positions. Because volumes were small, 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 ways of measuring risk based on value at risk (VaR), modified duration, volumes and economic capital stress tests. The Management Board sets the overall limit once a year during the budgeting process taking account of our risk bearing capacity and in consultation with Risk Controlling. Risk Controlling measured the VaR due to interest rate risk, currency 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.

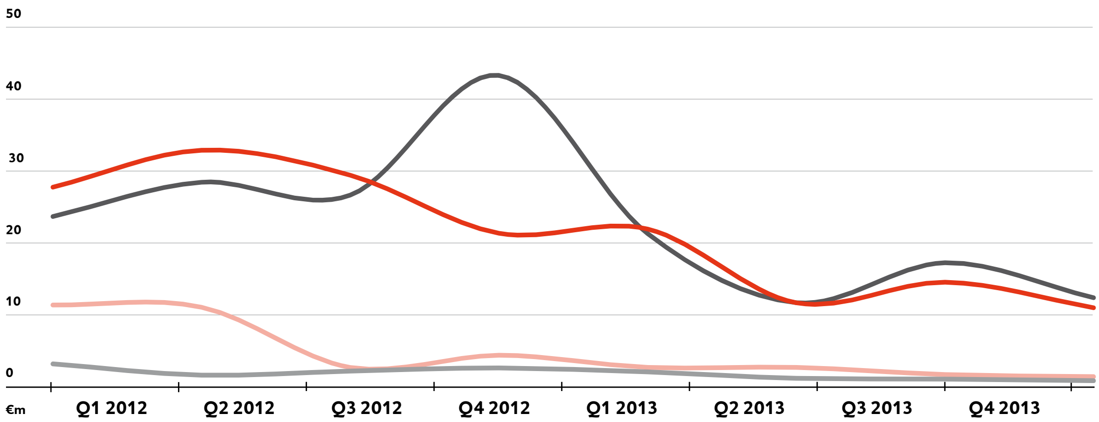
Value at risk

We calculated the value at risk (VaR), this being the most important gauge of risk when managing market price risks in the trading and banking books. VaR told us the maximum loss that could be incurred as a result of market price risk within a specified holding period and with a specific probability (confidence interval).

BKS Bank measured VaR using historical simulation on the basis of the changes in market values observed in the previous 500 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.

MARKET RISK (VALUE AT RISK BASIS)



Overall risk[1] — Equity price risk — Interest rate risk inclusive of credit spread risk — Currency risk

[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] 2013	2012	Currency Risk 2013	2012	Equity Risk 2013	2012	Total 2013	2012
In Q1	21.2	23.6	1.7	2.7	2.5	11.2	21.8	27.7
Minimum	11.5	20.2	0.6	1.3	1.2	2.5	10.7	21.2
Maximum	21.2	28.4	1.7	2.7	2.5	11.2	21.8	32.9
Average	15.5	24.7	1.0	2.0	1.9	7.0	14.6	27.8
In Q4	12.2	20.2	0.6	2.2	1.2	3.4	10.7	21.2

[1] Inclusive of credit spread risk.

Interest Rate Risk

Interest rate risk is the risk of adverse changes in the values of interest sensitive positions caused by a change in interest rates. Differing maturities and interest rate adjustment periods lead to interest rate risks on the assets and liabilities side of the account. Generally, they can be hedged against by a combination of on-balance sheet and off-balance sheet transactions. We also 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 in the interest rate securities portfolio. 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 0.38 per cent, as against nach 0.91 per cent at the end of 2012. Looking at the currencies of most importance to us, our interest rate risk assuming an interest rate shift of 200 basis points was as follows:

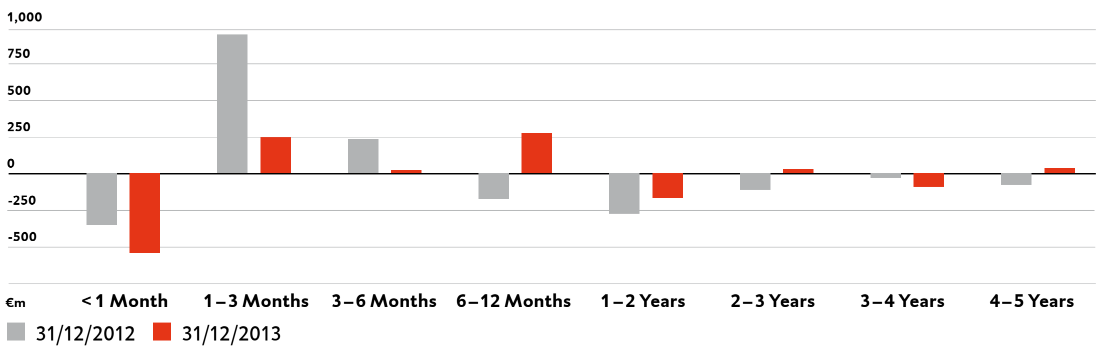
REGULATORY INTEREST RATE RISK (% OF OWN FUNDS)

Currency	31/12/2013	31/12/2012
€	0.33%	0.81%
SFr	0.01%	0.01%
US$	0.03%	0.07%
¥	0.01%	0.01%
Other	0.00%	0.01%
Total	**0.38%**	**0.91%**

CHANGES IN PRESENT VALUE CAUSED BY AN INTEREST RATE SHIFT OF 200 BASIS POINTS (€000’s)

Currency	31/12/2013	31/12/2012
€	1,742	4,358
SFr	26	80
US$	177	353
¥	24	45
Total	25	22
Total	**1,994**	**4,858**

INTEREST RATE GAPS (EURO VERSUS FOREIGN CURRENCIES)



BKS Bank’s interest rate risk at the end of 2013 was very low. This was mainly to avoid pressures to recognize impairment losses on securities in the portfolio of current assets and the available-for-sale portfolio should interest rates rise. The biggest interest rate gaps were to be found in bands of up to one year.

Equity Price Risk

Equity price risk is the risk of changes in prices caused by the interplay of supply and demand. Most of our 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 3.75 per cent (31 December 2012: 4.02 per cent) thereof. Our equity price risk at 31 December 2013 based on a holding period of 180 days and a confidence interval of 95 per cent was €1.2 million (31 December 2012: €4.2 million). Once a month, equity price risk was quantified on a historical simulation basis as a value at risk and reported to the ALM Committee.

Currency Risk

Currency risks results from acquiring foreign currency asset and liability positions that are not closed by a counter position or derivative transaction. An adverse movement in exchange rates can cause losses as a result. Open currency positions were analyzed daily to assess foreign currency risks and those were compared with the corresponding caps. Our currency value at risk at year-end was €0.6 million (31 December 2012: €2.2 million).

CURRENCY RISK (OPEN CURRENCY POSITIONS)

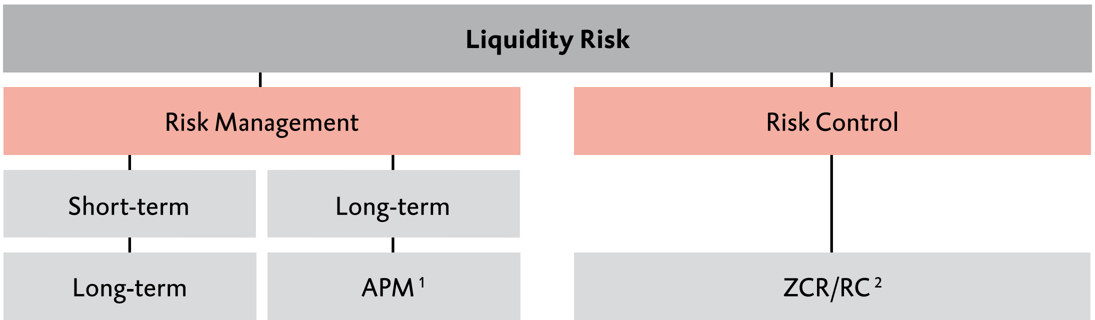
Liquidity Risk

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 our liquidity management activities. Management of our terms and conditions policy took place on the basis of the *Liquiditätsrisikomanagementverordnung* (LRMV: Austrian liquidity risk management directive) and the EBA guidance underlying it. Using a sophisticated funds transfer pricing process, we ascertained the costs that arise when financial products are 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



[1] Asset Liability Management.
[2] Central Controlling and Risk Controlling Department.

payment instructions, advance information about upcoming customer transactions provided by Sales, information about proceeds 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 through OeNB.

Medium-term and longer-term liquidity and the liquidity buffer were managed by Asset Liability Management. At the end of 2013, BKS Bank's available liquidity buffer 1 came to €854.3 million (31 December 2012: €834.2 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 included equities and funds, came to about €1 billion at the end of the year. This gave us a comfortable cushion of liquidity should there be further disruptions in the money and capital markets.

In addition, the Asset Liability Management Committee monitored BKS Bank's liquidity position on a monthly basis with the help of predefined advanced warning indicators. The ALM Committee was required to meet and act should advance warning indicators exceed the defined thresholds. Furthermore, BKS Bank's Risk Management Manual contained emergency plans laying down those responsible, measures to be taken and procedures to be followed in the event of disruptions in the money and capital markets.

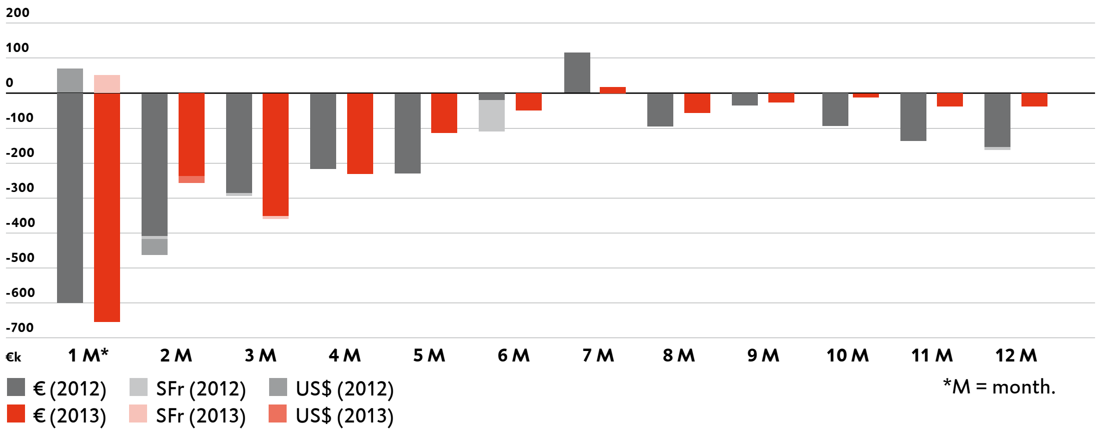
The Risk Controlling Unit was responsible for liquidity risk control. This involved monitoring adherence to the principles, procedures and limits that had been established. Reporting took place on a daily, weekly, monthly and quarterly basis. If it was discovered that anything unusual had occurred or 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 projections arranged all assets and liabilities of relevance to our funding profile into maturity bands. These projections showed a liquidity surplus or shortfall for each maturity band, permitting the management of open liquidity 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 reliable stress tests. Depending on the nature of the source of stress, we distinguished between general macroeconomic scenarios, banking-specific scenarios and combined stress scenarios.

The chart below presents our liquidity gaps by currency over a period of 12 months based on year-end figures.

LIQUIDITY GAPS, BY MAIN CURRENCY



LIQUIDITY BUFFER AND COUNTERBALANCING CAPACITY

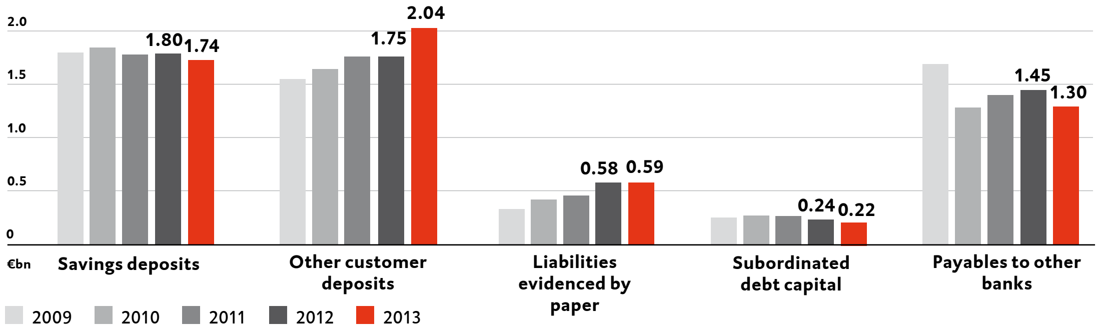
€k	31/12/2013	31/12/2012
Securities lodged with OeNB	743,350	761,480
Securities lodged with the Swiss National Bank	30,827	21,056
Credit claims ceded to OeNB	364,687	286,844
Credit claims ceded to the Slovenian National Bank	55,492	36,881
Total securities eligible with the ECB	1,194,356	1,106,261
Minus OeNB tender block	(374,008)	(272,813)
Minus tender block by the Slovenian National Bank	0	(31,000)
Minus Swiss National Bank repo	(1,000)	0
Total available collateral eligible with the ESCB	819,348	802,448
Cash and cash equivalents	34,957	32,235
Liquidity buffer 1	854,305	834,683
Other securities	150,660	142,779
Liquidity buffer 2 (counterbalancing capacity)	1,004,965	977,462

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 by calculating the present values of all net gaps on the basis of an assumed 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.

Funding was mainly 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. In addition, our bank had access to funds from the Swiss National Bank.

The chart below shows BKS Bank's funding structure. The presentation that follows breaks down non-derivative and derivative liabilities according to the contractually agreed cash flows.

FUNDING STRUCTURES



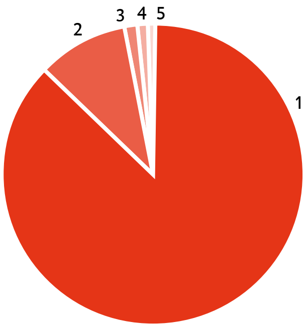
DERIVATIVE AND NON-DERIVATIVE LIABILITIES (CASH FLOW BASIS)

€m	Carrying Amounts	Contractual Cash Flows[1]	Of which < 1 Month	Of which 1 Month to 1 Year	Of which 1–5 Years	Of which > 5 Years
Non-derivative liabilities	**5,900**	**6,325**	**954**	**2,252**	**1,846**	**1,273**
– Deposits from other banks	1,302	1,337	504	501	313	19
– Deposits from customers	3,784	4,013	449	1,575	1,059	930
– Liabilities evidenced by paper	591	700	1	113	342	244
– Subordinated liabilities	223	275	0	63	132	80
Derivative liabilities	**21**	**13**	**2**	**4**	**4**	**3**
– Derivatives in the banking book	21	13	2	4	4	3
Total	**5,921**	**6,338**	**956**	**2,256**	**1,850**	**1,276**

[1] Not discounted.

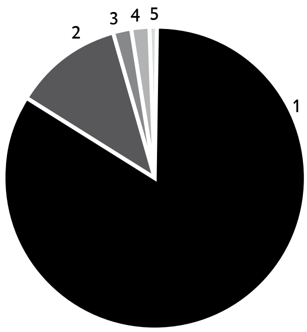
Our funding requirements by currency (at 31 December) were as follows:

FUNDING REQUIREMENTS, BY CURRENCY



2013

%		%
89.1	1 €	**87.0**
10.3	2 SFr	**12.1**
0.3	3 US$	**0.4**
0.2	4 ¥	**0.4**
0.1	5 Other	**0.1**



2012

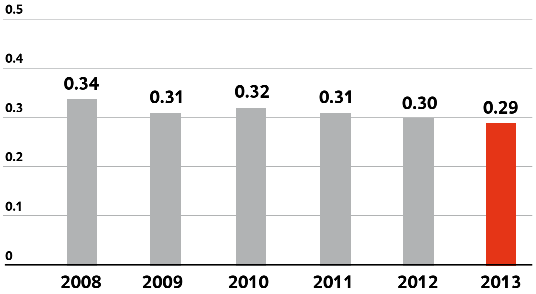
Deposit concentration

The deposit concentration sketched out in the chart below fell to a low of 0.29 in the year under review. It helps us estimate the deposit withdrawal risk associated with the possibility of a run on deposits. Above all, it 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.

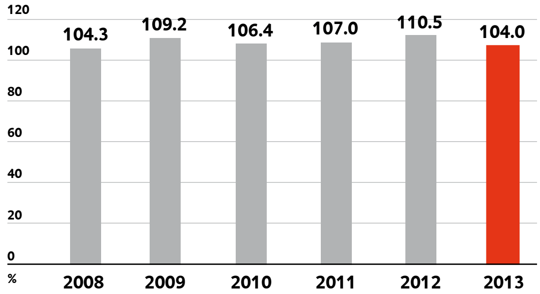
Loan:deposit ratio

The loan:deposit ratio is another sensitive liquidity management indicator. It shows the relationship between the loan portfolio and primary deposit balances. The ratio fell to 104.0 per cent, so we were already back close to the excellent level recorded in 2008. Our medium-term benchmark is a balanced ratio of 100 per cent.

DEPOSIT CONCENTRATION



LOAN:DEPOSIT RATIO



Operational Risk

BKS Bank defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people or systems or from external events. Such risks can increase BKS Bank's costs or reduce its profits.

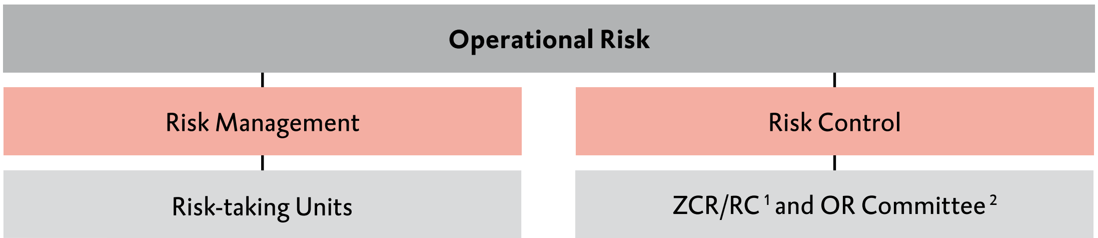
Operational risks at *BKS Bank AG* and all its subsidiaries in Austria and abroad were limited by an appropriate and continually refined internal control system. It included a raft of organizational measures ranging from the suitable separation of functions during processes (separation of front office 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 with the help of professional IT security management carried out by *3Banken-EDV Gesellschaft*—which is a joint venture with our sister banks—and extensive data protection and data security measures, and we also took the risk of disasters like floods and fires into account. The appropriateness of those precautions was regularly reviewed by Internal Audit. System weaknesses detected in audit immediately underwent remedial action.

Every process in the enterprise involved IT, so IT governance was very important. IT governance encompasses the principles, procedures and measures that ensure that business targets can be reached, resources can be responsibly used and risks can be adequately monitored with the IT systems that are in use.

An operational risk committee existed to manage operational risk holistically at the overall bank level. 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.

We used 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 a specific risk profile for each business segment;
- documenting operational risk losses in a Group-wide loss database;
- developing risk mitigating measures on the basis of risk analyses carried out within the scope of such self-assessments and analyses of actual losses.

Risks were assigned to one of the following categories: fraud, employment practice, business practice, property damage, system failures, processing errors. 320 loss occurrences were recorded at BKS Bank in the year 2013 (2012: 156 loss occurrences). The average loss amount after reimbursements was €8,221 (2012: €2,848). The increases in the number of loss occurrences and the average loss amount



[1] Central Controlling and Risk Controlling Department.
[2] Operational Risk Committee.

were mainly attributable to securities operations, where we were confronted with a series of customer complaints about closed property and shipping funds during the year under review. Appropriate provisions had to be created for them. Business practice accounted for about 77.0 per cent of the total loss, followed by processing errors, which accounted for 11.5 per cent.

As in prior years, we used the standardized approach to calculate our regulatory capital requirement for operational risk in 2013. At the end of the year under review, it was €26.9 million (31 December 2012: €27.1 million). This compared with actual operational risk losses (allowing for reimbursed losses) of €2.7 million (2012: €0.43 million). The total loss in 2013 therefore translated into 9.9 per cent of our regulatory capital requirement for operational risk.

Internal Control System

The principal purposes of the Internal Control System (ICS) were to safeguard our assets, increase BKS Bank's profitability, ensure that we adhere to laws, business policy guidelines and internal rules and prevent damage that might be caused by our own staff or by third parties. In addition, the ICS ensured the reliability of corporate reporting, including, in particular, financial reporting. The documentation of the material financial reporting processes in the form, among other things, of a Group Manual and the internal risk allowance guideline, was an important part of the ICS. Internal Audit audits the ICS annually on the basis of an audit plan approved by the Management Board and a Group-wide assessment of all the risks associated with the enterprise's activities. The Supervisory Board's Audit Committee was responsible for monitoring the effectiveness of the ICS.

Compliance Management System

Ensuring our bank's lasting trustworthiness is central to our sustainable business success. Avoiding or minimizing compliance risk is of major importance in this context.

Compliance risk is defined as the risk to a bank that laws, other regulations, codes of conduct or proper business standards might not be conscientiously adhered to. The foremost goal of the Compliance Management System was therefore to prevent breaches of laws and rules and regulations at the outset and proactively safeguard the BKS Bank Group with its offices, branches and subsidiaries in Austria and abroad, its boards and officers, its employees and its owners from the occurrence of compliance risks. BKS Bank's Management Board as a whole was responsible for putting the Compliance Organization in place and creating suitable communication channels to ensure that we could achieve our compliance targets. It set the standards for developing a corporate culture based on honesty, integrity and behaviour by our staff and, above all, our management personnel that complies with legislation and regulations. The latter were responsible for ensuring adherence to and the application of legislation and internal rules in their respective banking departments and business divisions. Management personnel who were responsible for processes were the responsible parties for the purposes of administrative penal law in accordance with *§ 9 Absatz 2 VStG* (Austrian administrative penal law act) and will be held liable to the authorities in respect of the consequences of any breach.

The remits of the organizational unit called *Compliance & Recht* (compliance and legal affairs) stemmed, above all, from *WAG* (Austrian securities supervision act) *2007*, *Börsegesetz* (Austrian stock exchange act), *Emittenten-Compliance-Verordnung* (Austrian issuer compliance directive), the banks' Standard Code of Compliance and the *Bankwesengesetz* as well as the recommendations of the Financial Action Task Force on Money Laundering (FATF). In the year under review, they covered capital markets compliance, general compliance and money laundering. Among other things, they included taking measures to combat corruption and fraud. In addition, they included implementing and continuously updating compliance and anti money-laundering guidelines and rules and regulations, giving employees further training on compliance with the relevant laws, rules and regulations, codes of conduct and standards, assessing compliance 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 based on three elements: recognition (risk identification and assessment, continuous monitoring); prevention (training, consultation desk, measures to raise awareness); and action (professional management of risk events, zero tolerance principle). A strong focus was placed on adherence to the 'know-your-customer' principle in order to maximize the transparency of business relationships and financial transactions. Among other things, this including ascertaining and documenting customers' identities beyond doubt, and where necessary, we also traced the origins of assets used within the scope of a business relationship or transaction. At the same time, prevention was also a focus of our compliance agenda during the year under review. Wide-ranging communication and training measures gave our employees the tools they needed to comply with laws and rules and regulations. New, user-friendly eLearning modules dealing with compliance in the capital markets and money laundering prevention that were distributed throughout the Group proved to be an important aid to orientation in 2013, making it easier to internalize the sometimes complex body of rules and regulations. In addition, we set up a Consultation Desk, revised our Compliance Code and put a Compliance Charter into effect.

Outlook for 2014

The global economic climate has improved visibly in recent weeks and months, and the global economy appeared to be heading for growth of between 2.8 per cent and 3.0 per cent at the beginning of 2014. However, the economic situation in a number of big threshold countries in Southeast Asia, South America and Africa still seems delicate in the wake of the currency depreciations and turbulences in the financial and currency markets that we have seen in the meantime. Recently, we have also been observing mild signs of fatigue in the economy in China — the world's most populous country — where the real GDP growth forecast for 2014 is comparatively modest at 7.9 per cent.

Following the ECB Council's decision on February 6 to, among other things, leave the minimum bid rate on main refinancing operations at its historical low of 0.25 per cent, and after the programmatic inaugural address by Janet Yellen, the new Chairperson of America's central bank, the Federal Reserve

(Fed), it seems likely that interest rates in the United States, Japan and the eurozone will stay low for the time being. The Fed's monetary policy turnaround has been pretty modest so far, consisting of tapering its monthly purchases of long-term government bonds to, most recently, US$65 billion. Given the favourable state of the real economy and conditions in the financial sector, it is likely to have little impact on the economic outlook in the United States, where real GDP growth of 2.5 per cent is being forecast for this year. In addition, the increase in the legislative debt ceiling until 15 March 2015 agreed by the US Congress without friction ahead of the midterm elections has contributed to the improvement in economic sentiment.

The advance indicators in the EU were already signalling a modest recovery in the industrial sector at the end of 2013. According to the *ifo* Business Climate Index, sentiment in the corporate sector in Germany, whose exports have already been growing since the autumn of 2013, also improved visibly in January and February. Similarly, in Austria, the latest results of WIFO's *Konjunkturtest* economic analysis confirmed the positive trend, which could lead to 1.7 per cent real GDP growth in 2014. It will mainly be driven by catch-up investment and export demand from key target countries like Germany and the United States. Austrian manufacturers in particular have recently been assessing the situation more positively. Private and public sector consumption are only likely to grow by a modest 0.9 per cent in real terms given the lack of growth in wages, the tense situation in the job market and the consolidation of public sector budgets. Nor is there much sign of improvement in the job market, with the number of active jobholders growing just marginally in January. Over the same period, the number of jobless increased to about 370 thousand, which was 9.3 per cent more than in January 2012.

As for the regulatory environment, major progress was made stabilizing the financial sector at the EU level as a reaction to the financial markets crisis. After an enormous expenditure of manpower by the banks in order to meet the requirements of CRD 4 and CRR, the focus is now likely to be on transferring microprudential regulatory powers to the ECB. In October 2013, the Council of the European Union approved the Single Supervisory Mechanism transferring the supervision of the eurozone's big banks to the ECB. This could involve auditing the banking accounts of about 130 EU banks and supervising the next stress test by the European Banking Authority (EBA). In addition, the process of passing legislation on the other components of the European Banking Union — including, in particular, the Single Resolution Mechanism as well as a closer interplay between national deposit protection schemes — will probably accelerate. Finally, based on the recommendations of the Liikanen Commission, discussion about further structural reforms within the European banking sector is likely to continue.

Although the major financial centres are performing well on the whole and the long awaited end of the recession in the peripheral European countries has arrived, it is still too early to sound the all-clear for the banking landscape. The deep marks left by the financial crisis — persistently low interest rates, the sluggish growth of lending and customers' pronounced caution and marked preference for liquid assets — will still be apparent in quarters to come. In addition, the capital markets have probably run slightly ahead of the economic cycle. Against this backdrop, competition is very likely to get even more intense, especially given the rivalry for deposits as a pillar of funding that is independent of the interbank market.

As a result, our short-term and medium-term outlooks are still cautious, despite the fact that BKS Bank is strategically well placed to meet future challenges. In a difficult 2013 reporting year, we undertook a series of important organizational reforms within the scope of our 'Opex' (operational excellence) project to address the competitive situation and bank regulation and enhance our operations. At the same time, we stayed focused on serving our customers as well as possible. Our books took sufficient account of the fact that risks are still high, especially in the credit segment. We were able to demonstrate our funding strength as we competed for customer deposits. Above all, it was evidenced by the comparative stability of savings deposit balances, exceptionally strong inflows of sight and time deposits and the success of our issuances in the capital markets. We have again been faced with margin eroding competition for customer deposits in the first weeks of this 2014 financial year, but we still expect to enjoy unrestricted access to the collateralized and non-collateralized money and capital markets. 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, including issuances of covered bonds. On the other hand, growth in our lending operations is likely to remain slow.

We will go on rapidly enlarging the branch network in 2014 and the years thereafter in the Vienna region and Slovenia and, to a lesser extent, in Croatia. As demographic changes and differing rates of population growth in Austria are clearly showing, Vienna is one of the country's fastest growing cities. We have therefore decided to press ahead with the acquisition of new customers in the Viennese market. Five or six new branches are therefore going to be built over the next three years and we will be accelerating the development of our corporate and business banking operations in Vienna. Since growth in our customer base in Slovenia has also proven robust despite the difficult economic situation, we want to diversify our credit operations there by developing a broad spread of lending volumes in the retail banking segment. Subsequently, we also want to strengthen our service operations. The smooth migration of roughly 3,000 securities customers from *Factor banka d.d.*, which is in liquidation, was a part of this sustainable growth path. Our strategy of gradually enlarging our line of products and services as credit standings and risks allow has proven very effective to date. Moreover, we will be sticking to our declared goal for 2014, which is to give our equity holders another balance sheet that is free from surprises and a dividend proposal to match our results.

3,000

We firmly believe that BKS Bank with its proven business model, good and stable own funds position and established market position within its core business segments as a reliable partner to its customers and equity holders will be able to overcome the hurdles of a challenging 2014 financial year.

Klagenfurt am Wörthersee
28 February 2014

Heimo Penker
CEO

Herta Stockbauer
Member 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

Comprehensive Income Statement of the BKS Bank Group for the 2013 Financial Year

INCOME STATEMENT (FULL YEAR)

€k	Note	2013	2012	+/(–) Change, %
Interest income		194,621	215,344	(9.6)
Interest expenses		(73,480)	(94,506)	(22.2)
Profit/(loss) from investments in entities accounted for using the equity method		25,063	22,259	12.6
Net interest income	(1)	**146,204**	**143,097**	**2.2**
Impairment charge on loans and advances	(2)	(42,710)	(38,602)	10.6
Net interest income after impairment charge		**103,494**	**104,495**	**(1.0)**
Fee and commission income		48,329	47,399	2.0
Fee and commission expenses		(2,907)	(2,969)	(2.1)
Net fee and commission income	**(3)**	**45,422**	**44,430**	**2.2**
Net trading income	(4)	1,523	2,348	(35.1)
General administrative expenses	(5)	(100,813)	(100,822)	0.0
Other operating income	(6)	3,567	3,931	(9.3)
Other operating expenses	(6)	(10,886)	(7,544)	44.3
Profit/(loss) from financial assets		3,222	3,036	6.1
– Profit/(loss) from financial assets (FV)	(7)	1,581	2,406	(34.3)
– Profit/(loss) from financial assets (AFS)	(8)	1,641	2,784	(41.1)
– Profit/(loss) from financial assets (HTM)	(9)	0	(2,154)	(100.0)
Profit for the year before tax		**45,529**	**49,874**	**(8.7)**
Income tax expense	(10)	(4,933)	(6,748)	(26.9)
Profit for the year after tax		**40,596**	**43,126**	**(5.9)**
Minority interests in profit for the year		(3)	(3)	0.0
Profit for the year after minority interests		**40,593**	**43,123**	**(5.9)**

INCOME AND EXPENSES TAKEN DIRECTLY TO EQUITY

€k	2013	2012	+/(–) Change, %
Profit for the year after tax	**40,596**	**43,126**	**(5.9)**
Items not reclassified to consolidated profit or loss	**(1,264)**	**(3,573)**	**(64.6)**
+/(–) Actuarial gains/(losses) in conformity with IAS 19	(673)	(3,992)	(83.1)
+/(–) Deferred taxes in conformity with IAS 19	168	998	(83.2)
+/(–) Gains less losses arising from use of the equity method in conformity with IAS 19	(759	(579)	31.1
Items reclassified to consolidated profit or loss	**229**	**8,364**	**(97.3)**
+/(–) Exchange differences	(273)	(53)	>100
+/(–) Available-for-sale reserve	2,788	1,372	>100
+/(–) Deferred taxes taken to AFS reserve items	(172)	(853)	(79.8)
+/(–) Gains less losses arising from use of the equity method	(2,114)	7,898	(>100)
Total income and expenses taken directly to equity	**(1,035)**	**4,791**	**(>100)**
Comprehensive income before minority interests	**39,561**	**47,917**	**(17.4)**
Of which minority interests	(3)	(3)	0.0
Comprehensive income after minority interests	**39,558**	**47,914**	**(17.4)**

QUARTERLY REVIEW

€k	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Interest income	49,129	47,683	49,937	47,872
Interest expenses	(17,198)	(17,889)	(18,956)	(19,437)
Profit/(loss) from investments in entities accounted for using the equity method	6,520	7,502	6,983	4,058
Net interest income	**38,451**	**37,296**	**37,964**	**32,493**
Impairment charge on loans and advances	(12,041)	(8,755)	(12,244)	(9,670)
Net interest income after impairment charge	**26,410**	**28,541**	**25,720**	**22,823**
Fee and commission income	12,201	12,188	11,698	12,242
Fee and commission expenses	(406)	(830)	(907)	(764)
Net fee and commission income	**11,795**	**11,358**	**10,791**	**11,478**
Net trading income	310	399	423	391
General administrative expenses	(26,318)	(24,333)	(25,388)	(24,774)
Other operating income	730	887	1,121	829
Other operating expenses	(1,798)	(6,654)	(1,519)	(915)
Profit/(loss) from financial assets	(167)	1,077	306	2,006
– Profit/(loss) from financial assets (FV)	469	424	(120)	808
– Profit/(loss) from financial assets (AFS)	(636)	653	426	1,198
– Profit/(loss) from financial assets (HTM)	0	0	0	0
Profit for the period before tax	**10,962**	**11,275**	**11,454**	**11,838**
Income tax expense	(1,238)	(1,188)	(1,050)	(1,457)
Profit for the period after tax	**9,724**	**10,087**	**10,404**	**10,381**
Minority interests in profit for the period	(1)	(1)	0	(1)
Profit for the period after minority interests	**9,723**	**10,086**	**10,404**	**10,380**

QUARTERLY REVIEW

€k	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Interest income	51,237	52,871	55,055	56,181
Interest expenses	(20,876)	(23,950)	(24,347)	(25,333)
Profit/(loss) from investments in entities accounted for using the equity method	5,978	6,178	6,490	3,613
Net interest income	**36,339**	**35,099**	**37,198**	**34,461**
Impairment charge on loans and advances	(11,192)	(8,799)	(9,663)	(8,948)
Net interest income after impairment charge	**25,147**	**26,300**	**27,535**	**25,513**
Fee and commission income	12,236	11,742	11,467	11,954
Fee and commission expenses	(691)	(870)	(659)	(749)
Net fee and commission income	**11,545**	**10,872**	**10,808**	**11,205**
Net trading income	1,219	60	743	326
General administrative expenses	(25,272)	(26,059)	(25,061)	(24,430)
Other operating income	1,431	839	851	810
Other operating expenses	(2,876)	(3,164)	(781)	(723)
Profit/(loss) from financial assets	3,630	867	(570)	(891)
– Profit/(loss) from financial assets (FV)	240	424	1,214	528
– Profit/(loss) from financial assets (AFS)	2,897	105	(318)	100
– Profit/(loss) from financial assets (HTM)	493	338	(1,466)	(1,519)
Profit for the period before tax	**14,824**	**9,715**	**13,525**	**11,810**
Income tax expense	(2,133)	(1,337)	(1,528)	(1,750)
Profit for the period after tax	**12,691**	**8,378**	**11,997**	**10,060**
Minority interests in profit for the period	0	0	(2)	(1)
Profit for the period after minority interests	**12,691**	**8,378**	**11,995**	**10,059**

Balance Sheet of the BKS Bank Group as at 31 December 2013

ASSETS

€k	Note	31/12/2013	31/12/2012	+/(–) Change, %
Cash and balances with the central bank	(11)	104,815	81,749	28.2
Receivables from other banks	(12)	116,917	128,417	(9.0)
Receivables from customers	(13)	5,050,314	4,962,336	1.8
– Impairment allowance balance	(14)	(176,109	(168,101)	4.8
Trading assets	(15)	352	237	48.5
Financial assets		1,516,783	1,514,427	0.2
– Financial assets designated as at fair value through profit or loss	(16)	188,626	205,713	(8.3)
– Available-for-sale financial assets	(17)	251,483	265,224	(5.2)
– Held-to-maturity financial assets	(18)	715,548	702,314	1.9
– Investments in entities accounted for using the equity method	(19)	361,126	341,176	5.8
Intangible assets	(20)	1,907	7,959	(76.0)
Property and equipment	(21)	63,251	62,176	1.7
Investment property	(22)	22,814	16,492	38.3
Deferred tax assets	(23)	17,109	19,825	(13.7)
Other assets	(24)	25,607	28,898	(11.4)
Total assets		**6,743,760**	**6,654,415**	**1.3**

EQUITY AND LIABILITIES

€k	Note	31/12/2013	31/12/2012	+/(–) Change, %
Payables to other banks	(25)	1,302,332	1,446,411	(10.0)
Payables to customers	(26)	3,783,595	3,545,790	6.7
Liabilities evidenced by paper	(27)	591,083	579,944	1.9
Trading liabilities	(28)	404	282	43.3
Provisions	(29)	83,992	81,289	3.3
Deferred tax liabilities	(30)	5,593	10,871	(48.6)
Other liabilities	(31)	39,788	64,880	(38.7)
Subordinated debt capital	(32)	222,809	236,655	(5.9)
Equity		714,164	688,293	3.8
– Of which total minority interests and equity		714,154	688,286	3.8
– Of which minority interests in equity		10	7	42.9
Total equity and liabilities		**6,743,760**	**6,654,415**	**1.3**

EARNINGS AND DIVIDEND PER SHARE

	2013	2012
Average number of shares in issue (ordinary and preference shares)	32,239,745	32,211,703
Dividend per share (ordinary and preference shares), €	0.25	0.25
Earnings per share (diluted and undiluted), €	1.26	1.34

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.

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY IN 2013

€k	Subscribed Capital	Capital Reserves	Exchange Differ-ences	Revalua-tion Reserve	Retained Earnings	Adjust-ment for Associates	Profit/ (Loss) for the Year	Equity
At 1 January 2013	65,520	97,929	(714)	(118)	472,349	10,194	43,126	688,286
Distribution							(8,063)	(8,063)
Taken to retained earnings					35,063		(35,063)	0
Profit/(loss) for the year							40,596	40,596
Income and expenses taken directly to equity			(273)	2,616	(505)	(2,873)		(1,035)
Increase in share capital								
Effect of the equity method						(3,045)		(3,045)
Change in treasury shares					(1,430)			(1,430)
Other changes					(1,155)			(1,155)
At 31 December 2013	**65,520**	**97,929**	**(987)**	**2,498**	**504,322**	**4,276**	**40,596**	**714,154**
Available-for-sale reserve								3,063
Deferred tax reserve								(565)

TOTAL MINORITY INTERESTS AND EQUITY IN 2012

€k	Subscribed Capital	Capital Reserves	Exchange Differ-ences	Revalua-tion Reserve	Retained Earnings	Adjust-ment for Associates	Profit/ (loss) for the Year	Equity
At 1 January 2012	65,520	97,929	(661)	(637)	444,505	2,875	35,391	644,922
Distribution							(8,034)	(8,034)
Taken to retained earnings					27,357		(27,357)	0
Profit/(loss) for the year							43,126	43,126
Income and expenses taken directly to equity			(53)	519	(2,994)	7,319		4,791
Increase in share capital								
Change in treasury shares					1,897			1,897
Other changes					1,584			1,584
At 31 December 2012	**65,520**	**97,929**	**(714)**	**(118)**	**472,349**	**10,194**	**43,126**	**688,286**
Available-for-sale reserve								275
Deferred tax reserve								(393)

Minority interests are of secondary importance in the BKS Bank Group's Statement of Changes in Equity (2013: €9.8 thousand; 2012: €6.8 thousand). At the end of 2013, BKS Bank held in its own portfolio 478,479 ordinary no-par treasury shares and 85,774 no-par preference treasury shares (31 December 2012: 433,081 ordinary no-par treasury shares and 43,177 no-par preference treasury shares) with a market value of €9.7 million.

The 72nd AGM on 18 May 2011 authorized the Management Board within five years from the time of registration in the companies register (*Firmenbuch*) of the pertinent change to the Memorandum and Articles of Association (*Satzung*) pursuant to *§ 169 AktG* and with the consent of the Supervisory Board 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 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.

Cash Flow Statement

CASH FLOWS

€k	2013	2012
Profit for the year before minority interests	**40,596**	**43,126**
Non-cash positions in profit for the year:		
– Depreciation, amortization and impairment charge on receivables and property and equipment	45,181	42,017
– Changes in provisions	5,465	7,516
– Gains and losses on disposals	(3,650)	(1,965)
– Change in other non-cash items	(18,304)	(15,275)
Subtotal	**69,288**	**75,419**
Change in assets and liabilities arising from operating activities after correction for non-cash items:		
– Receivables from customers and other banks, effect of using the fair value option	(98,782)	(279,668)
– Trading assets	(115)	107
– Other assets	503	4,476
– Payables to customers and other banks	93,726	70,337
– Liabilities evidenced by paper	11,139	124,928
– Trading liabilities	122	(109)
– Provisions and other liabilities	(27,864)	(29,223)
Net cash from/(used in) operating activities	**48,017**	**(33,733)**
Proceeds from:		
– Sales of financial assets and property and equipment	207,213	269,506
Outlay on:		
– Purchases of financial assets and property and equipment	(208,673)	(208,248)
Net cash from/(used in) investing activities	**(1,460)**	**61,258**
Increases in share capital	0	0
Dividend distributions	(8,063)	(8,034)
Subordinated liabilities and other financing activities	(15,320)	(23,722)
Net cash from/(used in) financing activities	**(23,383)**	**(31,756)**
Cash and cash equivalents at end of previous year	**81,749**	**85,819**
Net cash from/(used in) operating activities	48,017	(33,733)
Net cash from/(used in) investing activities	(1,460)	61,258
Net cash from/(used in) financing activities	(23,383)	(31,756)
Effect of exchange rate changes on cash and cash equivalents	(108)	161
Cash and cash equivalents at end of year under review	**104,815**	**81,749**
Taxes, interest and dividends		
– Income tax paid	7,130	7,460
– Interest received	186,640	211,093
– Interest paid	73,017	94,064
– Dividends received	1,398	1,018

Cash and cash equivalents are recognized in the line item *Cash and balances with the central bank*.

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 2013 financial year as exempting consolidated financial statements within the meaning of *§ 59A BWG* (Austrian banking act). 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 into a stock corporation 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 AG*. Together, the *3 Banks* combine the strength of a major bank 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 28 February 2014 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 enterprise would continue as a going concern.

II. Effects of new standards and amendments

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 2012 financial year were retained in 2013. Similarly, 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.

Effects of new standards that were effective for the 2013 financial year
The following standards were effective for annual periods beginning on or after 1 January 2013:
IAS 1 – Presentation of Financial Statements: Statements of Comprehensive Income (amendments)
IAS 12 – Income Taxes (amendments)
IAS 19 – Employee Benefits
IFRS 1 – First-time Adoption of International Financial Reporting Standards: Government Loans
IFRS 13 – Fair Value Measurement
IFRS 7 – Financial Instruments: Disclosures (amendments)
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine
Annual Improvement Cycle (2009 – 2011)

IAS 1: The changes to IAS 1 related mainly to the presentation of comprehensive income. It now requires the line item *Other comprehensive income* to differentiate between items that will or can subsequently be reclassified to profit or loss and items that are not to be reclassified to profit or loss. Apart from the change to the presentation of comprehensive income, the revision of this standard has not had a material impact on the Consolidated Financial Statements.

IAS 12: The amendment to IAS 12 related to the introduction of a questionable assumption, namely that the carrying amount of an investment property will be realized through sale if it is measured at fair value. If the 'mandatory assumption' is refuted, the general principles of IAS 12 are applicable. This amendment has not had any effect on BKS Bank.

IAS 19: The changes to IAS 19 related mainly to the abolition of the 'corridor' method. In other words, they have removed the possibility of deferring actuarial gains and losses. From now on, actuarial gains and losses must immediately be recognized in *Other comprehensive income*. In addition, provisions regarding the treatment of past service cost if plans are amended and of gains and losses if plans are curtailed and the recognition of net interest cost and net interest income in respect of post-employment benefit plans have been changed. Moreover, notes must now disclose the characteristics of post-employment benefit plans and the risks to the entity arising from them. BKS Bank did not make use of the 'corridor' period in prior periods. Gains and losses were immediately recognized in profit or loss. Besides additional information in the notes (inclusive of sensitivity analyses), the effects on BKS Bank of the changes to IAS 19 will include taking actuarial gains and losses directly to equity. The required retrospective application of the changes to IAS 19 means that figures for the previous year have also had to be restated. The effects of the prior period adjustment are presented in the following table:

EFFECTS OF THE CHANGES TO IAS 19

€k	Restatement: 2012	Notes: 2012	+/(–) Change, €'000
Income Statement			
General administrative expenses	100,822	104,814	(3,992)
Profit for the year before tax	49,874	45,882	3,992
Income tax expense	(6,748)	(5,750)	(998)
Profit for the year after tax	43,126	40,132	2,994
INCOME AND EXPENSES TAKEN DIRECTLY TO EQUITY			
Actuarial gains less actuarial losses for the purposes of IAS 19	(3,992)	—	(3,992)
Deferred taxes for the purposes of IAS 19	998	—	998
Actuarial gains less actuarial losses for the purposes of IAS 19 accounted for using the equity method after deferred taxes	(579)	—	(579)
Other income and expenses taken to equity	8,364	8,364	0
Comprehensive income	**47,917**	**48,496**	**579**
Earnings per share	**1.34**	**1.25**	**0.09**

In addition, in the Statement of Changes in Equity, there were shifts within the revaluation reserve and retained earnings and in the recognition of associates. Total equity was unchanged.

IFRS 1: The changes to IFRS 1 related to government loans. This standard basically deals with the first-time adoption of IFRSs. Since it is not applicable, it did not have any effect on BKS Bank.

IFRS 13: IFRS 13 regulates measurement to fair value for all the standards on the basis of three categories. IFRS 13 must be applied prospectively. This standard is applicable to financial and non-financial items which standards require to be measured to fair value or allow to be measured to fair value or for which information about their measurement to fair value is required. Apart from the classification into categories and extended disclosures in notes, this standard has not materially affected BKS Bank.

IFRS 7: The changes to this standard concerned disclosures in notes regarding offsetting to improve comparisons between US GAAP and IFRSs. Since it is not applicable, they have not affected BKS Bank.

IFRS 20: The interpretations in IFRIC 20 related to stripping costs in the production phase of a surface mine. This area does not have any effect on the Consolidated Financial Statements of BKS Bank.

Annual Improvement Cycle (2009 – 2011): The amendments within the scope of the 2009 – 2011 Annual Improvement Cycle consisted mainly of clarifications, editorial corrections and minimal changes relating to measurement and disclosure. They have not affected the Consolidated Financial Statements.

Effects of new standards effective from the 2014 financial year
The following standards will be effective for annual periods beginning on or after 1 January 2014:
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interests in Other Entities
IAS 27 – Separate Financial Statements
IAS 28 – Investments in Associates
IAS 32 – Offsetting Financial Assets and Financial Liabilities (amendments)
IAS 36 – Impairment of Assets (amendments)
IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (amendments)
IFRIC 21 – Levies
Annual Improvements (2010 – 2012)
Annual Improvements 2012 – 2013

All of IFRS 10, 11, 12 and IAS 27 and 28 concern consolidation.

IAS 27 now contains only requirements relating to separate financial statements (incl. disclosures in notes). Consequently, this standard will not have any impact on the Consolidated Financial Statements of BKS Bank.

The revised **IAS 28** regulates the accounting for investments in associates and joint arrangements in accordance with IFRS 11. **IFRS 11** regulates the differentiation between joint operations and joint ventures, which is important when choosing the method of consolidation. If there is a joint operation, it must be accounted for using proportionate consolidation. Investments in joint ventures must be accounted for using equity accounting in accordance with IAS 28.

IFRS 10 amends the concept of control. It must now be assumed that the parent may not have to hold a stake of over 50 per cent to have control. A more extensive analysis of the circumstances is required to determine whether or not control is exercised.

IFRS 12 is a new standard regulating disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

In view of *BKS Bank AG*'s simple ownership structure, one can, as things stand at the moment, state, with considerable certainty, that there will be no material changes to the scope of consolidation. The configuration of the *3 Banken Group* is such that a number of interests exist that are held jointly by the *3 Banks* and must be accounted for in the financial statements using the equity method. However, this was already done in prior periods. In other words, use was not made of the option of proportionate consolidation. As things stand at the moment, there are no joint operations within the meaning of IFRS 11. Most of the other investments are minority stakes where control within the meaning of IFRS 10 can be ruled out or which do not qualify as joint arrangements, joint ventures or associates. Although we do not expect IFRS 12 to have a material effect on the Consolidated Financial Statements, it will add to the disclosures in the notes.

Furthermore, an amendment to IFRS 10, 11 und IAS 27 has been published that provides for an exception to IFRS 10 if the parent entity qualifies as an investment entity. Since it is not applicable, this amendment will have no effect on the Consolidated Financial Statements.

The amendment to IFRS 10, 11 and 12 does not contain any transitional guidance. As a result, despite retrospective application, comparative information is only required for the preceding comparative period. Disclosures about unconsolidated structured entities are not required in respect of periods before the first-time adoption of IFRS 12. This amendment will make it easier for BKS Bank to prepare its Consolidated Financial Statements.

IAS 32: Nor will the changes regarding offsetting (see also IFRS 7) result in material changes to BKS Bank's Consolidated Financial Statements.

IAS 36: When reintroducing IFRS 13, the IASB decided to revise IAS 36 by requiring disclosure of the expected amount in the event of impairments during a period.

IAS 39: The changes to IAS 39 put in concrete terms when hedge accounting does not have to be discontinued upon novation. The IASB published the changes in the summer of 2013 and they were adopted by the EU in December 2013. They will not have any effect on the Consolidated Financial Statements.

IFRIC 21: In May 2013, the IASB published the IFRIC 21 interpretation on levies. The IFRIC interpretation puts in concrete terms how and when levies by governmental authorities must be recognized as liabilities on the balance sheet in conformity with IAS 37 in the form of provisions, contingent liabilities and contingent assets. Endorsement by the EU is not to take place until the first quarter of 2014. As things stand at the moment, this interpretation will not have any implications for BKS Bank.

Annual Improvement Cycles (2010 – 2012 and 2012 – 2013): The changes that resulted from the Annual Improvement Cycles (2010 – 2012 and 2012 – 2013) comprised mainly clarifications and editorial corrections. The above-mentioned Annual Improvements were issued by the IASB in December 2013 and have yet to be endorsed by the EU. The changes introduced by the Annual Improvement Cycles (2010 – 2012 and 2012 – 2013) will have no material effect on BKS Bank's Consolidated Financial Statements.

Standards effective for annual periods beginning on or after 1 January 2015

IFRS 9: IFRS 9 deals with financial instruments. It includes requirements for recognition and measurement, derecognition and hedge accounting and will supersede IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 was originally published in 2009, was republished in a lengthened form in 2010 and then revised again in 2013. To date, the phases of the IFRS 9 project have not yet all been completed. Originally, it was to enter into force on 1 January 2015. The IASB has now decided that IFRS 9 is not to be effective until annual periods beginning on or after 1 January 2018. This new standard will lead to material changes in the Consolidated Financial Statements because it will introduce essential changes to the classification and measurement of financial instruments.

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 in 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.

The format of the financial statements differs from the previous year's, but this has only affected their presentation. The section entitled 'Additional Disclosures Required by IFRSs' was removed and the points thereunder integrated at appropriate places in the report. Certain disclosures were extended.

Scope of consolidation

Besides *BKS Bank AG*, the Consolidated Financial Statements accounted for 18 entities (14 consolidated and four accounted for using the equity method). 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 in accordance with 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, its was the Group's interest in their equity. The number of employees was another criterion. Furthermore, each company was evaluated to ascertain whether its exclusion might affect financial decisions on the part of the report's addressees. Here, the key criteria were a company'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. The following directly and indirectly held investments were consolidated:

CONSOLIDATED ENTITIES

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
BKS Bank d.d.	Rijeka	100.00	—	31/12/2013
BKS-Leasing Gesellschaft m.b.H	Klagenfurt	99.75	0.25	31/12/2013
BKS-leasing d.o.o.	Ljubljana	100.00	—	31/12/2013
BKS-leasing Croatia d.o.o.	Zagreb	100.00	—	31/12/2013
BKS-Leasing s.r.o. (subgroup with *BKS-Finance s.r.o.*)	Bratislava	100.00	—	31/12/2013
IEV Immobilien GmbH	Klagenfurt	100.00	—	31/12/2013
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	Klagenfurt	100.00	—	31/12/2013
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	—	100.00	31/12/2013
BKS Hybrid alpha Gmbh	Klagenfurt	100.00	—	31/12/2013
BKS Hybrid beta GmbH	Klagenfurt	100.00	—	31/12/2013
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00	—	31/12/2013
LVM Beteiligungs Gesellschaft mbH	Klagenfurt	—	100.00	31/12/2013
BKS Immobilien-Service GmbH	Klagenfurt	100.00	—	31/12/2013
BKS Service GmbH	Klagenfurt	100.00	—	31/12/2013

BKS-Leasing Gesellschaft m.b.H. was retrospectively merged into *BKS Immobilien-Leasing Gesellschaft m.b.H.* as of 1 January 2013 and the company's name was changed, becoming *BKS-Leasing Gesellschaft m.b.H.* The legal form of *BKS-Leasing s.r.o.* was changed from *a.s.* to *s.r.o.* as of 30 September 2013. *BKS-Leasing s.r.o.* made up a subgroup with *BKS-Finance s.r.o.*

BKS Immobilien-Service GmbH and *BKS Service GmbH* (formerly *BKS 1 Beteiligungs GmbH*) were added to the scope of consolidation as of 31 December 2013 because the business activity and size of workforce of both companies changed materially in the second half of the 2013 financial year. *BKS Service GmbH* now handles back office functions, which has affected numbers of employees and its financial statements. The workforce at *BKS Immobilien-Service GmbH* was also increased. As a consequence of discretionary decisions, both companies were added to the scope of consolidation on the grounds of materiality.

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
Oberbank AG	Linz	16.95	—	30/9/2013
Bank für Tirol und Vorarlberg AG	Innsbruck	13.59	—	30/9/2013
Alpenländische Garantie-GmbH	Linz	25.00	—	31/12/2013
Drei-Banken Versicherungs AG	Linz	20.00	—	31/12/2013

Otherwise, the scope of consolidation was unchanged compared with 2012. Regarding *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*, we point out that although BKS Bank had voting interests of less than 20 per cent in these banks, namely of 18.51 per cent and 15.10 per cent, respectively, and equity interests of less than 20 per cent, namely of 16.95 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.

As a result of the discretionary decisions described above, the following entities in which stakes of more than 20 per cent were held were not accounted for in the Consolidated Financial Statements. Those entities' assets came to less than 1 per cent of BKS Bank's consolidated balance sheet total.

OTHER ENTITIES NOT ACCOUNTED FOR IN THE CONSOLIDATED FINANCIAL STATEMENTS

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
Drei-Banken-EDV GmbH	Linz	30.00	—	31/12/2013
BKS 2000-Beteiligungsverwaltungsgesellschaft	Klagenfurt	100.00	—	31/12/2013
VBG Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00	—	31/12/2013
E 2000 Liegenschaftsverwaltungs GmbH	Klagenfurt	100.00	—	31/12/2013
Pekra Holding GmbH	Pörtschach	100.00	—	31/12/2013

Those entities were not included on the grounds of immateriality. All other equity investments were classified as available-for-sale financial assets and, if their fair value could not be reliably measured, recognized at cost.

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 merely two Croatian companies that prepared their financial statements in Croatian kunas rather than in euros. 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 financial year. 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 accordance with the provisions of IAS 39 and 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 (HFT);
  - 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).

In the valuations that follow, financial instruments have either been measured to fair value or at amortized cost. BKS Bank classified and measured financial instruments in conformity with IAS 39 and IFRS 7 as follows:

CLASSIFICATION AND VALUATION OF FINANCIAL INSTRUMENTS

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

EQUITY AND 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

As in 2012, no reclassifications were carried out in accordance with IFRS 7.12.

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 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 inclusion in this category was decided by the Asset Liability Management Committee (see the Risk Report). These positions (asset or liability and associated derivative) were thus measured at fair value through profit or loss and any revaluation gains or 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 recognized 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
This line item comprises 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 *Bank für Tirol und Vorarlberg AG* were also accounted for in the Consolidated Financial Statements using the equity method — even though the mutual shareholdings of Oberbank, Bank für Tirol und Vorarlberg and BKS Bank were below 20 per cent — as syndicate agreements were in place between them. This allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them.

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. An interest rate of 7.13 per cent was applied in the year under review. 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 those assets 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 impairment charges on an item-by-item basis (in the case of material exposures, these were calculated on the basis of the *discounted cash flow method*), by recognizing impairment charges for individual positions on an item-by-item basis applying class-specific criteria and by collective assessment of impairment of the portfolio carried out in accordance with IAS 39.64. The latter included 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).

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 the properties held as financial investments is disclosed in the Notes. It was mainly based

on estimates (external expert reports). Depreciation rates lay 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 date.

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 mainly of land, buildings and other property and equipment comprising primarily office furniture and 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 50 years);
– office furniture and 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, had a limited useful life and consisted primarily of software. Ordinary amortization was linear based on an asset's usual useful life. The amortization rate was:
– software: 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.

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 obligations 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 benefits, for taxes and for interest on stepped coupon products. The provision for mortality benefits was also calculated in accordance with the IFRS principles contained in IAS 19. In the 2013 financial year, the provisions for post-employment, termination, jubilee and mortality benefits were calculated in accordance with the IFRS principles contained in IAS 19 employing the *AVÖ 2008* table and using the *projected unit credit method*. As of 31 December 2000, the pension benefit expectancies of all active employees were transferred to *VBV-Pensionskasse AG* as the legal successor to *BVP-Pensionskasse AG*.

Valuations were based on actuarial reports prepared by independent actuaries. The present value was recognized on the Balance Sheet.

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 2012, use was made of the services of *Mercer (Austria) GmbH*. An interest rate of 3.70 per cent (2012: 3.75 per cent) was applied. Moreover, a salary trend of 2.10 per cent (2012: 2.00 per cent) and a career trend of 0.25 per cent (2012: 0.25 per cent) were allowed for. The overall net discounting rate of interest was 1.35 per cent (2012: 1.5 per cent).

Actuarial gains and losses on provisions for termination and post-employment benefits were taken directly to equity. The retrospective application of IAS 19 (2005 – 2012) necessitated the restatement of the comparative figures. Quantitative notes are provided on page 142.

Equity
Equity consisted of paid-in and earned capital (capital reserves, retained earnings, revaluation reserve, exchange differences and profit for the year). BKS Bank strives to strengthen its capital base on a sustainable basis by ploughing back its profits.

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 customers, liabilities evidenced by paper and

investment property. Interest income and interest expenses were accounted for on an accrual basis. Interest income (dividend 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.

Impairment charge on loans and advances
This line item captures impairment allowances, impairment reversals and the creation of provisions. Recoveries on receivables previously written off were also accounted for in this line item. See also page 143 for details.

Net fee and commission income
This line item comprises income from services rendered to third parties net of the expenses attributed to such services.

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, etc. They were accounted for on an accrual basis.

IV. Discretionary Decisions

Estimates and assumptions were required to account for some 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 operates 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 environment in said markets was 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 charge
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).

Impairment of non-financial assets
Non-financial assets are tested for impairment on an annual basis. A goodwill impairment test is performed at least annually. When determining value in use, discretionary decisions and estimates of future cash flows, discount factors and growth rates are required. During the 2013 financial year, no impairment allowances were necessary besides the allowance for the goodwill of *Bank d.d.*, which was entirely attributable to our entry into the Croatian banking market. The goodwill impairment test is described in note (20).

Measuring the fair value of financial assets
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 and the disclosures that are required regarding fair value measurements. IFRS 13 has assigned the fair values of financial assets 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 were used to suit the financial instrument.

Using the fair value option

The ALM Committee decided whether 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 mortality benefits. The discount rate is particularly important because changing the interest rate materially affects the amount of the provision. See the section on *Provisions* for further details.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	2013	2012	+/(–) Change, %
Interest income from:			
Credit operations	145,079	160,253	(9.5)
Fixed-interest securities designated as at fair value through profit or loss	3,160	2,917	8.3
Fixed-interest securities classified as available for sale	2,992	5,787	(48.3)
Fixed-interest securities classified as held to maturity	24,171	26,263	(8.0)
Lease receivables	8,014	10,353	(22.6)
Shares	3,011	3,206	(6.1)
Investment property	2,437	1,083	>100
Investments in 'other' subsidiaries	1,053	652	61.5
Other equity investments	4,704	4,830	(2.6)
Total interest income	**194,621**	**215,344**	**(9.6)**
Interest expenses on:			
Deposits from customers and other banks [1]	45,906	67,301	(31.8)
Liabilities evidenced by paper	26,894	26,887	0.0
Investment property	680	318	>100
Total interest expenses	**73,480**	**94,506**	**(22.2)**
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	25,868	22,736	13.8
Financing costs of investments in entities accounted for using the equity method [2]	(805)	(477)	68.8
Profit from investments in entities accounted for using the equity method	**25,063**	**22,259**	**12.6**
Net interest income	**146,204**	**143,097**	**2.2**

[1] Net of financing costs of investments in entities accounted for using the equity method.
[2] Based on the average 3-month Euribor.

The line item *Interest income* includes recoveries on defaulted receivables in the amount of €6.8 million (31 December 2012: €9.9 million).

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	2013	2012	+/(–) Change, %
Impairment allowances	47,018	45,431	3.5
Impairment reversals	(5,363)	(7,079)	(24.2)
Direct write-offs	1,446	651	>100
Recoveries on receivables previously written off	(391)	(401)	(2.5)
Impairment charge on loans and advances	**42,710**	**38,602**	**10.6**

This line item contains impairment charges on lease receivables in the amount of €1.7 million (31 December 2012: €2.2 million).

(3) NET FEE AND COMMISSION INCOME

€k	2013	2012	+/(–) Change, %
Fee and commission income from:			
Payment services	19,220	18,793	2.3
Securities operations	12,037	11,203	7.4
Credit operations	13,648	13,006	4.9
Foreign exchange operations	2,311	3,194	(27.6)
Other services	1,113	1,203	(7.5)
Total fee and commission income	**48,329**	**47,399**	**2.0**
Fee and commission expenses arising from:			
Payment services	1,425	1,349	5.6
Securities operations	735	781	(5.9)
Credit operations	431	434	(0.7)
Foreign exchange operations	174	232	(25.0)
Other services	142	173	(17.9)
Total fee and commission expenses	**2,907**	**2,969**	**(2.1)**
Net fee and commission income	**45,422**	**44,430**	**(2.2)**

(4) NET TRADING INCOME

€k	2013	2012	+/(–) Change, %
Price-based contracts	(11)	11	(>100)
Interest rate and currency contracts	1,534	2,337	(34.4)
Net trading income	**1,523**	**2,348**	**(35.1)**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	2013	2012	+/(–) Change, %
Staff costs	66,972	66,578	0.6
– Wages and salaries	47,563	47,623	(0.1)
– Social security costs	13,610	12,912	5.4
– Costs of old-age benefits	5,799	6,043	(4.0)
Other administrative costs	27,085	27,496	(1.5)
Depreciation/amortization	6,756	6,748	0.1
General administrative expenses	**100,813**	**100,822**	**0.0**

Expenditure on old-age benefits included defined contribution plan payments to a pension fund in the amount of €1.5 million (2012: €1.3 million). Prior-year figures for expenditure on old-age benefits were restated in accordance with IAS 19.

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	2013	2012	+/(–) Change, %
Other operating income	3,567	3,931	(9.3)
Other operating expenses	(10,886)	(7,544)	44.3
Other operating income net of other operating expenses	(7,319)	(3,613)	>100

The line item *Other operating income* includes non-interest income from leases in the amount of €829 thousand (2012: €1,030 thousand), rental income in the amount of €319 thousand (2012: €400 thousand) and other income in the amount of €2,419 thousand (2012: €2,501 thousand). Expenses comprised a goodwill impairment allowance of €5,414 thousand (2012: €3,474 thousand), the stability levy in the amount of €2,074 thousand (2012: €2,074 thousand) and other expenses in the amount of €3,398 thousand (2012: €1,996 thousand). *Other operating income net of other operating expenses* did not include any income tax expense (2012: €0.2 million).

(7) PROFIT/(LOSS) FROM FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

€k	2013	2012	+/(–) Change, %
Revaluation gains and losses on and gains and losses on disposals of derivatives	2,587	(2,106)	(>100)
Gain/(loss) as a result of using the fair value option	(1,006)	4,512	(>100)
Profit/(loss) from financial assets designated as at fair value through profit or loss	1,581	2,406	(34.3)

Fixed-interest loans to customers in the amount of €101.6 million (2012: €113.0 million), bonds in the asset portfolio in the amount of €87.0 million (2012: €92.7 million) and BKS Bank's own issuances in the amount of €115.5 million (2012: €83.3 million) were hedged by means of interest rate swaps using the fair value option. The effect of these hedges totalled negative €1.0 million (2012: positive €4.5 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	2013	2012	+/(–) Change, %
Revaluation gains and losses	(3,491)	(1,627)	>100
Gains and losses realized on disposal	5,132	4,411	16.3
Profit/(loss) from available-for-sale financial assets	1,641	2,784	(41.1)

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

€k	2013	2012	+/(–) Change, %
Revaluation gains and losses	0	0	0
Gains and losses realized on disposal	0	(2,154)	(100)
Profit/(loss) from held-to-maturity financial assets	0	(2,154)	(100)

(10) INCOME TAX EXPENSE

€k	2013	2012	+/(–) Change, %
Current taxes	(7,530)	(7,824)	(3.8)
Deferred taxes	2,597	1,076	>100
Income tax expense	**(4,933)**	**(6,748)**	**(26.9)**

RECONCILIATION

€k	2013	2012
Profit for the year before tax	45,529	49,874
Applicable tax rate	25%	25%
Computed tax expense	11,382	12,469
Effect of differing tax rates	(240)	(199)
Tax savings		
– Arising from tax-exempt profit from equity investments	(8,182)	(7,264)
– Arising from other tax-exempt income	(611)	(1,373)
– Arising from other valuation adjustments	71	(514)
Additional tax incurred		
– As a result of non-allowable expenses	1,643	2,169
– Arising from other tax effects	869	1,152
Aperiodic tax expenses	0	309
Income tax expense in period	**4,933**	**6,748**
Effective tax rate	10.8%	13.5%

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2013	31/12/2012	+/(–) Change, %
Cash in hand	37,016	34,537	7.2
Credit balances with central banks of issue	67,799	47,212	43.6
Cash and balances with the central bank	**104,815**	**81,749**	**28.2**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Receivables from Austrian banks	45,485	66,377	(31.5)
Receivables from foreign banks	71,432	62,040	15.1
Receivables from other banks	**116,917**	**128,417**	**(9.0)**

RECEIVABLES FROM OTHER BANKS, BY REMAINING TERM TO MATURITY

€k	31/12/2013	31/12/2012	+/(–) Change, %
Due on demand	79,370	66,445	19.5
Up to 3 months	23,034	49,300	(53.3)
From 3 months to 1 year	12,262	5,597	>100
From 1 year to 5 years	2,251	7,000	(67.8)
From 5 years and over	0	75	(100)
Receivables from other banks	**116,917**	**128,417**	**(9.0)**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Corporate and business banking customers	3,946,284	3,871,029	1.9
Retail banking customers	1,104,030	1,091,307	1.2
Receivables from customers	**5,050,314**	**4,962,336**	**1.8**

The line item *Receivables from customers* includes receivables arising from finance leases in the amount of €289.0 million (31 December 2012: €303.5 million). No material sale and leaseback transactions took place during the year under review.

RECEIVABLES FROM CUSTOMERS, BY REMAINING TERM TO MATURITY

€k	2013	2012	+/(–) Change, %
Due on demand	304,725	262,365	16.1
Up to 3 months	741,473	687,783	7.8
From 3 months to 1 year	737,670	813,825	(9.4)
From 1 year to 5 years	1,377,407	1,364,025	1.0
From 5 years and over	1,889,039	1,834,338	3.0
Receivables from customers	**5,050,314**	**4,962,336**	**1.8**

The bulk of lease assets had a remaining term to maturity of more than one year.

RECEIVABLES ARISING FROM FINANCE LEASES, BY REMAINING TERM TO MATURITY

€k	2013	< 1 Year	1 – 5 Years	> 5 Years	2012	+/(–) Change, %
Gross value of investments	153,422	29,958	73,091	50,373	169,193	(9.3)
Unrealized financial gains	19,182	4,186	9,410	5,586	21,956	(12.6)
Net value of investments	**134,240**	**25,772**	**63,681**	**44,787**	**147,237**	**(8.8)**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	2013	2012	+/(–) Change, %
At beginning of year under review	168,101	153,246	9.7
+ Added	43,789	42,348	3.4
– Reversed	(5,364)	(7,079)	(24.2)
– Used	(30,334)	(20,392)	48.8
+/(–) Exchange differences	(83)	(22)	>100
At end of year under review	**176,109**	**168,101**	**4.8**

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 €17.4 million (31 December 2012: €18.7 million). The Risk Report contains further notes on the impairment allowance balance.

(15) TRADING ASSETS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Bonds and other fixed-interest securities	0	0	0
Positive fair values of derivative financial instruments			
– Currency contracts	0	0	0
– Interest rate contracts	352	237	48.5
Trading assets	**352**	**237**	**48.5**

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

€k	31/12/2013	31/12/2012	+/(–) Change, %
Bonds and other fixed-interest securities	87,004	92,735	(6.2)
Loans	101,622	112,978	(10.1)
Financial assets designated as at fair value through profit or loss	**188,626**	**205,713**	**(8.3)**

FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS, BY REMAINING TERM TO MATURITY

€k	31/12/2013	31/12/2012	+/(–) Change, %
Up to 3 months	12,054	3,215	>100
From 3 months to 1 year	28,754	13,556	>100
From 1 year to 5 years	80,508	119,239	(32.5)
From 5 years and over	67,310	69,703	(3.4)
Financial assets designated as at fair value through profit or loss	**188,626**	**205,713**	**(8.3)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Bonds and other fixed-interest securities	117,814	131,325	(10.3)
Shares and other variable-yield securities	83,574	87,222	(4.2)
Investments in other associates and in subsidiaries	35,399	31,869	11.1
Other equity investments	14,696	14,808	(0.8)
Available-for-sale financial assets	**251,483**	**265,224**	**(5.2)**

AVAILABLE-FOR-SALE FINANCIAL ASSETS, BY REMAINING TERM TO MATURITY

€k	31/12/2013	31/12/2012	+/(–) Change, %
Bonds and other fixed-interest securities			
– Up to 3 months	3,768	3,842	(1.9)
– From 3 months to 1 year	42,433	47,098	(9.9)
– From 1 year to 5 years	70,822	76,555	(7.5)
– From 5 years and over	791	3,830	(79.3)
Available-for-sale financial assets	**117,814**	**131,325**	**(10.3)**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Bonds and other fixed-interest securities	715,548	702,314	1.9
Held-to-maturity financial assets	**715,548**	**702,314**	**1.9**

HELD-TO-MATURITY FINANCIAL ASSETS, BY REMAINING TERM TO MATURITY

€k	31/12/2013	31/12/2012	+/(–) Change, %
Bonds and other fixed-interest securities			
– Up to 3 months	23,295	38,598	(39.6)
– From 3 months to 1 year	61,925	69,899	(11.4)
– From 1 year to 5 years	275,321	301,263	(8.6)
– From 5 years and over	355,007	292,554	21.3
Held-to-maturity financial assets	**715,548**	**702,314**	**1.9**

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

€k	31/12/2013	31/12/2012	+/(–) Change, %
Oberbank AG	237,139	224,167	5.8
Bank für Tirol und Vorarlberg AG	118,849	111,892	6.2
Alpenländische Garantie-GmbH	974	964	1.0
Drei-Banken Versicherungs-AG	4,164	4,153	0.3
Investments in entities accounted for using the equity method	**361,126**	**341,176**	**5.8**

(20) INTANGIBLE ASSETS AND GOODWILL

€k	31/12/2013	31/12/2012	+/(–) Change, %
Goodwill	0	5,414	(100.0)
Other intangible assets	1,907	2,545	(25.1)
Intangible assets	**1,907**	**7,959**	**(76.0)**

At 31 December 2012, the line item *Intangible assets* included goodwill attributed entirely to *BKS Bank d.d.* It was impairment tested as at 30 September 2013. The result of the calculations was that this goodwill had to be written off entirely. Recoverable amounts were calculated on the basis of *BKS Bank d.d.*'s medium-term plans. Both management personnel of *BKS Bank d.d.* and management personnel of the parent were involved in the planning process. The forecasts that were made were based on historical experience and future expectations regarding the Croatian market environment. Furthermore, planned and actual figures were continuously monitored.

Parameters were employed in the calculation of the equity cost rate as follows: the discount rate of 10.04 per cent (2012: 11.07 per cent) applied to the detailed planning period was calculated using the *average cost of capital method*; the individual parameters used to calculate the discount rate were obtained from market observations in conjunction with information from external sources; in Phase 2 of the valuation model, 1.5 per cent (2012: 1.5 per cent) was deducted from the interest rate to represent the growth rate; the growth rate was determined on the basis of the European Commission's autumn 2013 forecast for the Croatian economy.

Including the write-down of the goodwill of *BKS-Leasing s.r.o.*, goodwill was written down by a total of €12.2 million (2012: €6.8 million).

(21) PROPERTY AND EQUIPMENT

€k	31/12/2013	31/12/2012	+/(–) Change, %
Land	8,840	2,774	>100
Buildings	43,365	48,093	(9.8)
Other	11,046	11,309	(2.3)
Property and equipment	**63,251**	**62,176**	**1.7**

(22) INVESTMENT PROPERTY

€k	31/12/2013	31/12/2012	+/(–) Change, %
Land	7,679	8,167	(6.0)
Buildings	15,135	8,325	81.8
Investment property	**22,814**	**16,492**	**38.3**

At 31 December 2013, the fair value of our investment property totalled €34.5 million (31 December 2012: €24.4 million). Rental income during the year under review came to €2.4 million (2012: €1.1 million). Expenses associated with achieving this rental income came to €0.7 million (2012: €0.3 million).

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS (NON-CURRENT) UND INVESTMENT PROPERTY IN 2013

€k	Property and Equipment	Intangible Assets[1]	Property[2]	Total
Cost at 1 January 2013	125,191	9,038	29,434	163,663
Added	4,092	630	13,757[3]	18,479
Disposals	1,716	1	0	1,717
Exchange differences	(47)	(29)	0	(76)
Reclassified	271	0	(271)	0
Cost at 31 December 2013	**127,791**	**9,638**	**42,920**	**180,349**
Accumulated depreciation/amortization	64,540	7,731	20,106	92,377
Carrying amount at 31 December 2013	**63,251**	**1,907**	**22,814**	**87,972**
Carrying amount at 31 December 2012	62,176	2,545	16,492	81,213
Depreciation/amortization in 2013	4,612	1,303	841	6,756

[1] 'Other' intangible assets.
[2] Investment property.
[3] Due largely to the first-time consolidation of *BKS Immobilien-Service GmbH*.

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS (NON-CURRENT) AND INVESTMENT PROPERTY IN 2012

€k	Property and Equipment	Intangible Assets[1]	Property[2]	Total
Cost at 1 January 2012	124,503	8,252	29,289	162,044
Added	4,536	801	145	5,482
Disposals	3,834	7	0	3,841
Exchange differences	(14)	(8)	0	(22)
Reclassified	0	0	0	0
Cost at 31 December 2012	**125,191**	**9,038**	**29,434**	**163,663**
Accumulated depreciation/amortization	63,015	6,493	12,942	82,450
Carrying amount at 31 December 2012	**62,176**	**2,545**	**16,492**	**81,213**
Carrying amount at 31 December 2011	62,610	3,134	16,978	82,722
Depreciation/amortization in 2012	4,739	1,378	631	6,748

[1] 'Other' intangible assets.
[2] Investment property.

(23) DEFERRED TAX ASSETS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Receivables from customers	286	478	59.8
Trading assets and trading liabilities	42	20	>100
Impairment allowance balance	7,118	6,378	11.6
Available-for-sale financial assets	300	45	>100
Held-to-maturity financial assets	302	340	(11.2)
Property and equipment	365	296	23.3
Other assets and liabilities	3,103	6,101	(49.1)
Liabilities evidenced by paper	—	784	(100)
Provisions (for post-employment and termination benefits, other provisions)	5,594	5,383	3.9
Tax loss carryforwards	0	0	—
Deferred tax assets	**17,109**	**19,825**	**(13.7)**

The deferred tax assets were mainly due to impairment allowances recognized in accordance with IAS 39, derivatives in the banking book with negative fair values 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 €0.2 million (31 December 2012: €1.0 million).

(24) OTHER ASSETS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Positive fair values of derivative financial instruments	8,903	8,737	1.9
Other items	13,716	17,548	(21.8)
Deferred items	2,988	2,613	14.4
Other assets	**25,607**	**28,898**	**(11.4)**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Payables to Austrian banks	961,493	1,111,156	(13.5)
Payables to foreign banks	340,839	335,255	1.7
Payables to other banks	**1,302,332**	**1,446,411**	**(10.0)**

PAYABLES TO OTHER BANKS, BY REMAINING TERM TO MATURITY

€k	31/12/2013	31/12/2012	+/(–) Change, %
Due on demand	155,021	25,659	>100
Up to 3 months	617,053	905,444	(31.9)
From 3 months to 1 year	204,437	223,699	(8.6)
From 1 year to 5 years	305,858	275,098	11.2
From 5 years and over	19,963	16,511	20.9
Payables to other banks	**1,302,332**	**1,446,411**	**(10.0)**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Savings deposit balances	**1,741,201**	**1,797,864**	**(3.2)**
Corporate and business banking customers	228,814	244,645	(6.5)
Retail banking customers	1,512,387	1,553,219	(2.6)
Other payables	**2,042,394**	**1,747,926**	**16.8**
Corporate and business banking customers	1,394,145	1,205,649	15.6
Retail banking customers	648,249	542,277	19.5
Payables to customers	**3,783,595**	**3,545,790**	**6.7**

PAYABLES TO CUSTOMERS, BY REMAINING TERM TO MATURITY

€k	31/12/2013	31/12/2012	+/(–) Change, %
Due on demand	1,645,279	1,186,330	38.7
Up to 3 months	541,561	606,271	(10.7)
From 3 months to 1 year	800,228	1,254,919	(36.2)
From 1 year to 5 years	587,602	415,733	41.3
From 5 years and over	208,925	82,537	>100
Payables to customers	**3,783,595**	**3,545,790**	**6.7**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2013	31/12/2012	+/(–) Change, %
Issued bonds	480,382	402,398	19.4
Other liabilities evidenced by paper	110,701	177,546	(37.6)
Liabilities evidenced by paper	**591,083**	**579,944**	**1.9**

€115.5 million (31 December 2012: €83.3 million) of *Other liabilities evidenced by paper* were measured at fair value (fair value option). During the year under review, there were no changes in the fair value of the financial liabilities to which the fair value option was applied resulting from the bank's default risk.

LIABILITIES EVIDENCED BY PAPER, BY REMAINING TERM TO MATURITY

€k	31/12/2013	31/12/2012	+/(–) Change, %
Up to 3 months	52,713	86,059	(38.7)
From 3 months to 1 year	45,267	35,574	27.2
From 1 year to 5 years	286,852	319,340	(10.2)
From 5 years and over	206,251	138,971	48.4
Liabilities evidenced by paper	**591,083**	**579,944**	**1.9**

(28) TRADING LIABILITIES

€k	31/12/2013	31/12/2012	+/(–) Change, %
Interest rate contracts	404	282	43.3
Trading liabilities	**404**	**282**	**43.3**

(29) PROVISIONS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Provisions for post-employment benefits and similar obligations	69,814	70,359	(0.8)
Provisions for taxes (current taxes)	178	129	38.0
Other provisions	14,000	10,801	29.6
Provisions	**83,992**	**81,289**	**3.3**

During the year under review, the calculation of 'social capital' was based on an interest rate of 3.70 per cent (2012: 3.75 per cent). *Other provisions* consists essentially of staff related provisions and provisions for stepped coupon products.

PROVISIONS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Provision balance at 1 January	70,359	66,238	6.2
+ Interest cost	2,254	2,696	(16.4)
+ Service cost	467	1,125	(58.5)
– Payments during the year under review	(3,931)	(4,262)	(7.8)
+/(–) Actuarial gains and losses	665	4,562	(85.4)
Provision balance at 31 December	**69,814**	**70,359**	**(0.8)**

BREAKDOWN OF PROVISIONS

€k	Total in 2013	Post-emp. Benefits & Similar Obligations	Taxes and Other	Total in 2012	+/(–) Change, %
Provision balance at 1 January	81,289	70,359	10,930	77,444	5.0
+/(–) Change in scope of consolidation					
+/(–) Exchange differences	(4)	(3)	(1)	(1)	>100
+/(–) Transferred	0	0	0	0	—
+ Added	9,100	2,495	6,605	10,563	(13.9)
– Used	5,355	2,298	3,057	5,648	(5.2)
– Reversed	1,038	739	299	1,069	(2.9)
Provision balance at 31 December	**83,992**	**69,814**	**14,178**	**81,289**	**3.3**

SENSITIVITY ANALYSIS OF POST-EMPLOYMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

Sensitivity Analysis of DBO, Present Values of Obligations, €k	Termination Benefits 31/12/2013	Post-employment Benefits 31/12/2013
Discount rate + 1.0%	17,528	41,510
Discount rate – 1.0%	20,948	50,848
Salary increase + 0.5%	20,008	45,951
Salary increase – 0.5%	18,282	44,827
Pension increase + 0.5%	—	47,503
Pension increase – 0.5%	—	44,171

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 2013. For instance, increasing the discount rate by 1.0 per cent (i.e. to 4.7 per cent) would have resulted in a provisioning requirement for post-employment benefits and similar obligations at the reporting date of €59,038 million, which would have been €10,776 million less than was recognized at 31 December 2013.

MATURITY ANALYSIS

Cash Flows, €k	Termination Benefits 31/12/2013	Post-employment Benefits 31/12/2013
Expected payments in 2014	1,313	3,495
Expected payments in 2015	891	3,283
Expected payments in 2016	902	3,117
Expected payments in 2017	1,009	2,956
Expected payments in 2018	2,223	2,800
Total expected payments (2014–2018)	**6,337**	**15,651**

The maturity analysis shows the expected termination benefit and post-employment benefit payments in the coming five financial years as calculated by an actuary.

(30) DEFERRED TAX LIABILITIES

€k	31/12/2013	31/12/2012	+/(–) Change, %
Receivables from customers	0	1,074	—
Trading assets and trading liabilities	43	26	65.4
Financial assets designated as at fair value through profit or loss	3,057	4,671	(34.6)
Available-for-sale financial assets	1,034	1,408	(26.6)
Held-to-maturity financial assets	501	762	(34.3)
Property and equipment	0	0	—
Other assets and liabilities	724	1,658	(56.3)
Liabilities evidenced by paper	40	0	—
Provisions (for post-employment and termination benefits) and other liabilities	194	1,272	(84.8)
Deferred tax liabilities	**5,593**	**10,871**	**(48.6)**

Deferred taxes taken directly to equity (*AFS reserve*) totalled negative €0.2 million (2012: positive €0.9 million). The deferred tax liabilities were mainly attributable to the measurement of financial investments to fair value and the revaluation of the derivatives in the banking book with positive fair values. The fall in deferred tax liabilities was mainly due to a change in hidden reserves within the present values of leases and maturities of derivatives measured to fair value.

(31) OTHER LIABILITIES

€k	31/12/2013	31/12/2012	+/(–) Change, %
Negative fair values of derivative financial instruments	21,458	47,620	(54.9)
Other items	16,659	15,641	6.5
Deferred items	1,671	1,619	3.2
Other liabilities	**39,788**	**64,880**	**(38.7)**

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2013	31/12/2012	+/(–) Change, %
Supplementary capital	182,809	196,655	(7.0)
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**222,809**	**236,655**	**(5.9)**

SUBORDINATED DEBT CAPITAL, BY REMAINING TERM TO MATURITY

€k	31/12/2013	31/12/2012	+/(–) Change, %
Up to 3 months	20,774	0	—
From 3 months to 1 year	29,775	19,933	49.4
From 1 year to 5 years	80,046	123,409	(35.1)
From 5 years and over	92,214	93,313	(1.2)
Subordinated debt capital	**222,809**	**236,655**	**(5.9)**

Supplementary capital notes in the amount of €52.6 million will mature during the 2014 financial year (2013: €20.0 million). In conformity with § 24 BWG, €40 million of hybrid capital was counted towards consolidated own funds (2012: €40 million). It did not constitute a component of consolidated equity.

DETAILS OF BKS BANK 'S SUBORDINATED DEBT CAPITAL (NOMINAL VALUES)[1]

€k	31/12/2013	31/12/2012	Full Term
Stufenzins-Ergänzungskapital-Obligation 2005-2013/2	—	10,000	8 years
3 ¾ per cent Ergänzungskapital-Obligation 2005-2013/4	—	10,000	8 years
Variable Ergänzungskapital-Obligation 2006-2014/1	22,000	22,000	8 years
Variable Ergänzungskapital-Obligation 2006-2021/PP	2,350	2,350	15 years
4 ½ per cent Ergänzungskapital-Obligation 2006-2014/3	5,600	5,600	8 years
Variable Ergänzungskapital-Obligation 2006-2014/4	25,000	25,000	8 years
4 ¾ per cent Ergänzungskapital-Obligation 2007-2015/1	10,000	10,000	8 years
5 per cent Ergänzungskapital-Obligation 2007-2017/3	9,100	9,100	10 years
5 per cent Ergänzungskapital-Obligation 2007-2015/6	15,000	15,000	8 years
4 ½ per cent Ergänzungskapital-Obligation 2008-2016/2	7,700	7,700	8 years
Stufenzins-Ergänzungskapital-Obligation 2008-2020/4	15,000	15,000	12 years
5 per cent Ergänzungskapital-Obligation 2009-2017/3	20,000	20,000	8 years
4 ¾ per cent 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 per cent Ergänzungskapital-Obligation 2011-2019/3	20,000	20,000	8 years
7,35 per cent Hybridanleihe der BKS Hybrid alpha GmbH 2008	20,000	20,000	Unlimited
6 per cent Hybridanleihe der BKS Hybrid beta GmbH 2010	20,000	20,000	Unlimited
Total subordinated debt capital	**227,250**	**247,250**	

[1] This does not constitute an offer or invitation to buy or sell the notes mentioned herein. 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 from the issuer's website at www.bks.at or free of charge from branches of *BKS Bank AG*, St. Veiter Ring 43, 9020 Klagenfurt, Austria, during normal business hours.

(33) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Subscribed capital	65,520	65,520	0.0
– Share capital	65,520	65,520	0.0
Capital reserves	97,929	97,929	0.0
Retained earnings and other reserves	550,715	524,844	4.9
Shareholders' equity before minority interests	714,164	688,293	3.8
Minority interests	(10)	(7)	42.9
Shareholders' equity after minority interests	**714,154**	**688,286**	**3.8**

The share capital was represented by 30,960,000 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. At year-end, eligible own funds came to €707.6 million (31 December 2012: €709.5 million). Surplus own funds came to €353.8 million (31 December 2012: €352.9 million).

The external minimum capital adequacy requirements were met throughout the year under review.

(34) FAIR VALUES AT 31 DECEMBER 2013

€k	LEVEL 1 'Market Values'	LEVEL 2 'Based on Market Data'	LEVEL 3 'Internal Valuation Method-ology'	Fair Values (Total)	Carrying Amounts 31/12/2013	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	116,980	0	116,980	116,917	63
Receivables from customers	0	5,106,280	0	5,106,280	5,050,314	55,966
Trading assets	0	352	0	352	352	0
Financial assets designated as at fair value through profit or loss	87,004	101,622	0	188,626	188,626	0
Available-for-sale financial assets	232,431	0	19,052	251,483	251,483	0
Held-to-maturity financial assets	763,786	0	0	763,786	715,548	48,237
Investments in entities accounted for using the equity method	301,690	0	5,138	306,828	361,126	(54,298) [1]
Investment property	0	0	34,499	34,499	22,814	11,685
Other assets (derivatives)	0	8,903	0	8,903	8,903	0
EQUITY AND LIABILITIES						
Payables to other banks	0	1,305,451	0	1,305,451	1,302,332	3,120
Payables to customers	0	3,795,143	0	3,795,143	3,783,595	11,548
Liabilities evidenced by paper	487,446	118,151	0	605,597	591,083	14,514
– Of which designated as at fair value through profit or loss	69,803	45,722	0	115,525	115,525	0
Subordinated debt capital	224,108	2,350	0	226,458	222,809	3,649
Trading liabilities	0	404	0	404	404	0
Other liabilities (derivatives)	0	21,458	0	21,458	21,458	0

[1] As in 2012, 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.

FAIR VALUES AT 31 DECEMBER 2012

€k	LEVEL 1 'Market Values'	LEVEL 2 'Based on Market Data'	LEVEL 3 'Internal Valuation Method-ology'	Fair Values (Total)	Carrying Amounts 31/12/2013	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	128,500	0	128,500	128,417	83
Receivables from customers	0	5,029,388	0	5,029,388	4,962,336	67,052
Trading assets	0	237	0	237	237	0
Financial assets designated as at fair value through profit or loss	92,735	112,978	0	205,713	205,713	0
Available-for-sale financial assets	247,489	0	17,735	265,224	265,224	0
Held-to-maturity financial assets	773,600	0	0	773,600	702,314	71,286
Investments in entities accounted for using the equity method	290,899	0	5,117	296,016	341,176	(45,160)
Investment property	0	0	24,431	24,431	16,492	7,939
Other assets (derivatives)	0	8,737	0	8,737	8,737	0
EQUITY AND LIABILITIES						
Payables to other banks	0	1,450,209	0	1,450,209	1,446,411	3,798
Payables to customers	0	3,576,223	0	3,576,223	3,545,790	30,433
Liabilities evidenced by paper	404,736	176,729	0	581,465	579,944	1,521
– Of which designated as at fair value through profit or loss	0	83,337	0	83,337	83,337	0
Subordinated debt capital	234,013	2,350	0	236,363	236,655	(292)
Trading liabilities	0	282	0	282	282	0
Other liabilities (derivatives)	0	47,620	0	47,620	47,620	0

These 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. 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 (e.g. yield curves, foreign exchange rates) and presented in the category *Level 2 'Based on Market Data'* (e.g. by discounting future cash flows from financial instruments). 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. 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.

During the period under review, liabilities evidenced by paper were reclassified from the category *Level 2* to the category *Level 1* because of the listing of a bond worth €40 million. 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). The valuation models were unchanged.

LEVEL 3: CHANGES BETWEEN 1 JANUARY AND 31 DECEMBER 2013

€k	At 31/12/2012	Income Statement	Other Comprehensive Income	Purchased	Sold	At 31 December 2013
Available-for-sale financial assets	17,735	70	0	4,150	2,903	19,052
Investments in entities accounted for using the equity method	5,117	84	(63)	0	0	5,138
Total	**22,852**	**154**	**(63)**	**4,150**	**(2,903)**	**24,190**

(35) PROFIT AND LOSS, BY VALUATION CATEGORY

€k	31/12/2013	31/12/2012
Interest income on trading portfolio	184	193
Gains less losses on trading portfolio	1,340	2,155
Profit from trading portfolio	**1,523**	**2,348**
Interest income from assets designated as at fair value through profit and loss	11,412	10,282
Gains less losses on assets designated as at fair value through profit and loss	1,581	2,406
Profit from assets designated as at fair value through profit and loss [1]	**12,993**	**12,688**
Interest income on AFS portfolio	8,212	10,927
Gains less losses on AFS portfolio	5,132	4,411
Losses arising from impairment of AFS portfolio	(3,491)	(1,627)
Profit from AFS portfolio	**9,853**	**13,711**
Interest income on loans and receivables	143,065	161,665
Gains less losses on loans and receivables	0	0
Impairment charge for loans and receivables	(42,710)	(38,602)
Fee and commission income less expenses arising from loans and receivables	33,149	32,978
Profit from loans and receivables	**133,504**	**156,041**
Interest income on HTM portfolio	24,171	26,263
Gains less losses on HTM portfolio	0	(2,154)
Losses arising from impairment of HTM portfolio	0	0
Profit from HTM portfolio	**24,171**	**24,109**
Interest expenses arising from financial liabilities recognized at amortized cost	(71,024)	(92,612)
Profit/(loss) from financial liabilities recognized at amortized cost	**(71,024)**	**(92,612)**
Other operating income net of other operating expenses [2]	**(65,491)**	**(66,411)**
Profit for the year before tax	**45,529**	**49,874**

[1] Effect of use of the fair value option and revaluation gains and losses on derivatives on other assets and other liabilities.
[2] Includes 'other' net interest income and net fee and commission income, general administrative expenses and other operating expenses and income.

(36) INVESTMENTS IN ASSOCIATES AT 31 DECEMBER 2013

	Method*	Percentage Held	Assets, €k	Profit/(Loss) for the Year, €k
Alpenländische Garantie-GmbH	E	25.00	228,038	38
Oberbank AG	E	16.95	17,085,585	88,381
Bank für Tirol und Vorarlberg AG	E	13.59	9,273,506	51,167
Drei-Banken Versicherungs-AG	E	20.00	147,718	820
Drei-Banken-EDV Gesellschaft mbH	N	30.00	24,056	(64)

INVESTMENTS IN ASSOCIATES AT 31 DECEMBER 2012

€k	Method*	Percentage Held	Assets, €k	Profit/(Loss) for the Year, €k
Alpenländische Garantie-GmbH	E	25.00	208,778	0
Oberbank AG	E	16.95	17,157,022	80,597
Bank für Tirol und Vorarlberg AG	E	13.59	9,129,155	20,663
Drei-Banken Versicherungs-AG	E	20.00	162,398	1,177
Drei-Banken-EDV Gesellschaft mbH	N	30.00	21,611	60

* E = accounted for using the equity method; N = not included.

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* in respect of 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* in respect of their equity investments in *BTV AG*. At year-end, the market value of *BKS Bank AG*'s listed equity investments in *Oberbank AG* and *BTV AG* was €301.7 million (31 December 2012: €290.9 million). In turn, *Oberbank AG* and *BTV AG* held a total of 12,259,083 shares in *BKS Bank AG* (31 December 2012: 12,259,083 shares).

Alpenländische Garantie-GmbH (ALGAR), which is headquartered in Linz, is a *3 Banken Group* joint venture. It was set up in the form of a bank in 1983. ALGAR is not profit-orientated. Its purpose is to provide security against the big loan risks of the three banks that are its equity holders. It does so by guaranteeing loans and advances and by assuming liability for loans and advances in other ways. Fifty per cent of ALGAR's share capital of €3.0 million is held by Oberbank, and BTV and BKS Bank each hold a 25 per cent stake. Guarantee fees totalled €3.2 million (2012: €3.0 million). They are contained in the line *Impairment charge on loans and advance* as an impairment allowance.

Drei-Banken-EDV Gesellschaft mbH is the IT service provider to the *3 Banken Group*. *BKS Bank AG*'s payments to this company during the year under review came to €8.4 million (2012: €8.0 million).

(37) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

The following tables present the mandatory disclosures of BKS Bank's relations with related entities and persons as required by *UGB § 245a* and IAS 24.

Entities and persons are deemed to be related entities or persons if they could exercise a controlling or significant influence over the enterprise.

Under IAS 24.9, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including the members of the Management Board and Supervisory Board.

DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

€k	Outstanding Balances at 31/12/2013	Provisions for Doubtful Debts	Recognized Expenditure on Irrecoverable or Doubtful Debts during the Financial Year	Outstanding Balances at 31/12/2012
Unconsolidated subsidiaries				
Receivables	9,611	0	0	17,612
Payables	1,675			2,931
Associates				
Receivables	48,968	0	0	5,543
Payables	186,412			160,168
Key management personnel				
Receivables	505	0	0	470
Payables	895			851
Other related persons				
Receivables	8	0	0	8
Payables	1,046			1,272

Transactions with related entities and persons were on arm's length terms.

RELATED PERSON DISCLOSURES

€k	BKS Bank: 2013	BKS Bank: 2012
Average number of staff	**990**	**1,009**
Blue-collar workers (*Arbeiter*) employed in the BKS Bank Group	49	48
White-collar staff (*Angestellte*) employed in the BKS Bank Group	941	961
Average number of people employed by entities accounted for using the equity method	**2,794**	**2,823**
Remunerations paid to the Management Board		
Remunerations paid to active members of the Management Board	1,418	1,450
Remunerations paid to former members of the Management Board and their surviving dependants	742	749
Remunerations paid to the Supervisory Board		
Remunerations paid to active members of the Supervisory Board	171	124
Remunerations paid to former members of the Supervisory Board and their surviving dependants	0	0
Compensation of key management personnel within the meaning of IAS 24	**1,589**	**1,574**
Short-term employee benefits	1,484	1,317
Post-employment benefits	105	73
Other long-term benefits	0	184
Termination benefits	0	0
Share-based payments	0	0
Loans and advances granted		
Loans and advances granted to members of the Management Board	192	2
Loans and advances granted to members of the Supervisory Board	313	468
Expenditure on termination and post-employment benefits		
Expenditure on termination and post-employment benefits paid to members of the Management Board	(28)	571
Expenditure on termination and post-employment benefits paid to other employees	6,052	8,671

All loans and advances to and deposits from members of the Management Board or Supervisory Board were granted or taken on arm's length terms.

(38) SEGMENTAL REPORTING

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 gauged 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.

The reporting structure used for internal management purposes was divided into the following three subareas:

– the monthly analysis 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.

SEGMENTAL BREAKDOWN

	Retail Banking		Corporate and Business Banking		Financial Markets	
€k	2013	2012	2013	2012	2013	2012
Net interest income	32,623	30,756	79,941	88,606	33,221	23,133
– Of which from investments in entities accounted for using the equity method	0	0	0	0	25,063	22,259
Impairment charge on loans and advances	(1,810)	(742)	(40,003)	(36,258)	(897)	(1,602)
Net fee and commission income	20,620	20,035	24,433	23,732	149	421
Net trading income	0	0	0	0	1,523	2,348
General administrative expenses	(52,275)	(51,947)	(38,184)	(39,399)	(6,505)	(6,234)
Other operating income net of other operating expenses	866	1,062	1,318	1,240	(7,338)	(4,551)
Profit from financial assets	0	0	0	0	3,222	3,036
Profit/(loss) for the year before tax	**24**	**(836)**	**27,505**	**37,921**	**23,375**	**16,551**
Average risk-weighted assets	564,302	566,564	3,262,148	3,222,946	569,417	603,930
Average allocated equity	45,144	45,325	260,972	257,836	388,787	356,979
Segment liabilities	2,771,194	2,689,919	2,082,359	1,931,954	1,754,471	1,869,214
ROE based on profit for the year	**0.1%**	**(1.8%)**	**10.5%**	**14.7%**	**6.0%**	**4.6%**
Cost:income ratio	**96.6%**	**100.2%**	**36.1%**	**34.7%**	**23.6%**	**29.2%**
Risk:earnings ratio	**5.5%**	**2.4%**	**50.0%**	**40.9%**	**2.7%**	**6.9%**

	Other		Total	
€k	2013	2012	2013	2012
Net interest income	419	602	146,204	143,097
– Of which from investments in entities accounted for using the equity method	0	0	25,063	22,259
Impairment charge on loans and advances	0	0	(42,710)	(38,602)
Net fee and commission income	220	242	45,422	44,430
Net trading income	0	0	1,523	2,348
General administrative expenses	(3,849)	(3,242)	(100,813)	(100,822)
Other operating income net of other operating expenses	(2,165)	(1,364)	(7,319)	(3,613)
Profit from financial assets	0	0	3,222	3,036
Profit/(loss) for the year before tax	**(5,375)**	**(3,762)**	**45,529**	**49,874**
Average risk-weighted assets	40,024	43,118	4,435,891	4,436,558
Average allocated equity	6,325	6,468	701,228	666,608
Segment liabilities	135,735	163,335	6,743,760	6,654,415
ROE based on profit for the year	**—**	**—**	**6.5%**	**7.5%**
Cost:income ratio	**—**	**—**	**54.3%**	**54.1%**
Risk:earnings ratio	**—**	**—**	**29.2%**	**27.0%**

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.

In conformity with the provisions of IFRS 8, we based our segmental reporting on our internal management processes during the financial year under review (management approach based on IFRS numbers before tax). In the *Financial Markets* column, *Other operating income net of other operating expenses* includes the write-down to the goodwill of *BKS Bank d.d.* in the amount of €5.4 million (2012: €3.5 million).

(39) NON-INTEREST ASSETS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Non-interest assets	**281,250**	**220,116**	**27.8**

Non-interest receivables from customers less impairments came to €156.9 million (31 December 2012: €109.0 million).

(40) SUBORDINATED ASSETS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Receivables from customers	13,279	13,831	(4.0)
Bonds and other fixed-interest securities	5,208	5,280	(1.4)
Shares and other variable-yield securities	7,007	7,184	(2.5)

(41) BALANCES IN FOREIGN CURRENCIES

€k	31/12/2013	31/12/2012	+/(–) Change, %
Assets	668,219	747,900	(10.7)
Liabilities	176,980	240,776	(26.5)

(42) ADMINISTRATION AND AGENCY SERVICES

€k	31/12/2013	31/12/2012	+/(–) Change, %
Administration and agency services	**1,562**	**1,566**	**(0.3)**

(43) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2013	31/12/2012	+/(–) Change, %
Guarantees	379,178	391,831	(3.2)
Letters of credit	3,119	3,122	(0.1)
Contingent liabilities	**382,297**	**394,953**	**(3.2)**
Other commitments	750,001	588,249	27.5
Commitments	**750,001**	**588,249**	**27.5**

Other commitments consists mainly of loan facilities already on record but not yet utilized. The likelihood of facilities being used was monitored. Drawdown probability is analyzed at least annually.

(44) INVESTMENTS IN SUBSIDIARIES AND SELECTED OTHER EQUITY INVESTMENTS

€m	M[1]	Equity 2013	Equity 2012	Percentage Held by BKS Bank, % Directly	Percentage Held by BKS Bank, % Indirectly	Profit/(Loss) for the Year, €m 2013	Profit/(Loss) for the Year, €m 2012
BKS Bank d.d., Rijeka	C	26.30	27.69	100.00	—	(1.14)	(0.74)
BKS-Leasing s.r.o., Bratislava	C	18.52	18.49	100.00	—	0.03	(0.38)
BKS-Leasing Gesellschaft mbH, Klagenfurt, formerly *BKS-Immobilienleasing Gesellschaft mbH*, Klagenfurt	C	2.00	1.57	99.75	0.25	3.20	(0.04)
BKS-Leasing Gesellschaft mbH, Klagenfurt	C	—	0.49	—	—	—	0.10
BKS-leasing d.o.o., Ljubljana	C	5.05	4.37	100.00	—	0.78	0.42
BKS-leasing Croatia d.o.o., Zagreb	C	2.00	1.09	100.00	—	0.92	0.38
Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG, Klagenfurt	C	4.04	3.68	100.00	—	0.36	0.14
IEV Immobilien GmbH, Klagenfurt	C	0.04	0.04	100.00	—	0.00	0.00
BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH, Klagenfurt[2]	C	2.81	2.51	—	100.00	0.30	0.34
BKS Immobilien-Service Gesellschaft mbH, Klagenfurt	C	0.22	0.22	100.00	—	0.42	0.45
BKS 2000-Beteiligungsverwaltungsgesellschaft mbH, Klagenfurt	N	19.97	20.47	100.00	—	0.56	0.81
Oberbank AG, Linz	E	1,107.06	1,031.69	16.95	—	88.38	80.60
Bank für Tirol und Vorarlberg AG, Innsbruck	E	605.60	561.86	13.59	—	51.17	20.66
Alpenländische Garantie-Gesellschaft mbH, Linz	E	3.89	3.86	25.00	—	0.04	0.00
DREI-BANKEN-EDV Gesellschaft mbH, Linz	E	3.50	3.56	30.00	—	(0.06)	0.06
3-Banken Beteiligung Gesellschaft mbH, Linz	N	19.87	21.29	—	30.00	(1.42)	0.07
Drei-Banken Versicherungs-Aktiengesellschaft, Linz	E	20.18	20.12	20.00	—	1.10	1.18
E 2000 Liegenschaftsverwertungs GmbH, Klagenfurt	N	0.11	0.10	99.00	1.00	0.01	0.03
VBG Verwaltungs- und Beteiligungs GmbH, Klagenfurt	C	0.06	0.11	100.00	—	(0.05)	(0.47)
BKS Hybrid alpha GmbH, Klagenfurt	C	0.08	0.07	100.00	—	0.01	0.01
BKS Hybrid beta GmbH, Klagenfurt	C	0.06	0.05	100.00	—	0.01	0.01
VBG-CH Verwaltungs- und Beteiligungs GmbH, Klagenfurt	C	100.83	100.83	100.00	—	0.64	0.90
LVM Beteiligungs Gesellschaft m.b.H., Vienna	C	100.82	100.82	—	100.00	0.65	0.91

[1] Method: C = consolidated; E = accounted for using the equity method; N = not included on the grounds of immateriality in conformity with points 29 and 30 of the IFRS Framework (these companies being immaterial given the specific nature of the BKS Bank Group's banking operations).
[2] *Equity* includes a subordinated *Genussrecht* (profit participation note) in the amount of €3.63 million (31 December 2012: €3.63 million).

(45) EVENTS AFTER THE BALANCE SHEET DATE

By agreement with the Republic of Slovenia and *Banka Slovenije*, BKS Bank took over the securities operations of *Factor banka d.d.*, which is headquartered in Ljubljana and is in liquidation, in the course of the restructuring measures that had been decided upon. The final migration of the prospective total of about 3,000 securities customers took place on 28 February 2014. No other material business transactions or reportable events 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 PLEDGED AS COLLATERAL FOR LIABILITIES

Liabilities	Assets	31/12/2013	31/12/2012
Money held in trust pursuant to § *230 a ABGB*	Securities	12,978	12,974
Arrangement deposit for stock exchange trading	Securities	1,575	1,598
Deposit for EUREX trading	Securities	50	50
Xetra collateral	Securities	1,229	1,222
Euroclear pledge	Securities	15,056	15,068
SEPA collateral for the Slovenia branch	Securities	825	542
Repos margin	Securities	1,001	1,002
Financial futures margin	Receivables from other banks	16,720	13,620
Collateral for OeNB funding	Securities	9,325	—
Collateral for OeNB funding	Loans	364,688	272,813
Collateral for funds provided to *Banka Slovenije*	Loans	—	33,000
Cover pool of mortgage loans for covered bonds	Loans	137,411	77,884
Cover pool of public sector debt for covered bonds	Loans	16,263	16,741

(47) FEES PAID TO THE BANK AUDITOR

€k	BKS Bank: 2013	BKS Bank: 2012
Fees for statutory audits	353	353
Other fees	92	112
Total fees	**445**	**465**

(48) RISK REPORT

Regarding the Risk Report disclosures required by IFRS 7 paras. 31 to 42, we made use of the option provided for in the provisions contained in IFRS 7.B6 of preparing a special Risk Report that is a part of the Management Report. The Risk Report is published together with the business report and financial report and is made accessible to the addressees of the financial statements on the same terms and at the same time as the Annual Financial Statements.

(49) BALANCE OF DERIVATIVES OUTSTANDING (BANKING BOOK)

	Nominal, by Term to Maturity		
€k	Less Than 1 Year	1–5 Years	Over 5 Years
Interest rate contracts	171,000	391,750	274,710
OTC products	171,000	391,750	274,710
Interest rate swaps	171,000	391,750	274,710
– Calls	85,500	195,875	137,355
– Puts	85,500	195,875	137,355
Interest rate options	—	—	—
– Calls	—	—	—
– Puts	—	—	—
Currency contracts	645,860	939,317	—
OTC products	645,860	939,317	—
Currency forwards	459,503	—	—
– Calls	229,698	—	—
– Puts	229,805	—	—
Capital market swaps	—	939,317	—
– Calls	—	467,547	—
– Puts	—	471,770	—
Money market swaps (currency swaps)	186,357	—	—
– Calls	94,405	—	—
– Puts	91,952	—	—
Securities contracts	—	—	—
Exchange traded products	—	—	—
Equity options	—	—	—
– Calls	—	—	—
– Puts	—	—	—

BALANCE OF DERIVATIVES OUTSTANDING (TRADING BOOK)

	Nominal, by Term to Maturity		
€k	Less Than 1 Year	1–5 Years	Over 5 Years
Interest rate contracts	2,286	12,598	17,976
OTC products	2,286	12,598	17,976
Interest rate swaps	—	2,040	—
– Calls	—	1,020	—
– Puts	—	1,020	—
Interest rate options	2,286	10,558	17,976
– Calls	1,143	5,279	8,988
– Puts	1,143	5,279	8,988
Currency contracts	—	—	—
OTC products	—	—	—
Currency options	—	—	—
– Calls	—	—	—
– Puts		—	—

FINANCIAL INSTRUMENTS (TRADING BOOK)

€k	31/12/2013	31/12/2012
Interest-bearing securities	—	—
Treasury shares	9,686	8,140

Nominal		Fair Value (Positive)		Fair Value (Negative)	
31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
837,460	1,001,634	3,220	6,627	12,773	24,402
837,460	1,001,634	3,220	6,627	12,773	24,402
837,460	1,001,634	3,220	6,627	12,773	24,402
418,730	500,817	322	—	10,612	23,608
418,730	500,817	2,898	6,627	2,161	794
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
1,585,177	1,858,708	5,296	1,747	6,361	19,657
1,585,177	1,858,708	5,296	1,747	6,361	19,657
459,503	410,779	437	87	543	1,795
229,698	204,555	20	64	541	1,786
229,805	206,224	417	23	2	9
939,317	1,188,110	2,375	750	5,788	17,387
467,547	585,737	—	—	—	—
471,770	602,373	2,375	750	5,788	17,387
186,357	259,819	2,484	910	30	475
94,405	130,097	2,484	146	0	436
91,952	129,722	—	764	30	39
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

Nominal		Fair Value (Positive)		Fair Value (Negative)	
31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
32,860	26,006	169	80	169	79
32,860	26,006	169	80	169	79
2,040	2,520	41	62	41	61
1,020	1,260	—	—	41	61
1,020	1,260	41	62	—	—
30,820	23,486	128	18	128	18
15,410	11,743	128	18	—	—
15,410	11,743	—	—	128	18
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—

Positions (securities and derivatives) entered into by our Money, Foreign Exchange and Securities Trading 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
Heimo Penker (CEO) (to 28 February 2014)
Herta Stockbauer
Dieter Krassnitzer
Wolfgang Mandl

Representatives of the Equity Holders on the Supervisory Board
Hermann Bell, Chairman
Peter Gaugg, 1st Vice-Chairman
Franz Gasselsberger, 2nd Vice-Chairman

Christina Fromme-Knoch
Reinhard Iro
Waldemar Jud
Dietrich Karner
Michael Kastner
Josef Korak
Karl Samstag

Staff Representatives on the Supervisory Board
Helmuth Binder (to 31 October 2013)
Maximilian Medwed
Herta Pobaschnig
Manfred Suntinger
Hanspeter Traar
Gertrude Wolf (from 1 November 2013)

Klagenfurt am Wörthersee
28 February 2014

The Management Board

Heimo Penker
CEO

Herta Stockbauer
Member 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
28 February 2014

The Management Board

Heimo Penker (CEO)

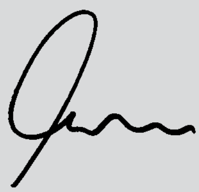
Member of the Management Board responsible until 28 February 2014 for Corporates, Human Resources, Public Relations, Marketing and Investor Relations; regional responsibility for the Carinthia and Styria regions and for Italy

Herta Stockbauer (Member)

Member of the Management Board responsible for International Operations, Accounts and Sales Controlling, Treasury and Proprietary Trading, Capital Markets Law, Construction, Subsidiaries and Equity Investments. Within Austria, she is responsible for the Burgenland and Vienna regions; abroad, she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

Dieter Krassnitzer (Member)

Member of the Management Board responsible for Risk Management, Risk Controlling, the Credit Back Office, Business Organization and IT and *3-Banken-EDV Gesellschaft*,



Wolfgang Mandl

Member of the Management Board jointly responsible with Heimo Penker for Retail Banking and Private Banking.

Profit Appropriation Proposal

BKS Bank AG's 2013 financial year closed with net profit of €8,373,299.75. We propose that a dividend of €0.25 per share be distributed out of the reported net profit as at 31 December 2013. The resulting distribution on 32,760,000 shares would be €8,190,000. Subject to *§ 65 Abs. 5 Aktiengesetz*, we propose that the remainder be carried forward to a new account.

Klagenfurt am Wörthersee
28 February 2014

The Management Board

Heimo Penker (CEO)

Herta Stockbauer (Member)

Dieter Krassnitzer (Member)

Wolfgang Mandl (Member)

Auditor's Report

(Independent 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,

as well as the accounts for the financial year from 1 January to 31 December 2013. Those consolidated financial statements comprise the consolidated balance sheet as at 31 December 2013, the consolidated comprehensive income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year ended 31 December 2013 as well as the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements and the Accounts

Management is responsible for the group's accounts and the preparation of consolidated financial statements that present fairly, in all material respects, the group's assets, liabilities, financial position and profit or loss in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that present fairly, in all material respects, the group's assets, liabilities, financial position and profit or loss so that they are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of the Nature and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional standards and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and other disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that present fairly, in all material respects, the group's assets, liabilities, financial position and profit or loss 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of material 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. Based on the results of our audit, in our opinion, the consolidated financial statements comply with the laws and regulations and present fairly, in all material respects, the assets, liabilities and financial position of the group as of 31 December 2013 and its profit and cash flows for the financial year from 1 January 2013 to 31 December 2013 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Group Management Report

Laws and regulations require us to perform audit procedures to ascertain whether the group management report is consistent with the consolidated financial statements and whether the other disclosures made in the group management report do not give rise to misconception of the position of the group. The Auditor's Report must also state whether the group management report is consistent with the consolidated financial statements and whether the disclosures pursuant to *§ 243a UGB* are appropriate.

In our opinion, the group management report is consistent with the consolidated financial statements. The disclosures pursuant to *§ 243a UGB* are appropriate.

Klagenfurt
28 February 2014

KPMG Austria AG
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Peter Fritzer
Wirtschaftsprüfer

Bernhard Gruber
Wirtschaftsprüfer

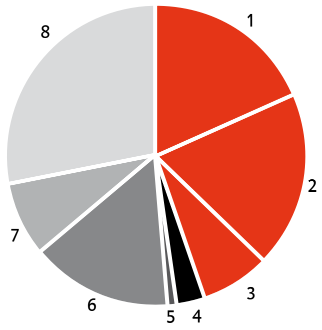
(Austrian Chartered Accountants)

Additional Notes

Overview of the 3 Banken Group

SHAREHOLDER STRUCTURE OF BKS BANK AG

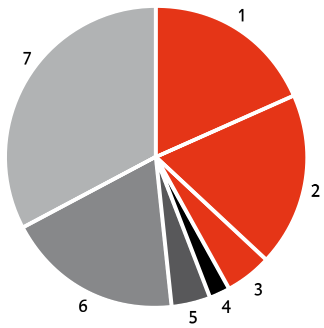
	By Voting Interest	By Equity interest
1 *Oberbank AG*	19.54%	18.52%
2 *Bank für Tirol und Vorarlberg AG*	19.65%	18.90%
3 *Generali 3 Banken Holding AG*	7.88%	7.44%
4 *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	3.11%	2.98%
5 *BKS-Belegschaftsbeteiligungsprivatstiftung*	0.33%	0.66%
6 Free float	12.39%	15.47%
7 *UniCredit Bank Austria AG*	7.46%	8.02%
8 *CABO Beteiligungs GmbH*	29.64%	28.01%



Share capital, €:	**65,520,000**
Ordinary no-par shares in issue:	30,960,000
No-par preference shares in issue:	1,800,000

SHAREHOLDER STRUCTURE OF OBERBANK AG

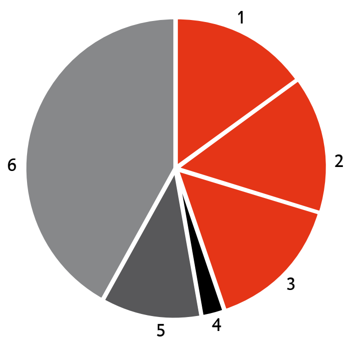
	By Voting Interest	By Equity interest
1 *BKS Bank AG*	18.51%	16.95%
2 *Bank für Tirol und Vorarlberg AG*	18.51%	17.00%
3 *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	5.13%	4.62%
4 *Generali 3 Banken Holding AG*	2.21%	1.98%
5 Staff shares	3.74%	3.47%
6 Free float	19.36%	26.83%
7 *CABO Beteiligungs GmbH*	32.54%	29.15%



Share capital, €:	**86,349,375**
Ordinary no-par shares in issue:	25,783,125
No-par preference shares in issue:	3,000,000

SHAREHOLDER STRUCTURE OF BANK FÜR TIROL UND VORARLBERG AG

	By Voting Interest	By Equity interest
1 *BKS Bank AG*	15.10%	13.59%
2 *Oberbank AG*	14.69%	13.22%
3 *Generali 3 Banken Holding AG*	15.12%	13.60%
4 *Wüstenrot Wohnungswirtschaft gem. reg. Genossenschaft mbH*	2.53%	2.28%
5 Free float	10.86%	19.78%
6 *CABO Beteiligungs GmbH*	41.70%	37.53%



Share capital, €:	**50,000,000**
Ordinary no-par shares in issue:	22,500,000
No-par preference shares in issue:	2,500,000

The shareholders shown in red have entered into syndicate agreements.

	BKS Bank Group		Oberbank Group		BTV Group	
	2013	2012	2013	2012	2013	2012
INCOME ACCOUNT, €m						
Net interest income	146.2	143.1	335.6	312.9	175.7	164.4
Impairment charge on loans and advances	(42.7)	(38.6)	(70.6)	(59.8)	(46.9)	(39.9)
Net fee and commission income	45.4	44.4	114.6	108.2	45.3	42.3
General administrative expenses	(100.8)	(100.8)	(231.0)	(225.9)	(96.0)	(92.8)
Profit for the year before tax	45.5	49.9	141.7	135.8	82.1	70.1
Consolidated profit for the year after tax	40.6	43.1	122.4	111.2	64.4	60.7
BALANCE SHEET DATA, €m						
Assets	6,743.8	6,654.4	17,570.9	17,675.1	9,588.5	9,496.4
Receivables from customers after impairment charge	4,874.2	4,794.2	11,317.1	10,877.0	6,197.4	6,193.0
Primary deposit balances	4,597.5	4,362.4	12,250.4	11,607.9	6,715.9	6,582.9
Of which savings deposit balances	1,741.2	1,797.9	3,352.1	3,380.1	1,175.8	1,272.9
Of which liabilities evidenced by paper, including subordinated debt capital	813.9	816.6	2,224.4	2,208.8	1,288.3	1,187.8
Equity	714.2	688.3	1,421.0	1,342.4	913.1	845.5
Customer assets under management	11,383.4	10,674.9	22,787.5	21,558.0	11,545.8	11,368.8
Of which in customers' securities accounts	6,785.9	6,312.5	10,537.1	9,950.1	4,829.9	4,785.9
OWN FUNDS WITHIN THE MEANING OF BWG, €m						
Risk-weighted assets	4,423.3	4,457.9	10,734.0	10,481.9	6,055.4	5,992.1
Own funds	707.6	709.5	1,824.8	1,762.5	964.4	995.4
Of which Tier 1	662.5	630.7	1,320.6	1,245.4	866.7	806.0
Surplus own funds before operational risk	353.8	352.9	965.8	922.8	512.1	542.1
Surplus own funds after operational risk	326.8	325.8	898.1	857.9	479.9	516.0
Tier 1 ratio, %	13.92	13.10	12.30	11.88	13.33	12.45
Own funds ratio, %	16.00	15.92	17.00	16.81	15.93	16.61
PERFORMANCE, %						
Return on equity before tax	6.49	7.48	10.31	10.59	9.34	8.69
Return on equity after tax	5.79	6.47	8.91	8.67	7.32	7.52
Cost:income ratio	54.25	54.13	52.11	53.60	43.30	44.30
Risk:earnings ratio (credit risk in % of net interest income)	29.21	26.98	21.05	19.11	26.70	24.30
RESOURCES						
Average number of staff	910	930	2,001	2,020	766	779
Branches and other business units	56	55	150	147	37	37

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 of 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-GmbH*, Linz (ALGAR) is set up. This company safeguards BKS Bank, Oberbank and Bank für Tirol und Vorarlberg against any 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 GmbH*. Construction of the BKS Bank Head Office building at *St. Veiter Ring* 43 begins to plans by architect Wilhelm Holzbauer.

1993	The new offices on *St. Veiter Ring* open 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 longstanding 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.

Glossary

Amendment: When changes, additions or improvements are made to existing IFRS standards, they are issued in the form of so-called amendments.

Eligible own funds within the meaning of BWG: According to solvency rules, banks must always hold eligible own funds at least in the amounts specified in *§ 22 Abs. 1 Z 1 bis 5 BWG*. Eligible own funds are the sum of Tier 1 capital and ancillary elements (Tier 2) less deductions. Tier 3 capital is only recognizable in respect of regulatory own funds cover for the trading book and open foreign currency positions.

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 the 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.

The core aims of **Basel II** are to align capital requirements for banks more closely than before with financial risks and to take account of newer developments in the financial markets and banks' risk management activities. The new Accord, in force since the beginning of 2008, provides for a series of simple and advanced approaches to measuring credit and operational risks when determining a bank's own funds requirement.

Basel III: The package of measures known under the heading of Basel III contains the changes to international regulatory requirements for banks adopted by the Basel Committee on Banking Supervision (BCBS) in December 2010. These requirements supplement 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 to make it more crisis resistant. Major elements of the Basel Committee's recommendations for Basel III have been incorporated in CRD 4 and CRR (see also *Capital Requirements Directive* and *Capital Requirements Regulation*).

The **basis of assessment within the meaning of BWG** is the sum of the assets, off-balance-sheet items and special off-balance sheet items in the banking book, weighted for business and counterparty risk, as determined in accordance with Austrian bank regulators' rules.

The **Capital Requirements Directive IV (CRD IV)** is another big step on the stony path towards a more solid and secure European financial system. The CRD IV package is designed to achieve a quantitative and, above all, qualitative improvement in banks' own funds positions. Among other things, for the first time, it has introduced harmonized EU-wide liquidity requirements. The new capital adequacy standards for banks (see also *Basel III*) entered into force on 17 July 2013 by way of a directly effective regulation (Capital Requirements Regulation) and a directive (Capital Requirements Directive). According to the draft, the Member States were required to transpose the directive into national law by 31 December 2013. However, all competing provisions and those that were not consistent with the directive 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* and related regulatory legislation. These were comprehensively amended.

The directly effective **Capital Requirements Regulation (CRR)** introduces a common minimum set of instruments for national regulatory authorities and binding regulations for every Member State. Among other things, they cover the components of own funds, own fund requirements, big loans (large investments), liquidity reporting, indebtedness (leverage) and disclosures.

Corporate social responsibility (CSR) is a 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 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 pool of risk-bearing assets made up of assets that are liquid 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*.

Deleveraging: At the moment, the world economy is being affected by three forms of deleveraging: the decline in private debt (e.g. a drop in consumer borrowing); the reduction of sovereign debt in countries with excessively high budget deficits; and banks' pruning of their balance sheets to reduce their risk activities.

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.

The **discounted cash flow method** (DCF) is a method of valuing an entity that stems from Anglo-American valuation practice. It is replacing the *comparable earning capacity method*. Unlike the earning capacity method, it is used to calculate the present value of future cash inflows (i.e. capital value) on the basis of future positive cash flows applying an interest rate to match the purpose of the valuation. This method is also used to calculate requisite impairment allowances in conformity with IAS 39.

Own funds are a bank's own capital resources, as opposed to outside capital provided by investors. Depending on their quality, one differentiates between various own fund tiers. At least half of a bank's total eligible own funds must consist of Tier 1 capital. Ancillary own funds are known as Tier 2. The **own funds ratio** expresses the percentage relationship between a company's own funds and its basis of assessment for the purposes of BWG.

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.

FATF (Financial Action Task Force on Money Laundering) is an international anti-money laundering body whose Secretariat is housed 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.

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 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 fluctuations 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.

A **hybrid bond** is a deeply subordinated, long-term corporate bond. Because a hybrid bond is an equity bond, and depending on its configuration, BWG may allow hybrid capital to be counted towards consolidated equity. In the event of insolvency, hybrid bonds will be serviced last of the subordinated obligations, so the interest premium is usually relatively high.

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 to which they are exposed.

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 individual financial reporting standards issued by the International Accounting Standards Board (IASB). The purpose of IFRS-compliant annual financial statements is to give investors information of relevance to their decisions regarding an entity's assets, liabilities, financial position and profit or loss as well as changes therein over time. In contrast, annual financial statements prepared in accordance with the Austrian *Unternehmensgesetzbuch* (UGB: enterprises code) are primarily geared to protecting creditors.

Under Basel II, the **internal ratings based approach** (IRB approach) is a second possible approach to calculating the minimum capital adequacy requirement for credit risk alongside the *standardized approach*. The IRB approach allows banks to use their own, internal estimates of borrowers' credit standings. However, a bank's rating processes must meet stringent requirements, and their adequacy will be constantly reviewed by the bank regulators. Banks can choose whether to adopt the *foundation IRB approach* or the *advanced IRB approach*.

The **International Standards on Auditing** (ISAs) are internationally accepted standards for carrying out annual audits requiring preparation in accordance with the International Financial Reporting Standards (IFRSs) published in the annual manual of the International Federation of Accountants (IFAC).

The **International Swaps and Derivatives Association** (ISDA) is an organization of participants in the market for OTC derivatives. It is headquartered in New York City.

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 consists of paid-in capital, hybrid capital, reserves and goodwill arising from the elimination of investments in and equity of subsidiaries on consolidation in conformity with the provisions of BWG less intangible non-current assets and treasury shares. The **Tier 1 ratio** is Tier 1 capital expressed as a percentage of the risk-weighted basis of assessment (banking book).

The **price/earnings ratio** (PE) 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*.

Liquidity coverage ratio (LCR): The Basel Committee has implemented the liquidity coverage ratio to ensure that a bank always has short-term resilience to acute stress 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 (the Markets in Financial Instruments Directive) lays 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.

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 one-year horizon. 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 interbank market.

OTC (over-the-counter) derivatives are financial instruments traded directly between participants in the market and not on an exchange.

PIIGS countries: PIIGS is the rather derogatory acronym used for five eurozone members — Portugal, Italy, Ireland, Greece and Spain — during the eurozone sovereign debt crisis.

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 by 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 earnt. The present value of the earnt part of the obligation is known as the defined benefit obligation.

The **return on assets** (ROA) is profit (net profit for the year after minority interests) expressed as a percentage of the average balance sheet assets.

The **return on equity** (ROE) before or after tax expresses the relationship between profit before or after tax and average equity. 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 BWG. Solvency is regulated in *§ 22 BWG*.

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 currency risks by swapping amounts denominated in different currencies together with the associated interest payments.

Tier: See *Eligible own funds within the meaning of BWG*.

Unwinding is the change in present value caused by projecting cash flows forward to the next balance sheet date.

Value-at-risk analysis is one means of quantifying risk. It measures the potential loss that, within a specified holding period and with a specific probability, will not be exceeded.

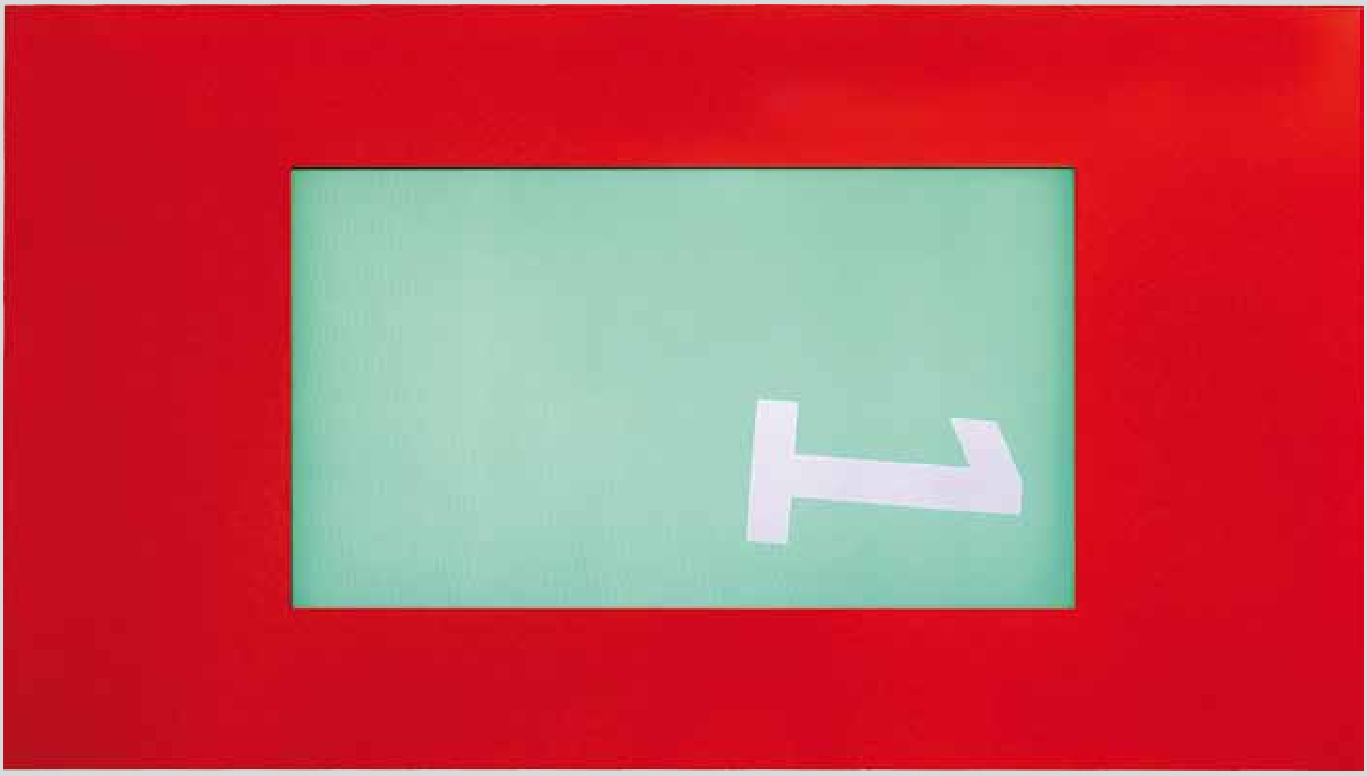
Consolidated entities are material, controlled entities whose assets, equity, liabilities, income and expenses net of consolidation items are accounted for in their entirety in consolidated financial statements.

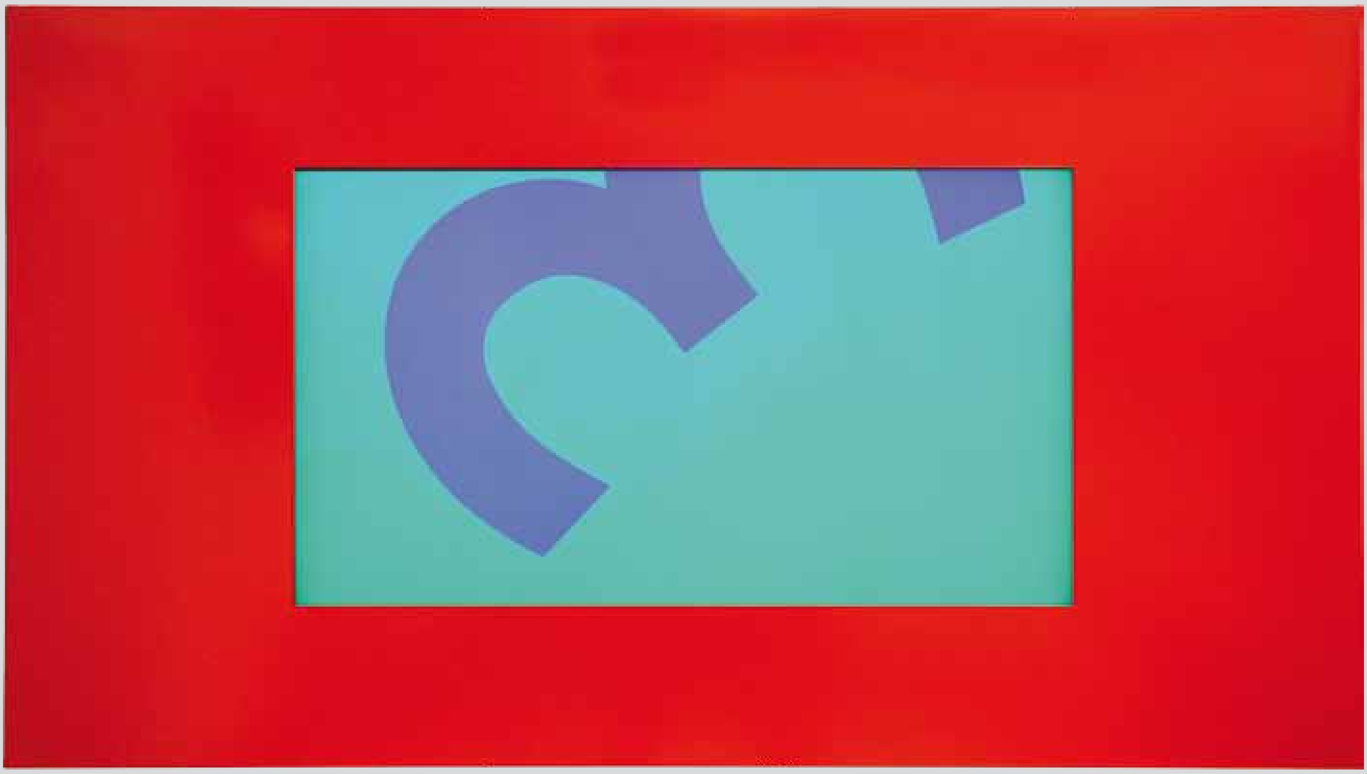
Forward-looking Statements

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 28 February 2014. If the assumptions upon which these forecasts were based prove wrong or if risk events — as touched upon 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*.

Publication Details

Published by:	BKS Bank AG St. Veiter Ring 43, 9020 Klagenfurt am Wörthersee, Austria Phone: +43 463 5858 0 Fax: +43 463 5858 329 BIC: BFKKAT2K Bank sort code: 17000 DVR (data processing code): 0063703 UID (EU VAT No.): ATU25231503 FN (Companies Register No.): 91810s Internet: www.bks.at e-mail: bks@bks.at, investor.relations@bks.at
Edited by:	Office of the Management Board of *BKS Bank AG*
Concept and design:	R. Kriesche
Photos:	Gernot Gleiss
Graphic art:	Sigrid Bostjancic, *boss grafik*
Sub-editor:	Andreas Hartl
Printing and lithography:	*Carinthian Druck Beteiligungs GmbH*
Paper:	Printed on premium recycled offset printing paper manufactured 100 per cent from FSC certified recycled fibres
Translation:	Adrian Weisweiller MA (Oxford), London





Acting responsibly is what matters to us …

… so it's BKS Bank you can count on when it really matters.

201

www.bks.at