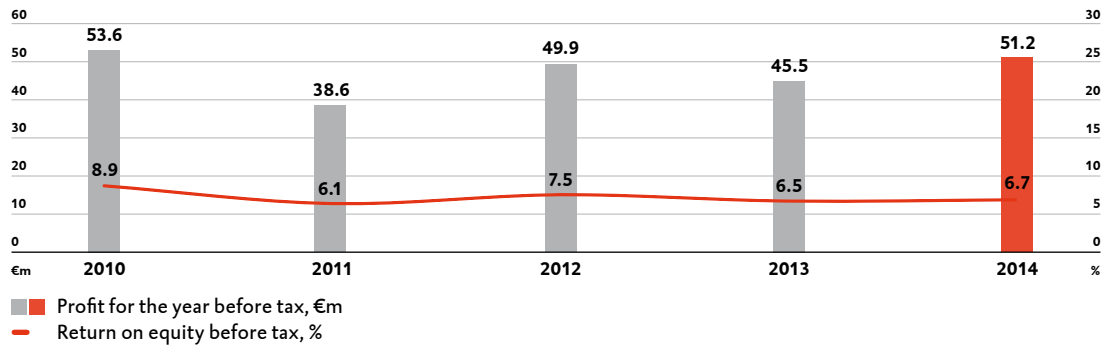
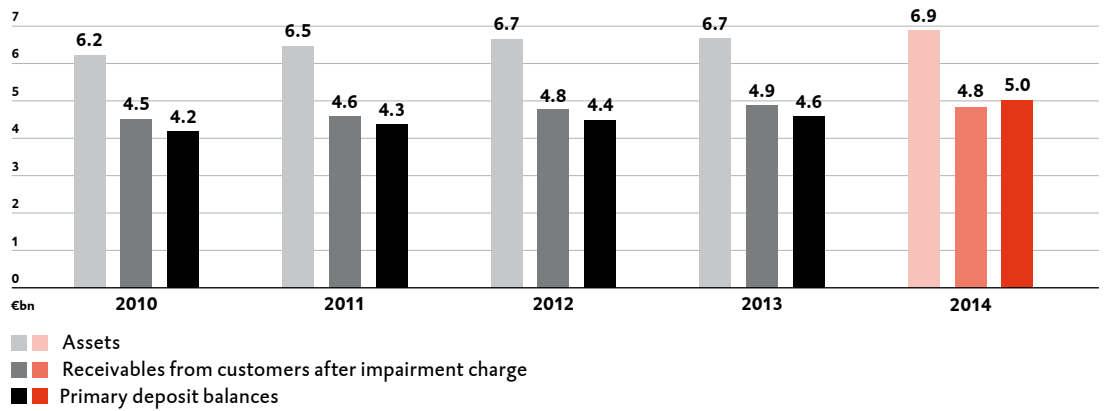


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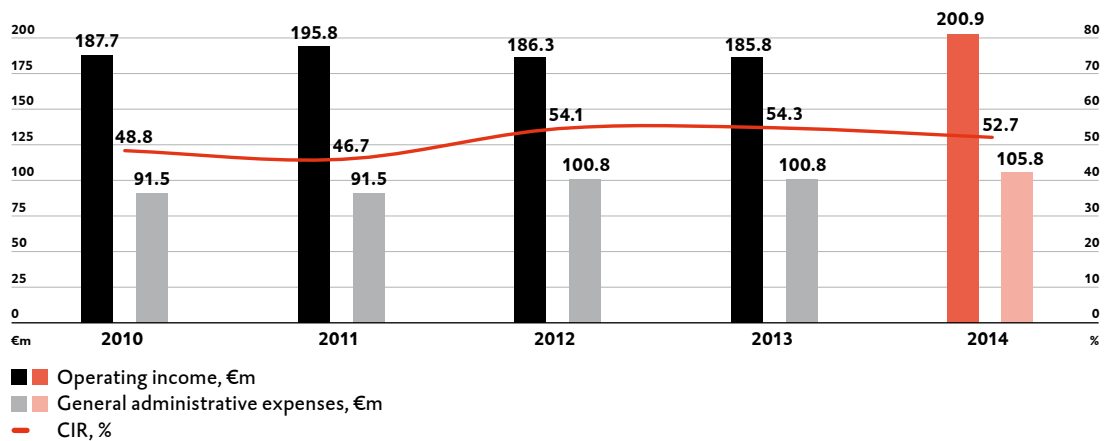
PROFIT



BALANCE SHEET



COST:INCOME RATIO



THREE-YEAR COMPARISON

	2014	2013	2012
INCOME ACCOUNT, €m			
Net interest income	157.3	146.2	143.1
Impairment charge on loans and advances	(49.5)	(42.7)	(38.6)
Net fee and commission income	44.7	45.4	44.4
General administrative expenses	(105.8)	(100.8)	(100.8)
Profit for the year before tax	51.2	45.5	49.9
Consolidated profit for the year after tax	46.6	40.6	43.1

BALANCE SHEET DATA, €m

Assets	6,864.5	6,743.8	6,654.4
Receivables from customers after impairment charge	4,828.9	4,874.2	4,794.2
Primary deposit balances	5,013.0	4,597.5	4,362.4
– Of which savings deposit balances	1,705.4	1,741.2	1,797.9
– Of which liabilities evidenced by paper, including subordinated debt capital	789.1	813.9	816.6
Equity	805.7	714.2	688.3
Customer assets under management	12,972.0	11,383.4	10,674.9
– Of which in customers' securities accounts	7,959.0	6,785.9	6,312.5

OWN FUNDS FOR THE PURPOSES OF CRR, €m (2012 and 2013: BwG)

Risk-weighted assets	4,846.6	4,423.3	4,457.9
Own funds	580.9	707.6	709.5
– Of which Tier 1 capital			
(common equity Tier 1 capital in conformity with Basel III from 1/1/2014)	543.7	662.5	630.7
Surplus own funds before operational risk	—	353.8	352.9
Surplus own funds after operational risk	—	326.8	325.8
Surplus own funds for the purposes of Basel III	193.2	—	—
Tier 1 ratio, %			
(common equity Tier 1 capital ratio in conformity with Basel III from 1/1/2014)	11.2	13.9	13.1
Own funds ratio, % (own funds ratio in conformity with Basel III from 1/1/2014)	12.0	16.0	15.9

PERFORMANCE, %

Return on equity before tax	6.7	6.5	7.5
Return on equity after tax	6.1	5.8	6.5
Cost:income ratio	52.7	54.3	54.1
Risk:earnings ratio (credit risk in % of net interest income)	31.5	29.2	27.0

RESOURCES

Average number of staff	915	910	930
Branches	57	56	55

BKS BANK'S SHARES

No. of ordinary no-par shares (ISIN AT0000624705)	34,236,000	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, €	17.8/15.6	17.6/15.3	17.6/15.5
Low: ordinary/preference share, €	16.9/14.9	17.0/14.5	17.2/14.9
Close: ordinary/preference share, €	17.3/15.3	17.5/15.3	17.3/15.0
Market capitalization at 31 December, €m	619.8	569.3	562.6
Dividend per share, €	0.23 ¹	0.25	0.25
P/E: ordinary/preference share	13.4/11.8	14.1/12.3	13.1/11.4

¹ Proposal to the 76th Ordinary General Meeting (AGM) of BKS Bank AG on 20 May 2015.

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Preface by the Management Board

Living up to our responsibility ...

**... to pursue sustainable
business strategies**



Herta Stockbauer
Chairwoman of the
Management Board

See page 60 to find out more.

... to enhance the skills of our staff



See page 71 to find out more.

Dieter Krassnitzer
Member of the
Management Board

... to provide barrier-free disabled access to our branches



Wolfgang Mandl
Member of the
Management Board

See page 61 to find out more.

Dear Shareholder,

Everybody in the banking sector will remember 2014 for a long time to come. Basel III, the Capital Requirements Regulation and Capital Requirements Directive (CRR/CRD IV) and SEPA (the Single Euro Payments Area) are just some examples of the big changes that banks had been preparing for for some time and that took effect during the year under review. In addition, we saw another fill of new supervisory regulations as well as Europe-wide reform of banking supervision itself. Geopolitical developments like the conflict between the Ukraine and Russia had a major impact on our industry, and continuing discussion about rehabilitating Greece and the euro's stability created additional challenges. We are still waiting for the European Central Bank's close-to-zero interest rates policy to succeed in restarting the eurozone economy.

And even if we shift our gaze from global macroeconomic issues to our core markets, there was—especially in our Carinthian home market—little good news to report. Many long-established companies fell victim to the economic climate, and dealing with the *Hypo-Alpe-Adria* disaster was still a hot topic throughout the media. It harmed Carinthia's reputation as a banking centre in numerous respects. Since many of the challenges we have mentioned continue to exist in 2015 and the unexpected abolition of the peg between the euro and the Swiss franc has created new ones, our feelings about the future are mixed. For we are aware that the demands on our employees will continue to increase, that we must permanently step up our already intensive sales efforts and that we must press ahead even more rapidly than before with the installation of new digital technologies. On the other hand, we are also encouraged by our successes in 2014, which we will be telling you about in detail in this report. They show that our hard work, our solid business practices, our dependability in our dealings with customers and our bonds with the regions in which we operate are being rewarded.

Profit for the year up 14.8 per cent

We are thus proud to have been able to increase our profit for the year to €46.6 million and our consolidated assets to €6.86 billion in 2014. Net interest income, net fee and commission income and the customer base developed very satisfactorily, and we also met our targets in our insurance operations. The inflow of primary deposits, which was particularly strong in Slovenia, gave us very good liquidity numbers. We opened two new branches during 2014, namely one in Graz and one in Vienna. The takeover of the securities operations of *Faktor banka d.d.* in Slovenia was another milestone in our business development. The remaining fly in the ointment was the increase in credit risk, which made nought of our many operational successes. We will therefore be focusing all our attention on avoiding credit risks during the 2015 banking year.

46.6m

If you look more closely at our balance sheet, you will notice that our primary deposit balances and the loan portfolio were very similar to each other at year-end. We see the increase in primary deposit balances to €5.01 billion as an expression of our customers' sustained trust in our bank. It was felt not just at our Austrian branches but also—and in particular—at our branches abroad. The marginal drop in our receivables from customers was attributable to the still reticent investment mindset of our existing customers in the corporate and business banking segment. However, we are happy to be able to report a slight tailwind from the third quarter.

Banks' capital ratios have increasingly become a focus of attention, not least as a result of Basel III. At this point, we would like to thank all our shareholders for their contribution to BKS Bank's outstanding capital position. Your confidence in our bank and your willingness to express that confidence by investing in us are what made one of our highlights in 2014 possible in the first place. In October, we were able to place 3,276,000 BKS Bank shares on the Vienna Stock Exchange in the course of our capital increase, which yielded proceeds of €52.4 million. We achieved this even though our largest shareholder—the UniCredit Group—did not exercise its subscription rights. We are delighted to be able to welcome the more than 700 new shareholders who took up the public follow-up offer to buy our shares during the capital increase. We see this excellent result as an incentive to persevere in the consistent pursuit of our sustainable business policy and as a mandate to continue our gradual growth.



Reorganization of our sales structure

To enable us to remain the successful banking partner that we now are in the long term, we worked steadily on continuing to optimize our products and services, streamlining our processes and maintaining an effective organizational structure. For instance, outsourcing the personal loan back office and branch services to a separate service company—*BKS Service GmbH*—as of 1 January 2014 greatly reduced costs. At the moment, we are working intensively on reorganizing sales. The first of the resulting changes were a cut in the number of regional sales head offices in Austria from six to three and the clear positioning of our branches either as pure retail customer branches or as SME branches that also service retail customers. As for central structures, in future, the Corporate, Business and Retail Customers Department at Head Office will be split into a Corporate and Business Customers Department and a Retail Customers Department.

The New Banking Group will be a key building block in the newly created Retail Customers Department. It will be responsible for expanding our digital offerings and dovetailing stationary and digital sales. At this juncture, we are pleased to be able to announce that our Online Banking service will be replaced by a completely new kind of digital customer portal in the second half of this year. This *BKS Bank-Online* portal will have a user-friendly interface and will be easy to use. Customers will be able to design their own start page and place the information that matters most to them in the foreground. Besides simplified payment functions, current information about accounts, cards, savings products, securities accounts and loans will be accessible around the clock, and it will be possible to buy products directly. In addition, *BKS Bank-Online* will enable users to securely send confidential documents.

However, notwithstanding these new sales channels, one thing at BKS Bank is not going to change: the strict standards that we have set for our advisory services. We invest large amounts in staff training and further training so as to be able to service our customers as well as possible in accordance with their needs. This makes us all the more appreciative of the fact that we won a number of awards for our advisory services during the year under review. For instance, the Austrian consumer studies society (*Österreichische Gesellschaft für Verbraucherstudien* or *ÖGVS*) and *Format* magazine voted us 'Austria's Best Branch Based Bank.' Just a few weeks later, we were delighted to win the silver medal during the Best Property Financier Awards. *Recommender 2014* also testified to our outstanding customer orientation. For the first time, we underwent an external assessment of our organizational maturity when we took part in the *Österreichischer Staatspreis für Unternehmensqualität* (Austrian state prize for enterprise quality) process. We were very pleased to be the first Bank in Austria to be 'Recognized for excellence 5*.'

We must not overlook the fact that an era came to an end at BKS Bank in 2014. Heimo Penker—our long-standing CEO—went into well-earned retirement at the end of February 2014. He was tireless in his work for BKS Bank. He combined astonishing imperturbability with generosity and a lack of vanity. He accepted changes that could not be avoided but also had the courage to change things that needed to be changed. He worked for what is now BKS Bank for a total of 42 years. His farsighted style of leadership and substantial banking expertise played an important part in ensuring BKS Bank's ability to do so well in the market in the recent difficult years. We wish him all the best in this new phase of his life and are pleased that he will be remaining true to BKS Bank as a member of the Supervisory Board.

We would also like to thank Hermann Bell and Michael Kastner, who have left the Supervisory Board, for years of work that was always done for the good of BKS Bank. Hermann Bell, who began his career as an auditor, was a member of the Management Board of the then *Bank für Kärnten AG* from 1968 to 1971 and was first voted onto the Supervisory Board in 1972. He led the board in a commanding manner as its chairman until leaving it on 15 May 2014, and he was then elected its Honorary President. Michael Kastner served our bank as a distinguished, helpful and considerate member of the Supervisory Board from 2002.

It was with deep sorrow that we heard of the death of Heinrich Treichl—for many years the Honorary President of our Supervisory Board and the *grand seigneur* of Austrian banking—who died on 2 November aged 101. He was a legendary master of things spiritual and linguistic who shaped the histories both of *Creditanstalt-Bankverein* and of our bank and the *3 Banken Group*—even if he no longer attended meetings of the Supervisory Board in recent years.

Finally, we would like to thank the people who make the biggest contribution to our success: our employees. Without their dedication and exceptional commitment, we could not achieve our ambitious corporate goals. We know that this is not something one can take for granted. We particularly want to thank our employees' representatives. The amicable relations between us are the foundation upon which we always manage to find solutions for our workforce that benefit every member of staff as well as the enterprise itself.



Herta Stockbauer

Chairwoman of the Management Board



Dieter Krassnitzer

Member of the Management Board



Wolfgang Mandl

Member of the Management Board

Report by the Chairman of the Supervisory Board



Peter Gaugg, Chairman of the Supervisory Board

Dear Sir or Madam,

Looking back, the 2014 banking year was also another eventful and very challenging period for BKS Bank. To name just the biggest issues, economic conditions in our business territories in Austria and abroad remained as difficult as before, and our responsibilities in connection with the application of Basel III and the CRR and the amendment to the Austrian banking act (BWG) were extensive. Against that backdrop, regulatory topics in particular became increasingly important.

In the year under review, the Supervisory Board again extensively supported and supervised the Management Board in its management of BKS Bank and its subsidiaries. In conformity with the law, the Memorandum and Articles of Association (*Satzung*) and Austria's Code of Corporate Governance, its agenda included advisory and controlling tasks. In particular, these encompassed the management of BKS Bank's financial, profit or loss and liquidity positions and investment and personnel planning as well as the subsidiaries' business and financial positions. For its part, the Management Board kept the members of the Supervisory Board promptly informed by way of written and verbal reports and during scheduled plenary meetings about the company and the material Group entities. The members of the Supervisory Board analyzed and examined in detail, critically questioned the suitability

and correctness of and approved actions on the part of Management that required approval by virtue of the legal requirements, the Memorandum and Articles of Association or standing orders. This was done by way of draft resolutions proposed to plenary meetings of the Supervisory Board. In addition, Hermann Bell, until he resigned from the Supervisory Board as of the close of the 75th Ordinary General Meeting, and, thereafter, I, as chairmen of the Supervisory Board, were in regular contact with the members of the Management Board in order to analyze and discuss the company's strategy, business development and risk management activities. Consequently, the Supervisory Board was to the requisite extent involved in all decisions that were of essential importance to BKS Bank.

The Supervisory Board of BKS Bank concentrated its expertise in a number of committees. Each member made an active contribution to these committees. To satisfy the legal requirements and to increase efficiency, we had in place an Audit Committee, a Working Committee, a Credit and Risk Committee, a Nominations Committee and a Remuneration Committee in the year under review. These committees prepared motions for the Supervisory Board as a whole and worked on topics to be dealt with during plenary meetings. As a rule, resolutions were passed and approvals were granted during plenary meetings. However, in the credit field, this was regularly done by means of circulated ballot. However, every business transaction approved by means of circulated ballot was discussed during the plenary meeting following that ballot.

Four ordinary meetings of the Supervisory Board took place during the financial year. The central topics dealt with during each meeting were the enterprise's financial position, including its risk position and risk management activities, its strategic development and other material events and occurrences. These were always discussed in detail with the Management Board.

The first meeting in the financial year, which, in accordance with § 63 Abs. 2 BWG (Austrian banking act), was also attended by representatives of the Auditor KPMG Austria AG as expert informants, took place on 28 March 2014 immediately after meetings of the Audit Committee, Remuneration Committee and Nominations Committee. Among other things, this plenary meeting of the Supervisory Board studied BKS Bank AG's Annual Financial Statements and Management Report for 2013, the report of the then Chairman of the Supervisory Board Hermann Bell, the Profit Appropriation Proposal, the IFRS-compliant Consolidated Management Report and Consolidated Financial Statements and the Corporate Governance Report and Risk Report. In addition, the agenda also included further explanations by the Audit Committee, credit matters, board member transactions, the preparation of the agenda of and motions for the 75th Ordinary General Meeting and an analysis of the current financial year and the effects of the increase in the stability levy. The upshot of the agenda item 'Management Board Matters' was the unanimous appointment of Herta Stockbauer as Chairwoman of the Management Board on the basis of a proposal by the Nominations Committee, which performed all the tasks required of it by § 29 BWG. Note was taken of reports by the Remuneration Committee, including, in particular, regarding verification that the principles of our remuneration policy had been applied fully and in conformity with the law within the *Kreditinstitutsgruppe* (credit institution group). In addition, the Supervisory Board carried out a self-evaluation in accordance with C Rule 36 of the *Österreichischer Corporate Governance Kodex* (ÖCGK: Austrian Code of Corporate Governance) and concluded that, in view of its efficient and responsible execution of its duties, its existing organization should be retained.

Among other things, the second meeting of the Supervisory Board held immediately after the 75th Ordinary General Meeting on 15 May elected the new Chair after Hermann Bell's resignation at the end of the Ordinary General Meeting and appointed the members of the five Supervisory Board committees. The plenary meeting elected me unanimously as its new Chairman and Franz Gasselsberger as my Vice-Chairman. At my suggestion, Hermann Bell was elected Honorary President by acclamation. The present members of the Supervisory Board committees (as is usual, I took over the chair of

each of them) are presented on page 52 of this Annual Report. The agenda also included reports on the current financial year, the Risk Report and Audit Report on the first quarter of 2014, credit and personnel matters, the Compliance Report for the 2013 financial year, other subjects that the Supervisory Board was required to deal with and other matters. Among other things, the plenary meeting received detailed reports on forbearance, FATCA and BIRG and a very satisfactory review of a staff shareholding scheme for BKS Bank staff living in Austria.

Besides Management Board reports on the current financial year, the outlook for 2014 as a whole, the company's risk position and credit matters, the agenda of the Supervisory Board meeting on 26 September, which was preceded by a meeting of the Audit Committee, also included detailed Audit Committee reports on supervision of the financial reporting process and the efficacy of the internal control system, internal auditing system and risk management system in conformity with § 63a Abs. 4 Ziffer 1 und 2 of BWG. Furthermore, based on a decision by the Management Board on 26 September 2014, approval was granted in full in respect of an application to issue a tranche of 3,276,000 ordinary no-par bearer shares in accordance with the second paragraph of § 4 of the Memorandum and Articles of Association of BKS Bank. The Working Committee was empowered to decide on the final amount of this capital increase and the associated amendment to the Memorandum and Articles of Association. The other transactions that required approval by the Supervisory Board as elucidated by the Management Board were approved, and a series of other items reported upon (AIFMG, BIRG, international bank ratings, amendments to fit and proper standards) were taken note of and approved. Every member of the Supervisory Board took part in the fit and proper training that followed. Its topics were BIRG (Austrian bank intervention and restructuring act) and BaSAG (Austrian bank recovery and resolution act).

During the fourth and final Supervisory Board meeting in the year under review, held on 26 November, the Management Board gave a presentation of the BKS Bank Group's performance with reference to the Balance Sheet and Income Statement and the Segmental Report and Risk Report. In addition, it presented the enterprise's strategy and goals for 2015 to this plenary meeting of the Supervisory Board and discussed with it the means needed to realize them. On that basis, it presented to the Supervisory Board for approval the Outlook for 2014, the earnings, costs and investment budget for 2015 and the planned volume of issuances of the bank's own securities during 2015. Moreover, during this session, the plenary meeting of the Supervisory Board examined the loans approved by the Credit Committee, the annual large investments reports prepared in conformity with § 28 b BWG and anti-corruption measures. In addition, the Supervisory Board declared its intention to comply with the rules of the CGK, albeit with departures from C Rules as explained on page 25 of this Annual Report, once any remaining ambiguities have been cleared up. Furthermore, the plenary meeting attested to the fitness and properness of the members of the Nominations Committee in accordance with § 29 BWG in conjunction with the FMA 'Fit & Proper' circular of November 2014 and BKS Bank's 'Fit & Proper' guidance.

As for the work of the Supervisory Board's five committees, the Audit Committee met immediately prior to the plenary meetings of the Supervisory Board on 28 March and 26 September. During its spring meeting, it discussed in detail the audit of the Annual Financial Statements of BKS Bank AG for 2013 and the Consolidated Financial Statements for 2013, the Profit Appropriation Proposal, the report and notes of the consulted Auditor, KPMG Austria, the Management Board's report on the company's own funds position and risk situation and the CGK. Among other things, the Audit Committee decided to recommend that the plenary meeting of the Supervisory Board adopt and approve the Annual Financial Statements together with the Management Report and the Report by the Chairman of the Supervisory Board, take note of the Consolidated Financial Statements together with the Consolidated Management Report inclusive of the Risk Report and issue its declaration of consent

to the Corporate Governance Report. Furthermore, it made a proposal for the appointment of the Auditor of the Annual Financial Statements of BKS Bank AG for 2015 and the Consolidated Financial Statements for 2015 and, in that connection, also evaluated the Auditor's cost estimate, the fees charged by the auditing company in the year under review and the auditing company's Declaration of Independence.

During the Audit Committee's autumn meeting, the Management Board commented on BKS Bank's business and risk positions. Particular attention was paid to preparations for the audit of the Annual Financial Statements for 2014. Among other things, the financial reporting process and the efficacy of the internal control system, internal auditing system and risk management system were also subjected to critical scrutiny during this meeting.

On 29 October 2014, the Working Committee that had been empowered by the plenary meeting of the Supervisory Board of BKS Bank AG on 26 September 2014 approved the final amount of the capital increase as decided by the Management Board and the associated amendment to BKS Bank's Memorandum and Articles of Association. The amendment to the Memorandum and Articles of Association pursuant to § 145 Abs. 1 AktG (Austrian stock corporation act) in consideration of § 169 AktG was registered in the companies register (*Firmenbuch*) on 30 October 2014, and the 1-for-10 increase in share capital to €72,072,000 was given legal effect one day later. Thereafter, BKS Bank AG's share capital was represented by 34,236,000 ordinary no-par shares and 1,800,000 no-par preference shares.

In the course of the year under review, the Risk and Credit Committee voted by means of circulated ballot on 49 credit applications and reported in detail on each during the next plenary meeting. The topics dealt with during this committee's meeting on 26 November were the bank's risk position, a risk category analysis in conformity with § 39 Abs. 2b BWG, the monitoring and implementation of the risk strategy, an examination of pricing and the remuneration system and counselling of the Management Board with regard to the Management Board's risk readiness and risk strategy.

During its meeting on 28 March, the Nominations Committee confirmed the decisions already made by means of circulated ballot regarding the fitness and properness of and requirement profiles for members of the Supervisory Board and target ratios for the underrepresented sex. Furthermore, after detailed discussion, it recommended the following as eminently suitable candidates for vacant positions on the Supervisory Board: Josef Korak (re-election), Sabine Urnik and Heimo Penker (new candidates). It assessed the structure, size, make-up and performance of the Management Board and of the Supervisory Board as a whole and satisfied itself regarding the policy applied by the Management Board when appointing senior management personnel. Finally, it recommended to the plenary meeting of the Supervisory Board the appointment of Herta Stockbauer as Chairwoman of the Management Board.

During its meeting on 28 March, the Remuneration Committee was required in accordance with the provisions of BWG to examine the principles underlying the remuneration policy with the help of a report by Group Audit, to pass amended guidance on remuneration policy at BKS Bank and within the *Kreditinstitutsgruppe*, to review the remunerations of persons in senior risk management and compliance roles and to calculate the variable components of the remunerations of the members of the Management Board for the 2013 financial year. In addition, it resolved to carry out appropriate adjustments to Herta Stockbauer's employment contract ahead of her planned appointment as Chairwomen of the Management Board and to present them to the plenary meeting for approval.

The 10 representatives of the equity holders on the Supervisory Board changed during the year under review changed in that—as we have already reported—Hermann Bell and Michael Kastner resigned

from the Supervisory Board as of the end of the 75th Ordinary General Meeting, and Sabine Urnik and Heimo Penker were freshly appointed to the Supervisory Board for the maximum duration allowed by the Memorandum and Articles of Association, that is to the end of the Ordinary General Meeting deciding on discharges from liability in respect of the 2018 financial year. In addition, account needed to be taken of § 11 Abs. 2 of the Memorandum and Articles of Association of BKS Bank AG, according to which 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. The 75th Ordinary General Meeting renewed the appointment of Josef Korak, which was affected by the rule. This too was for the maximum duration allowed by the Memorandum and Articles of Association.

The attendance rate of the representatives of the equity holders and the staff representatives at the four meetings of the Supervisory Board was 80 per cent. Josef Korak, Reinhard Iro and Karl Samstag were unable to attend two plenary meetings. Christina Fromme-Knoch and Sabine Urnik each apologized for their absence from one meeting. Consequently, no member of the Supervisory Board attended less than half of the meetings during the financial year ended.

As Auditor, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft¹ audited the accounts, Annual Financial Statements and Management Report of BKS Bank AG for the 2014 financial year. The Auditor did not have any objections to raise and certified 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 25 March 2015, 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 2014 prepared in conformity with UGB (Austrian enterprises code) together with the Notes and Management Report and the Dividend Proposal as well as the IFRS-compliant Consolidated Financial Statements for 2014 together with the Notes and Management Report. Furthermore, it outlined the development of the assets, liabilities, financial position and profit or loss of the Group and its segments and presented a Corporate Governance Report, a Risk Report and the Auditor's Report and Notes. The Supervisory Board endorsed the results of the audit, expressed its approval of the Annual Financial Statements and Management Report presented by the Management Board and adopted the company's Annual Financial Statements for 2014, which are thus final for the purposes of § 96 Abs. 4 Aktiengesetz. In addition, it approved the Consolidated Financial Statements for 2014 together with the Consolidated Management Report, the annual Risk Report and the Corporate Governance Report.

The Supervisory Board concurred with the Management Board's proposal that a dividend of €0.23 per share should be distributed out of the net profit for the year 2014, giving a total distribution of €8,288,280, and that the remaining profit should be carried forward to a new account.

The Consolidated Financial Statements as at and for the year ended 31 December 2014, which were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU, and the Consolidated Management Report, which was prepared in accordance with Austrian commercial law, were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigniederlassung Klagenfurt. This audit too did not give rise to any objections. The legal requirements having been met, the prerequisites for exemption from the obligation to prepare

¹ Formerly KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft (the change in form to a GmbH limited liability company took place on 22 August 2014).

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 2014 and its profit or loss and cash flows during the financial year from 1 January to 31 December 2014. The Supervisory Board endorses the results of the audit and expresses its approval of the Consolidated Financial Statements and Consolidated Management Report submitted to it by the Management Board.

It is with deep regret that the Supervisory Board heard of the death of its long-standing member and Honorary President Heinrich Treichl, who passed away on 2 November 2014 at the age of 101. The Supervisory Board will cherish his memory.

I would like to thank Hermann Bell and Michael Kastner for their years of dedicated work on BKS Bank's Supervisory Board and am pleased that Hermann Bell will continue to contribute his expertise to this board as its Honorary President. I especially thank the Management Board and every member of staff for their exceptional personal contributions to our organization.

Klagenfurt am Wörthersee
March 2015

A handwritten signature in black ink, appearing to read 'Gaugg', with a stylized, cursive script.

Peter Gaugg

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Corporate Governance at BKS Bank

THE PRINCIPLES THAT ARE LIVED OUT AND PROMOTED WITHIN BANK'S MANY DIFFERENT UNITS

We are committed to the principles of good and responsible corporate governance that are collected together in Austria's Code of Corporate Governance, and we complied with all the recommendations and suggestions contained therein with the exception of those that could not be applied word for word because of the specific circumstances of BKS Bank AG or the 3 Banken Group or the legal provisions governing banks.

We also acknowledge our corporate social responsibility and report on our activities in that area in our Sustainability Report. It expresses the extent of BKS Bank's consciousness of its ethical, social and ecological responsibilities wherever its business activities impact on society, its employees, the environment or the economic landscape.

Notes on the Austrian Code of Corporate Governance

The *Österreichische Corporate Governance Kodex* (ÖCGK: Austrian Code of Corporate Governance; see www.corporate-governance.at) is a set of rules for responsible corporate governance and management that meets international standards. It bears the signature of the prestigious *Österreichischer Arbeitskreis für Corporate Governance* (Austrian Working Group for Corporate Governance). It was first published in October 2002 and has since been regularly amended in accordance with international and national experience and practice. The last amendment took effect in July 2012. Among other things, the fundamental principles underlying this voluntary code of conduct include the equal treatment of all the equity holders of a listed stock corporation, transparent management and control mechanisms, the declared independence of the members of the supervisory board, regular and open communication between the supervisory board and the management board, the minimization of conflicts of interest and extensive control by the supervisory board and auditors. The aim is to increase the trust of investors and the public in the management tiers of the economy and in the Austrian financial market. The ÖCGK is an instrument for self-regulation. It is founded on the provisions laid down in Austrian equity, stock exchange and capital markets law and on EU-wide and internationally propagated standards for exemplary corporate governance.

These standards for responsible corporate governance are regularly adapted by the Austrian Working Group for Corporate Governance. They are subdivided into three categories: the L Rules (*Legal Requirements*), which are based on mandatory legal standards; the C Rules (*Comply or Explain*), where non-compliance is allowed but must be explained; and the R Rules (*Recommendations*), which are mere proposals and do not require any disclosures or explanations in the event of non-compliance.

Declaration of Conformity to the ÖCGK by the boards and officers of BKS Bank

Responsible and transparent corporate governance and control that are geared towards the sustainable creation of value added have always been an essential priority at BKS Bank. They are based on the loyalty, integrity and honesty of the Management Board and Supervisory Board as well as every member of staff vis-à-vis both the enterprise and members of the public with an interest in our industry. BKS Bank does

not see acceptance of this code (as amended in July 2012) and of the guidelines derived from it as mere lip service; we also propagated it anew and lived it out on a daily basis. Close cooperation between the Management Board and the Supervisory Board, a measured remuneration system that reflects the bank's financial situation, the avoidance of conflicts of interest and prompt, transparent and detailed business reporting are fundamental components of this ethos. It goes without saying that—based on a compliance management system—meticulous attention was paid to ensuring the integrity of every member of staff and all management personnel and making sure that they conducted themselves in accordance with the legal requirements and rules and regulations. The members of the Supervisory Board and Management Board of BKS Bank therefore expressly and comprehensively affirmed their commitment to the principles, goals and intentions set forth in the ÖCGK.

Like Austria's other listed companies, our bank issues an annual declaration of conformity to the conduct recommendations contained in the ÖCGK. BKS Bank thus conforms to the *comply or explain* principle, which obliges it to publicly disclose departures from the rules in the ÖCGK that cannot be applied word for word because of the specific circumstances of BKS Bank AG or the 3 Banken Group or the legal provisions governing banks. The corresponding declarations by the Management Board and Supervisory Board are published on the website at www.bks.at. Click on Investor Relations » Corporate Governance. By disclosing and explaining any departures from the C Rules, BKS Bank conformed to the ÖCGK during the 2014 financial year. The ÖCGK, the guidelines regarding the independence of the members of the Supervisory Board and the Memorandum and Articles of Association of BKS Bank can also be accessed on the website at any time.

The Supervisory Board of BKS Bank most recently reaffirmed its commitment to the ÖCGK during its meeting on 28 March 2014, and it declared its intention to comply with the rules contained in the ÖCGK as published in July 2012.

It should be noted that the new code, the final version of which had not yet been published at the time of writing, will probably be adopted by BKS Bank AG during the meeting of the Supervisory Board that follows its publication. This report also looks at the effectiveness of BKS Bank's risk management

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

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

system (C Rule 83), its accounting and disclosure policies (*inter alia* L Rules 65 and 69, C Rules 64, 66 and 68) and measures for the advancement of women (L Rule 60). Other topics of relevance in the context of the ÖCGK such as the equity holders and General Meeting, corporation communication and the dissemination of information, the Internal Control System, compliance and anti-money laundering activities are addressed in the Consolidated Management Report, in the section of this report 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 managed the enterprise on their own responsibility in accordance with the principles anchored in the bank's overall strategy. The Management Board had, with the consent of the Supervisory Board, laid down for itself rules of procedure that also governed the allocation of remits. It cooperated on a trust basis with BKS Bank's other boards and officers and the representatives of the workforce. The Supervisory Board was promptly informed about any material changes and was in that way involved in the process of allocating remits.

The Management Board concerned itself primarily—on the basis of extensive reports—with the bank's strategic orientation and with the definition of corporate goals within each remit and within the BKS Bank companies group as a whole. In doing so, it was required to defend the interests of equity holders, customers, employees and other related groups with the goal of creating sustainable value added. In addition, the Management Board took suitable precautions to ensure that the relevant legal provisions were adhered to at the same time as providing for efficient and effective risk management and risk controlling.

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

If possible, Management Board decisions were made unanimously. The dual-control or 'four-eyes' principle also applied within the Management Board whenever contracts were signed or in the event of internal approvals that involved risks. An extensive internal reporting system ensured that Management Board decisions were carefully prepared.

The members of the Management Board

The Management Board of BKS Bank is a body that shares collective responsibility. Until 28 February 2014, it had four members. Following Heimo Penker's retirement, it has had three members since 1 March 2014.

Herta Stockbauer

Chairwoman of the Management Board; born in 1960; initially appointed to the board on 1 July 2004; present term of office to end on 30 June 2019.

Herta Stockbauer studied commercial science at Vienna's University of Economics and Business Administration and then worked as an assistant professor and lecturer at the Institute of Commercial Science of the Alpen-Adria University in Klagenfurt. She joined BKS Bank in 1992, working in corporate and business banking and securities operations before moving to the Controlling and Accounts Department. She became Head of Department in 1996 and was appointed to the Management Board in 2004. She was made Chairwoman of the Management Board in March 2014. Within BKS Bank's Management Board, her remit encompassed International Operations, Corporate and Business Banking, Accounts and Sales Controlling, Human Resources, Treasury and Proprietary Trading, Real Estate and Construction, Public Relations, Marketing and Investor Relations as well as the bank's subsidiaries and equity investments in Austria and abroad.

Posts and functions at entities accounted for in the Consolidated Financial Statements:

- 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 *Bank für Tirol und Vorarlberg Aktiengesellschaft*
- Vice-chairwoman of the supervisory board of *Oberbank AG*
- Vice-chairwoman of the supervisory board of *Drei-Banken Versicherungs-AG*

Posts and functions at other entities in Austria that are not accounted for in the Consolidated Financial Statements:

- Member of the supervisory board of *Oesterreichische Kontrollbank AG*
- Member of the supervisory board of *SW Umwelttechnik AG*

Other posts and functions:

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

Dieter Krassnitzer

Member of the Management Board; born in 1959; initially appointed to the board on 1 September 2010; present term of office to end on 31 August 2015.

Dieter Krassnitzer was born in Waiern in 1959. He has been working for BKS Bank since 1987. Having graduated in business studies, he previously 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 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. Within the Management Board of BKS Bank, Dieter Krassnitzer was responsible for Risk Management, Risk Controlling, the Credit Back Office, IT, Business Organization and Technical Services in Austria and abroad and for cooperation with *DREI-BANKEN-EDV Gesellschaft mbH*.

Posts and functions at entities accounted for in the Consolidated Financial Statements:

- Chairman of the supervisory board of *BKS-leasing Croatia d.o.o.*
- Vice-chairman of the supervisory board of *BKS Bank d.d.*
- Member of the professional advisory board of *DREI-BANKEN-EDV Gesellschaft mbH*

Wolfgang Mandl

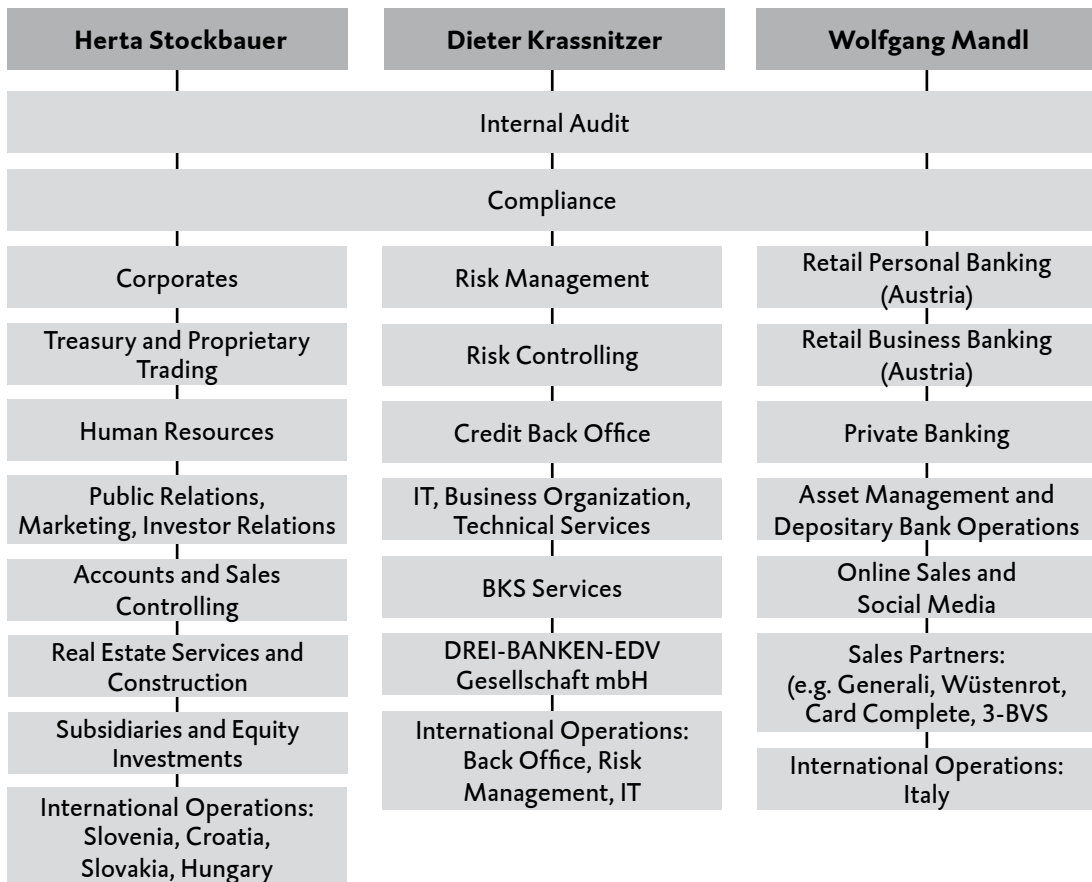
Member of the Management Board; born in 1969; initially appointed to the board on 1 January 2013; present term of office to end on 31 December 2015.

Wolfgang Mandl began his career in 1990 as a personal banking account manager at our Spittal branch. He graduated in applied business administration at the Alpen-Adria University in Klagenfurt 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’s Management Board, Wolfgang Mandl was responsible for Retail Personal Banking in Austria, Retail Business Banking in Austria, Private Banking, Asset Management and Custodian Operations, Online Sales and Social Media and Sales Partners and for International Operations in Italy.

Other posts and functions:

- Honorary Consul of Italy in the province of Carinthia

MANAGEMENT BOARD REMITS



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

The Supervisory Board’s operating procedures

The Supervisory Board of BKS Bank consisted of 10 representatives of the equity holders and five members delegated by BKS Bank’s Staff Council on a one-third basis. It provided advisory support for and

supervised the bank's management. It performed its role both during plenary meetings and within individual committees. The Supervisory Board appoints the members of the Management Board and carries out long-term succession planning in collaboration with the Management Board. It supervised the enterprise's management as required by the legal provisions, the Memorandum and Articles of Association and its standing orders, discussed the realization of strategic plans and projects with the Management Board and made the decisions on Group matters that were referred to it. It was, in particular, responsible for examining the annual financial statements of *BKS Bank AG* and the BKS Bank Group in conformity with international auditing standards (ISAs). The Report by the Chairman of the Supervisory Board from page 16 provides details of the work of this board and its committees. The rights and obligations of the staff representatives were basically the same as those of the representatives of the equity holders. This applied, in particular, to their rights to information, their supervisory rights, their duties of care, their obligations of secrecy and any liability in the event of a breach of duty. Like the representatives of the equity holders, the staff representatives were required to abstain from voting if they had a personal conflict of interest. No member of the Supervisory Board declared a conflict of interest within the meaning of C Rule 46 of the ÖCGK during the year under review. The remunerations of the members of the Supervisory Board are detailed on page 37 of the Remuneration Report.

The Members of the Supervisory Board of BKS Bank AG

HONORARY PRESIDENT

Hermann Bell

Hermann Bell resigned as Chairman of the Supervisory Board as of the end of the 75th Ordinary General Meeting and was elected Honorary President for life during the Supervisory Board's second meeting, which likewise took place on 15 May.

REPRESENTATIVES OF THE EQUITY HOLDERS

Peter Gaugg, Chairman

Independent; born in 1960; first elected on 29 April 1998; appointed until the 77th Ordinary General Meeting (2016). Having previously been 1st Vice-Chairman, Peter Gaugg was appointed as the new Chairman of the Supervisory Board during the second meeting of the Supervisory Board on 15 May in the course of the election of the Chair.

Supervisory board posts and comparable functions at listed companies in Austria and abroad:

- 1st Vice-Chairman of the supervisory board of *Oberbank AG*

Franz Gasselsberger, Vice-Chairman

Independent; born in 1959; first elected on 19 April 2002; appointed until the 76th Ordinary General Meeting (2015). Franz Gasselsberger was re-elected as Vice-Chairman of the Supervisory Board during the second meeting of the Supervisory Board in the course of the election of the Chair.

Supervisory board posts and comparable functions at listed companies in Austria and abroad:

- Chairman of the supervisory board of *Bank für Tirol und Vorarlberg Aktiengesellschaft*
- Member of the supervisory board of *AMAG Austria Metall AG*
- Member of the supervisory board of *Lenzing Aktiengesellschaft*
- Member of the supervisory board of *voestalpine AG*

Christina Fromme-Knoch

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

Reinhard Iro

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

Waldemar Jud

Independent; born in 1943; first elected on 19 May 2010; appointed until the 76th Ordinary General Meeting (2015).

Supervisory board posts and comparable functions at listed companies in Austria and abroad:

- Member of the supervisory board of *Bank für Tirol und Vorarlberg Aktiengesellschaft*
- Member of the supervisory board of *Oberbank AG*
- Member of the supervisory board of *DO & CO Aktiengesellschaft*
- Chairman of the supervisory board of *Ottakringer Getränke AG*
- Chairman of the supervisory board of *CA Immobilien Anlagen AG* (to 8 August 2014)

Dietrich Karner

Independent; born in 1939; first elected on 22 May 1997; appointed until the 76th Ordinary General Meeting (2015).

Supervisory board posts and comparable functions at listed companies in Austria and abroad:

- Member of the supervisory board of *Bank für Tirol und Vorarlberg Aktiengesellschaft*

Josef Korak

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

Heimo Penker

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

Supervisory board posts and comparable functions at listed companies in Austria and abroad:

- Vice-Chairman of the supervisory board of *Bank für Tirol und Vorarlberg AG* (to 14 May 2014)
- Vice-Chairman of the supervisory board of *Oberbank AG* (to 13 May 2014)

Karl Samstag

Independent; born in 1944; first elected on 19 April 2002; appointed until the 77th Ordinary General Meeting (2016).

Supervisory board posts and comparable functions at listed companies in Austria and abroad:

- Member of the supervisory board of *Bank für Tirol und Vorarlberg Aktiengesellschaft*
- Member of the supervisory board of *Oberbank AG*
- Member of the supervisory board of *SCHOELLER-BLECKMANN OILFIELD EQUIPMENT AG*
- Member of the supervisory board of *Porr AG* (to 4 June 2014)

Sabine Urnik

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

STAFF REPRESENTATIVES DELEGATED BY THE STAFF COUNCIL

Maximilian Medwed: born in 1963; first delegated on 1 December 2012

Herta Pobaschnig: born in 1960; first delegated on 1 June 2007

Manfred Suntinger: born in 1966; first delegated on 1 November 2011

Hanspeter Traar: born in 1956; first delegated on 1 January 2003

Gertrude Wolf: born in 1960; first delegated on 1 November 2013

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

REPRESENTATIVES OF THE REGULATORY AUTHORITY

Ministerialrat Alois Schneebauer: born in 1954; first appointed on 1 August 1999

Ministerialrat Richard Warnung: born in 1950; first appointed on 1 April 2013

The Supervisory Board as a whole held four scheduled meetings in the 2014 financial year during which it performed its advisory and controlling functions. The Management Board kept the Supervisory Board fully informed regarding the enterprise's strategic orientation and discussed in detail the progress made implementing the strategy. Furthermore, it submitted in good time to be voted upon anything requiring approval. Moreover, the Management Board also informed the Supervisory Board—including, in particular, the Chairman of the Supervisory Board Hermann Bell, or Peter Gaugg from 15 May 2014—in the periods between meetings about exceptional business transactions of material relevance to assessing BKS Bank's financial position and performance. The list of transactions that require approval and the limits on amounts set in line with the enterprise's size are laid down in the standing orders of the Management Board. The Supervisory Board's annual self-evaluation as required by C Rule 36 of the ÖCGK to evaluate its activities, including, in particular, its organization and working methods, took place during the Supervisory Board's meeting on 28 March 2014.

The report by the Chairman of the Supervisory Board, commencing on page 16 of this Annual Report, provides further details about the Supervisory Board's work and the work of its committees, its structure and its controlling function.

Committees set up by the Supervisory Board

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

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

Audit Committee

The Audit Committee met twice during the year under review to execute the list of tasks assigned to it by § 63a *Abs. 4 BWG*. Its material audit actions, which it performed in full, were:

- monitoring the financial reporting process;
- monitoring the effectiveness of the company's internal control system (ICS), internal auditing system and risk management system;
- monitoring the audits of the Annual Financial Statements and Consolidated Financial Statements;

- checking and monitoring the independence of the Auditor, including, in particular, with regard to the additional services rendered for the audited company;
- examining the Annual Financial Statements and preparing their adoption, examining the Profit Appropriation Proposal, Management Report and Corporate Governance Report, and reporting the results of those examinations to the Supervisory Board;
- examining the Consolidated Financial Statements and the Consolidated Management Report and reporting the results of those examinations to the supervisory board of the parent;
- making a proposal to the Supervisory Board regarding the choice of Auditor;
- handling the Auditor’s Management Letter;
- monitoring the enterprise’s management.

During the first meeting, on 28 March, it mainly concerned itself with the Annual Financial Statements and Consolidated Financial Statements together with the Auditor’s Report, the Profit Appropriation Proposal, the Management Report, the Corporate Governance Report and the audit plan for 2014. The focus during the second meeting on 26 September was on preparing for the audits of the annual financial statements for 2014. Representatives of the Auditor attended both meetings in conformity with § 63a Abs. 4 BWG. During the year under review, no use was made of C Rule 81a of the ÖCGK, which allows for an exchange of information between the Audit Committee and the Auditor of the (Consolidated) Financial Statements in the Management Board’s absence.

In the year under review, the members of the Audit Committee were as follows:

Hermann Bell (Chairman to 15 May); Peter Gaugg (Chairman from 15 May); Franz Gasselsberger; Walde-
mar Jud; Michael Kastner (to 15 May); Dietrich Karner (from 15 May); Maximilian Medwed; Herta
Pobaschnig.

Working Committee

As laid down in the standing orders, the Working Committee was responsible for making decisions (as a rule, this took place by means of circulated ballot) on matters whose urgency meant that they could be referred neither to the plenary meeting nor to the Credit Committee. This committee was convened as required. It was in close contact with the Management Board, giving it a 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. It voted on one motion during the 2014 financial year. Having been authorized to do so by the meeting of the Supervisory Board on 26 September 2014, the Working Committee approved the final amount of the 1-for-10 share capital increase decided by the Management Board on 29 October 2014 and the associated amendment to the Memorandum and Articles of Association of BKS Bank.

In the year under review, the members of the Working Committee were as follows:

Hermann Bell (Chairman to 15 May); Peter Gaugg (Chairman from 15 May); Franz Gasselsberger; Michael
Kastner (to 15 May); Heimo Penker (from 15 May); Herta Pobaschnig; Hanspeter Traar.

Risk and Credit Committee

The Risk and Credit Committee made decisions (as a rule, this took place on the basis of circulated ballots) 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 § 39d 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. Because of the need for prompt decisions, the Risk and Credit Committee operated exclusively by way of circulated ballots during the year under review. It decided on 49 credit applications.

In the year under review, the members of the Risk and Credit Committee were as follows:

Hermann Bell (Chairman to 15 May); Peter Gaugg (Chairman from 15 May); Franz Gasselsberger; Heimo
Penker (from 15 May); Herta Pobaschnig; Hanspeter Traar.

Nominations Committee

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

In the year under review, the Nominations Committee met on 28 March. During that meeting, it decided to recommend to the Supervisory Board—which met after its meeting—that three candidates, namely, Josef Korak, Heimo Penker and Sabine Urnik, be appointed to fill vacant positions on that board taking into account the maximum term permitted under stock corporation law. In addition, the Nominations Committee verified that—in conformity with the EBA Fit & Proper guidance that has been applicable since May 2013, the FMA circular that is based upon it and the requirements profiles adopted in January—the 'Fit & Proper' criteria for directors, members of supervisory boards and holder of key posts and the qualification requirements for those positions had been met. That the members of the Nominations Committee possessed the necessary qualifications had already been examined and unanimously confirmed by the November meeting of the Supervisory Board in 2013. Furthermore, the results of assessments of the structure, size, composition and performance of the Management Board and Supervisory Board and the examination of the methods employed by the Management Board when selecting key management personnel pursuant to § 29 Ziffern 4, 5, 6 und 7 BWG were firmly positive. Finally, during its meeting in March, the Nominations Committee decided to recommend to the plenary meeting of the Supervisory Board that Herta Stockbauer be appointed Chairwoman of the Management Board.

In the year under review, the members of the Nominations Committee were as follows:

Hermann Bell (Chairman to 15 May); Peter Gaugg (Chairman from 15 May); Heimo Penker (from 15 May).

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 compensation in accordance with § 39b BWG and the annex thereto. In 2014, all three members of this committee 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 28 March 2014, the Remuneration Committee reviewed the principles 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 one amendment to the remuneration guidance regarding remuneration policy at BKS Bank and within the *Kreditinstitutsgruppe* (credit institution group). In addition and among other things, it evaluated remunerations paid to senior management personnel in risk management and compliance roles. Finally, the amounts of the variable components of the remuneration of the members of the Management Board for the 2013 financial year were set and Herta Stockbauer's employment contract was redrafted in the context of her appointment as Chairwoman of the Management Board.

In the year under review, the members of the Remuneration Committee were as follows:

Hermann Bell (Chairman to 15 May); Peter Gaugg (Chairman from 15 May); Dietrich Karner; Heimo Penker (from 15 May); Herta Pobaschnig.

Independence of the Supervisory Board

C Rule 53 of the Austrian Code of Corporate Governance requires the majority of the delegates on the Supervisory Board to be independent. A member of the Supervisory Board is deemed to be independent if he or she does not maintain any business or personal relationship with BKS Bank or its Management Board that could give rise to a material conflict of interest and could therefore influence that member's conduct. The Supervisory Board—and/or the Nominations Committee beforehand—took care when making proposals to the General Meeting regarding the filling of soon-to-be vacant posts on the board to ensure the board's diversity with respect to the qualifications of its members, adequate representation of both sexes and its age structure and to ensure that its members had the knowledge and capabilities required by the requirements profile.

The representatives of the equity holders on BKS Bank's Supervisory Board were, without exception, highly qualified banking and/or business experts with relevant experience in the financial reporting and financial fields. 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 at www.bks.at. Click on Investor Relations » Corporate Governance.

Regarding the first-time election of Heimo Penker, who still held the post of CEO of BKS Bank until February 2014, we note that he was nominated by the equity holders *Oberbank* and *Bank für Tirol und Vorarlberg*, and that these banks together held over 25% of our voting capital. In addition, based on the 'Fit & Proper' evaluations and Heimo Penker's declaration in conformity with § 87 Abs. 2 AktG, there were no grounds to object to his nomination by the Supervisory Board.

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

INDEPENDENCE GUIDELINES FOR THE SUPERVISORY BOARD OF BKS BANK

A member of the Supervisory Board shall not in the previous three years have been a member of the management board or the senior management personnel of the company or of a subsidiary of BKS Bank. A prior activity as a member of such a management board shall not be deemed to mean that that person is not independent if, above all, 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 agreements with the company shall not be deemed to affect that member's independence.

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

A member of the Supervisory Board shall not be a member of the management board of another 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 explains 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.

During its meeting on 25 November 2010, the Supervisory Board of BKS Bank referred everything to do with the remunerations of the Management Board to the Remuneration Committee. The committee put into effect a 'BKS Bank Remuneration Policy Guideline' and most recently adopted it in an amended form during its meeting on 28 March 2014. This guideline describes the fundamentals of the bank's remuneration policy and the parameters to be used to calculate and review variable components of remuneration. In this way, the Remuneration Committee ensured that BKS Bank's remuneration policy conformed fully to all the principles established in the Annex to § 39b BWG. The report on the Disclosure Directive published on BKS Bank's website at www.bks.at (click on Investor Relations » Reports and Publications) describes in detail how the remuneration policy was applied.

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 similar size. The intention was to achieve a balance of fixed components of remuneration, which depended on the respective areas of responsibility, and variable components. In the year under review, the fixed components of remuneration came to €987.6 thousand (2013: €1,267 thousand). The variable components were linked to the sustainable, long-term fulfilment of BKS Bank's business and risk strategy and its business performance. Failure to fully meet such requirements affected the calculation of the current variable components of annual remuneration. The criteria applied when calculating the variable components were consolidated net profit for the year, the return on equity before tax, the cost:income ratio, the risk:earnings ratio, the staff fluctuation rate, the growth of the customer base and the Tier 1 capital and own funds ratios as gauges of the enterprise's overall operational business performance and its performance by business segment. In addition, risk bearing capacity and credit, market, liquidity 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, gauges of concentration risk in credit operations (large loans, proportion of foreign borrowers, foreign currency loans), interest rate risk expressed as a percentage of own funds, the loan:deposit ratio and the amount of operational risk.

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. Considerable importance was attached to examining BKS Bank's sustainable risk bearing capacity in accordance with overall bank management requirements (ICAAP). Non-financial criteria were also brought into the appraisals. The ballpark figure for the variable component of the remuneration of a member of the Management Board was 25 per cent of that member's total remuneration, and it was not supposed to exceed 40 per cent of the total remuneration. Should it subsequently turn out that variable components of remuneration were paid out on the basis of data that were clearly wrong, BKS Bank may insist that they be returned.

The rules regarding variable components of remuneration, which were laid down on the basis of the FMA's circular on the principles of remuneration policy and practice (*Grundsätze der Vergütungspolitik und -praktiken*), were essentially unchanged compared with the previous year. Consequently, as in

prior periods, neither the variable components of remuneration of the members of the Management Board nor the compensation system for the second tier of management and the tiers below it provided a heightened incentive to take unreasonably big banking risks.

In the year under review, remunerations paid to the active members of the Management Board totalled €1,193.7 thousand (2013: €1,418 thousand). Roughly 83 per cent of the total consisted of fixed components and about 17 per cent of variable components. In conformity with the Remuneration Guideline, just 60 per cent of the variable components of remuneration and one fifth of the variable remunerations reserve created in 2013 were actually paid out. 40 per cent was allocated to reserves for five years. Variable components were not awarded in the form of instruments.

The remunerations paid to the members of the Management Board during the financial year are also presented in note (38) to the Annual Financial Statements from page 171. Provisions for termination and post-employment benefits for members of the Management Board were €4,689 lower than in 2013 (reversal in 2013: €28 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 posts held within subsidiaries of BKS Bank, for which, moreover, no remuneration was paid.

The company pensions for active members of the Management Board were being accumulated in a pension fund on a contractual basis by way of monthly contributions. In addition, upon termination of their employment, they receive a termination benefit on the basis of the *Angestelltengesetz* (Austrian salaried employees act) and the *Banken-Kollektivvertrag* (collective agreement for bank employees) applied *mutatis mutandis*. The requirements of C Rule 27a of the ÖCGK are adhered to if a Management Board member leaves the board prematurely. According to this rule, agreements regarding severance payments must take account of the circumstances in which the respective member of the Management Board leaves the board and the bank's financial position. If there are no compelling reasons for premature termination of that member's membership of the Management Board, 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 terminates the agreement prematurely for reasons for which he or she is responsible. No variable components of remuneration or parts thereof were paid out in the form of stock or stock options.

A former member of the Management Board is entitled to an old-age pension and to pension benefits for surviving dependents once that entitled member of the Management Board has died. The amount of company pension as promised contractually to a member of the Management Board will depend on his or her duration of service and will be based on his or her pensionable received fixed remuneration component. Retirement pensions paid to former members of the Management Board and their surviving dependents came to €726 thousand (2013: €742 thousand).

TOTAL REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD DURING THE YEAR UNDER REVIEW

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

¹ Member of the Management Board to 28 February 2014.

A directors and officers (D&O) liability insurance policy was in place during the financial year ended. It was paid for entirely by BKS Bank. As a result, the Management Board, Supervisory Board and functionaries 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 damages.

Remuneration of the members of the Supervisory Board

The annual remunerations of the members of the Supervisory Board are regulated in the Memorandum and Articles of Association of BKS Bank. If necessary, they are adjusted by the General Meeting. In the 2014 financial year, on the basis of a decision made by the 75th Ordinary General Meeting, the Chairman of the Supervisory Board was retrospectively awarded from 1 January remuneration of €21,000 *per annum*; his deputies were each awarded remuneration of €17,000 *per annum*; and the other representatives of the equity holders were each awarded remuneration of €15,000 *per annum*. As before, the attendance fee paid to each member of the Supervisory Board in 2014 was €120 per meeting attended by that member. Supervisory Board members belonging to one or more Supervisory Board committees received fees for the additional time and effort associated with their work in the respective committee(s). Each member of the Audit Committee and Risk and Credit Committee was compensated with a fee of €4,000 *per annum*; each member of the Working Committee was compensated with a fee of €2,000 *per annum*; and each member of the Remuneration Committee and Nominations Committee was compensated with a fee of €1,000 *per annum*. Members acting on an honorary basis and staff representatives performing their function within the scope of their job did not receive any remuneration other than attendance fees.

The members of the Supervisory Board (including the Staff Council delegates and representatives of the regulatory authority) were awarded remuneration comprising membership and attendance fees totalling €207.0 thousand in the year under review (2013: €171.0 thousand). Payment always took place retrospectively once the Ordinary General Meeting had discharged the members of the Supervisory Board from liability for the respective financial year. We point out that, as already stated in the Report of the Chairman Peter Gaugg on page 20, no member of the Supervisory Board attended fewer than half of its plenary meetings. The attendance rate of the representatives of the equity holders and staff was 80 per cent, which was slightly down on the previous year (2013: 88 per cent).

At the end of the 2014 stock market year, the members of the Management Board held a total of 2,228 ordinary no-par shares and 4,665 no-par preference shares. The members of the Supervisory Board held a total of 1,426 ordinary no-par shares and 2,132 no-par preference shares. The sum was less than

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

Name	Total in 2014, €	Fixed Board Member's Fee	Committee Memberships	Attendance Fees
Hermann Bell ¹	12,325	7,767	4,438	Fees
Peter Gaugg	32,001	19,521	12,000	480
Franz Gasselsberger	27,480	17,000	10,000	480
Christina Fromme-Knoch	15,360	15,000	—	360
Reinhard Iro	15,240	15,000	—	240
Waldemar Jud	19,480	15,000	4,000	480
Dietrich Karner	19,001	15,000	3,521	480
Michael Kastner ¹	7,887	5,548	2,219	120
Josef Korak	15,240	15,000	—	240
Heimo Penker ²	14,853	9,452	5,041	360
Karl Samstag	15,240	15,000	—	240
Sabine Urnik ²	9,692	9,452	—	240
Total	203,799	158,740	41,219	3,840

¹ To 15 May 2014. ² From 15 May 2014.

0.03 per cent of the shares in issue. BKS Bank had not set up a stock option scheme for the members of the Management Board or members of the Supervisory Board or management personnel and did not intend to do so. However, during the year under review, it had a portfolio of loans to members of the Supervisory Board and their close relatives within the scope of its ordinary business activities totalling €275 thousand (2013: €313 thousand) and of loans to members of the Management Board totalling €165 thousand (2013: €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. Otherwise, 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 74th Ordinary General Meeting tasked KPMG Austria AG Wirtschaftsprüfungs- und Steuerberatungsgesellschaft with carrying out the annual audit of the business practices and activities of BKS Bank AG and its group for the 2014 financial year. Immediately after its election as Bank Auditor and prior to the conclusion of an agreement regarding the execution of the annual audit, this company presented to the Supervisory Board of BKS Bank a statement of the probable scope of the audit, broken down into service categories, and the total fees received for the previous financial year. It informed the Supervisory Board about its integration into the quality assurance system and provided a conclusive declaration of its impartiality. Outlay on the annual audit and on related services rendered in accordance with the Memorandum and Articles of Association and regulatory requirements and audit related services came to €353 thousand (2012: €353 thousand). The other consultancy fees came to €109 thousand (2013: €92 thousand).

Independent Assessment of the Effectiveness of the Risk Management System

According to C Rule 83 of the Austrian Code of Corporate Governance, the Auditor must assess the effectiveness of the risk management system and report its conclusions to the Management Board and, subsequently, to the Chairman of the Supervisory Board. The Chairman of the Supervisory Board 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 GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft as Auditor of the annual accounts 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 (risk governance) and risk assessment and identification procedures. In addition, it analyzed risk analysis and evaluation practice and risk monitoring and reporting within the

FEES PAID TO THE BANK AUDITOR

€k	2014	2013
Fees for statutory audits	353	353
Other fees	109	92
Total fees	462	445

scope of risk management. The report by the Auditor of the annual accounts on the effectiveness of the Risk Management System as of the cut-off date of 31 August 2014 was submitted to the Chairman of the Supervisory Board and discussed in detail at the plenary meeting of the Supervisory Board.

In conformity with C Rule 18 of the ÖCGK and in accordance with BWG, BKS Bank maintained an Internal Audit unit. This unit acted on the basis of an auditing plan approved by the Management Board and coordinated with the Audit Committee and the plenary meeting of the Supervisory Board. Internal Audit's activities comprised the group-wide assessment of the risks associated with all of the enterprise's activities and operational processes, identifying ways of increasing efficiency and monitoring adherence to legal provisions and internal guidance. In addition, in recent years, we have continued to develop our internal control system (ICS) for the early detection and monitoring of risks as well as introducing new initiatives and evaluating their implementation. The focuses of the unit's duties within the scope of the ICS during the year under review were the carrying out of a group-wide assessment of operational risks and the application of regulatory requirements regarding money laundering, terrorism financing and compliance.

Accounting and Disclosure Policies

BKS Bank AG, which is a listed company, prepared its Consolidated Financial Statements and the abridged Consolidated Interim Report contained in the Semi-Annual Financial Report in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. The BKS Bank Group's financial reports present fairly, in all material respects, its assets, liabilities, financial position and profit or loss. The company presented an adequate analysis of the course of business in the Consolidated Management Report, in which it described the material financial and non-financial risks and uncertainties to which the enterprise was exposed and the most important features of the internal control system and risk management system for the purposes of the financial reporting process. The detailed Risk Report, which provides information about the enterprise's responsible handling of the different kinds of risk, can be found from page 100 of this Annual Report. The separate Financial Statements of BKS Bank AG were prepared in conformity with the requirements of the *Unternehmensgesetzbuch* (UGB: Austrian enterprises code). The Consolidated Financial Statements and the financial statements of the AG (stock corporation) were prepared by the company, audited by the Auditor of the annual accounts elected by the General Meeting and approved and adopted by the Supervisory Board.

Annual financial reports are published not later than four months after the end of the reporting period, semi-annual financial reports not later than two months thereafter and quarterly reports on the first and third quarter not later than 60 days thereafter. In the annual and interim reports, the Management Board elucidates material changes and deviations from plans as well as their causes and impact in the current and/or following financial year as well as material deviations from previously published revenue and profit goals and strategic objectives. The Financial Calendars for the current and following year are published in the financial reports and the Internet in accordance with the regulations. They contain all the publication dates that are of importance for financial communication purposes as well as the date of the next Ordinary General Meeting.

Financial reports, *ad hoc* reports and other enterprise information are kept publicly accessible for at least five years via the website at www.bks.at and the Issuer Information Center of *Oesterreichische Kontrollbank AG* (<http://issuerinfo.oekb.at>). We refer you to the chapter on 'Investor Relations Communication' from page 49 of this Annual Report for further details of the relationships between BKS Bank and its equity holders and stakeholders.

Measures for the Advancement of Women

In conformity with R Rule 42 of the ÖCGK and § 243b Abs. 2 Z 2 UGB and allowing for the duties of the Nominations Committee vis-à-vis the underrepresented sex in Management and the Supervisory Board as laid down in § 29 BWG, BKS Bank strives to play a pioneering role by taking sufficient account of women when putting together the Management Board and filling management positions and when making proposals for the election of Supervisory Board members.

The goals of our *Frauen.Perspektiven.Zukunft* (Women.Prospects.Future) qualifications improvement programme were to instil enthusiasm for a future in management in every outstandingly talented woman and prepare them for that role and to raise the female to male ratio in management to 35 per cent by 2020. The steadily rising number of female employees with the requisite expertise that we were able to recruit for posts in middle and senior management gives us confidence.

One essential measure on the way to achieving this goal has proven to be the agreement of life phase orientated working time models. As actual practice has shown, they help combine having a family with having a career and give our employees greater flexibility and freedom of choice in their personal life situations. In line with this vision, BKS Bank decided back in 2010 to undergo a *berufundfamilie* 'JobAndFamily' audit and was awarded a basic certificate by the Austrian Federal Ministry of Economy, Family and Youth in November 2010. Our bank then underwent a re-audit with ISCON in 2013 and has, since then, been permitted to continue to display this certificate. BKS Bank offers its employees various kinds of support designed to additionally motivate them and thus to further their careers. Our female employees in particular benefit from flexible flexitime models, extensive basic and further training during working hours, childcare for small children in the *Kinki* crèche, made-to-measure holiday offerings for employees' children, the deliberate encouragement of fatherhood leave and, not least, help taking care of relatives. Our bank spends considerable amounts on these initiatives.

The proportion of female staff at BKS Bank has risen steadily in recent years and came to 57.7 per cent at the end of the period under review. Although in the past every member of staff was given the same career opportunities when management positions were filled, regardless of their sex, age or cultural background, the number of women in management positions group-wide was still lower than that of men in the year under review, coming to 49 out of 158 people. That translates into a ratio of 31 per cent. Three management positions were newly filled with women in 2014. In line with the 'equal pay for equal work' principle, we attached a great deal of importance to eliminating the unjustified pay gap between male and female colleagues that still existed. Moreover, in our view, the average retirement age of our female employees should steadily be increased to 60. We came a big step closer to that goal in 2014, when the average retirement age of women was higher than ever before at nearly 59. This compared with 57.3 in 2013.

31%

THE FILLING OF SENIOR POSITIONS WITH WOMEN

At 31 December 2014	No. of Women	Ratio	No. of Men	Ratio
Management Board	1	33%	2	67%
Supervisory Board (representatives of the equity holders)	2	20%	8	80%
Supervisory Board (staff representatives)	2	40%	3	60%
Other senior positions	48	31%	107	69%

Since March 2014, the proportion of women on the Management Board has been one third. We cannot yet foresee when another woman might join the Management Board as enlarging the Management Board does not seem necessary for the time being, Heimo Penker having resigned at the end of February.

After the election of Sabine Urnik, women made up 27 per cent of the representatives of the equity holders and employees on BKS Bank's Supervisory Board, compared with 20 per cent in 2013. By taking this step, the Supervisory Board's Nominations Committee sent out a clear signal in the spirit of the amendment to BWG that entered into force at the beginning of 2014 and required it to set a target ratio for the underrepresented sex. In future, qualified women will continue to be included in the selection process when prospective candidates are examined for new appointments to the Supervisory Board or when re-filling vacant posts and when candidates are proposed to the General Meeting. The target for female representative of the equity holders on the Supervisory Board favoured by the Nominations Committee for the next five years is 30 per cent. The Chairwoman of the Central Staff Council believes that there are a sufficient number of female staff representatives at the moment and that a ratio of 40 to 50 per cent is realistic in the medium term.

Klagenfurt am Wörthersee
March 2015



Chairwoman of the Management Board
Herta Stockbauer



Member of the Management Board
Dieter Krassnitzer



Member of the Management Board
Wolfgang Mandl

CORPORATE GOVERNANCE INFORMATION ABOUT BKS BANK IN THE INTERNET

Austrian Code of Corporate Governance

<http://www.corporate-governance.at>

BKS Bank's Shares

http://www.bks.at/BKSWebp/BKS/bks_at/UEBER_UNN/Investor_Relations/BKS_Bank_Aktie/index.jsp

Shareholder Structure

http://www.bks.at/BKSWebp/BKS/bks_at/UEBER_UNN/Investor_Relations/Aktionaersstruktur/index.jsp

Calendar for Shareholders

http://www.bks.at/BKSWebp/BKS/bks_at/UEBER_UNN/Investor_Relations/Aktionaerstermine/index.jsp

Ordinary General Meeting

http://www.bks.at/BKSWebp/BKS/bks_at/UEBER_UNN/Investor_Relations/Hauptversammlung_/index.jsp

BKS Bank AG's Declaration of Commitment

Guidance on Independence

Publications about Corporate Governance and Remunerations Required by § 65a BWG

Memorandum and Articles of Association of BKS Bank

http://www.bks.at/BKSWebp/BKS/bks_at/UEBER_UNN/Investor_Relations/Corporate_Governance/index.jsp

BKS Bank's Business, Financial and Sustainability Reports

Information Required by the Disclosure Directive

http://www.bks.at/BKSWebp/BKS/bks_at/UEBER_UNN/Investor_Relations/Berichte_Veroeffentlichungen/index.jsp

OeKB Issuer Information Center

(central archive of information about Austrian issuers required by § 86 BörseG.)

<http://issuerinfo.oekb.at/startpage.html>

BKS Bank's Press Releases

http://www.bks.at/BKSWebp/BKS/bks_at/UEBER_UNN/Newsroom/index.jsp

COMPLIANCE AND AML INFORMATION ABOUT BKS BANK IN THE INTERNET

AML Declaration

Banking licence

USA Patriot Act Certification

Wolfsberg Questionnaire of BKS Bank AG

W-8BEN-E

http://www.bks.at/BKSWebp/BKS/bks_at/UEBER_UNN/Investor_Relations/Compliance_Information/index.jsp

Investor Relations

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BKS Bank's Shares

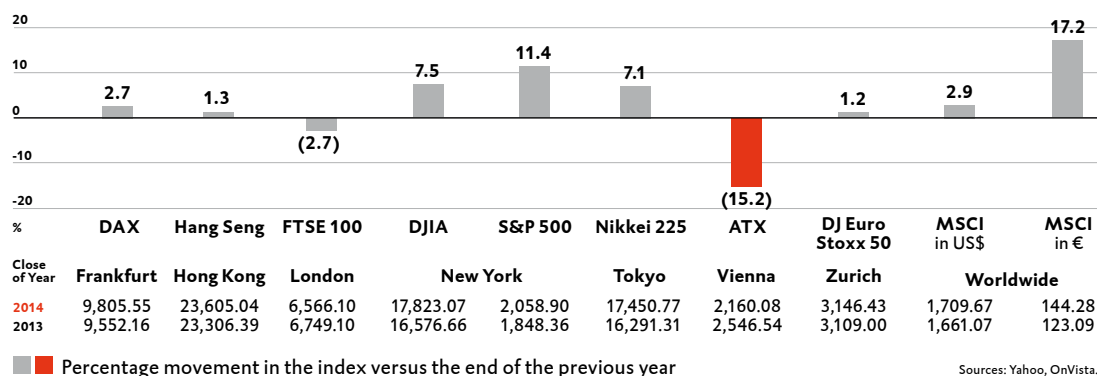
The international financial markets come under pressure

The performances of the international stock exchanges differed during the year under review against the backdrop of escalating geopolitical tensions in Eastern Europe, North Africa and the Middle East and the mixed economic and corporate data coming out of the different economic regions. However, overall, their performance was positive. This was above all thanks to an increase in investor confidence and the still loose monetary policies of the big central banks. Historically low interest rates prompted market participants to invest more in riskier forms of investment like shares, corporate bonds and the government bonds of peripheral European countries. The positive underlying mood that still prevailed until mid-year on the back of solid fundamental data in the stock markets changed into burgeoning panic that a collapse of the global economy might be impending following the publication of disappointing company reports, the imposition of tougher economic sanctions against Russia and the rapid drop in oil prices. However, after sobering corrections that were particularly marked at the end of July and in the first half of October, the big stock exchanges recovered comparatively quickly following intervention by the central banks and reached a series of new all-time highs. Looking at individual sectors, most saw positive performance, especially in the health and utilities industries. On the other hand, there were sizeable price losses in the crude oil, natural gas and telecommunication industries.

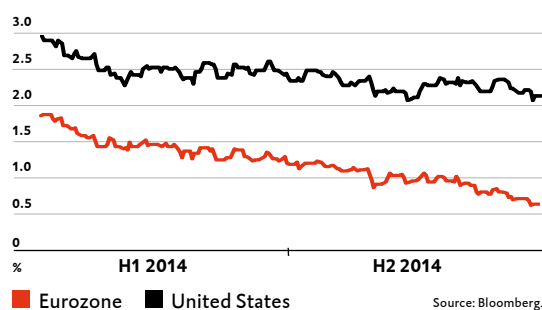
The MSCI World Equity Index in euros gained 17.2 per cent, and its U.S. dollar equivalent gained 2.9 per cent. Both indices followed a trend coming out of the United States that was being fuelled by expectations of a gradual tapering of bond purchases by the Federal Reserve System and positive stimulus from the U.S. labour market and demand. In the course of the year, the Dow Jones Industrial Average gained 7.5 per cent to 17,823.07 points, and the broader S&P 500 gained 11.4 per cent to 2,058.90 points. Share prices in the eurozone measured in terms of the Euro Stoxx 50—the monetary union's key index—rose by 1.2 per cent to 3,146.43 points. Having started the year at 9,552.16 points, the DAX passed the 10,000 points mark for the first time on 2 December and closed the stock market year at 9,805.55 points. On the Vienna Stock Exchange, the bank-heavy ATX stood at just 2,160.08 points at year-end, or 15.2 per cent down on the end of 2013.

Looking at the money markets, the ECB (which is orientated towards preserving price stability), the Federal Reserve System in the United States and Japan's central bank all focused on further loosening their monetary policies. During the period under review, the interest rate on main refinancing operations in the euro system fell to 0.15 per cent and the peak refinancing rate fell to 0.40 per cent. The deposit facility rate was cut to minus 0.10 per cent, underlining the precarious monetary and economic policy situation. Moreover, to anchor the medium-term to long-term inflation outlook, with rates of inflation close to 2 per cent being predicted, the ECB Council decided to purchase covered bonds and asset backed securities and to execute targeted refinancing transactions in the period until June 2016. In the United States, the Federal Reserve's Open Market Committee announced on 17 September 2014 that it would be tapering its monthly securities purchases to just US\$15 billion to reflect the trend towards a more balanced economic outlook. In effect, America's central bank ended the tapering process altogether in October but confirmed that it would for some time to come be leaving its overnight interest rate in the target range of between zero and 0.25 per cent. This rate has applied since December 2008. In contrast, at the end of October, the Bank of Japan (BoJ) announced that it would be extending its quantitative and qualitative easing programme. To defend its inflation target of 2 per cent, it plans to increase the money supply by ¥80 billion a year.

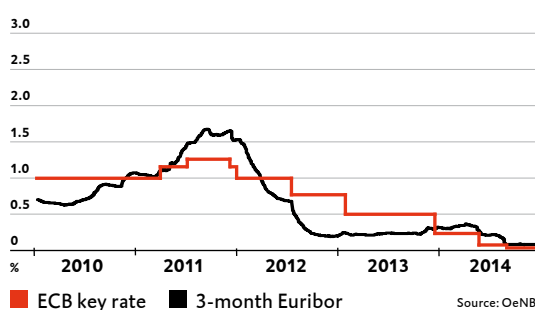
PERFORMANCE OF KEY STOCK INDICES



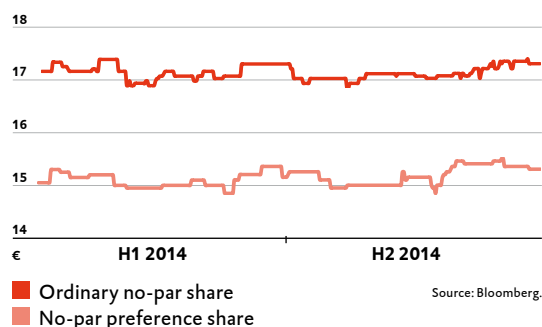
LONG-TERM GOVERNMENT BOND YIELDS



EURO INTEREST RATES



PERFORMANCE OF BKS BANK'S SHARES



PERFORMANCE OF THE EQUITY MARKETS



BASIC INFORMATION ABOUT BKS BANK'S SHARES

	2014	2013	2012
Ordinary no-par shares in issue (ISIN AT0000624705)	34,236,000	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, €	17.8/15.6	17.6/15.3	17.6/15.5
Low: ordinary/preference share, €	16.9/14.9	17.0/14.5	17.2/14.9
Closing price: ordinary/preference share, €	17.3/15.3	17.5/15.3	17.3/15.0
Market capitalization, €m	619.8	569.3	562.6
IFRS earnings per share in issue, €	1.42	1.26	1.34
Dividend per share, €	0.23 ¹	0.25	0.25
P/E: ordinary/preference share	13.4/11.8	14.1/12.3	13.1/11.4
Dividend yield: ordinary no-par share, %	1.33	1.43	1.45
Dividend yield: no-par preference share, %	1.50	1.63	1.67

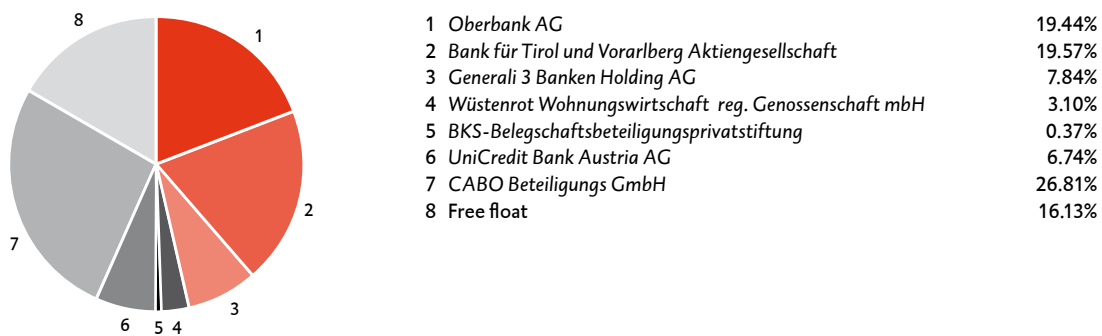
¹ Proposal to the 76th Ordinary General Meeting on 20 May 2015.

At the end of December, the one-month, three-month, six-month and 12-month Euribor rates were 0.018 per cent, 0.078 per cent, 0.171 per cent and 0.325 per cent, respectively. In each case, this was about 20 basis points less than at the beginning of the year. Benchmark yields on 10-year government bonds fell by about 140 basis points to a historical low of 0.54 per cent in the eurozone, and they fell by 86 basis points to 2.17 per cent in the United States and by 30 basis points to just 0.33 per cent in Japan. At the close of 2014, the yields on 10-year government bonds in the individual countries in the eurozone ranged between 0.54 per cent in Germany and 8.12 per cent in Greece.

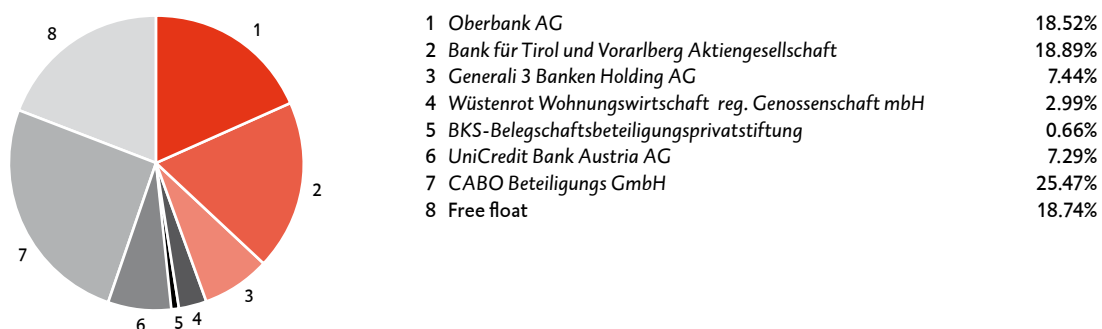
A stable shareholder structure and solid sustainable performance

After the 1-for-10 share capital increase in October 2014, BKS Bank AG's subscribed share capital of €72,072,000 was represented by 34,236,000 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 represented 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 were 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 were traded in the *Standard Market Auction* segment. As stated in the explanation of non-compliance with C Rule 2 of BKS Bank's Code of Corporate Governance, the preference shares represent an exception from the 'one share one vote' principle in that the Memorandum and Articles of Association give them preferential treatment during the distribution of dividends. The 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 they represent and must always be distributed 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. Details

SHAREHOLDER STRUCTURE OF BKS BANK BY VOTING INTEREST



SHAREHOLDER STRUCTURE OF BKS BANK BY EQUITY INTEREST



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

are contained in the Memorandum and Articles of Association of BKS Bank published on the website at www.bks.at. Click on Investor Relations » Corporate Governance.

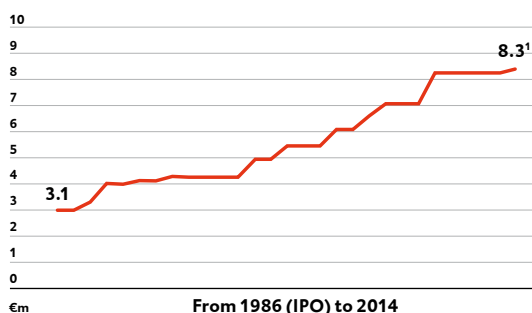
To date, BKS Bank's stable shareholder structure has enabled us to actively steer the enterprise's long-term positive development without outside interference. At the end of 2014, a syndicated stake of roughly 46.9 per cent in our ordinary no-par shares was held by our major shareholders *Oberbank AG*, *Bank für Tirol und Vorarlberg Aktiengesellschaft* and *Generali 3 Banken Holding AG*. During the year under review, the UniCredit Group diluted its voting interest from 37.1 per cent to 33.6 per cent by not exercising its subscription rights. *Wüstenrot Wohnungswirtschaft reg. Gen. mbH* accounted for another 3.1 per cent. The remaining ordinary no-par shares were held predominantly by private investors and institutional investors close to our bank. We are pleased to welcome over 700 new shareholders who made use of the public follow-up offering during our recent capital increase, expanding the free float to 16.13 per cent of the voting rights.

At the reporting date of 31 December 2014, *Oberbank AG* held an equity interest of 18.52 per cent, *Bank für Tirol und Vorarlberg Aktiengesellschaft* held an equity interest of 18.89 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 7.29 per cent directly, but including the stake of 25.47 per cent held by *CABO Beteiligungsgesellschaft mbH*, its equity interest totalled 32.76 per cent. *Wüstenrot Wohnungswirtschaft reg. Gen. mbH* held 2.99 per cent, and free float accounted for the rest 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 were 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 360,072 ordinary no-par shares and 126,843 no-par preference shares.

Another tranche of 8,852 shares was sold to employees of our bank as part of a staff share ownership scheme at a unit price of €17.30 out of the shares purchased within the scope of the stock repurchasing plan that was publicly announced in 2013 (between 19 June 2013 and 24 June 2013, our bank acquired a total of 100,000 ordinary shares—either on the stock exchange or over the counter—corresponding to 0.31 per cent of the share capital at the time). This compared with 29,702 shares in 2013. Consequently, at the end of 2014, 61,446 of *BKS Bank AG*'s ordinary shares in issue had been allocated to this scheme. *Inter alia*, further information about *BKS Bank*'s shareholder structure is provided on page 54 of the Consolidated Management Report and on the website at www.bks.at. Click on Investor Relations » Shareholder Structure.

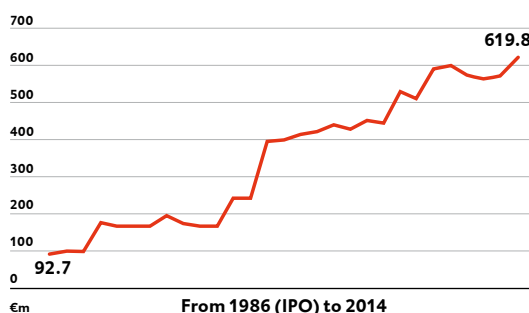
To date, *BKS Bank* has thrived on its tradition of increasing its enterprise value on a long-term and sustainable basis and, consequently, of generating value added for its equity holders and stakeholders.

DIVIDENDS PAID ON BKS BANK'S SHARES



¹ Proposal to the 76th Ordinary General Meeting.

MARKET CAPITALIZATION OF BKS BANK'S SHARES



This is a binding commitment that has since the bank's IPO in 1986 been manifested in a rise in the annual dividend distribution and in a significant increase in market capitalization from the equivalent of roughly €92.7 million at that time to €619.8 million at the end of 2014. The annual average return up to the end of the 2014 reporting year on a BKS ordinary no-par 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 6.1 per cent¹.

The ordinary and preference shares, which were listed in the *Auction Market Segment* on the Vienna Stock Exchange, continued to perform well during the year under review. However, in the final analysis, they were unable to escape the effects of the downtrend in the Viennese stock market, which is narrow. The ordinary no-par share peaked at €17.8 during 2014 and closed the year at €17.3. The prices of the no-par preference share, which closed the year at €15.3, moved within a small range during 2014. IFRS per-share earnings were €0.16 up on 2013 to €1.42. The P/E ratio of the ordinary no-par share based on its year-end price was 13.4. That of the no-par preference share was 11.8.

Resolutions Passed at the 75th Ordinary General Meeting

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

Roughly 90 per cent of the voting stock was represented at the 75th Ordinary General Meeting of BKS Bank AG held on 15 May 2014, and the voting presence of the free float equity holders was about 22 per cent. The audience took note of the Annual Financial Statements and Consolidated Financial Statements for the 2013 financial year together with the Supervisory Board's Report and the Corporate Governance Report. The discharge from liability of the members of the Management Board and the members of the Supervisory Board in respect of the 2013 financial year that then followed in separate ballots and voting on the appropriation of net profit for the 2013 financial year and the election of KPMG Austria AG, *Wirtschaftsprüfungs- und Steuerberatungs AG* as Bank Auditor for the 2015 financial year were all unanimous. In addition, the shareholders adopted the recommendation to distribute a dividend of €0.25 per share from the net profit reported as at 31 December 2013. 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. It was also agreed that the remaining profit should be carried forward to a new account subject to § 65 Abs 5 Aktengesetz. The dividend payment date was 22 May 2014. The General Meeting also approved the re-election of Supervisory Board member Josef Korak and the fresh election of Heimo Penker and Sabine Urnik to the Supervisory Board for the maximum period permitted by the Memorandum and Articles of Association. In addition, it unanimously passed the motion to amend the remunerations of the members of the Supervisory Board. Two motions dealing with acquiring the company's own shares (authorization of the Management Board to acquire the Company's own shares in an amount of up to 5 per cent of the Company's share capital for securities trading purposes in conformity with § 65 Abs 1 Z 7 AktG and to acquire the Company's own shares up to the legally permitted maximum for no specific purpose in conformity with § 65 Abs 1 Z 8 AktG) were passed unanimously. The decision to acquire the Company's own shares in conformity with § 65 Abs 1 Z 4 AktG up to the legally permitted amount for the purpose of offering them to employees, key management personnel and members of the Management Board and Supervisory Board of BKS Bank or an entity related to it was unanimous.

¹ Taking into account all changes in nominal capital, dividend distributions and price movements that had taken place since that time (Source: Bloomberg).

Profit Appropriation Proposal

A per share dividend in line with our profit

The proposal to the General Meeting regarding the appropriation of net profit was geared to achieving a balance between the strengthening of the enterprise's equity base that is desirable for regulatory purposes and a reasonable payment to the shareholders. In conformity with this dividend policy paradigm, we will be recommending to the shareholders of BKS Bank at the 76th Ordinary General Meeting on 20 May 2015 that a dividend of €0.23 per share be paid out of BKS Bank AG's net profit for the 2014 financial year of €8,447,565.26. Given a total of 34,236,000 ordinary no-par shares and 1,800,000 no-par preference shares, this would result in a total distribution of €8,288,280. Based on their prices at the end of 2014, this corresponds to a return of 1.33 per cent on the ordinary no-par shares and 1.50 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 41.7 per cent.

8,288,280

Investor Relations Communication

To continue to strengthen confidence in our bank and in the interests of fair disclosure, we gave our shareholders, employees and customers, the media and interested members of the public close-to-real-time and detailed information about BKS Bank's position. Information about its financial position and profit or loss was provided during press conferences and at least four times a year by way of Shareholders Letters. In addition, news about the enterprise that was of relevance to its share prices was published in the form of *ad hoc* reports in order to ensure that our shareholders were treated equally. The preferred Internet platform for all enterprise information of relevance for corporate governance purposes was the website at www.bks.at. Click on Investor Relations. As we have already mentioned in the Corporate Governance Report, regular reportable publications required under the *ad hoc* criteria set out in the EU Transparency Directive were also available from OeKB's Issuer Information Upload Platform, from the APA-OTS *euro adhoc* service and via *presstext*. They mainly comprised 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 planned new bond issuances, planned changes to important investment thresholds and other capital-related measures that required disclosure. Supplementary information about the enterprise, such as the contents of press releases, is published on BKS Bank's website. Click on Newsroom » BKS News.

Looking back, 2014 was a year replete with challenging issues. Communication with representatives of the media, private and institutional customers and interested investors focused on the business performance of our bank and the 3 *Banken* Group in the persistent low interest rates environment and on the increase in share capital that we had carried out. Changing conditions in the financial sector following the costly and personnel intensive application of Basel III came up several times, as did the explosive issue of the remaining Swiss franc loans in our portfolio (where we were energetically urging people to switch to euro loans as soon as possible).

As a modern multi-channel bank, we too had a presence in the social media world. This means that our customers could choose around the clock when and how to contact BKS Bank using the Facebook,

XING and Twitter platforms. Subscribers could discuss, like and share company and product information, topics in the financial world, recommendations and services.

BKS Bank's annual detailed Corporate Responsibility Report explains how we lived out the principle of sustained corporate responsibility, how this tenet found expression in our business policy, business processes and the treatment of employees and stakeholders and within the scope of BKS Bank's social commitment and how, therefore, our actions took account of the ten principles contained in the UN Global Compact (UNGC). We signed this initiative along with many prestigious Austrian and globally active companies. The Sustainability Report is available as a download in the Internet at www.bks.at. Click on Investor Relations » Berichte und Veröffentlichungen.

FINANCIAL CALENDAR FOR 2015

Date(s)	Event/Publication
13 February – 30 March 2015	Quiet period
30 March 2015	Press conference to present the Annual Financial Statements for 2014
31 March 2015	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2014 in the Internet and in the official <i>Wiener Zeitung</i> gazette
1 – 22 May 2015	Quiet period
20 May 2015	76 th Ordinary General Meeting
22 May 2015	Ex-dividend date
22 May 2015	Interim Report as at and for the 3 months ended 31 March 2015
26 May 2015	Dividend payment date
31 July – 21 August 2015	Quiet period
21 August 2015	Semi-Annual Report
6 – 27 November 2015	Quiet period
27 November 2015	Interim Report as at and for the 9 months ended 30 September 2015

INVESTOR RELATIONS CONTACT

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

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Management and Shareholder Structure

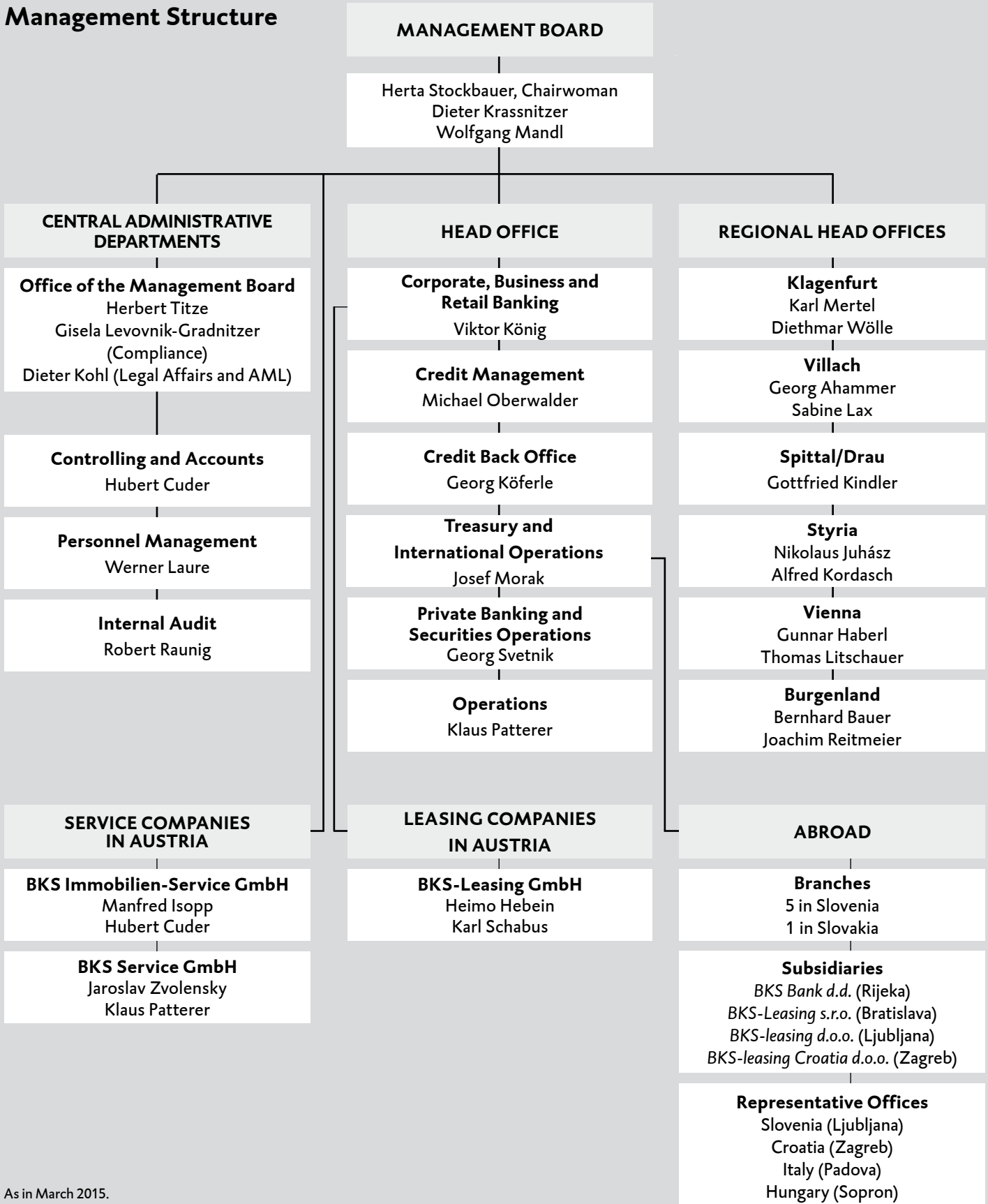
The Members of the Supervisory Board and its Committees

HONORARY PRESIDENTS		
<p>Hermann Bell Heinrich Treichl †</p>		
REPRESENTATIVES OF THE EQUITY HOLDERS	STAFF REPRESENTATIVES	REPRESENTATIVES OF THE REGULATORY AUTHORITY
<p>Peter Gaugg Chairman Franz Gasselsberger Vice-Chairman</p> <p>Christina Fromme-Knoch Reinhard Iro Waldemar Jud Dietrich Karner Josef Korak Heimo Penker Karl Samstag Sabine Urnik</p>	<p>Maximilian Medwed Herta Pobaschnig Manfred Suntinger Hanspeter Traar Gertrude Wolf</p>	<p>Alois Schneebauer <i>Ministerialrat</i></p> <p>Richard Warnung <i>Ministerialrat</i></p>
SUPERVISORY BOARD COMMITTEES		
<p>Audit Committee Peter Gaugg, Chairman Franz Gasselsberger Waldemar Jud Dietrich Karner Maximilian Medwed Herta Pobaschnig</p>	<p>Working Committee Peter Gaugg, Chairman Franz Gasselsberger Heimo Penker Herta Pobaschnig Hanspeter Traar</p>	<p>Risk and Credit Committee Peter Gaugg, Chairman Franz Gasselsberger Heimo Penker Herta Pobaschnig Hanspeter Traar</p>
	<p>Nominations Committee Peter Gaugg, Chairman Heimo Penker</p>	<p>Remuneration Committee Peter Gaugg, Chairman Dietrich Karner Heimo Penker Herta Pobaschnig</p>

As in March 2015.

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 of this report on *Corporate Governance* from page 23.

Management Structure



As in March 2015.

BKS Bank's shareholder structure

After the 1-for-10 increase in share capital in October 2014, BKS Bank had share capital of €72,072,000 represented by 34,236,000 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, the computed nominal value of each share is therefore €2. This figure 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 were traded in the Vienna Stock Exchange's *Standard Market Auction* segment. At the end of 2014, BKS Bank's market capitalization was €619.8 million.

Institutional investors with positions at the end of 2014 in excess of the legal reporting threshold of 5 per cent accounted for roughly 80.4 per cent of the voting rights. Approximately 39 per cent thereof was accounted for by our two sister banks—*Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft*—and *Generali 3 Banken Holding AG* accounted for roughly 7.8 per cent. These three shareholders had contributed their shareholdings to a syndicate that owned 46.8 per cent of the voting rights. The largest single indirect equity holder with a stake of roughly 33.5 per cent was Italy's *UniCredit S.p.A. Holding*, whose Austrian group subsidiaries *UniCredit Bank Austria AG* and *CABO Beteiligungs GmbH* held 6.7 per cent and 26.8 per cent, respectively, of our ordinary no-par shares at the end of 2014. *Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH* held a stake of 3.1 per cent. The free float held by corporates, institutional investors and private shareholders accounted for 16.1 per cent of the voting share capital. *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 125,104 ordinary no-par shares at the end of the year under review. This translates into a voting interest of about 0.4 per cent. At the end of the year under review, BKS Bank's portfolio contained 421,518 ordinary no-par shares and 126,843 no-par preference shares.

The Economic Environment

A fragile economic recovery

The world economy's performance remained volatile and restrained during the first half of 2014. According to estimates by the European Commission, the global economy did not live up to expectations, growing by 3.3 per cent in real terms over the year as a whole. The pace of growth was slowed significantly by the weak expansion of world trade in the wake of heightened geopolitical tensions and the need for fiscal consolidation in many OECD countries. In the emerging markets—and, above all, in those of Latin America—economic expansion was held back by financial and macroeconomic imbalances. The U.S. central bank's announcements during the year of its intention to gradually cut purchases of government bonds and asset backed securities affected currencies and growth as concern developed that the interest rates turnaround could be brought forward. Despite growing worries about its financial stability, China's real GDP grew by 7.4 per cent, following real growth of 7.6 per cent in 2013. On the other hand, the Japanese economy, which was hampered by a fiscally induced slump in domestic demand, grew by just 0.4 per cent in 2014.

U.S. economists still registered a real decline in GDP of 0.5 per cent in the first quarter of 2014 following an unusually harsh winter. However, under the pull of a strong economic upturn driven by both

domestic and foreign demand, the U.S. economy was already coming out of the economic shadows in the second quarter. On the wings of the U.S. central bank's largely unchanged expansionary monetary policy, the principal sources of economic stimulus were private consumption, gross fixed capital formation and inventory investment. Moreover, private consumption received additional stimulus from gains on investments, the improving state of the labour market and, not least, the perceptible drop in fuel prices that began in the summer months. Against the backdrop of increasingly friendly economic outlooks with expectations of a 2.4 per cent real increase in U.S. GDP over the year as a whole, the Federal Reserve's Open Market Committee announced at the end of October that it would, as expected, be terminating its quantitative easing (QE3) securities purchasing programme. However, the federal funds rate remained close to zero, and a gradual hike in the key rate is not to be expected before the middle of 2015. Thanks to a rise in the number of jobs, the jobless rate in the United States—which had still been 7.8 per cent at the start of the third round of monetary easing—had fallen to 5.6 per cent by the end of December.

The eurozone did not enjoy the expected broad, export-driven recovery in 2014. Above all, demand from South American, Eastern Asian and Eastern European threshold countries declined. In addition, trading relations with Russia suffered from the spiral of sanctions and trade embargoes in the wake of the annexation of the Crimea and the conflicts in eastern Ukraine. Germany's was the only one of the big eurozone economies to expand, resulting in domestically driven real GDP growth of 1.5 per cent. In contrast, the other two big eurozone economies—those of France and Italy—grew by just 0.4 per cent and negative 0.5 per cent, respectively, versus 2013. In other words, they were still racked by economic weakness. The strongest performers among the EU countries of relevance to BKS Bank's international operations were Slovenia—which emerged from the shadows of the recession in 2014—and Slovakia. They showed real GDP growth of 2.6 per cent and 2.4 per cent, respectively. In contrast, Croatia, which is plagued by structural and fiscal problems, failed to exit a recession that has now lasted for six years after suffering another drop of 0.5 per cent in its real GDP in 2014. Overall, the eurozone recorded a modest advance in GDP of roughly 0.8 per cent, compared with a decline of 0.5 per cent in 2013. One contributing factor was the ECB's 'accommodating' monetary policy measures. With growth momentum weak and inflationary prospects subdued, it cut key interest rates further, taking them close to zero. A general improvement was apparent in the eurozone's job markets during 2014, albeit with variations from one country to the next. The jobless rate in the EU-18 fell to 11.6 per cent from 12.0 per cent in 2013, and the Europe-wide rate was 10.2 per cent (2013: 10.8 per cent). Eurostat estimates that a total of 18.1 million men and women were jobless in the eurozone at the end of 2014. The Greek and Spanish jobless rates of 26.6 per cent and 24.3 per cent, respectively, were both depressing and challenging, as was the high level of youth unemployment across the eurozone, which came to 23.0 per cent. It affected roughly 3.3 million people under the age of 25.

As for bilateral exchange rates, the euro lost a great deal of ground against the currencies of the eurozone's main trading partners between the beginning of 2014 and the close of the period under review. Among other things, more pessimistic expectations regarding the ECB's future monetary policy and poor economic forecasts for the eurozone led to 12.0 per cent depreciation of the euro to US\$1.2141 by the end of the year. At the same time, the euro weakened by 6.6 per cent versus sterling to £0.7823 and by 9.7 per cent versus the Chinese renminbi yuan to CNY 7.5442. By the end of October, the euro had fallen by 6.7 per cent versus the Japanese yen to ¥1.4472/€. However, once the Japanese national bank had announced that it would be effecting further monetary policy loosening, the euro firmed up to stand at ¥1.4523/€ at the end of December. In contrast, it gained 59.6 per cent versus the Russian ruble (RUB), which lost value drastically from October. The exchange rate of the Swiss franc—which has, since 15 January 2015, no longer been subject to the minimum exchange rate against the euro in place since September 2011 following the Swiss National Bank's sudden paradigm shift—continued to

move within a narrow range during the year under review, resulting in a rate of SFr 1.2024/€ at the end of December. The Croatian kuna, which is of importance to our bank, was trading at HRK 7.6425/€ at year-end, compared with HRK 7.6265/€ at the beginning of 2014.

The price of a barrel of Brent crude held steady at about US\$110 until the middle of 2014. However, following a June peak of US\$115.01 a barrel, it began a damaging slide despite the geopolitical crises in the Ukraine, North Africa and the Middle East. This was in the wake of a substantial increase in shale oil and gas production in North America and after the OPEC oil cartel had failed to send out any signals that it would be cutting production. Because of the global glut and the waning pace of growth in China, the dramatic drop in the price of oil, which has already proven ruinous for a number of oil producing countries, lasted beyond the end of 2014. At the end of December, Brent crude was trading at just US\$57.56 a barrel, which was roughly 50 per cent less than at the beginning of the year. A barrel of the American reference WTI Cushing crude bottomed out at US\$53.81 as barrel. Similarly, other commodity segments like industrial metals also showed supply surpluses, some of which were large. As for the 'crisis currency' gold, it came under pressure because of the strengthening U.S. economy and the foreseeable end of the flood of cheap central bank money. For many investors, this diminished its attractiveness as a shield against inflation. The spot price of a fine ounce was US\$1,183.40 at the end of December, compared with US\$1,208.1 at the beginning of the year.

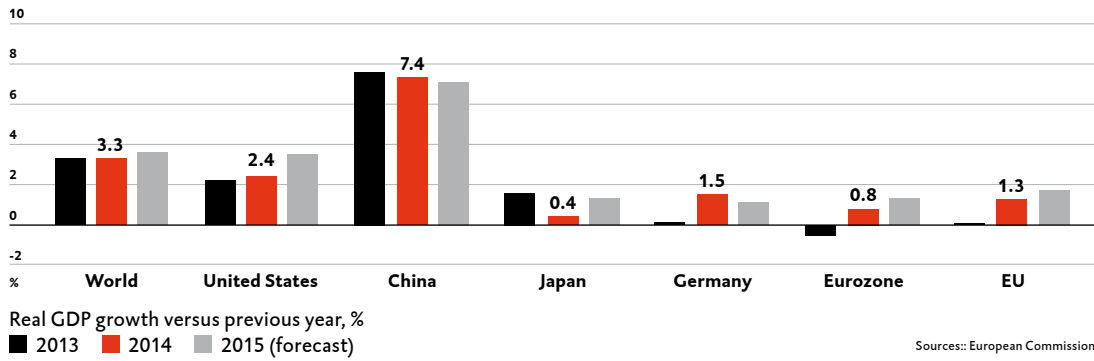
The economic recovery in Austria slackens

According to WIFO research, the Austrian economy was already beginning to stagnate in the spring of 2014, and during the year under review, it apparently lost its previous positive growth differential versus the rest of the eurozone. The economy's weakness, which was reflected by a modest increase in real GDP of just 0.2 per cent, was due on the one hand to a real advance in capital expenditure on plant and machinery that was small by pre-crisis standards, at just 3.2 per cent, and on the other to the subdued growth of export demand, which increased by 0.1 per cent in real terms. Austria's five most important trading partners—Germany, Italy, the United States, Switzerland and France—accounted for roughly half of its exports during 2014. It is encouraging that the country's export-orientated companies were as a rule still able to stand their ground well in all the important markets thanks to their competitive product lines, low indebtedness and balanced price/cost structures. However, the severity of the Ukraine conflict in particular prompted companies to postpone investment plans. The investment climate was nonetheless improved by residential construction investment, which continued to follow the rise in property prices and the increase in the demand for homes. Having fallen by 0.1 per cent in 2013, private demand increased marginally, advancing by 0.4 per cent in real terms. On the other hand, the modest growth in real incomes left little leeway for additional private consumer spending. The economic upturn was still too weak to trigger a substantial improvement in the labour market. The seasonally adjusted jobless rate calculated by *Arbeitsmarktservice* (AMS: Austria's labour market service) was 7.6 per cent of the workforce in 2014. Applying the *Eurostat* definition, the rate increased from 4.9 per cent in 2013 to 5.0 per cent in 2014. According to *Statistik Austria*, the average rate of inflation in Austria was 1.5 per cent in 2014. In other words, the rate of inflation in Austria was well above the eurozone average of 0.5 per cent despite the slow pace of economic growth. This was primarily because of increases in the cost of services and high tax burdens.

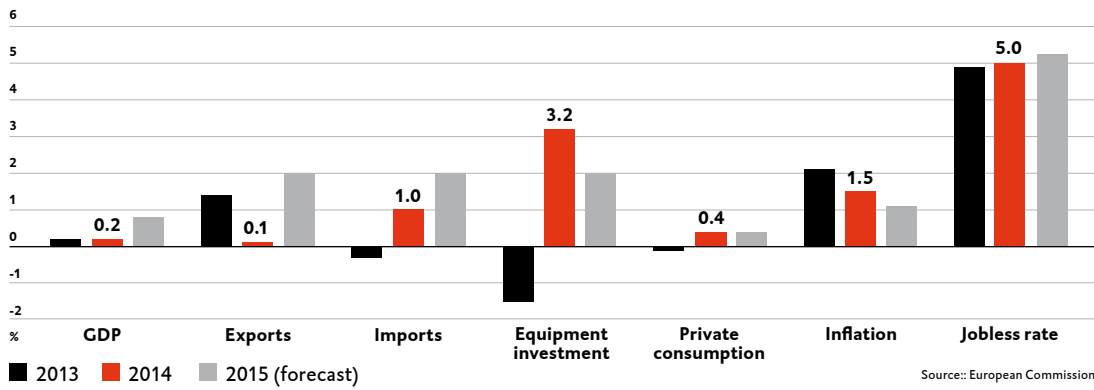
A challenging 2014 banking year

The eurozone's banking sector underwent further far-reaching structural change in 2014 in the wake of its crisis-ridden business performance in recent years and the extensive regulatory requirements

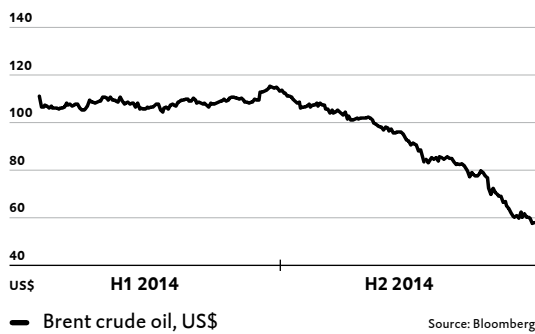
THE INTERNATIONAL ECONOMY



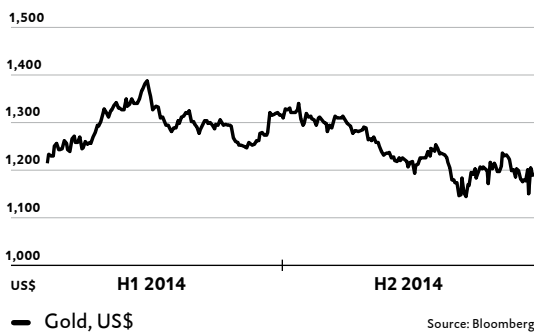
ECONOMIC INDICATORS IN AUSTRIA



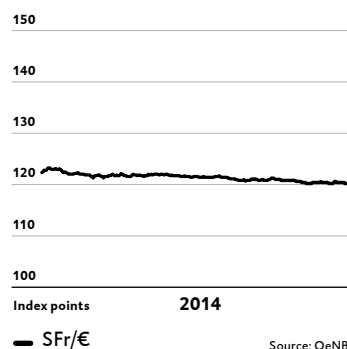
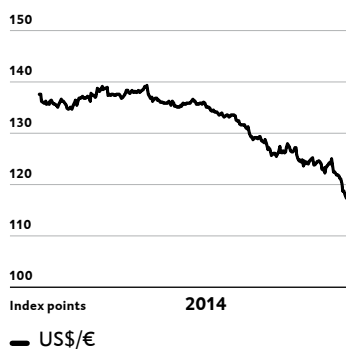
CRUDE OIL PRICES



GOLD PRICES



KEY EXCHANGE RATES



associated with Basel III. As for financial markets policy, during 2014, regulation and supervision were shaped by the implementation of the CRR/CRD IV framework, restructuring of the European Commission and the ongoing auditing and stress testing of the big eurozone banks.

The European banking sector performed poorly during the year under review, with credit growth very weak in most eurozone countries. Moreover, banks were initially hesitant to draw upon the long-term funding scheme put in place by the ECB to promote lending to the real economy, and significant use only began to be made of it in the second half. A growing number of debt conversions, mergers and takeovers were financed by the scheme in the corporate sector, but fixed capital formation remained subdued. Borrowing by private households was also slow to recover due to the weak growth in incomes, high unemployment, the slackness of residential property markets and uncertain future outlooks. Deposit operations were dented, among other things, by persistently low interest rates, but they profited from the good liquidity positions of many companies and from private sector deposits. Because of the tendency to move away from aiming for balance sheet asset growth and as a result of the low level of interest rates, the volume of issuances by banks in the capital markets fell well short of the historical average.

Looking at the traditional banking operations of the European banks, we note that, according to the ECB's projections for 2014 as a whole, the improvement in their profit positions was only modest because, while there was an ample supply of liquidity in the form of central bank money, the need to mitigate risks limited the use of that liquidity on the assets side of their balance sheets. Moreover, the costs of legal disputes and settlements and outlay on regulatory investigations and dealing with enquiries from the regulators were higher than usual, and that too was a significant burden. The extremely high bank taxes imposed both in Austria and in Slovenia, Slovakia and, above all, Hungary likewise had a massive impact on credit growth.

Corporate Strategy

Banks around the world were facing big strategic challenges. These included the state of the economy, which simply would not get moving, especially in Europe. Historically low key interest rates put the focus on negative interest rates—and not just in the interbank market. An improvement in this situation was only partially in sight. At the same time, the ongoing digitization of banking operations necessitated big investments and a reorientation of business models. Many banks announced plans to close branches, and some set up special think tanks to find ways of responding to the virtual threat from non-banks like Google, Facebook, Amazon and Co. Moreover, the significantly increased demands being made by supervisory and regulatory authorities were not always easy to meet and caused substantial additional costs, especially for smaller banks.

New sales structure

All these developments also had an impact on BKS Bank. Our annual strategy process in 2014 looked closely at restructuring our sales activities and at the opportunities created by so-called 'new banking', and we developed targets and actions plans in those areas. The first of the resulting changes, which included, for instance, reducing the number of regional sales head offices in Austria from six to

three, were already put into effect in the first quarter of 2015. One essential element of the process of restructuring of our sales activities was clearly positioning each branch as either a pure retail customer branch or an SME branch with retail customer operations. Management structures at the new regional sales head offices are likewise based on this distinction. In future, big corporate and business banking customers will only be serviced by a classical bank branch in exceptional cases. Structures at Head Office will also be adapted accordingly. As a result, the Corporate and Business Customers and Retail Customers Department at Head Office will be subdivided into a Corporate and Business Customers Department and a Retail Customers Department. The New Banking Group will be one key element of the newly created Retail Customers Department. It will be responsible for the development of our digital offerings and for dovetailing stationary and digital sales.

Our strategic targets when it came to strengthening our market positions in Styria and Vienna remained unchanged. We opened a new branch in each of those markets during 2014. We want to continue to reinforce our market leadership position in our home market, Carinthia. Abroad, we remain committed to organic growth and do not plan to carry out any big additions to the branch network before the end of the economic crisis. Growth there will mainly involve strengthening the market penetration of our products and services and increasing customer numbers at our existing branches. We have already been very successful doing so, especially in Slovenia.

An 'Excellent Enterprise'

In every one of its market territories, BKS Bank aims to stand apart from its competitors through the quality of the advice it gives. Our customers are offered made-to-measure suits, not off-the-peg solutions. The effectiveness of our strategy was borne out by the title of best branch based bank in Austria given to us by ÖGVS – *Gesellschaft für Verbraucherstudien mbH* in collaboration with the *FORMAT* business magazine. BKS Bank initiated its 'Quality Management' project to further optimize its corporate quality. The purpose of the project was to establish a holistic quality management system. To this end, a number of our employees attended a course lasting several days that dealt, among other things, with the principles of, possible applications for, the implementation of and means of assessing corporate quality in conformity with the EFQM Excellence Model. In the fourth quarter, we underwent an external assessment of the quality elements that were already in place by taking part in the procedure for the Austrian state prize for corporate quality (*Staatspreis für Unternehmensqualität*). We are very pleased to report that we became Austria's first bank to be 'Recognised for excellence 5*.' This means that we are now allowed to call ourselves one of Austria's 'Excellent Enterprises.'

Lean and efficient processes

We made important progress in the optimization of our business processes. We refined our process management standards, our process map and our process design principles, creating the basis for ongoing improvements. In the course of 2014, the Process Optimization Team for our Croatian banking subsidiary *BKS Bank d.d.* identified major potential efficiency gains, and the measures it suggested are already being put into effect. Our costs in Austria were significantly reduced by standardizing back-office processes while, at the same time, outsourcing the personal loan and branch services back offices to a separate service company, *BKS Service GmbH*, as of 1 January 2014.

A good equity position

Continuing to strengthen our capital ratios is key to our success as a financial service provider. We achieved a big part of our plans for the year under review during our successful capital increase in October 2014. This financial year too, we will do everything we can to go on strengthening our capital ratios. The focus will be on ploughing back profits, issuing subordinated instruments and optimizing our basis of assessment.

BKS Bank as a dependable partner

The core goal of our business policy is to safeguard our independence within the framework of a sustainable growth strategy. This strategy has proven its worth for many years, enabling us to continue to thrive in the market in the recent challenging periods. The cornerstones of our strategy therefore remained unchanged.

We see BKS Bank as an institution that

- strives for long-term successes, not short-term profits;
- grows step by step without outside help;
- is a responsible and enduring partner and associate that offers its employees secure jobs, its shareholders stable dividends and its customers a dependable banking relationship;
- only enters into risks that it can bear without outside help and that are manageable;
- employs excellently trained people who work in the market territories that they come from; and
- is, all in all, a dependable bank whose word is its bond.

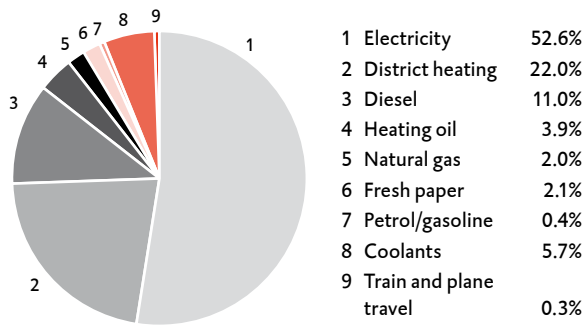
Supplementing our advantages as a regional bank, our membership of the 3 Banken three banks group, which is made up of BKS Bank together with *Oberbank* and *Bank für Tirol und Vorarlberg*, gives us the strength of a major bank and, thanks to mutual shareholdings and a syndicate agreement, ensures our independence. We profit from synergistic effects that save costs within the scope of shared subsidiaries, and our line of products and services is enlarged by our long-standing alliances with building society *Bausparkasse Wüstenrot AG* and insurer *Generali Versicherung AG*.

Sustainability

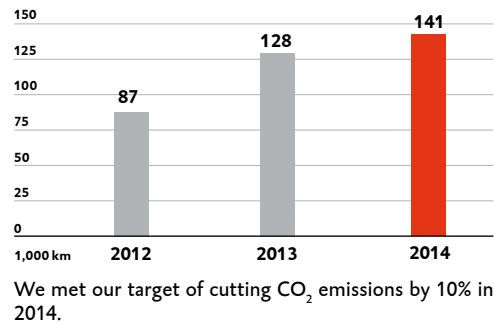
BKS Bank's business policy is shaped by an awareness of our responsibilities in everything we do. The Management Board of BKS Bank is committed to corporate social responsibility (CSR) and acts consistently in conformity with the principles underlying the enterprise's vision and mission. It integrates sustainability into corporate strategy, engenders transparency and deals responsibly with economic, social and ecological risks. In addition, our bank has for several years been committed to the principles of the UN Global Compact. You can find a detailed visualization of all our activities that goes beyond the compact presentation of our CSR measures that follows in our Sustainability Report, which is available at www.bks.at.

Our sustainability measures are classified in line with the main fields of action defined in our CSR vision, which are 'Leading and Designing', 'Employees', 'The Market', 'Society' and 'The Environment'.

BKS BANK'S CARBON FOOTPRINT



TRAVEL AND THE ENVIRONMENT



The priorities during the year under review were enlarging the range of sustainable products and services, reducing our carbon footprint and improving barrier-free disabled access to banking services.

Reducing our carbon footprint

We first measured the carbon footprint of all our Austrian units in 2013, and we carried out a second survey in 2014. The results told us the total greenhouse gas emissions that take place within a life cycle. BKS Bank's biggest sources of CO₂ were electricity, district heating and diesel fuel. We are pleased to report that we were able to cut our CO₂ emissions by 12 per cent in just one year. Among other things, we owe this success to the installation of a photovoltaic system that went online in the autumn of 2013, to the reduction in the number of business trips that resulted from increased use of our online meeting tools and to travelling more by train instead of by car. In addition, we consulted energy efficiency experts to find new ways of saving electricity on our premises.

During the year under review, our Continuous Improvement Process (KVP) Team looked at our paper usage and found ways of making considerable savings, many of which have already been put into effect.

Barrier-free disabled access to banking services

Legal standards require shops, public institutions, etc. to provide barrier-free disabled access by the end of 2015. For a number of years, our experts at *Immobilien-service-Gesellschaft* and IT have been working on giving our customers barrier-free disabled access to banking services. They have developed a standard for new branches and a plan of action for adapting existing ones. A barrier-free model branch conforming to our new standards opened in *Graz-Wetzelsdorf* in the summer of 2014. Its equipment highlights are a counter that can be lowered to optimize the serving of wheelchair users, an induction loop system in one of the meeting rooms that makes it easier for the hard of hearing to understand the person they are talking to, and a tactile guidance system from the crossroads to the entrance that is soon to be extended as far as the counters. The branch has since been visited by a variety of disabled organizations and has been warmly praised.

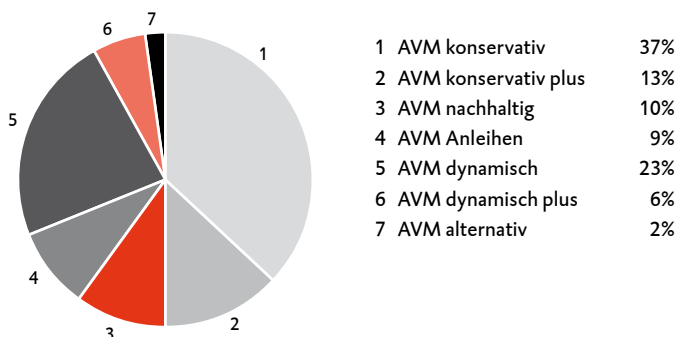
The branch that opened in *Wien-Hietzing* in the fourth quarter has the same features. We renovated the function room at Head Office over the summer and likewise equipped it with an induction loop system. Stickers were applied to the glass areas of doors and similar surfaces at Head Office and at our branches and offices in Carinthia so that they too are clearly visible to the visually impaired, and numerous other measures were also carried out. In addition, the staff members who are responsible for sustainability also organized a joint project with *Blinden- und Sehbehindertenverband Kärnten* (the

Carinthian association for the blind and visually impaired) and *Österreichischer Zivilinvalidenverband* (the Austrian association of civilian invalids) for our *Aktionstage Nachhaltigkeit* (sustainability action days). During this event, employees at BKS Bank were able to experience for themselves what it is like to be blind or paralyzed, and a workshop was held to show them ways of giving disabled people easier access to banking services.

Sustainable products and services

The bank is also committed to sustainable products and services in its core operations. The AVM *nachhaltig*¹ fund became the first asset management product in Austria to be awarded the *Österreichisches Umweltzeichen für nachhaltige Finanzprodukte* (the Austrian environmental friendliness mark for sustainable financial products)². AVM *nachhaltig* invests exclusively in sustainable, ethical and environmental funds that carry this mark or meet its high standards. This portfolio is proactively managed by BKS Bank experts. Numerous new customers opted for this sustainable form of asset management during 2014, with the result that 183 customers had invested in AVM *nachhaltig* by the end of the year. Roughly 10 per cent of the AVM portfolio is now invested in AVM *nachhaltig*. Our 'green' passbook accounts enabled personal banking customers to invest their assets on attractive terms for the purposes of carrying out thermal renovations or buying a solar or photovoltaic system or electric car. 'Green' loans for retail banking customers and 'environmental' loans for corporate and business banking customers made it easier for them to pay for investments that are gentle on the environment.

POSITIONING OF 'AVM NACHHALTIG' WITHIN THE AVM RANGE



An attractive employer

A big part of BKS Bank's multifaceted CSR activities addressed the quality of life of its employees. As a holder of the *berufundfamilie* (JobAndFamily) audit certificate, BKS Bank endeavoured to make it easier for its employees to combine having a family and a career, and its health scheme carries Austria's

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

Gütesiegel für Betriebliche Gesundheitsförderung (quality seal for workplace health promotion). 189 staff members took part in the *Aufmerksam durch die Bank* (banking on attentiveness) health campaign. Among other things, Claudia Dungal and Andrea Dungal, the directors of the Dungal Health Centre, told them about ways of reducing stress and increasing wellbeing. Our activities within the context of the *berufundfamilie* audit included organizing a breakfast for employees on parenthood leave and a meeting for staff members with relatives in need of care and equipping Head Office and the regional head offices with toy chests for use in a childcare emergency. We were close to completing our development of measures to optimize the generations management process. Since March 2015, employees have been able to get free and anonymous advice from *EAP-Institut für Mitarbeiterberatung* (the EAP staff advice institute) in professionally and personally difficult phases of their lives. You will find further information about our basic and further training measures, which also included a qualifications improvement programme for women, in the section on *Staff* from page 71.

A big heart for society

In 2014, our CSR commitment continued to concentrate on projects to promote culture, education and charitable activities and on our role as a sustainability multiplier. As an initiator of the TRIGOS Kärnten (Carinthia) and TRIGOS Steiermark (Styria) awards, we have successfully been doing the latter for a number of years. In 2014, we and the other organizations behind TRIGOS were pleased to receive a large number of entries for the TRIGOS Kärnten awards. The TRIGOS Steiermark awards will be presented again at the beginning of May 2015. We helped disadvantaged people within the scope of our long-standing partnership with *Kärntner in Not* (Carinthians in need). Among other things, our contribution to culture in our core Carinthian market included sponsorship of the *Carinthischer Sommer* festival and *Tage der deutschsprachigen Literatur* (German-language literature days). During the latter, the Chairwoman of our Management Board Herta Stockbauer presented the BKS Bank Audience Award to writer Gertraud Klemm. However, the real highlight was *Herzschlag 2014* (heartbeat 2014), which was the name of the 6th National Summer Games of the Austrian Special Olympics. Besides money provided by our bank, 30 BKS Bank staff members supported this moving cause as volunteers during the games, helping over 1,500 mentally disabled athletes and some 600 coaches and trainers on the spot.

Markets

As a regional bank, BKS Bank concentrated on the surrounding regions when selecting its market territories. We had a local presence in the form of bank branches and leasing companies in Austria, Slovenia, Croatia and Slovakia, and we had a representative office in Hungary and in Italy. At the moment, we do not plan to open up any new markets. Forty-nine of our total of 57 branches were in Carinthia, Styria, Burgenland, Vienna or Lower Austria. Our most important market outside Austria was Slovenia, where BKS Bank now had five branches. Slovakian customers were serviced by our branch in Bratislava. Our Croatian subsidiary *BKS Bank d.d.* had two branches.

Austria

BKS Bank's market territories in Austria spanned the south- and Vienna. Our bank employed 656 people in its They were servicing our customers at 23 of our strong presence was also mirrored by business vol-

656

east axis between Carinthia Carinthian home market. total of 57 branches. This umes, roughly two thirds of

which were generated in Carinthia. BKS Bank was able to strengthen its market leadership position in this Austrian province during 2014 by convincing numerous new corporate and business banking and retail banking customers of its advisory expertise. However, the economic environment remained difficult, and that had an impact. Many of Carinthia's long-established businesses were affected by bankruptcy or financial rehabilitation proceedings during the year under review. This was a severe blow to employment in areas already suffering from structural weaknesses. Numerous sectors and industries underwent structural upheavals, including the construction industry and ancillary building trades, the timber industry and retailing. The public sector was saving money and investing hardly anything in infrastructure. Good news, like the big investment by *Infineon Technologies Austria* announced towards year-end, was the exception. Furthermore, Carinthia's banking landscape was still the target of negative headlines as the turbulence surrounding the former *Hypo Alpe Adria-Bank* continued. It is therefore not surprising that the propensity to invest within the Carinthian economy can only be described as restrained during the year under review. Nonetheless, we were able to finance a number of very interesting projects and continued to be one of the finance service providers that companies talk to first.

BKS BANK'S CORE MARKETS



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

BKS BANK'S BUSINESS ACTIVITIES BY REGION

Country	Banking	Leasing	Representative Office
Austria	BKS Bank AG 6 regional head offices, 49 branches	BKS-Leasing GmbH	
Slovenia	5 bank branches: Ljubljana (2), Maribor, Celje, Domžale	BKS-leasing d.o.o. Ljubljana	Ljubljana
Croatia	BKS Bank d.d. Rijeka (Head Office); Zagreb Branch	BKS-leasing Croatia d.o.o. Zagreb	Zagreb
Slovakia	1 branch: Bratislava	BKS-Leasing s.r.o. Bratislava, Banská Bystrica und Žilina	
Italy	Cross-border activities		Padova
Hungary	Cross-border activities		Sopron

We still see Styria as one of BKS Bank's growth markets. We opened a new branch in Graz in the spring. This branch in the Wetzelsdorf area of the city sets new standards for barrier-free bank branch design. BKS Bank had a total of 12 branches in the Austrian province known as the 'Green March', where it employed 96 people. We are pleased to report increases in the number of customers both in the retail banking segment and in the corporate and business banking segment. At urban branches in particular, company proprietors think highly of our skilled on-the-spot services, which are specifically geared to companies' needs. As evidenced by a study of banks initiated by *Österreichischer Gesellschaft für Verbraucherstudien* and the *FORMAT* business magazine, according to which BKS Bank was the best branch based bank in Austria, customers appreciated the intensive advisory services we provide. The branches in Graz that were included in the study were placed an excellent second. In the highly competitive professionals and doctors segment, the BKS Bank Regional Head Office for Styria scored points with an emergency doctor training scheme carried out in cooperation with the *Ärztelkammer* (medical council). We are aiming for another significant increase in the number of corporate and business banking customers in 2015.

BKS Bank has now been a firm feature of the banking landscape in the province of Burgenland for more than 10 years. Our customer base has grown steadily since the merger of the former *Burgenländische Anlage- und Kreditbank AG* into BKS Bank. In the year under review, our 59 employees at the seven branches affiliated to the Burgenland Regional Head Office were able to report strong growth in new customer business in the personal banking and corporate and business banking segments. The slow-down in economic growth compared with 2013 had not yet knocked on to the balance sheet of our Burgenland Regional Head Office as we successfully counteracted it by intensifying our sales activities. In 2015, we plan to address professionals and agricultural businesses even more specifically and increase our penetration among prospective private banking customers.

BKS Bank's branch network is currently growing fastest in Vienna, where we opened a new branch in Hietzing in the fourth quarter. Another branch was completed on *Ungargasse* in Vienna's 3rd District at the end of 2015. Now, our employees are servicing our customers at eight branches in or near the Austrian capital. Our Vienna Regional Head Office, which employed 41 people in the year under review, was able to position itself as a solid alternative to the big banks. Our offerings were not only appreciated by the many Carinthians living in Vienna. A lot of Viennese also appreciate a responsible provider of banking services.

Slovenia

BKS Bank opened its first branch in Ljubljana in 2004. It marked a milestone for our bank because that branch was our first outside Austria. BKS Bank celebrated its 10th birthday in Slovenia in the year under review, and we can look back on a successful development process. Our strategy of starting with lending operations and only launching counter and securities operations at a later date has proven very effective. Since 2010, we have been operating as a solid 'universal' bank in Slovenia, and we are firmly anchored in the market.

In all, over 13,000 customers have now placed their trust in our bank, and more than 10,000 of them are retail banking customers. Together with *BKS-leasing d.o.o.*, we employ 104 people working at five branches in Slovenia. Because of its solid business practices and stable financial position, Slovenia's bank regulators gave BKS Bank permission to take over roughly 2,700 securities customers of *Factor banka d.d.*, which was in liquidation. The transfer of those customers to BKS Bank was successfully completed in February 2014.

At year-end, Slovenia accounted for 10.9 per cent of the Group's total loan portfolio, and earnings there

10.9%

for 10.9 per cent of the Group's total loan portfolio, and earnings there were also satisfactory. The most important

business segment was again lending. The still strained state of the economy increased credit risk, but it stayed at an acceptable level. Primary deposit balances developed very satisfactorily, growing from €317.1 million to €599.5 million (increase of 89.1 per cent). This was well above market average growth, confirming that BKS Bank has now gained a reputation as a respected banking provider in this country.

Our communication activities during the year under review continued to focus on acquiring new customers. An account package created especially for our jubilee attracted a lot of attention. In addition, we launched a consumer loan campaign in the autumn, and this too was a success.

Growth in recent years meant that the existing premises housing our Head Office in Slovenia had become too small. The relocation of the administrative departments from *Dunajska cesta* to their new premises in the 'Megacenter' in *Verovškova ulica* in the spring of 2014 went smoothly. Administrative functions have been concentrated there on an area of more than 1,000 square metres (10,760 square feet). The Bežigrad branch has remained at its old location. In 2015, we aim to continue diversifying credit operations by developing a broadly spread retail customer portfolio and, after that, strengthening service operations as well. Moreover, since the beginning of the year under review, we have also been working on the development of a new online banking system that will begin operation in 2015. Our customers in Slovenia have already had the use of an app for some time.

However, we initially entered the Slovenian market back in 1998, when we took over a leasing company there. At the end of the year under review, *BKS-leasing d.o.o.* had a lease portfolio of €68.9 million (31 December 2013: €67.1 million), and it posted a profit from ordinary activities of €0.8 million (2013: €0.8 million).

Croatia

In Croatia, BKS Bank carried on banking activities through its subsidiary *BKS Bank d.d.* (previously *Kvarner Banka d.d.*). *BKS Bank d.d.* had two branches, namely one at its Head Office in Rijeka and a second in Croatia's capital Zagreb. In its first year since joining the EU, Croatia continued to struggle with slowing economic growth and a high jobless rate.

Nonetheless, under extremely difficult conditions, *BKS Bank d.d.* ended 2014 with a respectable result. Its assets increased to €171.9 million, which was 4.9 per cent up on the end of 2013. Deposit balances developed very well, advancing from €80.9 million to €86.9 million. The loan portfolio grew from €111.9 million to €128.9 million. The impairment charge on loans and advances was €0.9 million, which was 59.1 per cent less than in 2013. On average, *BKS Bank d.d.* employed a total of 59 people during the year. As was the case at *BKS Bank AG*, staff costs were the biggest expense item, coming to €2.2 million. The biggest income item—net interest income—increased by 2 per cent to €4.6 million. Overall, *BKS Bank d.d.* delivered a positive result in 2014 despite the adverse economic environment.

86.9m

Marketing activities concentrated on increasing public familiarity with consumer loans, and there was a big campaign on this subject. *BKS Bank d.d.* also scored points with two new products, a pension account and a 'green' loan. The latter offered particularly good terms and conditions to customers buying a photovoltaic system. As elsewhere, this underscored the sustainability focus of our group's business strategy. The introduction of an app that allows people to bank comfortably with their smartphone was also especially well received by the customers of *BKS Bank d.d.*

In 2015, we will stay on the current path of gradual expansion in our existing business operations. The main emphasis will continue to be on acquiring new retail customers. At the moment, we have no plans to open any more branches. The exchange rate peg introduced by the Croatian government at the beginning of 2015 (6.39 kunas for one Swiss franc) to help Swiss franc borrowers did not affect us because BKS Bank d.d. had not granted any such loans.

In addition to banking, BKS Bank also carried on leasing business in Croatia through *BKS-leasing Croatia d.o.o.* Because of the slack economy, the lease market continued to contract. This affected the lease portfolio of our subsidiary, which shrank to €28.2 million. We are all the happier to report a positive profit before tax of €0.2 million. *BKS-leasing Croatia d.o.o.* employed a total of 10 people during the year under review.

Slovakia

BKS Bank's only branch in Slovakia so far is located in Bratislava. It opened its doors in 2011. Since 2012, it has also been servicing retail customers. The launch of investment-heavy counter-based operations is only planned for a later date, so the business focus was on products that do not involve cash transactions. BKS Bank's activities in Slovakia continued to develop satisfactorily during the year under review.

Deposit balances grew particularly well, expanding from €17.1 million to €26.1 million. Appropriately, marketing activities by our team in Slovakia particularly stressed deposits, and they also held a World Saving Day event. World Saving Day had yet to be celebrated by our east, so it attracted lively interest among the customers whom we had invited to attend.



26.1m

We want to enlarge the branch network during the 2015 financial year. A new branch will already open in Banská Bystrica at the start of the second quarter of 2015, and another in Žilina is to follow later in the year. *Maestro* cards will be added to the product line, this being an important part of any account package nowadays.

BKS Bank also operates in the Slovakian leasing market via *BKS-Leasing s.r.o.* The emphasis was on motor vehicle and property leasing. Following a very difficult 2013, when the leasing market as a whole stagnated, it is all the more pleasing that the lease portfolio grew from €30.3 million (31 December 2013) to €32.6 million (increase of 7.6 per cent). *BKS Finance s.r.o.* was merged into *BKS-Leasing s.r.o.* in the summer of 2014 to reduce administrative costs.

Italy and Hungary

BKS Bank had one representative office each in Italy and Hungary. Their role included helping corporate and business banking customers set up companies in the respective country, helping them find business partners and associates, setting up contacts with authorities, lawyers and accountants and tax advisors and providing close-to-real-time market reports and information. The representative offices themselves did not transact any business and their product lines did not contain any banking products. This means that customers from those two countries were only serviced on a cross-border basis. We will maintain the same strategy in 2015.

Customers, Products and Services

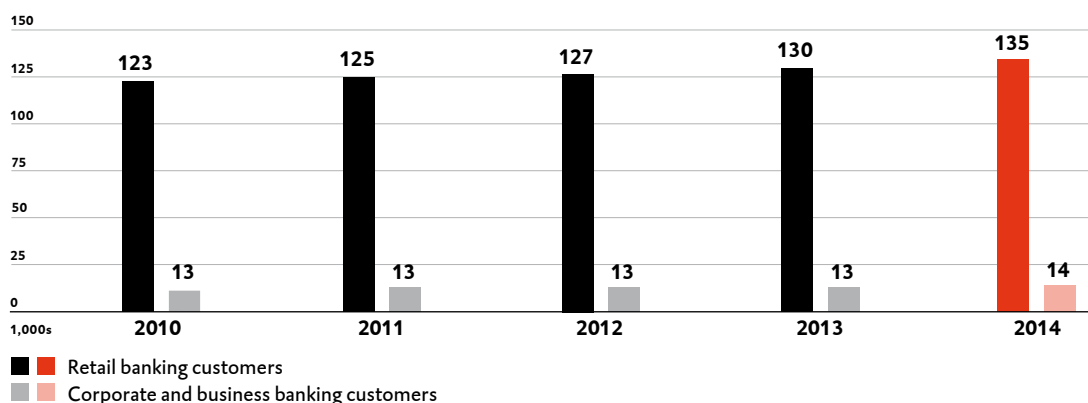
BKS Bank was originally set up as a pure corporate and business bank in 1922. Offerings for retail banking customers were created for the first time in the 1960s. Since then, our bank has established itself in the market as a so-called 'universal' bank that was servicing some 135,000 retail banking customers and over 14,000 corporate and business banking customers in the year under review. This was 3.7 per cent and 6.9 per cent, respectively, more than in 2013. We achieved particularly pleasing increases in customer numbers in eastern Austria and, above all, Slovenia. Because BKS Bank's market penetration as a banking provider to corporate and business banking and retail banking customers in our Carinthian home market is high, acquiring new customers there is more time and cost intensive. Nonetheless, we still succeeded in doing so.

In 2014, we were segmenting customers into the corporate and business banking, retail personal banking and retail business banking customer groups. The corporate and business banking segment was dominated by medium-sized business, trading and industrial enterprises. However, our advisory services and products for institutional customers, who were serviced by Corporate Banking, had likewise gained a firm foothold in the marketplace. This enabled us to gradually build up our market position. Naturally, our range also included interbank operations. Our good relations with our correspondents had a particularly strong stabilizing effect during the crisis. Our core areas of expertise in the corporate and business banking segment encompassed the provision of outstanding investment and export finance advice, our extensive subsidies know-how and our broad and modern range of payment services. Transparent account models, rapid decision-making and tight bonds with the region ensured that our recommendation rate was high. The *Agrar* agricultural service launched in 2012, which is tailored to the needs of farmers, developed a solid position in the market.

During 2014, we continued to work intensively on developing the professionals target group, which is one of our focuses in the retail business banking segment. Special offerings were created for doctors and other members of the healing professions. We organized events on topics specifically designed for these groups at all our regional head offices. They were well attended.

Two main issues affected BKS Bank's retail customers at all its regional head offices during the year under review. Firstly, interest rates were low, making it hard to attract savings deposits. Secondly, based on initial information about the so-called 'pension account', there was a great deal of uncertainty about the pension benefits that people can expect. Consequently, greater use was made of the related advisory services provided by our staff members.

THE CUSTOMER BASE



Only a few of our customers were either directly or indirectly affected by the Ukraine crisis and the depreciation of the ruble that followed it. The strained economic situation in Italy and the failure of the German economy to pick up until the second half still had a bigger impact. Both markets were important export targets for many of our customers and, consequently, had a decisive effect on their investment behaviour.

New branches opened

Retail customer operations are under a lot of pressure throughout Europe. Big investments in branch networks are still needed. At the same time, though, one must invest in the spectrum of digital services. Margins are continuously being diminished by the historically low interest rates, and an improvement is not in sight. Simultaneously, the personal accounts market is hotly contested. As a result, many other banks have already announced plans to significantly reduce their branch networks. However, we have always focused on having a manageable number of branches located primarily in district and provincial capitals where prior analyses have shown that there is sufficient customer potential. BKS Bank is therefore under no pressure to close branches. Instead, counter to the trend, we are planning to open new branches in selected regions like Vienna. A branch in Hietzing and a new branch in Graz-Wetzelsdorf were added to the branch network during 2014. A branch in *Ungargasse* in Vienna will follow at the end of April 2015.

Multiple award winning advisory services

We still see branches as an important hub for our customers. Consequently, we believe in providing quality advisory services at every one of them. Digital offerings like apps and online banking are primarily used for standard services like payments and saving products. The title of ‘best branch based bank in Austria’ awarded to us during a study by *Österreichische Gesellschaft für Verbraucherstudien* and *FORMAT Magazine* that focused on investment advice and the second place that we were awarded in a study by the same entities that looked at housing construction financing capabilities both demonstrated that our customers value our advisory services.

Our outstanding customer orientation was also confirmed during the ‘Recommender’ awards. Our saving products and payment services were equally in demand. Our Private Banking units acquired new customers in every market region, and the market responded warmly to our offerings of sustainable products.

Our experts developed new account models in the course of 2014 and they have been on the market since the beginning of 2015. Among other things, they created a ‘new banking’ personal account geared to Internet users. The other account packages were, *inter alia*, equipped with a security package and optimized to suit the usage patterns of the account holders. The changeover to SEPA was another of our focuses in the payments field. It was completed without any glitches.

The BKS app has been available as a download for a little over a year, and it has been downloaded a total of more than 8,800 times. It has received very good reviews in the Apple and Google Play stores. Our customers used this modern banking instrument 694,787 times during the year under review. Our online banking system, which will be replaced by a digital customer portal with numerous new functions in 2015, remained one of Austria’s securest.

8,800

Communication

Open and transparent communication with all our stakeholders is particularly important to us, and we used every modern means of communication to achieve it. The techniques of classical marketing and public relations played an important role in this in the regions in which BKS Bank operates. We kept our retail banking customers up-to-date via regional printed media and strongly frequented online news portals, via mail shots, using posters and displays in our branches and by way of our online and social media channels. In some regions, we also used radio spots to address our target groups as precisely as possible. For reasons of cost, we did not do any TV advertising in 2014.

In 2014, the marketing campaigns in Austria that were aimed at retail banking customers centred on our sustainable *AVM nachhaltig* asset management product, new 'green' loan and 'green' passbook account variants and pension insurance products that use the new smartphone signature system. Customers responded warmly to the events we held at our branches and regional head offices, for instance during the branch opening in Graz-Wetzelsdorf, the New Year reception at our Viennese Regional Head Office, talks about developments in the capital markets, a visit to the Carinthian Summer Festival and information events about paying safely in the Internet. We also expanded our activities in the social media. BKS Bank had nearly 10,000 Facebook followers at the end of 2014 and had a very good rating of 4.5 out of a maximum of 5 stars. We used XING as an employer branding instrument. In order to give additional support to our positioning as an employer, we put a profile online at www.karriere.at in the spring. Among other things, it includes a number of videos introducing BKS Bank. We used Twitter mainly as an additional channel for addressing the regional journalists who have a presence there. We also invited customers to watch an online lecture about the development of the pensions system by Bernd Marin using our webinar tool.



10,000

Activities directed at our corporate and business banking customers were based mainly on personal communication so as to permit the selective utilization of B2B marketing measures. For instance, we held expert lectures and workshops for specific target groups like doctors and apothecaries that were tailored to their particular professions. This time, our traditional big event series in the autumn, which took place in Velden, Graz and Baden, banked on humour rather than business information as comedian Thomas Maurer presented his 'New Programme.' Our customer events about sustainability also attracted a great deal of interest. During the summer, a number of experts explained networks of responsibility to our customers, and we organized in collaboration with *respACT-austrian business council for sustainable development* company visits to *Sto GmbH* and *Mam Babyartikel GmbH* and a business lunch featuring the CEO of *Saint-Gobain Rigips Austria GmbH* as speaker. Since foreign markets are important sales territories for many of our customers, numerous company proprietors also attended our 'investment subsidies and exports' breakfast.

As we did in Austria, we applied selective marketing emphases in our markets in Slovenia, Croatia and Slovakia. We celebrated our 10th anniversary in Slovenia in 2014, and we offered customers a special account package to mark the occasion. This jubilee was also celebrated during a lively musical event at *Kulturcenter Španski borci* in Ljubljana. We were able to welcome France Arhar, Director of the Slovenian Bankers' Association, as a special guest of honour at the jubilee gala, and he paid tribute to BKS Bank's successes in a short eulogy. A lot of people also took up an invitation to attend the Kvarner Festival extended by our Croatian subsidiary, *BKS Bank d.d.*, *BKS Bank d.d.* mainly advertised consumer loans during 2014, and it took further action to increase public awareness of them. Our team in

Slovakia focused on savings. It introduced World Saving Day to Bratislava for the first time as well as issuing an invitation to enjoy 'Summer Piano Sounds' with Jozef Holly in Bratislava Castle.

Our principal channel for staff communication was the Intranet, which gave employees clearly structured access to information about all our news and changes, manuals, training programmes and much more. So-called 'pop-ups' that appear on the screen automatically every time a PC is switched on were used to pay tribute to special achievements by individual staff members or whole teams. The *cocktail* staff magazine, which comes out once a year and is also sent to employees on parenthood leave and retired staff members, reported on our bank's activities. Many of the articles were written by staff members themselves. The online meeting tool, which had been in use for about one and a half years, had become very popular, and webinars had gained a firm foothold as an alternative to brief personal training modules. This significantly reduced travelling by staff and saved them a lot of time. In addition, an online survey tool gave us an uncomplicated way of surveying employees' opinions on a variety of topics. For instance, in 2014 we asked staff how they thought we could achieve another reduction in business trips. A variety of *jours fixes* at the departmental, regional head office and branch levels, induction days for new employees and the Management Board information events held twice a year in every regional head office to tell staff about our strategic orientation, financial performance, projects and other news were all important aspects of staff communication. Staff members were also keen participants in our parties and excursions, most of which were organized by the Staff Council. For instance, one company outing during the year under review took us to Salzburg.

Staff

Of all of BKS Bank's stakeholders, our employees are the ones who matter most to us. This is because, when one is a service provider, motivated and well trained employees are key to achieving high customer satisfaction. The BKS Bank Group employed an average of 915 people during the year. We were committed to providing them with secure jobs in which they performed skilled tasks. In times when many big banks were announcing plans for extensive staff cuts, we continued to strive to increase efficiency solely by way of natural staff attrition and by improving organizational processes. We benefited from the fact that we did not hire many new employees in the boom years of the early 2000s and have always been able to achieve a comparatively large amount with few human resources.

Our employees are all very loyal to us. The average period of service with BKS Bank was 13.85 years, and the staff fluctuation rate was low at 2.91 per cent. BKS Bank now employs significantly more women than men, with female employees accounting for 57.7 per cent of the total workforce in the year under review. Forty-nine women held management positions, accounting for 31 per cent of all management personnel. We aim to reach a figure of 35 per cent by 2020. Another 15 high-potential female employees from across the Group received training within the scope of our *Frauen.Perspektiven.Zukunft* (Women.Prospect.Future) qualifications improvement programme for women, and they are now prospective upcoming management personnel. Meanwhile, some of the graduates in the programme's first year have now been assigned management tasks or given specific professional responsibilities within the organization.

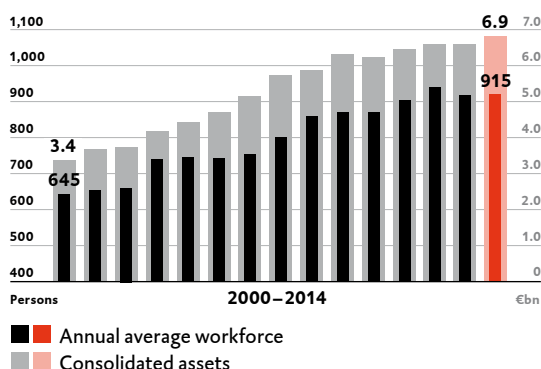
STRUCTURE OF THE WORKFORCE

Number of Employees (Individuals)	2014	2013	2012
Total number of employees	1,075	1,086	1,102
– Of which in Austria	855	876	894
– Of which in Slovenia	104	94	93
– Of which in Croatia	75	74	73
– Of which in Slovakia	37	38	38
– Of which in Italy	3	3	3
– Of which in Hungary	1	1	1
– Of which women	620	617	621
– Of which men	455	469	481
Full-time employees	845	853	872
– Of which women	391	396	401
– Of which men	454	457	471
Part-time employees	230	233	230
– Of which women	229	221	220
– Of which men	1	12	10
– Of which older staff working part-time	6	15	14
Disabled employees	19	20	19

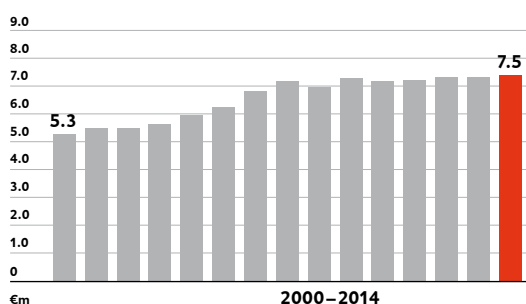
The charts that follow present the increases in productivity achieved since the turn of the millennium. The number of employees has grown by less than our consolidated assets. Measured in terms of our assets per employee, our productivity over the past 15 years has increased from €5.3 million per employee in 2000 to €7.5 million per employee in 2014 (increase of 42 per cent). When new staff need to be hired, the interest that people show in working for us demonstrates how attractive BKS Bank is as an employer. Personnel Management received 1,237 job applications during they year under review. Many were already reaching us via our online channels like XING or our profile on www.karriere.at. Group-wide, 58 new employees were hired during the year under review.

All in all, investing in the basic and further training of every staff member was one of the keys to our success. In 2014, our basic and further training programme consisted of 218 internal seminars, and, in addition, many of our employees also attended courses held by prestigious seminar providers. The further training modules ranged from professional training to personality training to courses like management and coaching training. We launched a new talent management scheme called *Orientierung. Engagement.*

STAFFING AND ASSETS



ASSETS PER EMPLOYEE



Chancen (Orientation. Commitment. Opportunities.). It aims to ensure that vacant key positions are efficiently re-filled, and, at the same time, offers our high-potential employees attractive personality development tools. We are pleased to report that three apprentices successfully completed their training as skilled bank employees during the year under review, and another seven are still in training. Our trainee programme gave 11 university and specialist college graduates a start in the working world. We are proud to have been able to offer most of them an attractive job in sales or in a specialized Head Office department once they had gone through the programme.

Our directors, the members of the Supervisory Board and the holders of key posts furnished evidence of their conformity to the 'Fit & Proper' criteria and, therefore, proved that they were qualified for their roles. BKS Bank has drawn up a special 'Fit & Proper' policy for this purpose. It lays down the strategy for selecting such persons and the process to be applied when evaluating their suitability. The 'Fit & Proper' criteria focus not just on professional expertise and experience in the industry but also on suitability of character. In addition, the process also looks at possible bias and conflicts of interest. The relevant individuals at BKS Bank underwent regular further training in this regard. For instance, every holder of a key position received CRR training.

One of our key initiatives for the benefit of staff in the year under review was a staff survey carried out towards year-end. It was a comprehensive survey that also included the evaluation of psychological burdens at work required by the *Arbeitsschutzgesetz* (Austrian worker protection act). The unusually high response rate of 85 per cent ensured that the results of the survey were representative. We are pleased to report that the survey showed a high overall satisfaction rate and that our employees take a great deal of pleasure in their work. Our employees were particularly pleased with the duties assigned to them, the opportunities they had to combine having a family with a career, the mutual support they experienced and the social benefits they were offered. They naturally saw room for improvement in their salaries. Please see the Sustainability Report available at www.bks.at for the detailed results of the survey and further information and statistics about our activities in the human resources field.

Organization, Construction and IT

Timely and well-planned organizational change is essential to every enterprise's long-term success in the market. BKS Bank addresses the demands that the bank will be facing in the future during the annual strategy process described from page 58. As a rule, this process also leads to projects that concern the organization itself. For instance, in the course of 2014, we completed our 'OpEx' project, which generated annual savings of roughly €450,000. They were made possible by the strict standardization of back-office processes and by setting up a separate service company—BKS Service GmbH—to which we outsourced the personal loans and branch services back office. BKS Bank assigned the employees who had previously handled these activities at BKS Bank AG to BKS Service GmbH. However, their entitlements and benefits did not change. We pressed ahead with optimizing clerical processes in the corporate and business banking segment during the first quarter of 2015, and these too were outsourced to our service company.

450,000

We launched a new project called 'Move' during the year under review. Its purpose is to reconfigure sales in Austria and abroad. Besides introducing extensive structural changes, it is imposing major new demands on the IT systems that support sales. The declared goals of this landmark project are the installation of sales cockpits, the refinement of our CRM system and the introduction of an activity management system based upon it.

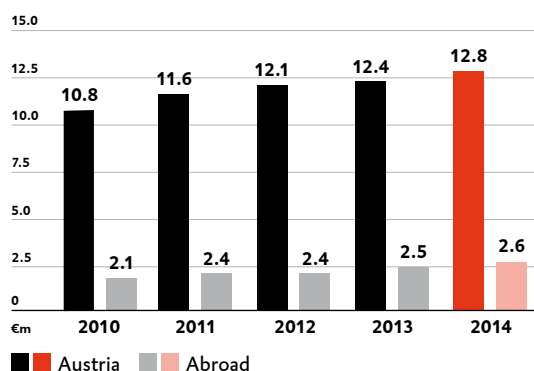
Digitization and regulation challenges

The expansion of digital communications is an important issue at our bank, and we are working intensively on it. The main focus during the year under review was on continuing the development of our digital customer portal, which will replace our existing online banking system as *BKS Bank-Online* in 2015. Users can look forward to being able to personalize and individualize the design of the portal, whether by changing both the home page or choosing the elements they use most. User friendly payment templates will make it easier to order transactions, and the integrated presentation of all of a customer's financial transactions will provide an optimal overview of that customer's financial situation. In addition, *BKS Bank-Online* will allow a new form of interaction between the customer and the customer's account manager and permit the secure transmission of confidential documents. The BKS app is already in frequent use, having been downloaded from the Apple and Google stores 8,829 times by the end of 2014. As part of the ongoing expansion of our digital offerings, we will be setting up an organizational unit called 'New Banking' in 2015. It will further optimize our existing line of products and services and will also act as a think tank when it comes to addressing future demands.

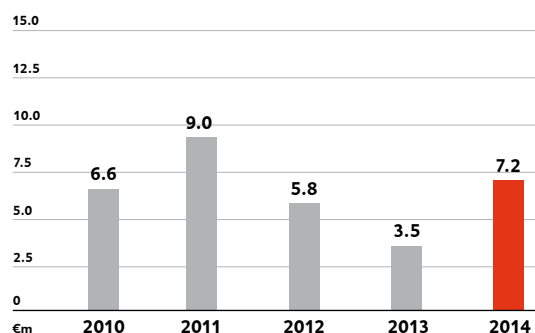
However, our bank's IT projects and IT operations are normally the domain of *DREI-BANKEN-EDV Gesellschaft mbH* (3BEG), which is a joint operation of Oberbank, BTV and BKS Bank. The Operations Department at Head Office acts as the interface to 3BEG. During the year under review, 3BEG processed a total of 98 projects, some of which were scheduled to last for a number of years. Seventy-nine per cent of the projects planned for 2014 were completed successfully. Investment in our IT landscape was our biggest item of expenditure after staff costs. IT costs continued to rise during 2014, increasing from €14.9 million to €15.4 million (Austria and abroad). Furthermore, besides the investments that were recognized on the balance sheet of 3BEG, we spent another €2.7 million on information technology and €4.7 million on construction projects and other investments.

Much of the work done in 2014 was not directly apparent to the customer, but it still made a material contribution to raising our efficiency and meeting all the legislative requirements. To name a few examples, it included the introduction of a multi country capable terms and conditions management

IT COSTS



INVESTMENT OUTLAY



system within the core banking system, the execution of the adaptations made necessary by FATCA (the Foreign Account Tax Compliance Act) and the automation of the application that processes personal loans. The latter has generated enormous process improvements and major cost savings at our subsidiary *BKS Service*. In addition, smaller IT changes significantly reduced throughput times in corporate and business loan processing. The new personal account packages that have been on offer since the beginning of 2015 were already integrated into our systems and we began rolling out Windows 7/64 Bit and MS Office 2013. During the period under review, we completed all the work required for the changeover to SEPA in Austria and abroad. In the customer self-service field, we updated our self-service software and continuously renewed the equipment used at our branches. This process will be completed by the end of 2016.

Since banking nowadays would soon grind to a halt if IT systems failed, it is particularly important to BKS Bank for its systems to be highly failsafe. As an example, 20.2 million online banking transactions were processed within BKS Bank during 2014. Over 664,000 cash transactions were recorded at counters, and numerous transactions were also completed using our self-service equipment and electronic banking service (ELBA). 99.6 per cent of all transactions at BKS Bank were carried out with a response time of less than one second. It was therefore all the more pleasing that we continued to record outstanding system availability rates during the year under review. 'Online availability' during the prime shift from 8 am to 5 pm was 99.98 per cent, and overall online availability was 99.99 per cent.



Alongside high applications stability, IT security is also a key issue for banks in that widely publicized reports about security gaps and data leaks usually cause serious damage to the reputation of the bank concerned. The security measures taken by 3BEG to protect all the applications, systems and servers for which it is responsible are correspondingly extensive. They regularly undergo numerous internal and external checks for security weak spots. The newest firewalls and the fostering of security awareness among staff have long been a matter of course at our bank. A total failure of the primary computer centre was simulated during our annual backup test. All systems were available again within the required time. We continued to deepen the cooperation between *DREI-BANKEN-EDV Gesellschaft mbH* and *GRZ-IT-Center GmbH* that began in the early 1990s. The two computer centres are now jointly operating two new and adequately dimensioned mainframes. Parallel operation at two locations has significantly improved failure rates and further improved operational reliability.

Abroad, we renewed the network infrastructure in Slovenia, analyzed the feasibility of migrating the systems used there to the 3BEG IT landscape and created the technical prerequisites for the smooth takeover of customers of the former *Factor Banka d.d.*, which took place in February 2014. In Croatia, we upgraded the payments system and implemented a banking app. Our most important project in Slovakia was the migration to SEPA, which went very well.

Property as a financial factor

Since October 2013, *BKS Immobilien-Service Ges.m.b.H.* has been handling all of the BKS Bank Group's construction activities. This subsidiary is responsible for construction and facility management at properties we own that are used for our own operations or by third parties. It deals with property management, security, company cars and waste management. BKS Bank owned a total of about 60 properties with a total area of 223,835 square feet (20,795 m²). 74,443 square feet thereof (6,916 m²) were used for banking operations, and 149,392 square feet (13,879 m²) were let to other entities or

private individuals. In the year under review, those properties had an excellent occupancy rate of 92.9 per cent. In all, rentals to third parties generated €1.9 million of gross rental income. As a rule, we used local contractors for all our projects, making BKS Bank an important source of construction of stimulus for local economies.



1.9m

One example was the enlargement and conversion of the two buildings at *St. Veiter Ring 33* and *St. Veiter Ring 35* in Klagenfurt, which is costing BKS Bank €3 million. Building works began in November 2014 and will be finished in the summer of 2015. After that, both houses will be let as offices and shops. They will have a total usable area of 14,100 square feet (1,310 m²).

Besides the two newly built branches in Graz-Wetzelsdorf and Wien-Hietzing (see above), we carried out adaptations in a number of other branches and at Head Office to improve barrier-free disabled access to our banking services. The BKS Bank Regional Head Office on *Hauptplatz* in Villach was modernized and renewed with a great deal of sensitivity for its historical architectural fabric and it was redesigned in line with our lounge concept. The function room at Head Office in Klagenfurt underwent a general refurbishment and was, at the same time, equipped with the latest video, audio and lighting technology. It is used for about 100 events and functions a year and thus makes a crucial contribution to public familiarity with BKS Bank. We hope that these investments will increase use of the hall even more. The most important project in our foreign markets was the relocation of our Head Office in Slovenia from the MIDES House to the *Mega-Center* together with the necessary structural modifications.

Preparations for the energy audit required by the *Energieeffizienzgesetz* (Austrian energy efficiency act) were also well advanced. Among other things, analyses were carried out of the cooling and ventilation systems at BKS Bank's Head Office. Measurements were already recorded during the summer of 2014, and data were also collected during the 2014/15 heating period. Further details are provided in the *Sustainability* section of this report from page 60 and in the Sustainability Report that is available at www.bks.at.

BKS Immobilien-Service GmbH is also responsible for bank security. Our continuous investments in the renewal of key security installations proved their worth on several occasions during 2014 and are regularly rated as exemplary by the police. Unfortunately, we were the victim of several bank robberies, but thanks to the high quality pictures obtained from the security cameras, the culprits were quickly caught. Staff received regular training from the police and our security personnel, and they acted commendably during the robberies that took place in the financial year ended. As a result, neither employees nor customers came to harm. The branches themselves undergo regular security checks.

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	
3 Banken Kfz-Leasing GmbH			10.00	

¹Including directly and indirectly held interests.

OTHER EQUITY INVESTMENTS (SUBSIDIARIES AND ASSOCIATES)

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

¹Including directly and indirectly held interests.

OTHER EQUITY INVESTMENTS (NON-BANKS)

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

Notes on the Scope of Consolidation

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

The overview that follows lists the entities required by the International Financial Reporting Standards to be classified as members of the BKS Bank Group. At the reporting date, the consolidated group upon which Group analyses were based thus consisted of 20 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*

THE MEMBERS OF THE CONSOLIDATED GROUP

Banks and Other Financial Service Providers

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

Other Consolidated Entities

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

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

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 upon 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. The principal criteria of materiality were the assets of subsidiaries, the Group's interest in an entity's equity in the case of associates and the size of the workforce of the entity concerned. 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. Their carrying amounts were adjusted in line with the change in the net assets of the entity in question. All other equity investments were classified as being part of the available-for-sale portfolio.

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 those banks, holding stakes of 18.51 per cent and 15.10 per cent, respectively, the exercise of voting rights was regulated by syndicate agreements. These agreements 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 in the year ended 31 December 2014 includes BKS Bank's interest in those 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

BKS Bank AG is the parent of the BKS Bank Group. It is headquartered in Klagenfurt. BKS Bank AG recorded profit from ordinary activities of €30.8 million, thus making a substantial contribution to consolidated profit in 2014. Its dominant role was also underlined by its assets of roughly €6.46 billion and the fact that it accounted for 96.0 per cent of consolidated receivables from customers and 99.3 per cent of the Group's primary deposit balances.

BKS-Leasing Gesellschaft mbH

BKS-Leasing Gesellschaft mbH operates in the motor vehicle, movables and property leasing segments in BKS Bank's core catchment areas within Austria. It was a 99.75 per cent subsidiary of BKS Bank AG on the balance sheet date, when it had share capital of €40.0 thousand and assets of €166.7 million. BKS Bank AG provided nine employees and the infrastructure used to sell leases. This company was a member of the same taxable group as BKS Bank (*Organschaftsverhältnis*).

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 €77.6 million. Within the BKS Bank organization, its 11 employees were responsible for working the Slovenian market, where it focused on motor vehicle, movables and real property leasing. Our Croatian leasing subsidiary, which is headquartered in Zagreb, was set up in 2002. Its 10 employees also specialized in the sale of a wide variety of lease products. At the end of the year under review, they were managing a lease portfolio of €28.2 million.

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 customers are based around the urban centres of Bratislava, Žilina and Banská Bystrica. Until 30 September 2013, this leasing company operated as a stock corporation (*a.s.*). For business policy and administrative reasons, it was then transformed into a limited liability company (*s.r.o.*). *BKS-Finance s.r.o.* was merged into *BKS-Leasing s.r.o.* as of 5 July 2014. It had 14 employees during the year under review and capital stock of €15.0 million at year-end. At the close of the 2014 financial year, this leasing subsidiary's receivables from its customers came to roughly €34.4 million.

BKS Bank d.d.

BKS Bank entered the Croatian banking market in 2006 when it acquired a majority shareholding in *Kvarner banka d.d.* This stake was gradually increased to 100 per cent. In 2008, this bank, which is registered as a stock corporation, was renamed as *BKS Bank d.d.* and opened a branch in Zagreb. On the reporting date, it had share capital of HRK 200 million, 59 employees and assets of HRK 1.3 billion. *BKS Bank d.d.* specialized mainly in lending to small and medium-sized manufacturers and businesses. It worked successfully on the development of its retail customer segment during the year under review and now offers its customers the infrastructure of a fully fledged bank with the sole exception of securities products and services, which were not yet part of 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 had branches in Vienna, Lower Austria, Germany, the Czech Republic, Slovakia and Hungary. It had an average workforce of 2,004, 156 branches in Austria and abroad, share capital of €86.3 million and consolidated assets of €17.8 billion. It posted profit for the year before tax of €157.6 million, making it, once again, one of Austria's most profitable and strongly capitalized banks in 2014.

Bank für Tirol und Vorarlberg Aktiengesellschaft

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 (4 countries bank)*, also had a presence in Vienna, eastern Switzerland, Veneto, South Tyrol, Bavaria and Baden-Württemberg. Together with its 1,195 employees, it increased its consolidated assets to nearly €9.60 billion during the 2014 financial year. This company had share capital of €50.0 million. The *BTV Group* recorded profit for the year before tax of €89.8 million.

Alpenländische Garantie-Gesellschaft mbH

Alpenländische Garantie-Gesellschaft mbH (ALGAR), Linz, is a 3 *Banken Group* joint operation. It was set up as a bank in 1983. *ALGAR* is not profit-orientated. Its purpose is to provide protection against the large loan risks of the three banks that are its equity holders. It does so by guaranteeing loans, advances and leases and by assuming liability in other ways. 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*. Since 2014, the *BKS Bank Group* has accounted for its investment in *ALGAR* on a proportionate basis in conformity with IFRS 11.

Drei-Banken Versicherungs-Aktiengesellschaft

Drei-Banken Versicherungs-Aktiengesellschaft (3BV-AG), Linz, was set up in 1988. It sells its own risk insurance products and brokers the endowment and property insurance products of *Generali Versicherung AG*

as an insurance agent. That long-standing ally of the 3 Banken Group held 20 per cent of 3BV-AG's stock. The Oberbank held a stake of 40 per cent in its share capital of €7.5 million, and BTV and BKS Bank held 20 per cent each. This company posted profit for the year of €0.8 million.

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*. 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 transitional provisions of the CRR that applied in the year under review, only part of the proceeds from the issuance of hybrid capital instruments qualified as so-called additional Tier 1 capital of BKS Bank Kreditinstitutsgruppe.

VBG-CH Verwaltungs- und Beteiligungs GmbH

LVM Beteiligungs Gesellschaft mbH

Furthermore, BKS Bank AG held 100 per cent of the shares in *VBG-CH Verwaltungs- und Beteiligungs GmbH*, which, in turn, held a 100 per cent stake in *LVM Beteiligungs Gesellschaft 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, had share capital of €35 thousand. It is a provider of banking related services and support that was mainly responsible for handling BKS Bank's standardized credit back office and branch service activities. It had 31 employees at year-end 2014.

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 had share capital of €40 thousand. Its principal object is to

let, buy and sell real estate. BKS Bank had assigned nine 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.

BKS 2000 Beteiligungs- und Verwaltungs GmbH

This wholly-owned subsidiary of BKS Bank was created back in 1995. It is headquartered in Klagenfurt. It was added to the consolidated group as of 1 January 2014 to align the scope of consolidation for the purposes of commercial law with the scope of consolidation for the purposes of regulatory law. The object of this company, which had capital stock of €40 thousand, consists primarily of trading and the acquisition of property and equity investments in other entities. At the end of 2014, it held stakes of 30 per cent in *Beteiligungsverwaltung GmbH*, 16.4 per cent in *Generali 3 Banken Holding AG* and 30 per cent in *3-Banken Beteiligung GmbH*.

Profit

Looking back, 2014 was one of most eventful and busy years in recent banking history. BKS Bank continued to hold its own well during the year. It went on growing in a demanding environment, significantly increased its so-called *primary funds* against the backdrop of stable credit growth and acquired new market shares. Quality advisory services, attractive new products and the expansion of digital offerings increased the number of satisfied customers and their willingness to recommend us. During the year under review, we not only applied European Union regulatory standards like Basel III and the CRR and the amendment to BWG (Austrian banking act); we also introduced important changes that optimized processes and cut costs. At the same time, we stepped up our sales activities to ready ourselves for the next economic recovery.

The goals underlying BKS Bank's business policy were again to achieve a reasonable return for our investors, to sustain a dependable partnership with our customers and to provide attractive jobs for our employees. Our overall operational performance was satisfactory, but it was affected by the historically low interest rates and the dull macroeconomic climate in our core markets in Carinthia, Slovenia and Croatia. The remaining fly in the ointment was the increase in credit default risk, which diminished many of our successes in the operational field (e.g. the advances in net interest income and net fee and commission income). However, we stuck uncompromisingly to our consistent liquidity and risk management approaches in order to safeguard our financial stability and resistance to stress.

As our customers' unbroken confidence in us showed, our business model is both sustainable and balanced. The result was growth in our consolidated assets of 1.8 per cent to €6.86 billion and a respectable increase in profit for the year to €46.6 million. That compared with €40.6 million in 2013.

As for meeting the European Union's capital adequacy requirements for banks, our pertinent Tier 1 ratio was 11.2 per cent, which was significantly higher than the required figure of 4.0 per cent. Among other things, this was thanks to the fact that we were able to place in the market all the 'young' ordinary no-par shares that we put on offer during a capital increase in October 2014 even though the capital markets were still volatile, achieving gross proceeds of €52.4 million. This opened up good opportunities for us to permanently improve our competitiveness abroad and continue on our bank's growth path in a planned and considered fashion.

Excellent growth in net interest income

We are pleased to report that our consolidated net profit of €46.6 million in the 2014 reporting year was €6.0 million or 14.8 per cent up on the previous year. The contours of this uptrend are already apparent when one looks at our quarterly profits, which rose steadily from €9.7 million in the final quarter of 2013 to €13.3 million in the fourth quarter of 2014. In the second half of 2014 in particular, it was not just our efforts to proactively manage our interest operations that bore fruit. Our earnings from entities accounted for using the equity method, including in particular *Oberbank* and *Bank für Tirol und Vorarlberg*, also contributed to the robust growth in our profit, increasing by 14 per cent to €28.6 million.

While interest expenses came to €63.4 million (2013: €73.5 million), interest income was just 1.3 per cent down on 2013 to €192.2 million notwithstanding the historically low interest rates. The increase in net interest income before the impairment charge of €11.1 million or 7.6 per cent to €157.3 million reflected a solid performance that, following the ECB's changes in key interest rates, was primarily due to a significant drop in interest expenses on savings deposits. We believe that volume of new loan agreements, which firmed up somewhat in the second half but remain subdued overall, will increase disbursements this 2015 financial year and thus keep interest income stable.

The fact that many companies in our target markets in Austria and abroad were still stuck in the economic shade is apparent when one looks at our bank's impairment charge. It came to €49.5 million, which was a substantial 15.9 per cent up on 2013. However, our strict risk standards give us security and the confidence that we will be able to detect risks in good time and act appropriately.

Looking in detail at our impairment charge on loans and advances, the overall charge was the sum of impairment allowances and reversals thereof, subsequent recoveries of written-off receivables, direct write-offs and assessments of impairments of portfolios carried out in accordance with IAS 39.64. Including the proportional allocation of risk allowances to ALGAR, impairment allowances came to €60.4 million. Although insolvencies in Austria were still a problem, it proved possible to limit direct write-offs during the year under review to €0.7 million. At the same time, we were able to carry out impairment reversals totalling €11.2 million. The impairment charge on loans and advances came to 0.9 per cent of the average exposure inclusive of contingent liabilities.

Impairment charges on loans and advances at our foreign subsidiaries came to €2.0 million. The impairment charge at *BKS Bank d.d.* came to €1.2 million, and the impairment charge at *BKS leasing Croatia d.o.o.* came to €0.3 million. *BKS-leasing d.o.o.* in Slovenia recognized impairment allowances of €0.4 million. Impairment allowances at our Slovakian leasing subsidiary exceeded impairment reversals by €0.1 million. Full-year net interest income after the impairment charge was 4.2 per cent up on 2013 to €107.8 million.

IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€m	2014	2013	2012
Direct write-offs	0.7	1.4	0.7
Impairment allowances	60.4	47.0	45.4
Impairment reversals	(11.2)	(5.4)	(7.1)
Subsequent recoveries	(0.5)	(0.4)	(0.4)
Impairment charge on loans and advances	49.5	42.7	38.6

As had been expected, net fee and commission income developed satisfactorily over the year, totaling €44.7 million across the BKS Bank Group. This was roughly the same as the total of €45.4 million recorded in 2013. Fee and commission income from payment services grew by 5.5 per cent to €20.3 million, whereas fee and commission expenses in that area came to €1.5 million. This was the most important pillar of net fee and commission income, accounting for €18.7 million or about 42 per cent of the total. Fee and commission income from securities operations picked up strongly, increasing by 8.9 per cent. It was given wings by the volatile but all in all balanced performance of the international capital markets and, not least, by an increase in securities account balances in Slovenia as a result of the acquisition of securities positions from *Factor Banka d.d.* At 31 December 2014, the value of the securities accounts within the Group was close to the €8 billion mark, coming to €7.96 billion. At first sight, there appears to have been a decline in net fee and commission income from credit operations, which came to €10.2 million, as against €13.2 million in 2013. However, this line item was affected by the first-time deferral of up-front fees.

Financial assets perform well

Our profit from financial assets was good, at €5.6 million. This compared with €3.2 million in 2013 and represented a significant overall increase in performance. We successfully exploited temporary booms on the stock markets to increase our earnings from available-for-sale financial assets to €3.0 million from €1.6 million in 2013. Because of creditworthiness related adjustments to credit spreads, profit from financial assets designated as at fair value through profit or loss, which included revaluation gains and losses on hedges within the scope of the fair value option and revaluation gains and losses on derivatives, fell from positive €1.6 million in 2013 to negative €2.1 million in the year under review. The line item *Profit/(loss) from held-to-maturity financial assets* was definitely positive at €4.7 million.

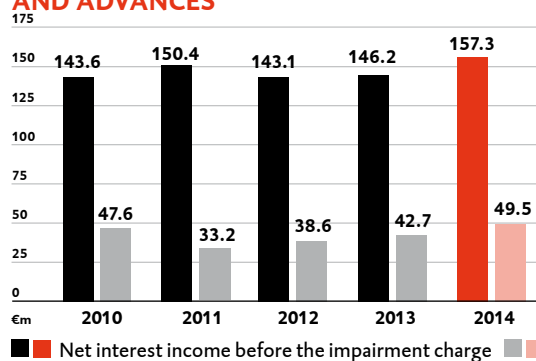
The line item *Net trading income*, which consists of earnings from foreign exchange trading and trading in derivatives, was only just down on the 2013 figure of €1.5 million to €1.4 million. We note that, since proprietary trading is not a focus of our business operations, trading activities made only a small contribution to total profit.

Costs remain stable

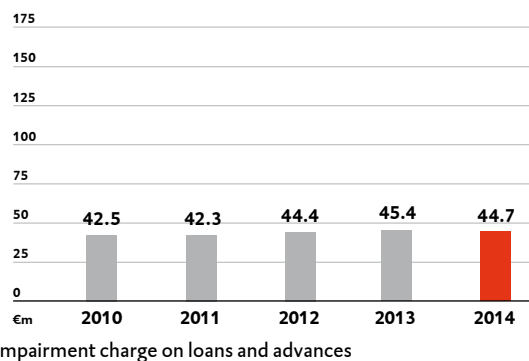
Despite additional investments and an increase in regulatory costs, general administrative expenses—which comprise staff costs and other administrative costs inclusive of depreciation and amortization—were kept virtually stable at €105.8 million during 2014, compared with €100.8 million in 2013. Active cost management and the strong commitment to cutting costs shared by every decision maker and staff member at BKS Bank both contributed to this success. We are pleased to report that our bank was, with the help of structural changes, able to keep staffing at a reasonable level despite the high regulatory demands. The average number of staff increased by just five to 915 (full time equivalents). Once the processing of retail loans and branch services had been outsourced to Group member *BKS Service GmbH* as of 1 January 2014 in the course of the *Operative Exzellenz (OpEx)* project, we made steady progress optimizing processes within the units that had been transferred. We rapidly took advantage of the potential savings of human resources that resulted. We were able to keep staff costs just below the €70 million mark at €69.9 million. This compared with €66.9 million in 2013. The increase of 4.3 per cent reflected the average salary increase of 2.15 per cent under collective agreements that took place on 1 April 2014.

In the year under review, other administrative costs stayed within the same narrow corridor as in prior years, coming to €29.0 million. This compared with €27.1 million in 2013. True to our determination

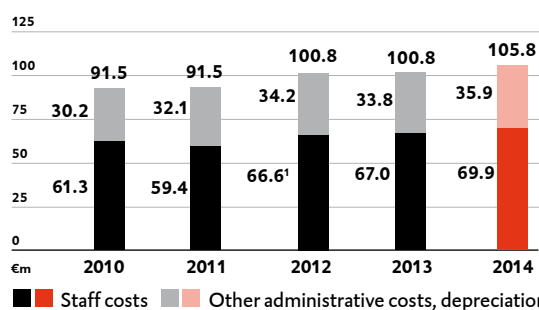
NET INTEREST INCOME AND IMPAIRMENT CHARGE ON LOANS AND ADVANCES



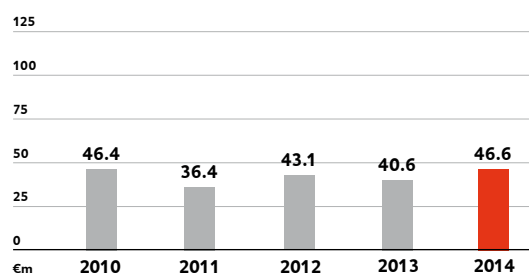
NET FEE AND COMMISSION INCOME



GENERAL ADMINISTRATIVE EXPENSES

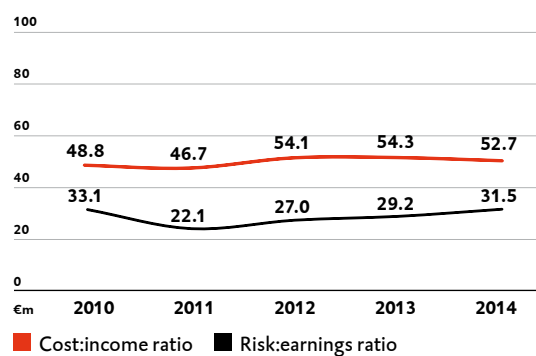


CONSOLIDATED PROFIT FOR THE YEAR AFTER TAX

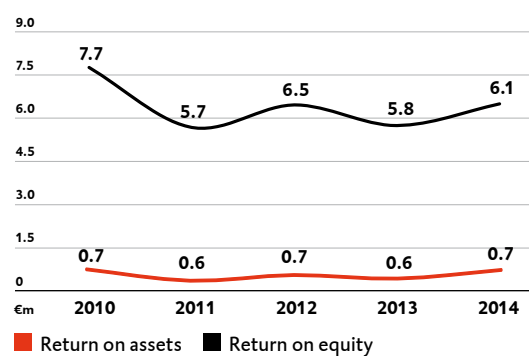


¹ Restated to reflect the changes to IAS 19.

COST:INCOME RATIO AND RISK: EARNINGS RATIO



ROE AND ROA AFTER TAX



KEY COMPONENTS OF THE INCOME STATEMENT

€m	2014	2013	2012
Net interest income	157.3	146.2	143.1
Impairment charge on loans and advances	(49.5)	(42.7)	(38.6)
Net fee and commission income	44.7	45.4	44.4
Net trading income	1.4	1.5	2.3
Profit/(loss) from financial assets	5.6	3.2	3.0
General administrative expenses	(105.8)	(100.8)	(100.8)
Profit for the year before tax	51.2	45.5	49.9
Income tax expense	(4.6)	(4.9)	(6.7)
Consolidated profit for the year after tax	46.6	40.6	43.1

to maintain strict enterprise-wide cost discipline, the small increase in office and operating expenses coincided with marketing expenses that stayed well below budget and carefully managed discretionary spending. In addition, the savings achieved through the ongoing implementation of the OpEx project made up for the increase in costs caused by the challenging regulatory requirements and allowed us to continue to invest in improving enterprise processes. The smallness of the increase in other administrative costs was all the more remarkable given that, in addition to carrying out the investments that were needed in our operating infrastructure, we opened another branch as part of reinforcing our presence in the Viennese market. This called for expenditure on the requisite construction work and IT systems.

The line item *Other operating income net of other operating expenses* came to negative €2.5 million in 2014. Although this loss was about two thirds smaller than in 2013, it was still significantly bigger than we had expected. Among other things, this line item includes the substantially increased cost of the controversial bank tax—which was unexpectedly increased again to €4.5 million in 2014—and on provisions created for possible damages payments in connection with securities operations.

Ordinary depreciation and amortization of fixed assets came to €7.0 million during the year under review, compared with €6.8 million in 2013. Current and deferred tax expenses came to €4.6 million, which was 6.3 per cent down on the previous year.

Profit for the year

Including all income and expenses and the impairment charge on loans and advances, the BKS Bank Group posted profit for the year before tax of €51.2 million in 2014, compared with €45.5 million in 2013 (increase of 12.5 per cent). Profit for the year after allowing for tax expenses increased by 14.8 per cent to €46.6 million. This was the second highest consolidated profit in BKS Bank's history.

Profit Appropriation Proposal

Distributable profit is determined on the basis of the annual financial statements of Group parent *BKS Bank AG*. This company posted a profit for the financial year from 1 January 2014 through 31 December 2014 of €19.9 million, as against €20.4 million in 2013. €11.7 million thereof was taken to retained earnings. Allowing for a profit carryforward of €0.3 million, *BKS Bank AG* thus posted net profit of €8.45 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 76th Ordinary General Meeting that the net profit in the 2014 financial year now ended be used as follows: distribution of a dividend of €0.23 on each of the 34,236,000 ordinary no-par shares and 1,800,000 no-par preference shares that will be entitled on the day of the Ordinary General Meeting to a dividend in respect of the financial year ended, giving a total of roughly €8.3 million; and carryforward of the remainder to a new account. The resulting payout ratio based on the profit for the year after tax would be 41.7 per cent.

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 in primary deposit balances as well as costs and profit—its overall

performance as of the end of 2014 was balanced. Most of the BKS Bank Group's operating ratios thus met our ambitious expectations. This was thanks to the advance in consolidated net profit for the year. The return on equity (ROE) before tax improved to 6.7 per cent, having been 6.5 per cent in 2013. The return on assets (ROA) too was already building on developments in the pre-crisis years, coming to 0.7 per cent. IFRS earnings per share were €0.16 up on 2013 to €1.42. As we will detail in the section on our *Own Funds* from page 90, our bank's own funds position was very solid and our ratios remained correspondingly good under the Basel III regime. Having been 54.3 per cent in 2013, the cost:income ratio stayed on course to our benchmark target, improving to 52.7 per cent. This ratio, which reflects our consistent cost management activities in recent financial years, means that our bank was still among the leaders in Austrian industry comparisons. The rise in the requisite impairment charge increased the risk:earnings ratio from 29.2 per cent to 31.5 per cent. At the same time, the economic climate was still chilly, dampening our hopes of being able to return to our internal benchmark target of 25 per cent in the foreseeable future.

KEY CORPORATE PERFORMANCE INDICATORS

% unless otherwise stated	2014	2013	2012
ROE before tax (profit for the year in % of average equity)	6.7	6.5	7.5
ROE after tax	6.1	5.8	6.5
ROA after tax (profit for the year in % of average assets)	0.7	0.6	0.7
Cost:income ratio	52.7	54.3	54.1
Risk:earnings ratio (credit risk in % of net interest income)	31.5	29.2	27.0
Tier 1 capital ratio, % (common equity Tier 1 capital in conformity with Basel III from 1/1/2014)	11.2	13.9	13.1
Own funds ratio, % (own funds ratio in conformity with Basel III from 1/1/2014)	12.0	16.0	15.9
IFRS earnings per share in issue, €	1.42	1.26	1.34

Assets, Liabilities and Financial Position

Assets

In all, the consolidated balance sheet total grew just marginally, increasing by €120.7 million or 1.8 per cent to €6.86 billion. On the assets side of the Balance Sheet, this reflected increases in the line items *Cash and balances with the central bank* (growth of 105.4 per cent to €215.3 million) and *Receivables from other banks* (growth of 130.5 per cent to €269.5 million). On the other hand, *Receivables from customers* fell compared with the end of 2013 (down 0.5 per cent to €5.02 billion), as did the line item *Financial assets* (down 7.2 per cent to €1.41 billion). The increase in receivables from other banks mirrored the usual seasonal pattern that resulted from short-term investments of surplus liquid assets with banks of excellent credit standing at year-end.

The smallness of the drop in receivables from customers notwithstanding the gloomy state of the economy (they fell by just €27.2 million to €5.02 billion) was mainly attributable to the satisfactory volume of new lending. We felt a slight improvement in virtually every market territory, especially in the third quarter. The portfolio of loans to corporate and business banking customers shrank during the year under review, showing a small drop of 1.3 per cent to €3.89 billion from €3.95 billion at the end of 2013. On the other hand, the retail loan portfolio grew by €25.6 million to €1.13 billion. After the elimination of

intragroup customer balances, *BKS Bank AG* accounted for €4.58 billion of the Group's loan portfolio. There was again an excellent influx of personal banking customers at our branches in Slovenia.

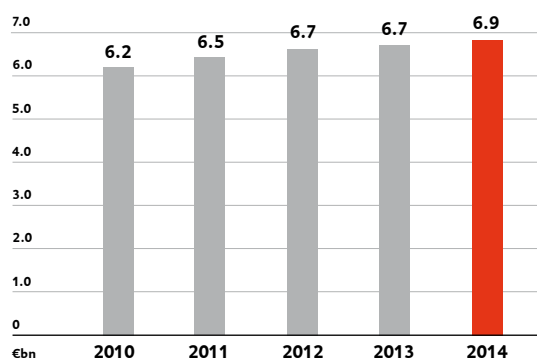
The International Financial Reporting Standards require the disclosure of the balance of impairment allowances for loans to customers as a deduction on the assets side of the Balance Sheet. It came to €194.2 million, which was €18.1 million or 10.3 per cent more than at the end of the previous year. The increase was mainly due to the first-time proportionate consolidation of *Alpenländische Garantie-GmbH* (ALGAR) in the course of the application of IFRS 11 in the 2014 financial year. Because of the classification of our investment in that entity as a joint operation, the guarantee cases directly allocable to BKS Bank on the grounds of statements of guarantee and dedicated provisions required recognition in the balance sheet line item *Impairment allowance balance*.

The leasing operations of our Austrian subsidiary *BKS-Leasing GmbH* developed very well in 2014. The present value of its lease receivables increased by 12.2 per cent to €167.7 million. In other words, we too were able to benefit from the market's very solid growth, especially in the movables leasing segment. The Austrian movables leasing segment as a whole grew by 9.6 per cent in 2014. Despite the difficult market conditions, present values at our leasing companies abroad, namely in Slovenia, Slovakia and Croatia, stayed close to the total of €146.8 million recorded at the end of 2013 to come to €144.3 million at year-end. *BKS-leasing d.o.o.* in Slovenia made the biggest contribution to this good overall figure, accounting for €71.4 million of the total present value. The lease portfolio at *BKS Bank d.d.* grew by about €17.0 million during the year to total €128.9 million. However, our lending in what was still a difficult Croatian market was very selective.

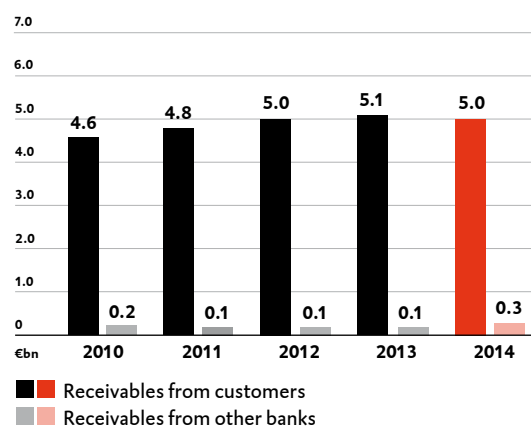
It should be noted that the proportion of foreign currency loans in the total loan portfolio had already fallen to 9.4 per cent by year-end after starting the year at 10.8 per cent and coming to 10.3 per cent at mid-year. This was because the portfolio had shrunk by another 385 loans or SFr 100.1 million. This happened even before the SNB's unexpected departure from its minimum peg of the Swiss franc to the euro. It was, not least, a consequence of our repeated appeals to our customers to switch currencies as soon as possible to mitigate the escalating foreign currency related credit risk. With an eye to risk management, we also paid special attention to companies who had to service euro loans but did not earn their money in euros. This applied mainly to Croatian customers, where the amount concerned was €346.1 million. At this juncture, we would like to point out that the Swiss franc related problems created by politically frozen exchange rates affected us neither in Croatia nor in or Hungary because we had not granted any such loans there.

As we have already mentioned, the line item *Financial assets* decreased by 7.2 per cent to €1.41 billion. The persistently low interest rates meant that the returns on investments were, without exception, unattractive. The benchmark yield on 10-year government bonds in the eurozone slumped by about 140 basis points to an historical low of 0.54 per cent. In this environment, it was impossible to adequately compensate for redemptions by re-investing. There were reductions in the sub-items *Financial assets designated as at fair value through profit or loss* (decrease of 20.8 per cent to €149.4 million), *Held-to-maturity financial assets* (decrease of 5.1 per cent to €678.7 million) and *Available-for-sale financial assets* (decrease of 27.1 per cent to €183.3 million). Overall, redemptions and sales during the year under review came to €259.1 million, whereas new investments came to €115.3 million. On the other hand, *Investments in entities accounted for using the equity method* increased by €34.8 million to €395.9 million. The increase in that line item of 9.6 per cent was due mainly to the addition of the profits for the year recorded by *Oberbank AG* and by *Bank für Tirol und Vorarlberg Aktiengesellschaft*, which were accounted for using the equity method.

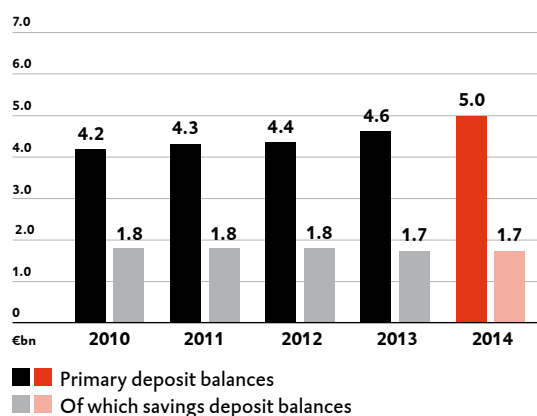
BALANCE SHEET ASSETS



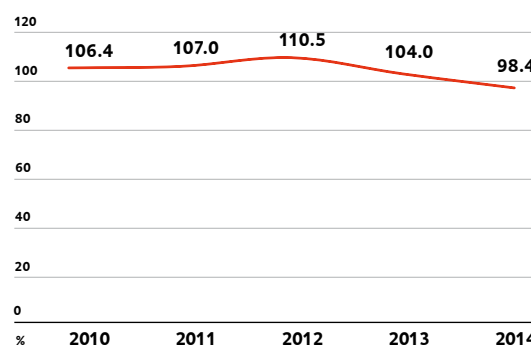
LOAN PORTFOLIO



PRIMARY DEPOSIT BALANCES



LOAN:DEPOSIT RATIO



Equity and liabilities

The equity and liabilities side of the Balance Sheet reflects a pleasing inflow of primary deposits. In the course of 2014, we were able to increase the total balance of savings deposits, sight and time deposits, our own issuances and subordinated debt capital by €415.5 million or 9.0 per cent to €5.01 billion. We see the steady inflow of customers assets as a clear sign of the high level of confidence customers have in BKS Bank's crisis resistant business model. As the loan:deposit ratio chart (above) shows, customer assets (inclusive of subordinated debt capital) slightly exceeded our receivables from customers at year-end. During the year under review, we continued to push the development of primary deposits with the help of a targeted deposit acquisition policy that was based on competitive offerings at our branches, which have strong regional roots. However, attracting savings deposits proved very difficult as a result of the ECB's near-zero interest rates policy, runaway competition from our rivals under the pressure of the liquidity requirements planned under Basel III and growing uncertainty among broad segments of the population. The strong inflow of deposits in Slovenia is worthy of note. It went hand-in-hand with high customer confidence.

Savings deposits with BKS Bank fell by just €35.7 million or 2.1 per cent to €1.71 billion between the end of December 2013 and the reporting date. Although BKS Bank's performance also echoed the nationwide trend, it did so, as we are pleased to report, in a less severe form. Domestic savings deposit balances in the Austrian joint stock bank sector shrank by 5.6 per cent during the first three quarters of 2014 (latest available data: September 2014).

On the other hand, *Other liabilities* in the form of sight and time deposit balances grew significantly, increasing by €476.1 million or over one fifth to a total of €2.52 billion. This line item, which was also of importance to our liquidity planning at the end of 2014, was dominated by institutional clients.

The extremely low interest rates also affected issuances of BKS Bank's own securities. Redemptions came to €149.1 million, while new issues came to €110.1 million. Although we carried out a series of attractive new issues—including the 2.4 per cent *BKS Bank-Obligation 2014-2021/1* and the *BKS Bank-Stufenzins-Obligation 2014-2021/3*—our issuing policy was intentionally defensive in the absence of corresponding credit demand and because we were able to top up our own funds by way of the capital increase that took place in October 2014. We placed subordinated debt in the amount of €20.0 million in the form of a 5 per cent subordinated note called *BKS Bank Nachrangige Obligation 2014-2023/2*.

The line item *Provisions* grew substantially, increasing by €44.5 million or 53.0 per cent to €128.5 million. This was the result of the first time proportionate consolidation in 2014 of *Alpenländische Garantie-GmbH* (ALGAR) as required by IFRS 11, with general provisions in the amount of €33.6 million being accounted for on a proportionate basis and recognized in the line item *Provisions*.

The Group's consolidated equity—which comprises subscribed capital, capital reserves, retained earnings and other reserves—increased by €91.5 million or 12.8 per cent to €805.7 million. As the details provided in the table entitled 'Statement of Changes in Equity' on page 141 show, the recent 1-for-10 increase in share capital increased our subscribed capital by €6.6 million to a nominal total of €72.1 million. €45.9 million was added to our capital reserves. €32.6 million was taken to retained earnings. On the other hand, the dividend distribution in the amount of €8.0 million carried out in May 2014 required recognition as a deduction from equity.

Own Funds

Until the end of 2013, BKS Bank calculated its own funds ratio and basis of assessment in accordance with the solvency regime established by Basel II and calculated its own funds requirement in conformity with the requirements of the standardized approach.

Following the implementation of the Basel III regime by new EU legislation (CRD IV and CRR) at the beginning of 2014 and in order to conform to the amended *Bankwesengesetz* (BWG neu: new Austrian banking act), we fundamentally changed the way we calculate our own funds. In conformity with the transitional provisions of CRR and CRD IV, capital instruments that will no longer be eligible in the future are gradually being eliminated while the new rules regarding regulatory adjustments are successively being introduced. The most important change under Basel III will concern the classification of a bank's operating own funds, which will now comprise common equity Tier 1 capital, Tier 1 capital and ancillary own funds. The capital requirements will gradually be increased from 2015 by way of a large number of different buffers that are to be generated from common equity Tier 1 capital. The total capital ratio requirement of 8 per cent will be retained. However, the required proportion of common equity Tier 1 capital will increase from 4 per cent to 4.5 per cent. While higher reserves are intended to cushion losses, the capital conservation buffer is designed to absorb negative extraordinary effects. The requirement for this buffer will increase from 0.625 per cent starting in 2016 to 2.5 per cent in January 2019. Another requirement that may be of relevance to our bank relates to the anti-cyclical buffer pursuant to § 23 a BWG. It will be set by the FMA depending on the economy's performance. The FMA will

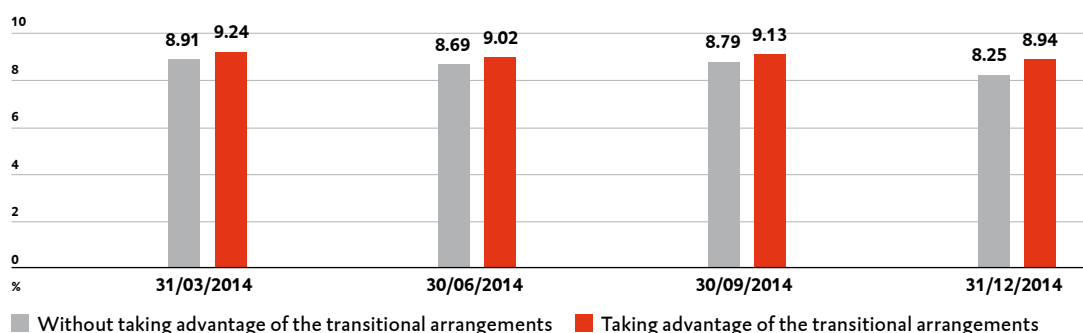
BKS BANK KREDITINSTITUTSGRUPPE: OWN FUNDS FOR THE PURPOSES OF BASEL III

€m	31/12/2014
Eligible share capital	71.4
Reserves net of intangible assets	714.5
Deductions	(242.2)
Common equity Tier 1 ¹	543.7
Common equity Tier 1 ratio	11.2%
Hybrid capital	32.0
Deductions	(32.0)
Additional Tier 1 capital	0
Tier 1	543.7
Tier 1 ratio (including additional Tier 1 capital)	11.2%
Ancillary capital items and instruments	117.8
Deductions	(80.6)
Ancillary capital	37.2
Total own funds	580.9
Own funds ratio	12.0%
Basis of assessment	4,846.6
Surplus own funds	193.2

¹ Includes profit for the year 2014. The formal vote on the proposal has yet to take place.

in future be allowed to require banks to hold additional common equity Tier 1 capital above and beyond the general own funds requirements. The aim is to prevent excessive credit growth within the Austrian economy in periods of economic recovery in order to ensure that sufficient capital is still available for lending purposes in crisis periods. The requirement is to be between 0 and 0.625 per cent from 2016 and between 0 and 2.5 per cent from 2019. If they cannot maintain this buffer, banks will in future be obliged to retain a part or even all of their earnings to strengthen their capital base.

BKS Bank will continue to use the standardized approach to calculate its own funds requirement under the Basel III own funds regime. The basis of assessment for the banking book at year-end 2014 was calculated to be €4.85 billion. Although comparisons are of limited validity, this was €419.8 million more than at the end of 2013. It meant that BKS Bank had common equity Tier 1 capital of €543.7 million, own funds of €580.9 million and surplus own funds of €193.2 million at the end of the fourth quarter. Its own funds ratio for the purposes of CRR was 12.0 per cent, and its common equity Tier 1 ratio was 11.2 per cent. Those ratios signify that our bank easily met the CRR requirements.

LEVERAGE RATIO OF BKS BANK KREDITINSTITUTSGRUPPE


The CRR introduced a gearing ratio (leverage ratio) to limit the indebtedness of financial institutions and make absolute debt in the financial system more transparent. It expresses the ratio of Tier 1 capital to the unweighted exposure inclusive of off-balance-sheet risk positions. A minimum ratio that is still under consultation is to be introduced to particularly restrain business models that are based on lending large amounts to prime borrowers while keeping capital charges to a minimum. Although its disclosure will not be mandatory until 2015, we can report that the leverage ratio calculated for our bank was an outstanding 8.9 per cent at the end of 2014. This is well above the minimum ratio that is currently under discussion.

Segmental Reports

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

Our sales network is geared to regional needs and our customers' requirements. At year-end, it consisted of 57 branches located in Austria, Slovenia, Croatia and Slovakia and a representative office each in Slovenia, Croatia, Italy and Hungary. Besides the products that are usually provided by a so-called

SEGMENTS

The Corporate and Business Banking Segment

About 14,000 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 has remained the most important pillar of the enterprise. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed the income and expenses of *BKS Bank d.d.* in Croatia and the leasing companies insofar as they arose from business done with companies.

The Retail Banking Segment

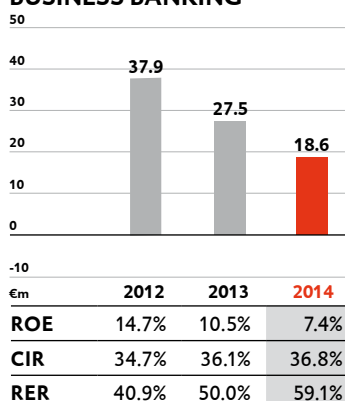
Roughly 135,000 customers of *BKS Bank AG*, *BKS Bank d.d.* and the Group's leasing companies were being serviced in the retail banking segment. In addition, it also included some 2,700 securities customers who moved to our Ljubljana branch during the takeover of the securities operations of *Factor Banka d.d.* in Slovenia. Because it is highly dependent on branch operations, this was our most resource and cost intensive segment. However, at the same time, it was indispensable to us because about 89 per cent of savings deposit balances and nearly a third of sight and time deposit balances—that is, roughly 54 per cent of our payables to customers—were accounted for by retail customers, making this segment our bank's most important source of funds even in times of historically low interest rates.

The Financial Markets Segment

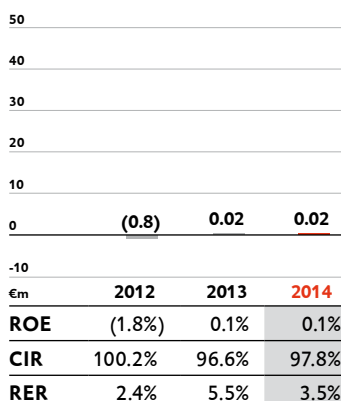
The financial markets segment encompassed the profits from *BKS Bank AG*'s proprietary trading activities, from securities held in its own portfolios, from equity investments, from derivatives in the banking book and from interbank transactions as well as earnings from its interest-rate term structure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

PROFIT FOR THE YEAR BEFORE TAX, BY SEGMENT

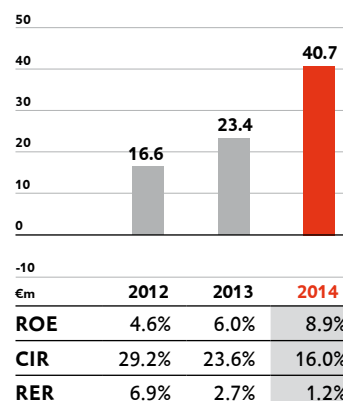
CORPORATE AND BUSINESS BANKING



RETAIL BANKING



FINANCIAL MARKETS



'universal' bank, our broad range of financial services also included ancillary offerings like lease finance, insurance and building society products. These products and services were sourced from subsidiaries, associates within the 3 Banken three banks group and long-standing allies of BKS Bank and were sold through our own sales channels.

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

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

The Corporate and Business Banking Segment

The corporate and business banking segment was the most important operating business segment by far within the BKS Bank Group. Our bank's corporate and business banking operations continued to target small and medium-sized export-orientated industrial manufacturers, businesses and trading enterprises. For the first time, they were classified using the ÖNACE economic activity codes in 2014. A detailed list of the sectors and industries that were relevant to us is provided on page 115 of the Risk Report. Those companies see BKS Bank as a reputable and reliable partner that stays close to them even when economic times are tough, knows what is happening in the market and makes decisions promptly and unbureaucratically.

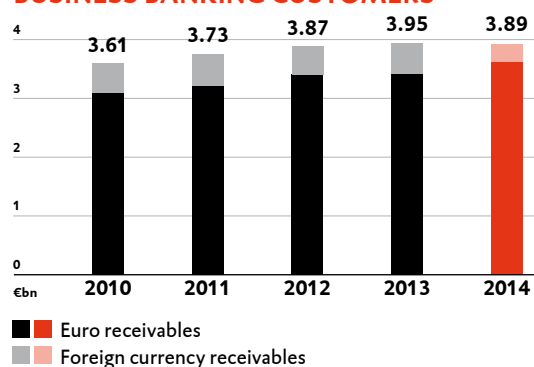
Although the markets were still affected by the economy's weakness, our business performance remained encouragingly stable during the 2014 reporting year. The portfolio of loans to corporate and business banking customers was worth €3.89 billion at the end of the year under review, compared with €3.95 billion at the end of 2013. This meant that over three quarters of all lending by the

BKS Bank Group had taken place in this segment. The scale of the portfolio too was a solid reflection of BKS Bank's stable position in the market as a partner to the Austrian economy. As for the unpegging of the franc by Switzerland's central bank in January, we point out that the proportion of foreign currency loans in the total corporate and business loan portfolio fell by another 212 basis points to just 7.7 per cent. Besides Carinthia, where our bank has had a leading role in the corporate and business customer market for decades, Styria, Burgenland and Greater Vienna were also focuses of our acquisition plans in 2014. We successfully competed with our rivals to win a number of big subsidized investment project and export finance contracts, demonstrating the expertise of our corporate and business customer advisors. So as not to unnecessarily increase our credit risk exposure, we managed new exposures in foreign markets with the requisite caution and on the basis of ratings.

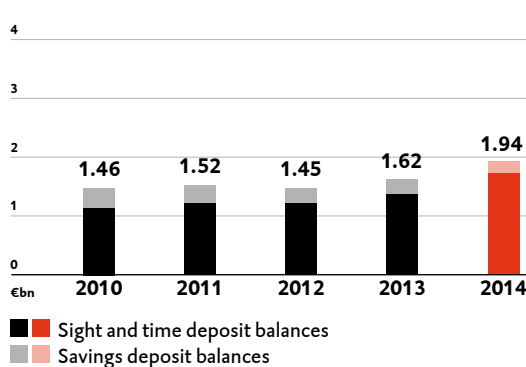
We offered our corporate and business banking customers a broad range of the usual financing variants. We carefully tailored our working fund and project finance, lease and export finance, guarantee and subsidized finance solutions to our customers' needs during structured consultations.

Loans remained the most important aspect of BKS Bank's offerings for its corporate and business banking customers. We also aggressively sold our saving and time deposit solutions and insurance products to business proprietors with the legitimate goal of improving our cross-selling ratio. Payables to corporate and business banking customers increased by about one fifth to €1.94 billion. Against the backdrop of historically low interest rates, we suffered an outflow of savings deposits that reduced the savings deposit balance by €33.2 million to €195.7 million. On the other hand, though, sight and time deposit balances grew substantially, increasing by €348.8 million or 25.0 per cent to €1.74 billion. In the corporate and business banking segment, BKS Bank collaborated with insurance broker *3 Banken Versicherungsmakler GmbH* in the insurance field. This is a *3 Banken* joint operation whose specially trained advisors

RECEIVABLES FROM CORPORATE AND BUSINESS BANKING CUSTOMERS



PAYABLES TO CORPORATE AND BUSINESS BANKING CUSTOMERS



CORPORATE AND BUSINESS BANKING SEGMENT

€k	2014	2013	2012
Net interest income	80,971	79,941	88,606
Impairment charge on loans and advances	(47,832)	(40,003)	(36,258)
Net fee and commission income	23,358	24,433	23,732
General administrative expenses	(38,642)	(38,184)	(39,399)
Other operating income net of other operating expenses	728	1,318	1,240
Profit for the year before tax	18,583	27,505	37,921
ROE before tax	7.4%	10.5%	14.7%
Cost:income ratio	36.8%	36.1%	34.7%
Risk:earnings ratio	59.1%	50.0%	40.9%

accompany our corporate and business banking account managers on their visits to customers. There was particularly brisk demand for corporate pension insurance products and, of course, suitable cover for corporate risks like business interruptions and directors' liability. Total premium income from property insurance was also sustained at a high level. In the payments field, we were able to convince our corporate and business banking customers of the advantages of our attractive *Business Klassik*, *Business Komfort* and *Business Premium* based account models, and we had *Electronic-Banking (ELBA)* and online banking variants and cash management solutions to hand to suit every size of company.

Despite the gloomy economic horizon, net interest income in this segment came to €81.0 million, exceeding the good 2013 figure of €80.0 million by €1.0 million or 1.3 per cent. Given the persistent pressure on margins and the erosion of interest rates, this was a thoroughly respectable result. On the other hand, net fee and commission income was down on 2013, falling by 4.4 per cent to €23.4 million. While the difficult economic environment increased risk costs by €7.8 million to €47.8 million in the course of the year, it proved possible by consistently exploiting synergistic effects to keep general administrative expenses at the same level as in 2013, at €38.6 million. The overall result was that profit for the year in the corporate and business banking segment retreated by €8.9 million to €18.6 million. This weakened some management indicators. The increase in the requisite impairment charge worsened the risk:earnings ratio from 50.0 per cent in 2013 to 59.1 per cent in the period under review. Given this segment's earning power, this is a ratio that needs to improve in the medium term. The segment's return on equity (ROE) based on its profit for the year and allocated equity of €251.0 million fell from 10.5 per cent to 7.4 per cent. However, its cost:income ratio stayed stable, coming to 36.8 per cent. Since the gloomy economic picture is likely to be slow to brighten in the weeks and months to come, we will be keeping a particularly close eye on the development of margins and risks in our lending operations this 2015 financial year.

The Retail Banking Segment

The retail banking segment was again hotly contested in the marketplace during 2014. Although we saw a new lease of life in our securities operations, which had made big contributions to our annual profits before the financial crisis, the savings deposit and issuance markets remained highly competitive and margins in them continued to decline. This was because every bank was still very dependent on so-called 'primary' deposits as a source of funds. At the same time, our commitment to offering our customers modern branch facilities—which was underscored by our opening of new branches—tied up financial resources. We are fully aware how dependent this resource and cost intensive segment is on branch operations. Considering the still difficult state of the market, we were very pleased by the level of dedication with which BKS Bank's retail account managers remained committed to their work even in the difficult 2014 banking year. Being awarded the title of 'Best Branch Based Bank in Austria' confirmed that our responsible and personal approach to giving advice is the right approach.

Our bank's securities operations concentrated on asset management, brokerage and investment fund services. Investors enjoyed rising prices in the equity and bond markets. Despite the many uncertainties that affected markets in the course of the year, U.S. equities in particular performed very well. The threshold countries too performed consistently well. Eastern Europe alone showed an opposing trend. Unfortunately, the ATX could not escape the effects of the Ukraine crisis and lost over 13 per cent on the year. However, the returns on bonds were impressive. Euro government bonds in particular achieved big gains.

BKS Bank's customers were also among the beneficiaries of developments in the international financial markets. Customer assets under management by our bank increased by 17.3 per cent to nearly

€8 billion. This total included portfolios at 3 *Banken-Generali Investment GmbH*, for which BKS acts as custodian. Assets under management by this asset management company were 16.2 per cent up on the end of 2013 to €7.67 billion, having grown well ahead of the industry average. Above all, we are pleased to report that assets under management in the private banking segment increased by €55.0 million to €524.0 million. The professional and customer-orientated support we provided was particularly appreciated by high net worth customers. We offer our private banking service to customers with liquid assets of more than €200,000. In addition to the expertise of our specially trained private banking advisors in Klagenfurt, Graz, Mattersburg and Vienna, we have a special range of products and services for this group of customers. They include, for instance, BKS Bank's Brokerage Service, which is designed for customers with years of experience in the capital markets who, when it comes down to it, also want to make short-term investment decisions in addition to pursuing sustainable performance targets.

The services and products for high net worth customer that we provide on the basis of our active asset management concept (AVM¹) continued to prove their worth in 2014. The individual asset management line (iVV) saw inflows of €22 million to reach a total of €73 million. We want to spotlight our AVM *nachhaltig* sustainable active asset management product launched back in 2013, which was awarded Austria's *Umweltzeichen für nachhaltige Finanzprodukte*² (environmentally sustainable financial products mark). We recorded pleasing increases in both values and volumes. AVM *nachhaltig* invests in accordance with strict ecological and ethical criteria and strict standards of social responsibility. 183 customers had already placed their trust in AVM *nachhaltig* by the end of 2014, and the number is rising.

The portfolio of loans to retail banking customers grew by 2.3 per cent to €1.13 billion during 2014. The broadening of BKS Bank's offerings in its foreign markets contributed to this growth alongside the large range of products for areas such as 'building and living', 'home renovation' and 'cars and consumption'. New business in Austria developed satisfactorily. It is worth noting that more and more sustainable products like the BKS *Öko-Kredit* 'green' loan for environmentally friendly home renovations are reinforcing our core lending operations. We are particularly pleased to report that the credit risk associated with personal loans was still very low and that the risk:earnings ratio in the retail banking segment fell again, dropping from 5.5 per cent in 2013 to 3.5 per cent in the year under review. Moreover, during 2014, we stepped up our advisory focus—which was launched back in 2009—on telling customers how they can convert their outstanding foreign currency loans into euro loans. The total had been reduced by another SFr 31.5 million by the end of 2014, which was two weeks before the Swiss National Bank's paradigm shift.

We welcome the fact that retail banking customers accounted for the bulk of savings deposit balances with our bank at the end of 2014, namely €1.51 billion, and about €0.78 billion of sight and time deposit balances. Traditional saving products evoked considerable interest despite the low interest rates. There was particularly brisk demand for *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts with terms of 12, 18 or 24 months, our 'green' *Öko-Sparbuch* passbook accounts for energy-saving investments and the on-demand BKS *Sparcard* saving card sight deposit accounts. Similarly, classical building society agreements with the incentive of a capital gains tax exempt state building society premium were still popular saving products. As always, BKS Bank cooperated with *Wüstenrot* in this field, signing 4,371 new contracts in the period under review. That was 2.4 per cent more than in 2013.

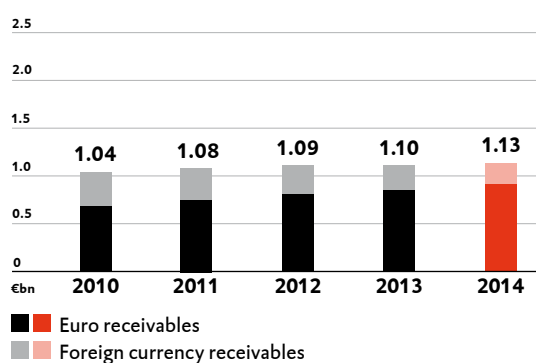
¹ This is a marketing message. The information in this text is intended solely as customer information. It is not binding and does not under any circumstances replace advice regarding the buying or selling of securities. This does not constitute an offer or invitation to buy or sell the investments and/or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

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

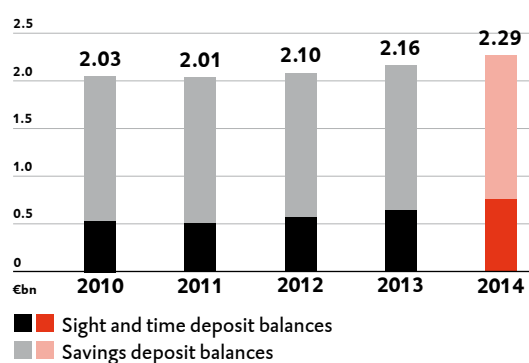
The retail banking segment profited from the unbroken demand for solid ways of saving for old age. Many of the products that are typically used to provide for the future are insurance products. In this field, BKS Bank drew upon the know-how of insurer 3-Banken Versicherungs-AG, which is a joint operation of the 3 Banken Group and Generali Versicherung AG, and the services of broker 3 Banken Versicherungsmakler GmbH. We did particularly well selling classical endowment insurance policies offering stable guaranteed returns and unit-linked endowment insurance policies in cooperation with our partner Generali. Sales of single-premium endowment policies were also satisfactory. We believe that the 'initial pension account credit', having become a focus of media attention, will boost awareness of the need to make personal provisions for one's future and, given the low level of interest rates, create an additional incentive to take out endowment insurance. 3-Banken Versicherungs-AG sold 36,716 policies in the retail segment. 27,374 were its own risk insurance policies and 7,258 were Generali endowment insurance policies.

The retail banking segment's profit for the year before tax in the 2014 reporting year came to €22 thousand. It remained in the same unsatisfactory range as in 2013, but despite eroding margins on deposit operations, it was still positive. Net interest income increased by 5.5 per cent to €34.4 million. This was thanks mainly to an increase in borrowing by our retail customers achieved despite unabated fierce competition in the market for primary deposits. The retail banking segment recorded net fee and commission income of €21.4 million as securities operations picked up considerably in the course of the year alongside credit operations. This compared with €20.6 million in 2013. The transfer of the portfolios of some 2,700 securities customers to securities accounts at BKS Bank that had been approved by Slovenia's bank regulators also contributed to this growth. Even though we invested large

RECEIVABLES FROM RETAIL BANKING CUSTOMERS



PAYABLES TO RETAIL BANKING CUSTOMERS



RETAIL BANKING SEGMENT

€k	2014	2013	2012
Net interest income	34,401	32,623	30,756
Impairment charge on loans and advances	(1,209)	(1,810)	(742)
Net fee and commission income	21,430	20,620	20,035
General administrative expenses	(54,589)	(52,275)	(51,947)
Other operating income net of other operating expenses	(11)	866	1,062
Profit for the year before tax	22	24	(836)
ROE before tax	0.1%	0.1%	(1.8%)
Cost:income ratio	97.8%	96.6%	100.2%
Risk:earnings ratio	3.5%	5.5%	2.4%

amounts in the enlargement of our branch network during the year under review, consistent belt-tightening kept the rise in administrative expenses within narrow boundaries during 2014, resulting in an increase of 4.4 per cent to €54.6 million. The outstanding risk:earnings ratio is the most striking of this segment's indicators, at 3.5 per cent. It was the fruit both of our risk-aware management of new business and of the comparatively high level of collateralization in the retail banking segment. They were reflected by a reduction in the impairment charge from €1.8 million to just €1.2 million. The segment's cost:income ratio worsened marginally to 97.8 per cent. The return on equity based on profit for the year stayed low at 0.1 per cent. After a successful test phase in the fourth quarter of 2014, we acted on positive customer feedback and responded to changed market conditions by stepping up our sales activities on the basis of new and attractive account models (*Klassik Konto privat, Premiumkonto Privat, New Bankingkonto Privat*). We believe that the migration of the existing accounts in the portfolio to our new accounts landscape will be completed by the end of April 2015.

The Financial Markets Segment

BKS Bank's Asset Liability Management Committee (ALM) remained responsible for and continued the foresighted management of so-called 'structural' income in the financial markets segment against the backdrop of the eurozone's gloomy economic outlook and the big central banks' maintenance of their loose monetary policies. Structural income includes profits from interbank transactions, proprietary securities trading, derivatives in the banking book and the bank's internal reference interest rate settlements.

During the year, BKS Bank kept pace with the downtrend in interest rates that accompanied the ECB's key interest rate cuts on 5 June and 4 September 2014 (to 0.05 per cent), especially when it came to setting lending terms and conditions. It adjusted them to suit market conditions as indicators changed.

Saving deposit rates had already reached historical lows by the end of the first half. In the consumer credit segment, existing sliding rate of interest clauses accelerated the fall in customer interest rates and, in turn, the pressure on our earnings. At the same time, in order to raise funds, we had to offer our customers interest rates in line with the market because the intense competition for customer funds was primarily interest rates based. We managed our challenging interest rate operations with the help of an extensive proactive funds transfer pricing process that was used to allocate the costs that arise when financial products are funded. Based on the marginal costs of raising funds, appropriate rate markups were added to loan rates and appropriate bonuses were added to the rates paid for primary funds.

Profit for the year in the financial markets segment was shaped by the improvement in structural income over the year, a slight increase in fee and commission earnings and a reduction in the allowance for country risk exposure. Net interest income increased from €33.2 million in 2013 to €41.0 million in the year under review. The contributions to profit made by our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft*, which were accounted for using the equity method, and by *Drei-Banken Versicherungs-AG* proved to be an important pillar of earnings in the financial markets segment, coming to €28.6 million. That compared with €25.1 million in 2013.

We also have good news to report about BKS Bank's exposure to the PIIGS countries. We had small exposures to Italy, Spain and Ireland amounting to €33.1 million, €5.7 million and €5.9 million, respectively, but as the breakdown on page 118 shows, we had invested neither in Portugal nor in Greece. In addition, the exposure in Italy was largely secured by realizable assets and also included €15.1 million

FINANCIAL MARKETS SEGMENT

€k	2014	2013	2012
Net interest income	41,006	33,221	23,133
– Of which from entities accounted for using the equity method	28,562	25,063	22,259
Impairment charge on loans and advances	(479)	(897)	(1,602)
Net fee and commission income	189	149	421
Net trading income	1,373	1,523	2,348
General administrative expenses	(6,779)	(6,505)	(6,234)
Other operating income net of other operating expenses	(143)	(7,338)	(4,551)
Profit/(loss) from financial assets	5,623	3,222	3,036
Profit for the year before tax	40,790	23,375	16,551
ROE before tax	8.9%	6.0%	4.6%
Cost:income ratio	16.0%	23.6%	29.2%
Risk:earnings ratio	1.2%	2.7%	6.9%

of covered bonds. We were able to minimize the increase in general administrative expenses, which rose by €0.3 million to €6.8 million. As a result, this segment's cost:income ratio improved significantly to 16.0 per cent, having been 23.6 per cent in 2013. Its risk:earnings ratio fell to a respectably low level of just 1.2 per cent, as against 2.7 per cent in 2013. We were able to increase the return on equity—the segment's profit for the year divided by the equity of €460.0 million allocated to it—from 6.0 per cent to 8.9 per cent.

Against the backdrop of the increase in our share capital that took place in October 2014, we issued 10 tranches of our own securities in the amount of €106.1 million to meet our need for long-term funds. These notes were sold directly by our bank. In addition, we took part as trustee in an issue of 3-Banken Wohnbaubank AG that is tax privileged for private investors (capital gains tax exempt up to 4 per cent of the coupon *per annum*). BKS Bank held a 10 per cent stake in that company.

BKS BANK NOTES ORIGINATED IN 2014¹

ISIN	Name	Nominal Amount, €
AT0000A14K03	2.4% BKS Bank Obligation 2014–2021/1	20,000,000
AT0000A15MJ9	5% BKS Bank Nachrangige Obligation 2014–2023/2	20,000,000
AT0000A16R61	BKS Bank Stufenzins–Obligation 2014–2021/3	12,600,000
AT0000A19J76	Variable BKS Bank Obligation 2014–2022/4	14,516,000
AT0000A14KC1	1.9% fundierte BKS Bank Obligation 2014–2021/1/PP	15,000,000
AT0000A14KD9	2.9% fundierte BKS Obligation 2014–2026/2/PP	10,000,000
AT0000A153K8	2.65% fundierte BKS Obligation 2014–2024/3/PP	1,000,000
AT0000A15QQ5	3.8% BKS Bank Obligation 2014–2029/4/PP	10,500,000
AT0000A15TZ0	1.05% BKS Bank Obligation 2014–2017/5/PP	1,500,000
AT0000A182K7	Variable BKS Bank Obligation 2014–2022/6/PP	1,000,000
AT0000A17WE5	Stufenzins–Wandelschuldverschreibung 2014–2026 of 3-Banken Wohnbaubank AG	3,994,500

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 2014 reporting year on the basis of the base prospectus published by BKS Bank AG on 2 April 2014 together with all the documents incorporated by way of reference thereto and all addenda and the final terms and conditions published in each case. These are available free of charge from the issuer's website at www.bks.at and from the branches of BKS Bank AG, St. Veiter Ring 43, 9020 Klagenfurt, Austria, during normal business hours.

In the sometimes highly volatile environment in the financial markets, consistent risk management of our interbank transactions remained one of the requirements laid down in our strict rating guidelines, which also included the appropriate management of limits. In this connection, it should be noted that BKS Bank's correspondents were all in the top AA to A3 rating classes. Our network of correspondents consisted of some 250 banks with which we had business dealings.

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 yearly. 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 fully capture every individual risk. Available capital was used as efficiently as possible in the light of our medium-term and long-term strategic goals, and the trade-off between risk and return was constantly optimized. The precept that we only enter into risks that we can bear without outside help is anchored in the Risk Strategy as a general principle so as not to jeopardize our bank's independence and autonomy.

According to the provisions of § 39a BWG, banks are required to have effective plans and procedures in place to ascertain the amount, composition and distribution of the capital available to cover quantitatively and qualitatively all material operational and other banking risks. The requisite amount of capital must be held on that basis. These procedures were combined within the internal capital adequacy assessment process (ICAAP) and presented and reported within BKS Bank during the risk bearing capacity analysis process. The quantitative information provided below in conformity with IFRS 7.31 to 7.42 is based on the internal reporting system used in the overall bank risk management process.

During the 2014 financial year, BKS Bank looked in depth at the bank recovery and resolution plan prescribed by BaSAG (Austrian bank recovery and resolution act). It requires as a supplementary element of risk management procedures the regular monitoring of so-called recovery and resolution indicators, the assessment of potential recovery and resolution options and the testing of those options using fictional scenarios. The plan is based on our business data in 2014 and will be presented to the regulators during the 2015 financial year.

The structure and organization of the risk management process

The conservative handling of all operational and other banking risks underpinned BKS Bank's Risk Strategy. BKS Bank's risks were controlled and managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures and appropriate organizational structures. We made it a rule to constantly review the appropriateness and reliability of our monitoring procedures so as to adapt them as necessary to changing market conditions. 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, approved by the Management Board and discussed and evaluated by the members of the Risk and Credit Committee within the Supervisory Board. During this process, close attention

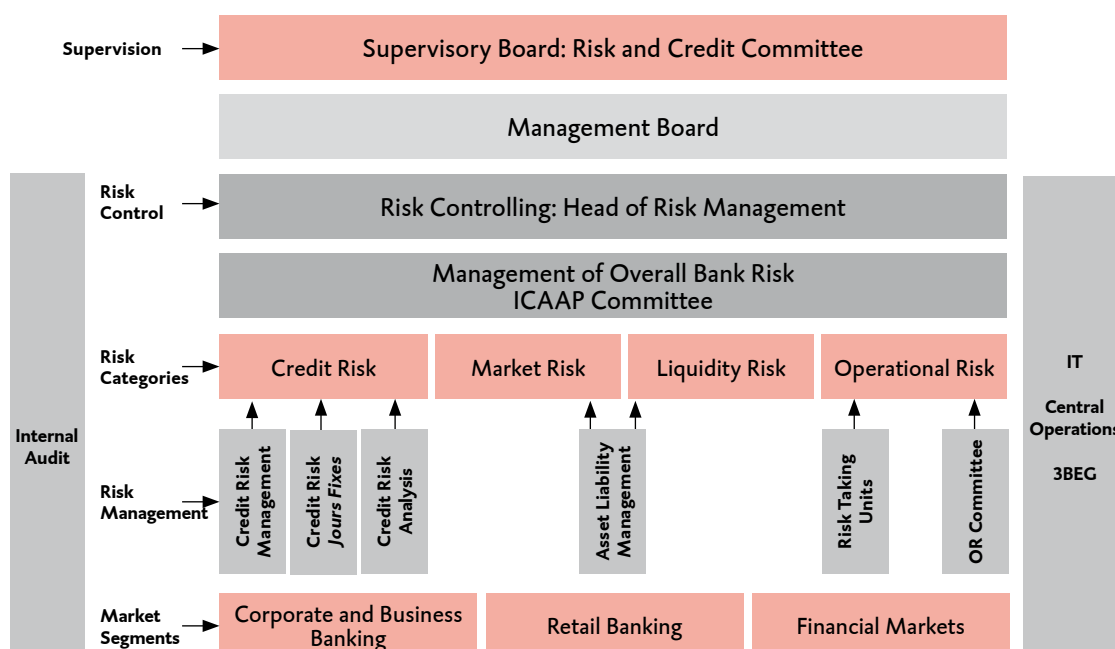
was also paid to risk concentration. In addition, the Management Board laid down risk management principles, the limits for all relevant risks and risk monitoring and management procedures.

Risk Controlling—a central unit at BKS Bank that is independent from operations—was responsible for recognizing and measuring risks in conformity with § 39 Abs. 5 BWG. This unit reported regularly to the Management Board and the operational units responsible for risk management and assessed the bank’s current risk position in the light of the corresponding risk limits and its risk bearing capacity. As an independent watchdog, it ensured that all risks lay within the limits established by the Management Board. Risk Controlling provided the Supervisory Board and the Risk and Credit Committee with all the information needed to enable them to perform their supervisory function. Once a year, a representative from this unit reports directly to the Risk and Credit Committee about the types of risk affecting the bank and the bank’s risk position. In addition, Risk Controlling was responsible for the development and implementation of risk measurement methods, the ongoing development and refinement of the management instruments and the further development and maintenance of the Risk Strategy and other rules and regulations.

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

As an independent internal watchdog, BKS Bank’s Internal Audit Department 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.

THE ORGANIZATIONAL FOUNDATIONS OF RISK MANAGEMENT



A number of committees had been set up at BKS Bank to manage overall bank risk in order to ensure a comprehensive overview and to bring a broad range of know-how into the management process:

- the ICAAP Committee;
- the Asset Liability 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 assets available to cover risks. This committee consisted of the Management Board as a whole, the Head of Controlling and Accounts and the Head of the Risk Controlling Group.

In detail, the following topics in particular were discussed and, if necessary, appropriate action was taken:

- the allocation of the assets available to cover risks and setting of the limits in conformity with the Risk Strategy;
- the current risk situation and any measures that were required 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;
- monitoring of the BaSAG indicators.

The Asset Liability Management Committee

The Asset Liability Management Committee met once a month. It analyzed and managed the structure of the balance sheet from a market risk and liquidity risk point of view and, in this connection, 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 also met quarterly. The Operational Risk Committee's tasks were:

- to observe our risk experience and analyze historical data about operational risk events in the past;
- to help the RTUs (risk-taking units) and Management actively manage operational risk;
- to track measures wherever improvements had been 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*

As the Risk Strategy states, credit risk is BKS Bank's most important risk category by far. Effective credit risk management that unerringly identifies the risks, optimizes the bank's risk and earnings

profile and ensures consistency with BKS Bank's risk bearing capacity is therefore a prerequisite for our bank's sustainable success.

Participants at the weekly credit risk *jours fixes* mainly discussed issues arising from day-to-day operations that involved the granting or extension of 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 the Controlling and Accounts Department 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 once a quarter on the basis of the risks that had been identified using internal models. The materiality of the respective risks was taken into account when selecting 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 quantified unexpected risks were therefore aggregated to obtain a figure for overall bank risk. The overall bank risk was the equivalent of our economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit risk and liquidity risk were factored into prices as risk premiums (standard risk costs, liquidity premiums) and were therefore incorporated into the interest rates imposed on customers.

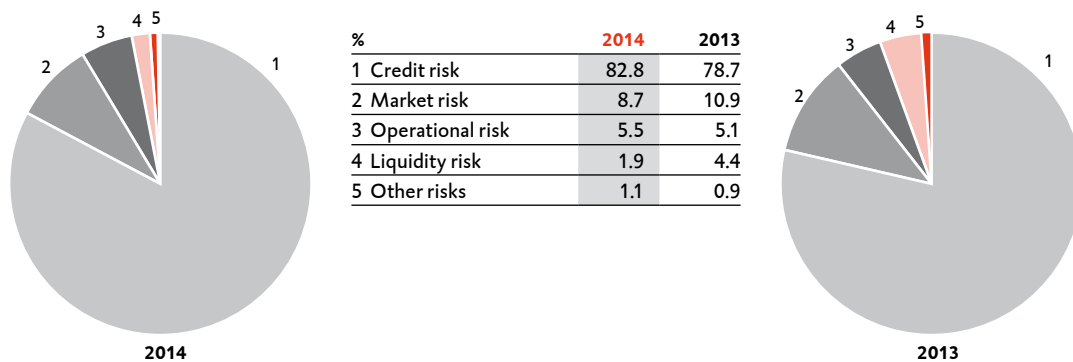
This aggregated total potential loss was compared with the assets available to cover such a potential loss to ascertain whether the bank was in a position to cover unexpected losses without suffering

serious detriment to its business activities. The individual components of the assets that were available to cover risks were ranked according to their commercial usability while taking account, above all, of disposability and publicity effects. When a capital adequacy target was set on a going concern basis, the potential risk and risk bearing capacity had to be balanced in such a way that the bank would be 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.

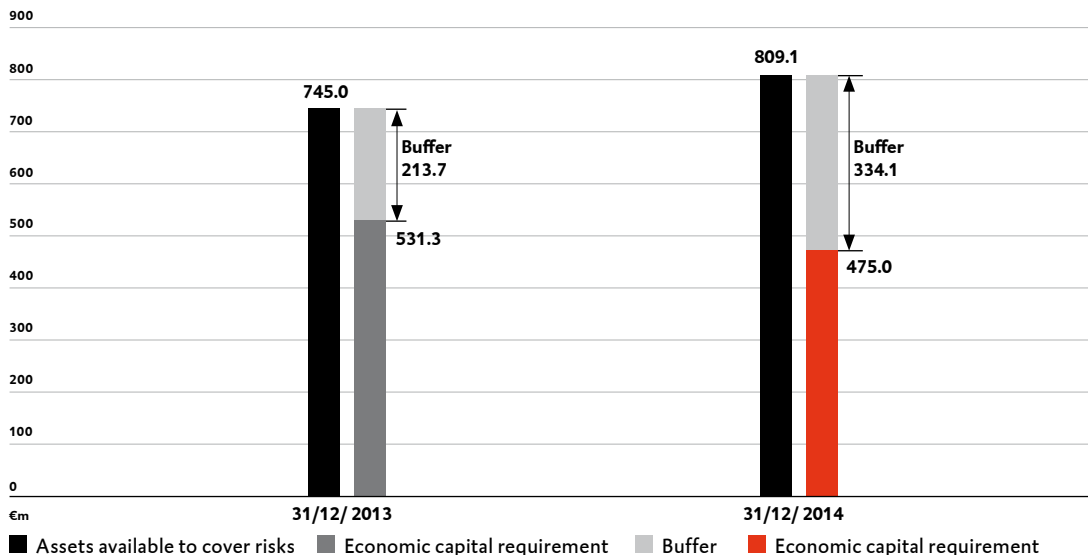
We continuously developed and refined the bank’s methods for measuring and analyzing its material risks. For instance, in the 2014 financial year, we also analyzed the impact of macroeconomic developments on the credit portfolio and took it into account in the stress tests within the scope of a ‘macroeconomic standard scenario’ and a ‘greatest relevance scenario’. Calculations were based on the macroeconomic indicators gross domestic product (GDP), unemployment, inflation and the current account balance. Changes in these indicators were reflected in our calculations of credit risk.

On a liquidation basis, our economic capital requirement at 31 December 2014 was €475.0 million, compared with €531.3 million at the end of the previous year. The corresponding assets available to cover risks came to €809.1 million, compared with €745.0 million at the end of 2013.

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



CALCULATION OF RISK BEARING CAPACITY ON A LIQUIDATION BASIS



At BKS Bank, unexpected losses within a period of observation of one year were predicted on a liquidation basis with a confidence interval of 99.9 per cent. As in the previous year, the economic capital requirement for credit risk was the biggest risk capital requirement within the *Kreditinstitutsgruppe*. Credit risk accounted for about 82.8 per cent of our total potential loss (2013: 78.7 per cent). Market risk was responsible for 8.7 per cent of the total (2013: 10.9 per cent).

Stress tests in the overall bank risk management process

Stress tests were carried out during the risk management process to assess the risk bearing capacity of the *Kreditinstitutsgruppe* during possible 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', a 'standard macroeconomic scenario' and a 'greatest relevance scenario' that was reviewed once a quarter. The other scenarios are reviewed annually. In 2014, our risk bearing capacity sufficed in every scenario and at every point of the analyses. In addition, we carried out an annual inverse stress test that specifically targeted the bank's risk sensitive areas, giving Management information of importance to the management of risks.

Credit Risk

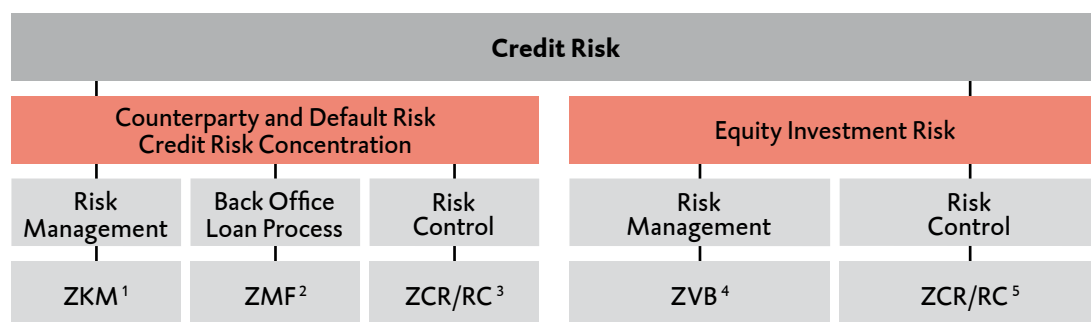
We define credit risk as the risk of a partial or complete loss of contractually agreed loan payments. This risk can be caused by a business counterparty's credit standing or, indirectly, by country risk as the result of a counterparty's domicile or place of residence. Credit risk was BKS Bank's biggest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

Managing credit risk

Our management of credit risk was based on the principle that loans shall only be granted on a know-your-customer basis. In other words, loans were only granted after thorough personal and credit checks and on a dual-control or 'four-eyes' basis (front office and back office). Collateral requirements were based on the rating class and the product concerned. Fair value valuations of collateral took their bearings from average proceeds from liquidation achieved in the past. Lending in markets outside Austria was regulated by 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 the Risk Controlling Group in Controlling, which is likewise a Head Office department. Our key objectives when taking new risk positions pertained to rating structure. This meant that new business was only to be sought in rating class 2b or better and when there was adequate collateralization in the light of the debtor's credit standing.

CREDIT RISK MANAGEMENT



¹ Central Credit Management Department.

² Central Back Office Department.

³ Central Controlling Department (Risk Controlling).

⁴ Central Office of the Management Board.

⁵ Central Controlling Department (Risk Controlling).

Looking at our credit risk at the level of non-performing loans, such loans accounted for 7.4 per cent of the total portfolio at year-end 2014. 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). The divisor comprised gross customer loan receivables, contingent liabilities, receivables from other banks and fixed-interest securities. This ratio is a gross ratio. In other words, it is stated prior to the deduction of collateral for defaulted receivables. After the deduction of collateral, it was down to 3.6 per cent.

Applying rating classes to credit risk

One major pillar of the risk assessment process was our extensive rating system, which served as the basis for decision-making processes and risk management within the BKS Bank Group. In all, six different rating procedures 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 check whether it accurately captures the risks being measured.

As we mentioned at the outset, the quantitative information obtained at this stage of the process provides the figures that underlie the overall bank risk management process (the risk-orientated perspective). A transition statement was prepared in conformity with the requirements of IFRS 7.31 through 7.42. Thereafter, our credit risk position under ICAAP was as follows:

CREDIT RISK UNDER ICAAP

€m	Risk Position at 31/12/2014, IFRS	Risk Position at 31/12/2014, UGB	Risk Position at 31/12/2013, UGB
Receivables from customers	5,641	5,633	5,640
Contingent liabilities ¹	188	188	151
Receivables from other banks	306	306	198
Securities and funds	755	747	891
Equity investments ²	378	360	356
Credit risk under ICAAP	7,269	7,235	7,236

¹ Promised credit lines based on internally calculated withdrawal patterns.

² Equity investments in BTV AG and Oberbank AG are recognized at their market values.

TRANSITION FROM IFRS POSITIONS TO CREDIT RISK POSITIONS UNDER ICAAP

€m	Receivables at 31/12/2014, IFRS
Consolidated receivables from customers as per note (13)	5,023
+ Loans measured to fair value as per note (16)	87
+ Contingent liabilities as per note (44)	395
+ Corporate bonds	104
+ Value of risk position arising from derivative contracts entered into with customers	32
Receivables from customers according to internal risk management figures	5,641
Other commitments as per note (44), of which	868
Contingent liabilities according to internally calculated withdrawal patterns	188
Receivables from other banks as per note (12)	269
+ Value of risk position arising from derivative contracts entered into with other banks	37
Receivables from other banks according to internal risk management figures	306
Held-to-maturity financial assets as per note (18)	679
+ Bonds and other fixed-interest securities measured to fair value as per note (16)	62
+ Bonds and other and fixed-interest securities classified as available for sale as per note (17)	83
+ Shares and other non-interest bearing securities as per note (17)	42
– Corporate bonds, other receivables (included in <i>Receivables from customers</i>)	(111)
Securities and funds according to internal risk management figures	755
Investments in other associates and in subsidiaries as per note (17)	4
+ Other equity investments as per note (17)	54
+ Investments in entities accounted for using the equity method as per note (19)	396
– Oberbank AG as per note (19)	(259)
– Bank für Tirol und Vorarlberg AG as per note (19)	(133)
+ Market value of Oberbank AG and BTV AG as per note (35)	317
Equity investments according to internal risk management figures	378
Credit risk under ICAAP	7,269

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying Amount or Max. Default Risk per Category €m	Financial Instruments that were Neither Past Due nor Impaired			Past Due Financial Instruments	
	2014 (IFRS)	2014 (UGB)	2013 (UGB)	2014 (IFRS) ¹	2013 (UGB)
Receivables from customers	5,085	5,077	5,134	556	506
Contingent liabilities	183	183	150	5	1
Receivables from other banks	306	306	198	0	0
Securities and funds	755	747	891	0	0
Equity investments	378	360	356	0	0
Total	6,707	6,673	6,729	561	507

¹ No difference between IFRS and UGB figures.

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying Amount or Max. Default Risk per Category €m	Impaired Financial Instruments		Financial Instruments that were Past Due but not yet Impaired	
	2014 ¹	2013	2014 ¹	2013
Receivables from customers	445	401	173	117
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	445	401	173	117

¹ No difference between IFRS and UGB figures.

BKS Bank employed a 13-class rating system. Rating classes AA to 2b accounted for approximately 46 per cent of the loan portfolio. In these rating classes, the capacity of borrowers to repay their borrowings was 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 178 CRR. Material receivables were therefore deemed to be 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:

- a new impairment charge (individual allowance);
- restructuring of the credit exposure combined with deterioration in the quality of the receivable;
- initiation of collection procedures because of inability or unwillingness to pay or fraud or for other reasons;
- receivable only collectable at a loss for BKS Bank;
- sale of the receivable at a significant credit standing related loss for BKS Bank;
- the debtor's insolvency;
- loan totally irrecoverable for other reasons.

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

LOAN QUALITY, BY CLASS OF RECEIVABLE

IFRS: Risk Positions by Rating

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

UGB: Risk Positions by Rating

€m in 2014	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	Unrated
Receivables from customers	27	1,034	1,539	1,831	634	556	13
Contingent liabilities	1	60	68	44	9	5	0
Receivables from other banks	210	66	25	4	1	0	0
Securities and funds	583	129	6	0	0	0	29
Equity investments	324	30	4	2	0	0	0
Total	1,145	1,320	1,642	1,881	643	562	42

UGB: Risk Positions by 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

In addition, the term 'forbearance' played an important part in the management of problem exposures. This term covered all changes to contractual arrangements that amended the associated obligations because the borrower had got into financial difficulties. Financial difficulties were deemed to exist if repayment could no longer be assured within a realistic period from cash flow or based on the result of a credit check. Pursuant to CRR, these business cases must be specially tagged if they are affected by such restructuring measures. Forbearance may, for instance, involve:

- extending the term of the loan;
- making concessions compared with the loan installments that had originally been agreed;
- making concessions regarding the interest rate;
- completely reconfiguring the loan (re-financing).

EXPOSURES CLASSIFIED AS FORBORNE AT 31/12/2014

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

Loans classified as forborne had to be treated like newly negotiated loans. A deferment could 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 to prevent the debt from being classified as forborne. Deferment possibilities were limited and depended on the customer's financial situation and Risk Management's strategy.

Credit risk assessment

Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing individual impairment charges, by recognizing individual impairment charges applying class-specific criteria and by recognizing appropriate provisions in accordance with IAS 37. Objective evidence of impairment of a receivable was deemed to exist in the BKS Bank Group if the Basel III default criteria applied. That was the case if a material obligation of the debtor to the bank was more than 90 days past due or if one of the above default criteria had been met. In conformity with the International Financial Reporting Standards, collective portfolio impairment assessments in respect of receivables in the performing rating classes were carried out in accordance with IAS 39.64.

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

The impairment allowance balance was disclosed on the balance sheet of the BKS Bank Group. At year-end 2014, it came to €194.2 million. The annual addition to the impairment allowance balance recognized in the Income Statement is the sum of impairment allowances, reversals thereof, subsequent recoveries of written-off receivables, direct write-offs, allowances resulting from the proportionate recognition of payments to *Alpenländische Garantie-GmbH (ALGAR)*—the *3 Banken Group* joint operation set up to mitigate large loan risks—and portfolio impairment assessments carried out in accordance with IAS 39.64. In the year under review, direct write-offs came to €0.7 million (2013: €1.5 million). Impairment allowances in 2014 totalled €55.6 million (2013: €43.8 million), but impairment reversals of €13.1 million proved possible (2013: €5.4 million). The individual impairment

IMPAIRMENT ALLOWANCES

€k	Individual Impairment Allowances	Country Risks	Collective Portfolio Impairment Assessments in Conformity with IAS 39	Impairment Allowance Balance
At 1 January 2014	145,279	3,252	27,578	176,109
Added	55,087	479	—	55,566
Change in the scope of consolidation	28,285	—	—	—
Reversed	(5,969)	—	(7,178)	(13,147)
Exchange rate differences	(45)	—	—	(45)
Used	(52,607)	—	—	(52,607)
At 31 December 2014	170,030	3,731	20,400	194,161

allowance recognized under the heading of *Change in the scope of consolidation* in the amount of €28.3 million related to the dedicated portion of the provisions for credit risks as a specific adjustment to reported credit risk to allow for the first-time inclusion of ALGAR in the scope of consolidation of the BKS Bank Group. In addition, the BKS Bank Group's *Other provisions* include a proportionate entry of 25 per cent of ALGAR's free provisions, namely €33.6 million. These made up BKS Bank's share of the potential credit risks arising from the large loans granted within the *3 Banken Group*. The three banks' shared exposure was roughly €22.8 billion, €14.7 billion of which was guaranteed by ALGAR.

The requisite impairment charges at our foreign subsidiaries were comparatively small, at €2.0 million (2013: €3.0 million). The corporate and business banking segment accounted for €47.8 million of the impairment allowances (2013: €40.0 million), mirroring the difficult economic conditions that still prevailed in our most important markets. The allowance for country risk exposure came to €0.5 million in the 2014 financial year, increasing the balance to €3.7 million.

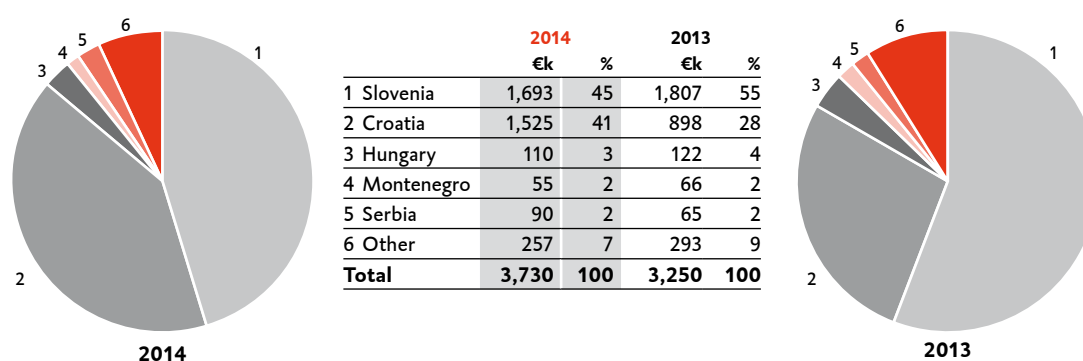
Our risk:earnings ratio in the 2014 financial year was 31.5 per cent (2013: 29.2 per cent). In the retail banking segment, this ratio of risk costs to net interest income improved from 5.5 per cent to 3.5 per cent. The ratio in the corporate and business banking segment, where volumes were much larger, rose from 50.0 per cent to 59.1 per cent.

ANALYSIS OF IMPAIRED RECEIVABLES (INDIVIDUAL ALLOWANCES)

€k	2014			2013		
	Reduction in Carrying Amount ¹	Individual Impairment Allowances	Fair Value of Collateral	Reduction in Carrying Amount	Individual Impairment Allowances	Fair Value of Collateral
Corporate and business banking customers	437,166	160,297	203,514	395,646	132,726	177,042
Retail banking customers	19,407	9,733	7,924	23,370	12,553	9,544
Total	456,573	170,030	211,438	419,016	145,279	186,586

¹ Carrying amount of impaired receivables.

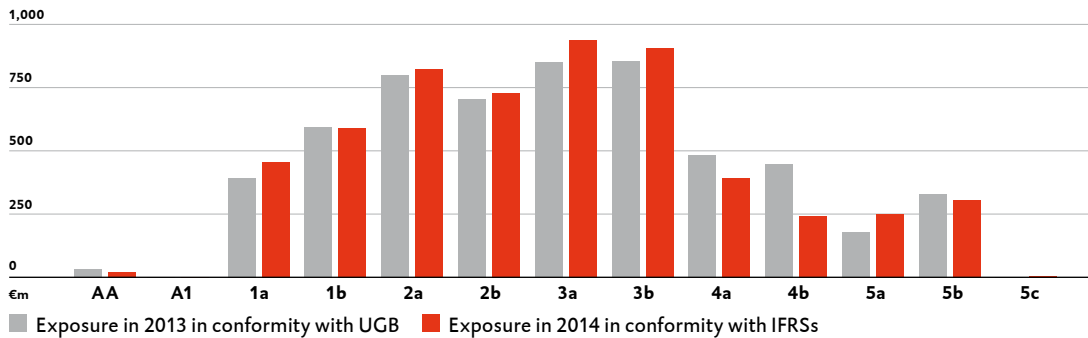
BALANCE OF IMPAIRMENT ALLOWANCES FOR COUNTRY RISK EXPOSURE



Receivables from customers

The chart below presents the distribution of receivables from customers using BKS Bank's 13-class rating matrix. The 2014 data were prepared on the basis of IFRS numbers, whereas the 2013 data were prepared using UGB values. The resulting difference is €8.1 million. All in all, this is immaterial. For this reason, we have not restated the prior-year values. The decreases in rating class 4b from €444 million to €241 million and in rating class 4a from €480 million to €392 million are striking.

RECEIVABLES FROM CUSTOMERS, BY RATING CLASS¹



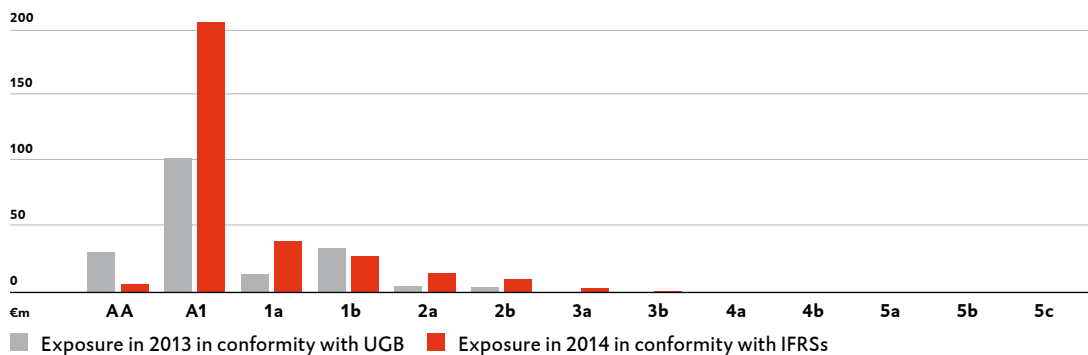
¹ Includes off-balance sheet items.

Receivables from other banks and securities

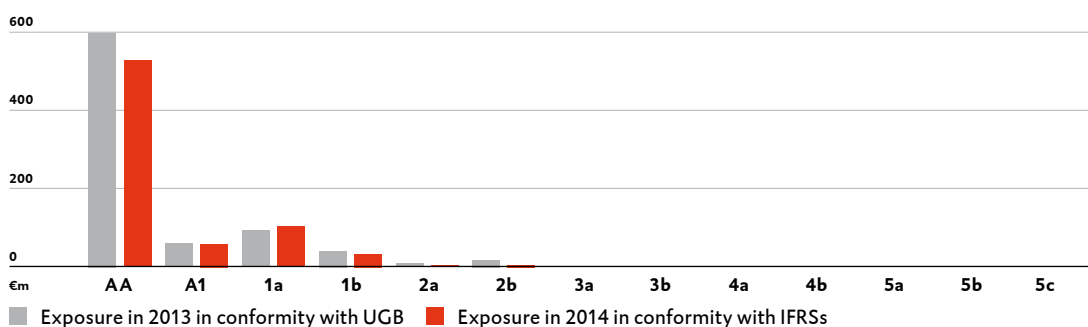
The charts below present the distribution of receivables from other banks and the securities portfolio using BKS Bank’s 13-class rating matrix. At year-end, 98.4 per cent of BKS Bank’s exposures to other banks were in the top rating classes from AA to 2b (year-end 2013: 99.8 per cent). The network of correspondents with which we had business dealings consisted of some 250 banks. At the end of 2014, 96.0 per cent of the securities in BKS Bank’s proprietary securities portfolio were in the rating classes from AA to 2b (year-end 2013: 98.5 per cent).

Receivables from other banks and the securities portfolio in 2014 are presented in conformity with IFRSs. The figures for 2013 are presented in conformity with UGB. This did not change the figures for receivables from other banks. The 2014 figure for the securities portfolio calculated in conformity with UGB was €8.0 million lower than the same figure calculated in conformity with IFRSs.

RECEIVABLES FROM OTHER BANKS , BY RATING CLASS



SECURITIES PORTFOLIO , BY RATING CLASS



Equity investment risk

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

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

EQUITY INVESTMENTS

€m	31/12/2014	31/12/2013
Listed banks	391.6	356.0
Unlisted banks	6.9	6.9
Other unlisted equity investments	55.8	48.2
Total	454.3	411.1

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

The carrying amount of BKS Bank's equity investments calculated in conformity with IFRSs was €454.3 million at 31 December 2014, compared with €411.1 million at the end of 2013. This total included our interests in *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*, which had a carrying amount of €391.6 million (31 December 2013: €356.0 million).

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

BKS 2000 was added to the scope of consolidation as of 1 January 2014. This led to the inclusion of its stakes in *Beteiligungsverwaltungs-GmbH*, *Generali 3 Banken Holding AG* and *3 Banken Beteiligungs-GmbH*. In the case of the latter two equity investments, the assets held were measured to fair value.

Credit risk concentrations

Concentrations of credit risk were managed at the portfolio level. We aimed for a balanced distribution of credit exposures by size, and limits were also set for individual geographical regions. Developments in individual sectors and industries were closely monitored and regularly appraised, and a clear strategic focus was defined. Risk concentrations were managed by way of appropriate limits. The large loan risks incurred by BKS Bank were mitigated by a cover pool at *Alpenländische Garantie-GmbH* (ALGAR). ALGAR is a *3 Banken Group* joint operation set up to mitigate the risks associated with the large 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 concentrations

BKS Bank captured loan size concentration risk separately during the calculation of 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' for the granularity adjustment (GA). The Herfindahl Hirschman Index calculated in this connection stood at 0.00199 at the end of the year. As this shows, gauged in terms of the sizes of the loans in the BKS Bank Group's portfolio, there was well-balanced diversification within the structure of the customer base. 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 committees.

SIZE DISTRIBUTION OF RECEIVABLES FROM CUSTOMERS

Receivables from Customers by Size Basis: IFRS Values, €k	2014		2013	
	Exposure	Proportion, %	Exposure	Proportion, %
< 0.15 million	816,880	14.4%	780,538	13.8%
0.15 million to 0.5 million	746,734	13.3%	753,360	13.4%
0.5 million to 1.0 million	285,218	5.1%	292,874	5.2%
1.0 million to 3.0 million	711,304	12.6%	680,930	12.1%
3.0 million to 14.0 million	1,709,548	30.3%	1,749,693	31.0%
14 million to 20 million	408,688	7.2%	295,581	5.2%
> 20 million	963,018	17.1%	1,087,306	19.3%
Total	5,641,391	100.0%	5,640,281	100.0%

Sector and industry concentrations

The distribution of sectors and industries within BKS Bank's portfolio at 31 December 2014 was presented in accordance with the ÖNACE list of economic activities. The main sector and industry focuses in the loan portfolio were personal banking customers, construction, goods manufacturing, landed property and homes and trade. Those sectors and industries accounted for roughly 68.0 per cent of the total portfolio. This gave BKS Bank's customer loan portfolio a broad and well diversified mix of both sizes and sectors and industries. The corporate and business banking segment accounted for over three quarters of the loan portfolio under management.

RECEIVABLES FROM CUSTOMERS , BY SECTOR AND INDUSTRY

Economic Activity Classification in Conformity with ÖNACE (Statistik Austria); First Used in 2014	€m	%
Private	1,010	17.9
Construction	815	14.4
Goods manufacturing	764	13.5
Landed property and homes	678	12.0
Trade, vehicle maintenance and repairs	567	10.1
Financial and insurance services	356	6.3
Provision of professional, scientific and technical services	258	4.6
Transport and storage	206	3.7
Hospitality and gastronomy	198	3.4
Health and social services	179	3.2
Energy supply	117	2.1
Public administration, defence, social insurance	115	2.0
Mining and extraction of stones and soil	94	1.7
Other business services	80	1.4
Agriculture and forestry, fishing	57	1.0
Provision of other services	46	0.8
Water supply, disposal of effluent, waste, environmental pollutants	37	0.7
Information and communication	31	0.6
The arts, entertainment and recreation	18	0.3
Education and instruction	9	0.2
Other borrowers without a sector or industry	7	0.1
Extraterritorial organizations and bodies	0	0.0
Total	5,641	100

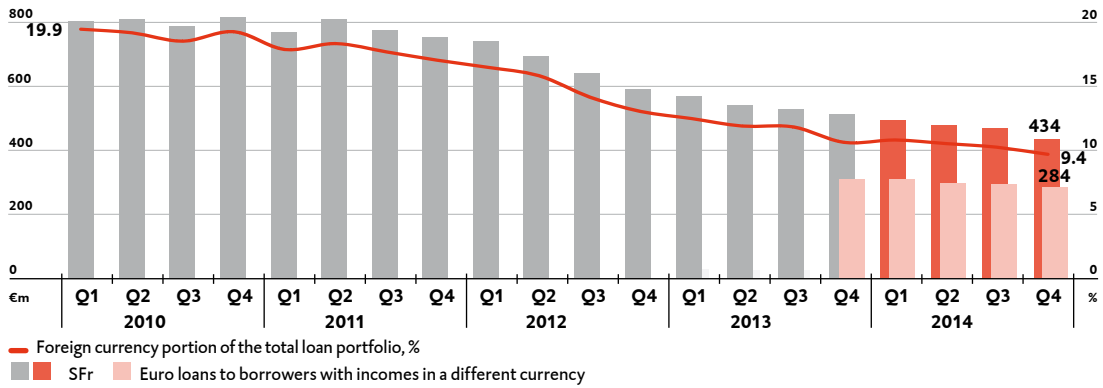
Foreign currency induced credit risk

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 borrowers with foreign currency loans to repay their debts. FX-induced credit risk was calculated for the foreign currency debts of corporate and business banking and retail banking customers. When quantifying the potential risk from exchange rate fluctuations, we calculated it for *BKS Bank AG's* main currencies (SFr, ¥, US\$) and for euro loans to Croatian customers. We used a random walk simulation based on movements in exchange rates in the previous 1,000 days to simulate an adverse movement in rates with confidence intervals of 95 per cent and 99.9 per cent.

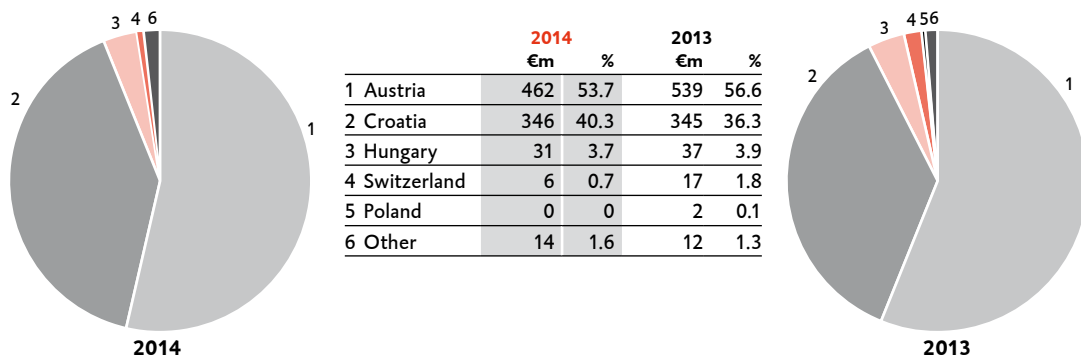
A country breakdown of the foreign currency loan portfolio indicates that foreign exchange risk was mainly limited to the Austrian and Croatian markets. As our remarks below show, foreign currency loan volumes in Croatia consisted primarily of euro loans granted to borrowers with incomes in a different currency.

For years, *BKS Bank's* strategy has been to permanently reduce portfolios of foreign currency and repayment vehicle loans. We regularly discussed this with our customers and, as the occasion arose, developed tailor-made risk mitigation solutions jointly with them. During 2014, the portfolio of Swiss franc foreign currency loans shrank by €77.8 million (2013: €78.8 million) to €434.1 million (31 December 2013: €511.9 million). The proportion of foreign currency loans in relation to total loans in the portfolio had fallen to 9.4 per cent by year-end (31 December 2013: 10.9 per cent). Foreign currency induced credit risk was managed by setting limits at the profit centre and overall bank levels, and adherence to them was continuously monitored.

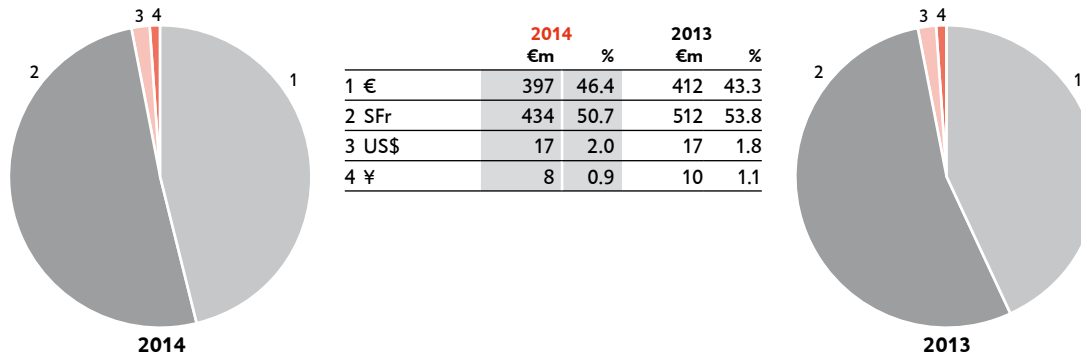
FOREIGN CURRENCY RECEIVABLES FROM CUSTOMERS



FOREIGN CURRENCY RECEIVABLES FROM CUSTOMERS, BY COUNTRY



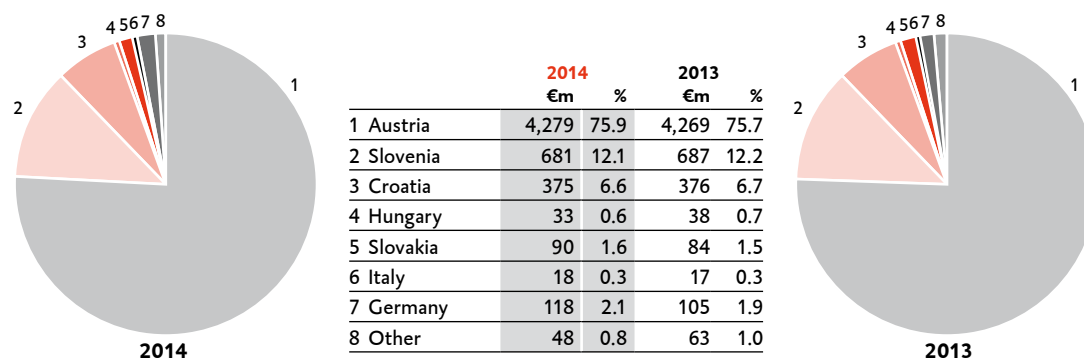
FOREIGN CURRENCY RECEIVABLES FROM CUSTOMERS, BY CURRENCY



Country risk

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

Our country risk exposure was captured by a collective impairment charge in the Comprehensive Income Statement and was 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.

RECEIVABLES FROM CUSTOMERS , BY COUNTRY

RECEIVABLES FROM CUSTOMERS AT YEAR- END 2014, BY COUNTRY

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

¹ See the table of risk volumes under ICAAP on page 106.

² Past due according to BKS Bank's default definition.

RECEIVABLES FROM CUSTOMERS AT YEAR- END 2013, BY COUNTRY

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

¹ See the table of risk volumes under ICAAP on page 106.

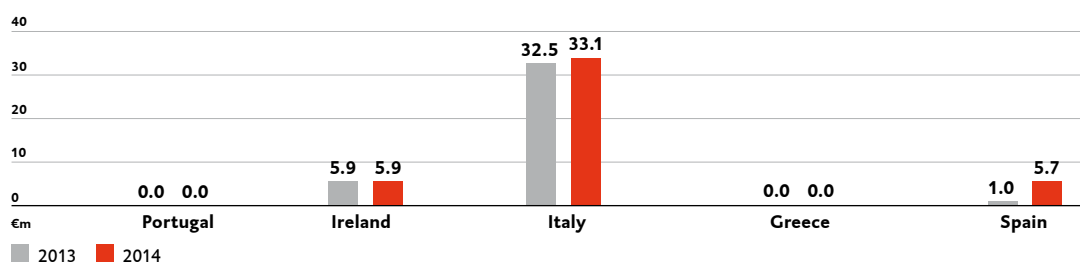
² Past due according to BKS Bank's default definition.

The portfolio of cash loans in foreign markets shrank by 0.02 per cent during the year under review. Our business activities focused on the economic centres close to the Austrian border. For 2014, we set a bank-wide cap of 30 per cent on the proportion of the total cash loan exposure that can be accounted for by loans to non-banks abroad (2013: 30 per cent). This limit was adhered to throughout the year.

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

The chart below presents our total PIIGS exposure (receivables from customers, securities, receivables from other banks). 54.2 per cent of the Italian portfolio was accounted for by loans to non-banks (31 December 2013: 53.7 per cent), and 67 per cent thereof (31 December 2013: 72 per cent) was collateralized by realizable assets. In addition, the Italian portfolio contained €15.1 million of covered bonds (31 December 2013: €15.0 million).

OVERVIEW OF PIIGS EXPOSURES



SECURITIES AND FUNDS, BY DOMICILE OF ISSUER

€k Region	Cost		Impairments		IFRS Carrying Amount ¹	
	2014	2013	2014	2013	2014	2013
Austria	429,714	530,617	294	2,167	460,413	534,909
Germany	68,732	119,290	—	—	70,572	121,581
Belgium	14,814	14,814	—	—	15,077	15,065
Luxembourg	133,411	131,605	—	—	138,017	134,118
France	2,252	41,813	—	—	2,169	42,269
Ireland	5,921	5,921	—	—	6,115	6,108
Italy	15,087	15,087	—	—	15,311	15,323
Poland	4,975	4,975	—	—	5,058	5,054
Slovenia	—	3,798	—	—	—	3,807
Slovakia	19,956	19,956	—	—	20,601	20,597
Greece	—	—	—	—	99	166
Spain	5,002	—	—	—	5,024	—
United States	16,401	—	—	—	16,499	—

¹ Including interest accrued.

Collateral

Collateral management was another central pillar of risk management. Comprehensive internal valuation guidance specified in writing which forms of collateral were permissible and how its value was

LOAN COLLATERAL AT YEAR-END 2014

€m	Credit Exposure or Max. Default Risk		Total Collat- eral	Of which Financial Collateral	Of which Personal Collateral	Of which Real Estate Collateral	Of which Other	Risk ¹
	IFRS	UGB						
Receivables from customers	5,641	5,633	3,760	248	227	2,499	786	1,881
Contingent liabilities	188	188	0	0	0	0	0	188
Receivables from other banks	306	306	—	—	—	—	—	306
Securities and Funds	755	747	70	—	45	—	25 ²	677
Equity Investments	378	360	—	—	—	—	—	378
Total	7,269	7,235	3,830	248	272	2,499	811	3,430

¹ Minus collateral.

² Covered bonds covered by cover pool.

LOAN COLLATERAL AT YEAR-END 2013

€m	Credit Exposure or Max. Default Risk	Total Collateral	Of which Financial Collateral	Of which Personal Collateral	Of which Real Estate Collateral	Of which Other	Risk ¹
Receivables from customers	5,640	3,244	211	231	1,904	898	2,396
Contingent liabilities	151	0	0	0	0	0	151
Receivables from Other Banks	198	0	0	0	0	0	198
Securities and Funds	891	106	0	65	0	41 ²	785
Equity Investments	356	0	0	0	0	0	356
Total	7,236	3,350	211	296	1,904	939	3,886

¹ Minus collateral.

² Covered bonds covered by cover pool.

to be appraised. Common collateral valuation policies had been defined for the entirety of the Group. However, they also took account of local market conditions and were generally based on the average proceeds from liquidation achieved in the past and on anticipated movements in market prices. Real estate collateral was valued and the valuations were regularly audited by experts from Credit Management who were not involved in the credit approval process.

Market Risk

BKS Bank defines market risk as the risk of 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 interest rate and price sensitive positions in the trading and banking books of BKS Bank and the individual institutions within the *Kreditinstitutsgruppe*. For internal management purposes, the BKS Bank Group therefore included the risk associated with positions in the banking book as a result of possible movements in interest rates in its calculations of market risk.

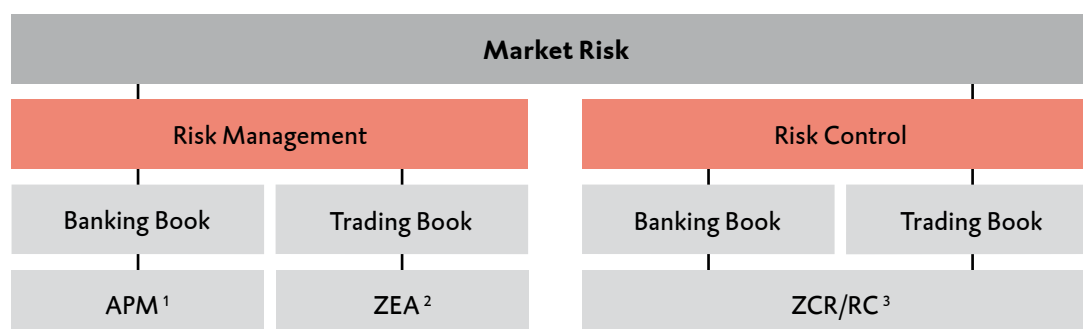
BKS Bank subdivided market risk into the following categories:

- interest rate risk (including credit spread risk);
- equity price risk;
- foreign exchange risk.

The principles underlying the management of market risk

Managing interest rate risk in the banking book—the most important risk category within market risk—was one of the responsibilities of the Asset Liability Management Committee. This committee was made

MANAGEMENT OF MARKET RISK



¹ Asset Liability Management.

² Central Proprietary Trading and International Operations Department.

³ Central Controlling Department (Risk Controlling).

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 on a monthly basis. BKS Bank pursued a conservative interest rate risk strategy and did not in general engage in any material speculative derivative transactions. BKS Bank engaged in derivative transactions almost exclusively to hedge against market risks. In doing so, it only used instruments whose characteristics were known, the risks associated with which were known and where we had experience-based data. BKS Bank's central interest rate management instruments were interest rate swaps. Depending on the interest rates situation and structures, the ALM Committee made decisions to hedge not only individual transactions but also portfolios. Where applicable, when hedging was used, 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 foreign exchange 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 foreign exchange risks, BKS Bank sometimes engaged in derivative transactions like cross currency swaps, currency forwards and futures and currency swaps. Managing currency positions was the responsibility of the Central Proprietary Trading and International Operations Department (Money and Currency Trading). Currency positions were monitored by Risk Controlling.

Equity price risk in the banking book was managed by the ALM Committee. Proprietary trading in equities was discontinued in the year under review. Generally, long-term banking book investments in equities and realizable assets were fund based. Our investments in individual securities were minimal. We limited equity price risk by limiting volumes and the value at risk, and adherence to the limits was monitored by Risk Controlling.

Market risk affects both trading book and banking book positions. Because volumes were 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 methods. These consisted of value at risk (VaR), modified duration and volume analyses and economic capital stress tests. The Management Board sets the overall limit once a year during the budgeting process. As it does so, it takes account of our risk bearing capacity and consults with Risk Controlling. Risk Controlling measured the VaR for interest rate risk, foreign exchange risk and equity price risk. The total VaR was then compared with the limit that had been set while allowing for diversification effects. The result was reported to the ALM Committee.

Value at risk

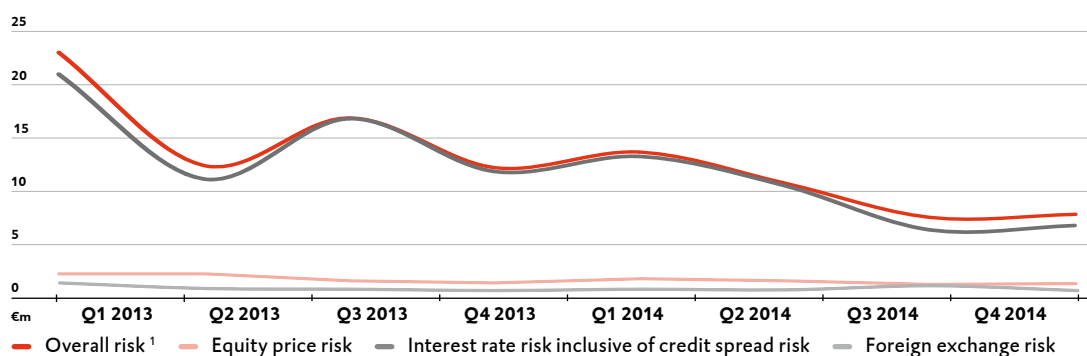
We calculated the value at risk (VaR). This is the most important measure of risk used in the management of market price risks in the trading and banking books. Value at risk gauges the maximum loss that could be incurred as a result of market risk within a specified holding period and with a specific probability (confidence interval).

BKS Bank measured VaR using historical simulation based on the changes in market values observed in the previous 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. As the table shows, there were no big fluctuations in market risk during the financial year ended, and overall, it continued to fall from a low level.

MARKET RISK (VALUE AT RISK BASIS)



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

VALUE AT RISK

€m	Interest Rate Risk ¹		FX Risk		Equity Price Risk		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Minimum	6.8	11.5	0.6	0.6	1.0	1.2	7.4	10.7
Maximum	13.6	21.2	1.3	1.7	1.8	2.5	13.7	21.8
Average	9.6	15.5	0.9	1.0	1.4	1.9	9.9	14.6
In Q4	7.2	12.2	0.6	0.6	1.1	1.2	7.7	10.7

¹ Inclusive of credit spread risk.

Interest rate risk

Interest rate risk is the risk of adverse changes in the values of interest rate sensitive positions caused by a change in interest rates. Differing maturities and interest rate adjustment periods can lead to interest rate risks both on the assets and on the 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 portfolio of interest rate bearing securities. At the end of the year, the ratio of our interest rate risk to our eligible own funds assuming an interest rate shift of 200 basis points as reportable to OeNB was 4.31 per cent, as against 0.38 per cent at the end of 2013. We point out that the regulators classify a bank as an 'outlier' from a ratio of 20 per cent. We were nowhere near that figure.

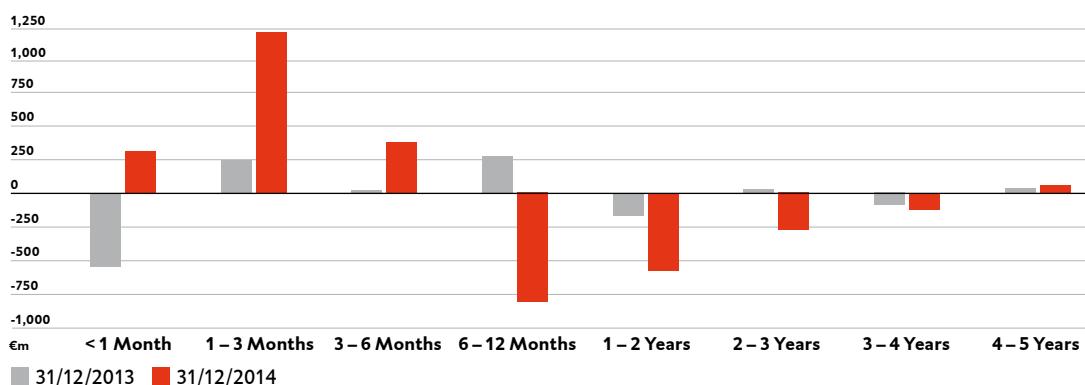
BKS Bank's interest rate risk at the end of 2014 was very low in terms of the value at risk and the regulatory interest rate risk ratio. This was mainly to avoid pressures to recognize impairment losses on securities in the available-for-sale portfolio should interest rates rise. As the chart below shows, the biggest interest rate gaps were to be found in bands of up to one year.

**REGULATORY INTEREST RATE RISK
(% OF OWN FUNDS)**

Currency	31/12/2014	31/12/2013
€	3.90%	0.33%
SFr	0.07%	0.01%
US\$	0.33%	0.03%
¥	0.00%	0.01%
Other	0.01%	0.00%
Total	4.31%	0.38%

**CHANGES IN PRESENT VALUE CAUSED
BY AN INTEREST RATE SHIFT OF 200
BASIS POINTS**

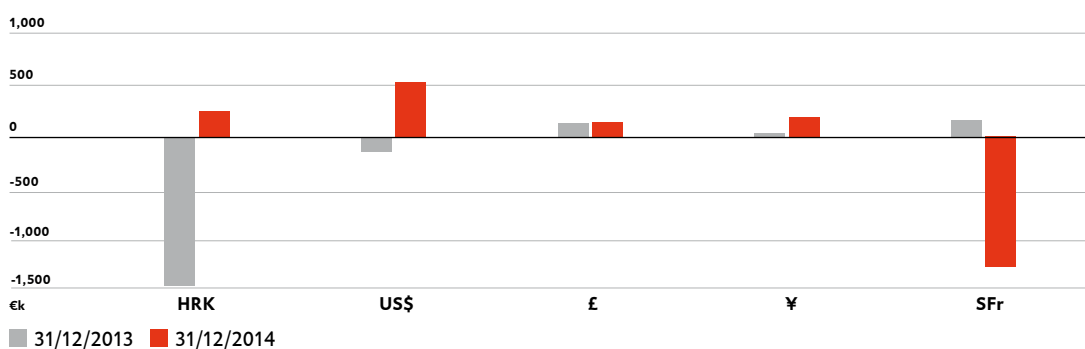
Currency, €k	31/12/2014	31/12/2013
€	23,779	1,742
SFr	426	26
US\$	2,021	177
¥	18	24
Other	69	25
Total	26,313	1,994

INTEREST RATE GAPS (EURO VERSUS FOREIGN CURRENCIES)**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 3.73 per cent thereof. Once a month, equity price risk was quantified on a historical simulation basis as a value at risk and reported to the ALM Committee. At 31 December 2014, the value at risk arising from this risk position based on a holding period of 180 days and a confidence interval of 95 per cent was €1.1 million (31 December 2013: €1.2 million).

Risks arising from foreign currency positions

These risks result from acquiring foreign currency asset and liability positions that are not matched by an equal counter position or derivative transaction. An adverse movement in exchange rates can lead to losses as a result. Open currency positions were appraised daily to assess the foreign exchange risk

FOREIGN EXCHANGE RISK (OPEN CURRENCY POSITIONS)

and were compared with the corresponding limits. Our currency value at risk at year-end was €0.6 million (31 December 2013: €0.6 million).

Liquidity Risk

Liquidity risk is associated with the danger of not being able to meet present or future financial obligations in full or in time. This also includes the risk of only being able to raise funds at higher than usual market rates (funding risk) or liquidate assets at lower than usual market rates or prices (market liquidity risk)

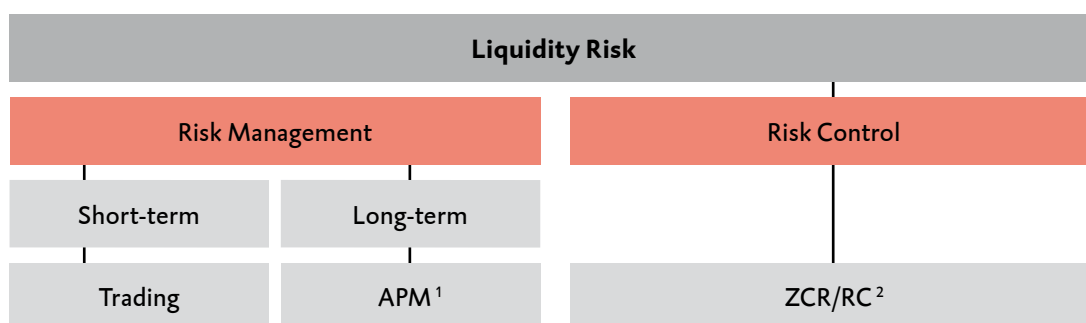
Liquidity management principles

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

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

Medium-term and longer-term liquidity and the liquidity buffer were managed by the Asset Liability Management Committee. At the end of 2014, BKS Bank’s available liquidity buffer 1 came to €898.5 million (31 December 2013: €854.3 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 for the event of any disruptions in the money and capital markets.

MANAGEMENT OF LIQUIDITY RISK



¹ Asset Liability Management Committee.

² Central Controlling Department (Risk Controlling).

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

The Risk Controlling 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 gap analyses arranged all assets and liabilities of relevance to our funding profile into maturity bands. These analyses showed a liquidity surplus or shortfall for each maturity band, permitting the management of open 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, bank-specific scenarios and combined stress scenarios.

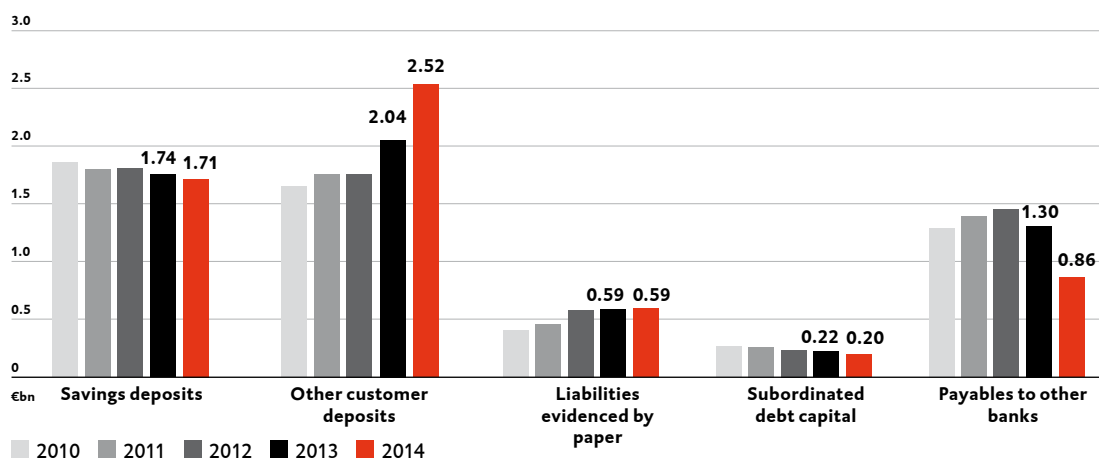
During the calculation of our risk bearing capacity, the VaR approach was used to measure liquidity risk on a going concern basis and on a liquidation basis. This risk was ascertained by calculating the present values of all net gaps on the basis of an assumed increase in funding costs following a hypothetical 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.

LIQUIDITY BUFFER AND COUNTERBALANCING CAPACITY

€k	31/12/2014	31/12/2013
Securities lodged with OeNB	665,477	743,350
Securities lodged with the Swiss National Bank	31,859	30,827
Credit claims ceded to OeNB	346,870	364,687
Credit claims ceded to the Slovenian National Bank	41,555	55,492
Total collateral eligible with the ECB	1,085,761	1,194,356
Minus OeNB tender block	(219,015)	(374,008)
Minus tender block by the Slovenian National Bank	0	0
Minus Swiss National Bank repo	(1,000)	(1,000)
Total available collateral eligible with the ESCB	865,746	819,348
Cash and cash equivalents	32,758	34,957
Liquidity buffer 1	898,504	854,305
Other securities	142,847	150,660
Liquidity buffer 2 (counterbalancing capacity)	1,041,351	1,004,965

FUNDING STRUCTURES



The chart above shows BKS Bank's funding structure by product category. The increase in customer deposits in 2014 was mainly a result of newly acquired deposits in Slovenia. It allowed us to reduce our payables to other banks by a corresponding amount. The presentation that follows breaks down non-derivative and derivative liabilities according to the contractually agreed cash flows.

DERIVATIVE AND NON-DERIVATIVE LIABILITIES AT YEAR-END 2014 (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	5,874	6,155	631	2,271	1,868	1,385
– Deposits from other banks	861	881	235	370	267	9
– Deposits from customers	4,224	4,341	391	1,789	1,151	1,010
– Liabilities evidenced by paper	594	693	5	77	325	286
– Subordinated liabilities	195	240	0	35	125	80
Derivative liabilities	26	25	1	13	7	4
– Derivatives in the banking book	26	25	1	13	7	4
Total	5,900	6,180	632	2,284	1,875	1,389

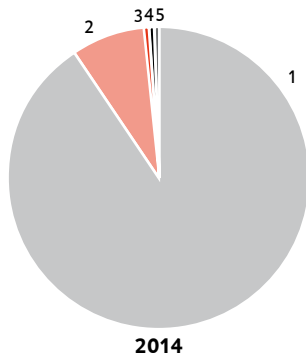
¹ Not discounted.

DERIVATIVE AND NON-DERIVATIVE LIABILITIES AT YEAR-END 2013 (CASH FLOW BASIS)

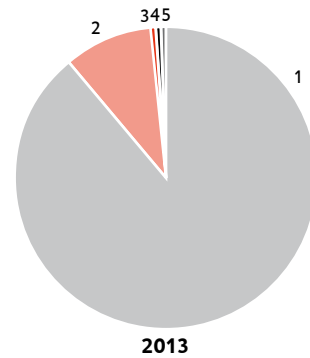
€m	Carrying Amounts	Contractual Cash Flows ¹	Of which < 1 Month	Of which 1 Month to 1 Year	Of which 1–5 Years	Of which > 5 Years
Non-derivative liabilities	5,900	6,325	954	2,252	1,846	1,273
– Deposits from other banks	1,302	1,337	504	501	313	19
– Deposits from customers	3,784	4,013	449	1,575	1,059	930
– 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.

FUNDING REQUIREMENTS, BY CURRENCY



%	2014	2013
1 €	90.6	89.1
2 SFr	8.8	10.3
3 US\$	0.3	0.3
4 ¥	0.2	0.2
5 Other	0.1	0.1



Thanks to the shrinking portfolio of Swiss franc loans, our Swiss franc funding requirement fell to €434.1 million.

Deposit concentration

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

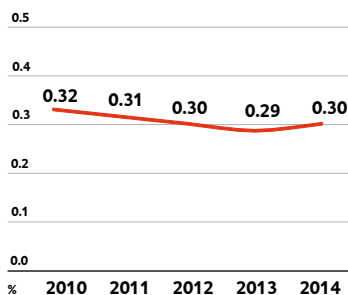
Loan:deposit ratio

The loan:deposit ratio is another important liquidity management indicator. It shows the relationship between the size of the loan portfolio and primary deposit balances. This ratio fell to 98.4 per cent, so we were just below our benchmark target and, therefore, at a very satisfactory level. This was the fruit of our intensive efforts to attract primary deposits. We are aiming for a balanced ratio 100 per cent as a desirable medium term benchmark target.

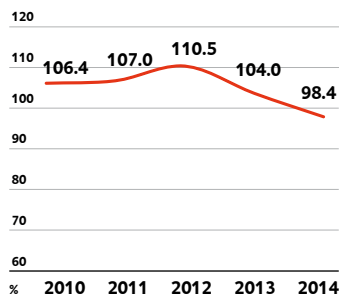
Liquidity coverage ratio

The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain liquid for the coming 30 days even in the event of simultaneous market and bank-specific stresses. It compares our holdings of highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. At BKS Bank, this regulatory liquidity ratio came to 173 per cent at 31 December 2014 and was therefore far above the minimum ratio of 100 per cent that will gradually be phased in between the beginning of October 2015 and 2018.

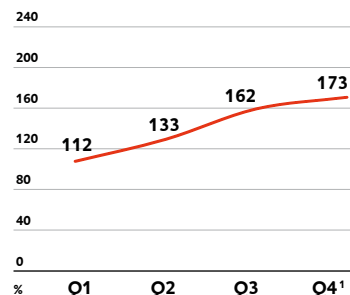
DEPOSIT CONCENTRATION



LOAN:DEPOSIT RATIO



LCR



¹ No figures available for 2013.

Under Article 100 CRR in conjunction with the Commission Implementing Regulation (EU) 2015/79, banks have since 31 December 2014 been obliged to report encumbered assets to the regulators on a quarterly basis. For the purposes of these reports, an asset should be deemed to be encumbered if it has been pledged or if it is subject to an arrangement to secure on-balance-sheet or off-balance sheet transactions. At 31 December 2014, 6.9 per cent of the assets in the *Kreditinstitutsgruppe* were encumbered. This is comparatively a very small amount and was below the regulatory ceiling of 15.0 per cent. As a result, our bank is only subject to the reduced reporting requirements.

Operational Risk

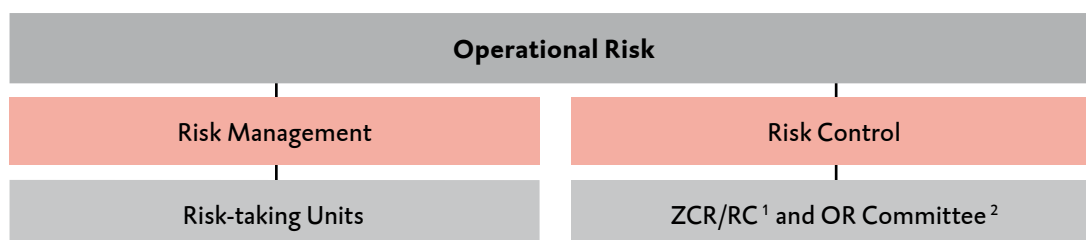
In line with CRR, we define operational risk as the risk of losses arising primarily in BKS Bank’s operational domain that might result from inadequate or failed internal processes, people or systems or from external factors.

Operational risks at *BKS Bank AG* and all its subsidiaries in Austria and abroad were limited by an appropriate and continually refined internal control system. It included a raft of organizational measures ranging from the appropriate separation of functions during business processes (separation of front office from back office activities, dual-control or ‘four-eyes’ principle) to extensive bodies of internal rules and regulations and regular controls to emergency plans and self-auditing systems. We combated IT risks with the help of professional IT security management carried out by *DREI-BANKEN-EDV Gesellschaft mbH*—which is held as a joint operation 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 by Internal Audit were immediately remedied.

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

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

OPERATIONAL RISK



¹ Central Controlling Department (Risk Controlling).

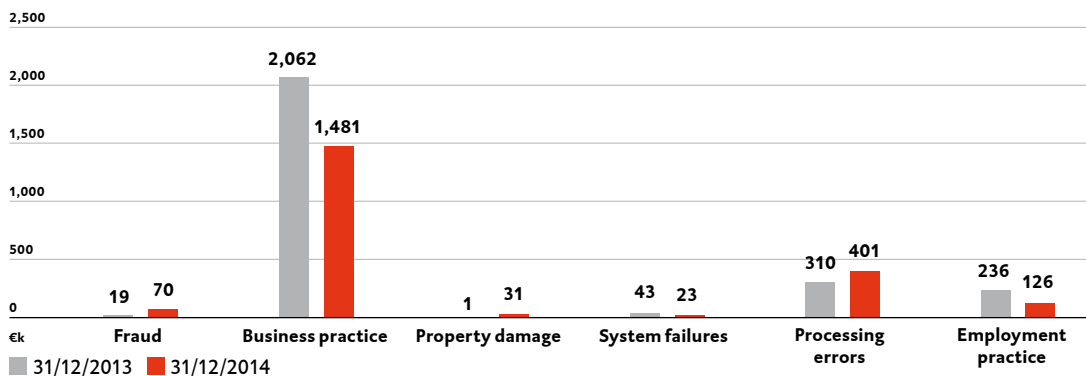
² Operational Risk Committee.

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 the 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 threat analyses carried out within the scope of the self-assessments and the analyses of actual losses.

Operational risks were assigned to one of the following categories: fraud, business practice, property damage, system failures, processing errors and employment practice. 233 loss events were recorded at BKS Bank in the year 2014 (2013: 320 loss events), not including those resulting from credit operations. The average loss amount after reimbursements was €9,150 (2013: €8,221). The increases in the number of loss events and the average loss amount were mainly attributable to securities operations. BKS Bank was confronted with a series of customer complaints about closed property and shipping funds during the 2014 financial year. Appropriate provisions had to be created for them. Business practice accounted for about 55 per cent of the total loss registered, followed by processing errors, which accounted for 28.3 per cent.

OPERATIONAL RISKS, BY RISK CATEGORY



As in prior years, we used the standardized approach to calculate our regulatory capital requirement for operational risk in 2014. At the end of the year under review, it was €26.0 million (2013: €26.9 million). This compared with actual operational risk losses (after deducting reimbursed losses) of €2.1 million (2013: €2.7 million). The total loss in 2014 therefore translated into 8.2 per cent of our regulatory capital requirement for operational risk.

Features of the Internal Control and Risk Management System

The principal purposes of the Internal Control and Risk Management System (ICS) in the context of BKS Bank's financial reporting process were to safeguard assets, increase BKS Bank's profitability, ensure that we adhere to the legislative requirements, business policy guidelines and internal rules and prevent damage that might be caused by our own staff or by third parties. The ICS ensured the reliability of corporate reporting, including, in particular, financial reporting. The documentation of the most important financial reporting processes in the form of a Group Manual and an internal impairment

allowance guideline was a major part of the ICS in connection with the financial reporting process. In conformity with § 243a Absatz 2 UGB, there follows a description of the most important features of the Internal Control and Risk Management System as it is applied in the context of the financial reporting process.

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

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

The control environment

Besides the legal requirements in place in Austria, Slovenia, Croatia and Slovakia, there was also a special emphasis on the principles of conduct defined by BKS Bank. In addition, importance was attached to the principles of corporate governance and internal standards. There were clearly regulated areas of authority and assigned fields of responsibility within the financial reporting process, and appropriate training programmes were in place. Their purpose was to allow the best-possible development of staff know-how so as to be able to punctually and fully conform to legal requirements and national and international financial reporting standards (IFRSs, UGB) and continually incorporate new insights into the financial reporting process. Workflows were defined in the respective manuals and guidance and in written instructions. Their content was regularly reviewed and, where necessary, updated.

Risk assessment

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

Control procedures

A variety of different operational control measures were applied within the scope of BKS Bank's financial reporting process. To name just a few, they included general and special IT controls, coordination and auditing routines, manual checks and, in many cases, application of the dual-control or 'four-eyes' principle. These extensive control measures were supported by internal manuals, work documents, check lists, process descriptions and job descriptions prepared in collaboration with the responsible units. In addition, coordination processes were implemented to effect data reconciliation between the Balance Sheet Accounting and Risk Controlling groups. This ensured data consistency between the data contained in internal reports and the data contained in external reports.

Information and communication

The Management Board of BKS Bank was kept regularly and promptly informed about every aspect of the financial reporting process and the financial results in monthly reports. Each quarter, the Supervisory Board and Audit Committee and the equity holders of BKS Bank received a quarterly report and Shareholders Letter containing descriptions of material business transactions and developments during the period.

Monitoring procedures

Monitoring of the financial reporting process took place by way of self-assessments as well as independent audits by BKS Bank's Internal Audit Department. As stated in the descriptions of their functions, the Heads of Department and the responsible Group Heads fulfilled the primary monitoring and supervisory roles within the financial reporting process. In order to ensure the reliability and orderliness of the balance sheet accounting process and the associated reporting processes, additional monitoring procedures were carried out by the legally required auditors of the Consolidated Financial Statements and the mandatorily appointed Audit Committee.

Compliance Management System

Avoiding or minimizing compliance risk is of major importance if one is to ensure the fullest possible protection of one's enterprise, investors, customers and employees—and ensuring our bank's lasting trustworthiness is central to our sustainable business success.

Compliance risks arise when laws, other requirements, codes of conduct or proper business standards are not or are not adequately adhered to. The foremost goal of the Compliance Management System was therefore to prevent breaches of laws and regulations from the outset. 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 compliance targets were achieved. It set the standards for establishing a corporate culture based on honesty, integrity and conduct on the part of our staff and, above all, our management personnel that complied with the legal requirements and regulations. Management personnel were responsible for ensuring adherence to and the application of the law and internal rules in their respective banking departments and business divisions. The management personnel who were responsible for a process within the BKS Bank Group were the responsible parties for the purposes of administrative penal law in accordance with § 9 Absatz 2 VStG and were liable to the authorities in respect of the consequences of any breach.

The duties that stemmed, in particular, from the *Wertpapieraufsichtsgesetz* (WAG: Austrian securities supervision act), the *Börsengesetz* (BoerseG: Austrian stock exchange act), the *Emittenten-Compliance-Verordnung* (Austrian issuer compliance directive), the banks' Standard Compliance Code, the *Bankwesengesetz* (BWG: Austrian banking act), the ÖCGK (Austrian code of corporate governance), the circulars of the FMA and, not least, European legal frameworks like the ESMA guidance on the MiFID compliance function requirements were carried out by the Capital Markets Compliance Group, which also provided the Compliance Officer.

The Anti Money Laundering Officer and his team in the organizational unit called *Recht & AML* (legal affairs and AML) dealt with the prevention of money laundering and terrorism financing. Their responsibilities derived in particular from the *Bankwesengesetz*, regulatory circulars and the recommendations of the Financial Action Task Force on Money Laundering (FATF). In addition, this team was responsible for maintaining and developing an effective system for the prevention of corruption and fraud.

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

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

Strict emphasis was placed on adherence to the 'know-your-customer' principle so as to maximize the transparency of business relationships and financial transactions. Among other things, this included ascertaining and documenting customers' identities beyond doubt, and, where necessary, also tracing the origins of assets used in a business relationship or for a transaction. Our bank supported the provisions of the Foreign Account Tax Compliance Act (FATCA), which entered into force on 1 July 2014, through which the U.S. federal tax authority—the Internal Revenue Service or IRS—means to prevent people with income that is taxable in the United States from hiding that income from it at foreign financial institutions and other institutions abroad. In April 2015, our bank will for the first time give the IRS information about the accounts of the U.S. taxpayers who have (already) been identified that were held with us on the cutoff date of 1 July 2014 or thereafter.

Prevention remained a further focus of our compliance agenda during the year under review. Wide-ranging communication, regular compulsory training and a number of catalogues of principles (Compliance Charter, Compliance Code, Code of Conduct, Anti-corruption Work Manual) gave our employees and management personnel the tools they needed to comply with the legal requirements and rules and regulations in line with the principles of integrity, accountability, responsibility, fairness and courtesy. User-friendly eLearning modules dealing with compliance in the capital markets and money laundering prevention were distributed throughout the Group. They again proved to be an important aid to orientation in 2014, making it easier to internalize the sometimes complex rules and regulations.

Outlook for 2015

The economic forecasts for 2014 and 2015 had in common that they were clearly too optimistic on the back of very promising sentiment indicators. They had to be gradually reduced in the face of the subdued development of world trade that was still apparent in late autumn of 2014. Exogenous factors like the striking withdrawal of capital from the big threshold countries that set in with the first sign of an interest turnaround by the U.S. central bank, the volatility in the U.S. dollar, euro and Japanese yen matrix, the sharp drop in prices in the international commodity markets, most of which are U.S. dollar based, and the wildfires in the Ukraine and the Middle East all played their part. In line with the European Commission's Winter Forecast, we are now assuming that rates of growth in the world's major economic regions will continue to differ in 2015. Whereas the U.S. economy may grow considerably more strongly than it already did in 2014 (real GDP growth of 2.5 per cent), achieving real GDP growth of 3.5 per cent, the eurozone is likely to log modest GDP growth of 1.3 per cent following a recovery in the peripheral countries, as against 0.8 per cent in 2014. Having been weak for much of 2014, Germany's economy picked up significantly before the turn of the year and can be expected to attain real GDP growth of 1.5 per cent in 2015. In contrast, the French and Italian economies are again expected to grow by just 1.0 per cent and 0.6 per cent, respectively, this year. GDP growth estimates for the countries of Central and Eastern Europe lie within a range spanning 0.2 per cent (Croatia), 1.8 per cent (Slovenia), 2.3 per cent (Slovakia) and 3.5 per cent (Poland). As for the emerging markets, China, India and South Africa are likely to make use of the economic tailwind, whereas Russia and Brazil are expected to recede into the economic shadows. The Chinese economy has now shifted to a much more moderate growth path that is directed

towards domestic consumption and sustainability. The result is a real GDP growth forecast of 7.1 per cent for 2015, compared with 7.4 per cent in 2014.

Since the beginning of 2015, the financial markets have been swayed by the conflicting influences of solid company numbers and, therefore, better P/E ratios, anticipation of extensive securities purchasing by the euro system and the Swiss National Bank's abolition of the Swiss franc's peg to the euro. Uncertainty regarding economic growth in Europe and the next act of Greece's financial tragedy is dampening hopes that Europe's economy will soon stabilize. Nonetheless, most equity markets have to date performed satisfactorily in this setting. Indeed, the DAX broke through the 11,000 points barrier for the first time at the end of February. This year to date, the ECB Council has left key interest rates in the eurozone at their level of 4 September 2014. At the same time, on 22 January, it announced an extended asset purchase programme, and it has continued its purchases of covered bonds and asset backed securities. In addition, since March 2015, it has also been purchasing bonds issued by euro area central governments, agencies and European institutions. As a result, monthly purchases by the ECB should total €60 billion.

Austria experienced a continuation of weak domestic demand, falling exports and declining value added in the manufacturing, trade and construction sectors in early 2015. Nonetheless, the European Commission expects Austria's real GDP to grow by 0.8 per cent, compared with just 0.2 per cent in 2014. Austrian exports should increase by 2.0 per cent in real terms this year. However, investment in plant and equipment is likely to grow by just 2.0 per cent as a result of years of non-existent political will to reform. Private consumption, which is expected to enjoy a moderate tailwind in both 2015 (growth of 0.8 per cent) and 2016 (growth of 1.6 per cent), will still be hard hit by the phenomenon of 'cold progression'.

The structural transformation in the European banking sector triggered by the crisis-laden events of recent years and the big regulatory challenges they created (including Basel III) has yet to be completed across the continent. Moreover, because of the large amount of human resources it ties up, the enormous regulatory pressure is leaving banks with little leeway to adequately modify their business models. In addition, profit drivers that were essential in the past like strong economic and lending growth and moderate loan loss ratios are scarcer than they used to be. All in all, we will be seeing the scars of the economic slump—the persistence of historically low interest rates, a yield curve that will continue to flatten, poor credit growth and increased caution and a preference for liquid assets among our customers—for some time to come.

As for the BKS Bank Group's medium-term outlook, we will remain consistent in the application of our strategy, which is characterized by closeness to the customer, flexibility and speed, earnings diversification and strict risk and cost discipline. The sales structures behind the business we carry on with retail banking and corporate and business banking customers will be reconfigured in 2015 to cater more effectively for changes in the competitive environment and customer behaviour. We will attempt in this way to cushion the effects of downside factors like the low interest rates and companies' reduced willingness to invest. Despite the fact that the market environment has proven very challenging in 2015 to date, our outlook is still cautiously optimistic. BKS Bank is strategically well placed to meet future challenges and in a position to react promptly and appropriately to unexpected one-off effects. Additional burdens like the European bank levy and the costs of Austria's new deposit protection system will seriously limit our

freedom to increase our equity by ploughing back our profits. Because of the new regulatory requirements, it will only be possible meet some of those costs by cutting costs further in other areas.

In the continuing pursuit of our ambitious dividends policy, we will be recommending to the 76th Ordinary General Meeting that it approve the distribution of a dividend to match our earnings.

We remain,

Yours faithfully,



Herta Stockbauer

Chairwoman of the Management Board



Dieter Krassnitzer

Member of the Management Board



Wolfgang Mandl

Member of the Management Board

IFRS-Compliant Consolidated Financial Statements

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Comprehensive Income Statement of the BKS Bank Group for the 2014 Financial Year

INCOME STATEMENT (FULL YEAR)

€k	Note	2014	2013	+/(-) Change, %
Interest income		192,174	194,621	(1.3)
Interest expenses		(63,393)	(73,480)	(13.7)
Profit/(loss) from investments in entities accounted for using the equity method		28,562	25,063	14.0
Net interest income	(1)	157,343	146,204	7.6
Impairment charge on loans and advances	(2)	(49,520)	(42,710)	15.9
Net interest income after impairment charge		107,823	103,494	4.2
Fee and commission income		47,823	48,329	(1.0)
Fee and commission expenses		(3,084)	(2,907)	6.1
Net fee and commission income	(3)	44,739	45,422	(1.5)
Net trading income	(4)	1,373	1,523	(9.8)
General administrative expenses	(5)	(105,809)	(100,813)	5.0
Other operating income	(6)	5,973	3,567	67.5
Other operating expenses	(6)	(8,485)	(10,886)	(22.1)
Profit/(loss) from financial assets		5,623	3,222	74.5
– Profit/(loss) from financial assets (FV)	(7)	(2,081)	1,581	(>100)
– Profit/(loss) from financial assets (AFS)	(8)	3,017	1,641	83.9
– Profit/(loss) from financial assets (HTM)	(9)	4,687	0	—
Profit for the year before tax		51,237	45,529	12.5
Income tax expense	(10)	(4,623)	(4,933)	(6.3)
Profit for the year after tax		46,614	40,596	14.8
Minority interests in profit for the year		(3)	(3)	0.0
Profit for the year after minority interests		46,611	40,593	14.8

INCOME AND EXPENSES TAKEN DIRECTLY TO EQUITY

€k	2014	2013	+/(-) Change, %
Profit for the year after tax	46,614	40,596	14.8
Items not reclassified to consolidated profit or loss	(6,540)	(1,264)	>100
+/(-) Actuarial gains/(losses) in conformity with IAS 19	(8,553)	(673)	>100
+/(-) Deferred taxes in conformity with IAS 19	2,132	168	>100
+/(-) Gains less losses arising from use of the equity method in conformity with IAS 19	(119)	(759)	(84.3)
Items reclassified to consolidated profit or loss	7,004	229	>100
+/(-) Exchange differences	(120)	(273)	(56.0)
+/(-) Available-for-sale reserve	250	2,788	(91.0)
+/(-) Deferred taxes taken to AFS reserve items	(188)	(172)	9.3
+/(-) Gains less losses arising from use of the equity method	7,062	(2,114)	(>100)
Total income and expenses taken directly to equity	464	(1,035)	(>100)
Comprehensive income before minority interests	47,078	39,561	19.0
Of which minority interests	(3)	(3)	—
Comprehensive income after minority interests	47,075	39,558	19.0

EARNINGS AND DIVIDEND PER SHARE

	2014	2013
Average number of shares in issue (ordinary and preference shares)	32,749,693	32,239,745
Dividend per share (ordinary and preference shares), €	0.23 ¹	0.25
Earnings per ordinary and preference share (diluted and undiluted), €	1.42	1.26

¹ Proposal to the 76th Ordinary General Meeting (AGM) of BKS Bank AG on 20 May 2015.

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

QUARTERLY REVIEW (2014)

€k	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Interest income	45,946	48,238	47,937	50,053
Interest expenses	(15,174)	(16,114)	(16,216)	(15,889)
Profit/(loss) from investments in entities accounted for using the equity method	7,468	8,712	7,493	4,889
Net interest income	38,240	40,836	39,214	39,053
Impairment charge on loans and advances	(9,346)	(13,173)	(13,088)	(13,913)
Net interest income after impairment charge	28,894	27,663	26,126	25,140
Fee and commission income	9,795	13,082	12,543	12,403
Fee and commission expenses	(823)	(879)	(666)	(716)
Net fee and commission income	8,972	12,203	11,877	11,687
Net trading income	(149)	458	743	321
General administrative expenses	(28,865)	(24,953)	(26,061)	(25,930)
Other operating income	3,411	438	1,255	869
Other operating expenses	(1,896)	(2,689)	(3,041)	(859)
Profit/(loss) from financial assets	2,247	933	1,352	1,091
– Profit/(loss) from financial assets (FV)	(2,787)	(112)	145	673
– Profit/(loss) from financial assets (AFS)	347	1,045	1,207	418
– Profit/(loss) from financial assets (HTM)	4,687	0	0	0
Profit for the period before tax	12,614	14,053	12,251	12,319
Income tax expense	718	(1,835)	(1,708)	(1,798)
Profit for the period after tax	13,332	12,218	10,543	10,521
Minority interests in profit for the period	(1)	(1)	0	(1)
Profit for the period after minority interests	13,331	12,217	10,543	10,520

QUARTERLY REVIEW (2013)

€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

Balance Sheet of the BKS Bank Group as at 31 December 2014

ASSETS

€k	Note	31/12/2014	31/12/2013	+/(-) Change, %
Cash and balances with the central bank	(11)	215,269	104,815	>100
Receivables from other banks	(12)	269,482	116,917	>100
Receivables from customers	(13)	5,023,080	5,050,314	(0.5)
– Impairment allowance balance	(14)	(194,161)	(176,109)	10.3
Trading assets	(15)	46	352	(86.9)
Financial assets		1,407,362	1,516,783	(7.2)
– Financial assets designated as at fair value through profit or loss	(16)	149,399	188,626	(20.8)
– Available-for-sale financial assets	(17)	183,310	251,483	(27.1)
– Held-to-maturity financial assets	(18)	678,757	715,548	(5.1)
– Investments in entities accounted for using the equity method	(19)	395,896	361,126	9.6
Intangible assets	(20)	1,993	1,907	4.5
Property and equipment	(21)	59,040	63,251	(6.7)
Investment property	(22)	28,985	22,814	27.0
Deferred tax assets	(23)	21,670	17,109	26.7
Other assets	(24)	31,738	25,607	23.9
Total assets		6,864,504	6,743,760	1.8

EQUITY AND LIABILITIES

€k	Note	31/12/2014	31/12/2013	+/(-) Change, %
Payables to other banks	(25)	860,517	1,302,332	(33.9)
Payables to customers	(26)	4,223,966	3,783,595	11.6
Liabilities evidenced by paper	(27)	593,614	591,083	0.4
Trading liabilities	(28)	45	404	(88.9)
Provisions	(29)	128,519	83,992	53.0
Deferred tax liabilities	(30)	10,505	5,593	87.8
Other liabilities	(31)	46,173	39,788	16.0
Subordinated debt capital	(32)	195,453	222,809	(12.3)
Equity	(33)	805,712	714,164	12.8
– Of which total minority interests and equity		805,700	714,154	12.8
– Of which minority interests in equity		12	10	20.0
Total equity and liabilities		6,864,504	6,743,760	1.8

The total return on equity in the 2014 financial year was 0.68 per cent (2013: 0.60 per cent).

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY IN 2014

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/(Loss) for the Year	Equity
At 1 January 2014	65,520	97,929	(987)	2,498	504,322	4,276	40,596	714,154
Distribution							(8,044)	(8,044)
Taken to retained earnings					32,552		(32,552)	0
Profit/(loss) for the year							46,611	46,611
Income and expenses taken directly to equity			(120)	62	(6,421)	6,943		464
Increase in share capital	6,552	45,864						52,416
Effect of the equity method								0
Change in treasury shares					349			349
Other changes		(737)			487			(250)
At 31 December 2014	72,072	143,056	(1,107)	2,560	531,289	11,219	46,611	805,700
Available-for-sale reserve								3,313
Deferred tax reserve								(753)

TOTAL MINORITY INTERESTS AND EQUITY IN 2013

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment 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					0			0
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)

Minority interests are of secondary importance in the BKS Bank Group's Statement of Changes in Equity (2014: €12.5 thousand; 2013: €9.8 thousand). At the end of 2014, there were 421,518 ordinary no-par shares and 126,843 no-par preference shares (31 December 2013: 478,479 ordinary no-par shares and 85,774 no-par preference shares) with a market value of €9.0 million in the treasury portfolio (31 December 2013: €9.7 million).

On 26 September 2014, the Management Board of BKS Bank AG decided with the agreement of the Supervisory Board to issue a total of up to 3,276,000 new ordinary no-par shares in the course of a capital increase to be carried out in October—which has now been completed—increasing the company's share capital from €65,520,000 to up to €72,072,000. The subscription period began on 6 October 2014 and ended on 22 October 2014, and the follow-up offering lasted until 28 October. All the 'young' ordinary no-par shares were successfully placed in the market. The issue and subscription price of each 'young' share was set at €16.0. The 'young' shares carry a full dividend entitlement in respect of the 2014 financial year. Trade in the young shares began in the official *Amtlicher Handel* segment on the Vienna Stock Exchange on 3 November 2014. The capital increase yielded gross proceeds of €52.4 million. Transaction costs incurred during the capital increase came to €737 thousand. This amount was deducted from equity.

Cash Flow Statement

CASH FLOWS

€k	2014	2013
Profit for the year before minority interests	46,614	40,596
Non-cash positions in profit for the year:		
– Depreciation, amortization and impairment charge on receivables and property and equipment	49,396	45,181
– Changes in provisions	10,307	5,465
– Gains and losses on disposals	(8,068)	(3,650)
– Change in other non-cash items	(31,730)	(18,304)
Subtotal	66,519	69,288
Change in assets and liabilities arising from operating business activities after correction for non-cash items:		
– Receivables from customers and other banks, effect of using the fair value option	(135,137)	(98,782)
– Trading assets	306	(115)
– Other assets	(10,692)	503
– Payables to customers and other banks	(1,444)	93,726
– Liabilities evidenced by paper	2,531	11,139
– Trading liabilities	(359)	122
– Provisions and other liabilities	38,780	(27,864)
Net cash from/(used in) operating activities	(39,496)	48,017
Proceeds from sales of:		
– Financial assets and property and equipment	260,102	207,213
Outlay on purchases of:		
– Financial assets and property and equipment	(126,371)	(208,673)
Net cash from/(used in) investing activities	133,731	(1,460)
Increases in share capital	51,679	0
Dividend distributions	(8,044)	(8,063)
Cash inflow from subordinated liabilities and other financing activities	20,827	—
Cash outflow on subordinated liabilities and other financing activities	(48,532)	(15,320)
Net cash from/(used in) financing activities	15,930	(23,383)
Cash and cash equivalents at end of previous year	104,815	81,749
Net cash from/(used in) operating activities	(39,496)	48,017
Net cash from/(used in) investing activities	133,731	(1,460)
Net cash from/(used in) financing activities	15,930	(23,383)
Effect of exchange rate changes on cash and cash equivalents	289	(108)
Cash and cash equivalents at end of year under review	215,269	104,815
Taxes, interest and dividends		
– Income tax paid	6,723	7,130
– Interest received	186,314	186,640
– Interest paid	67,491	73,017
– Dividends received	1,151	1,398

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

The Cash Flow Statement says little about the BKS Bank Group because it was not used as a management or planning instrument.

Notes to the Consolidated Financial Statements of BKS Bank

Material Accounting Policies

I. General information

BKS Bank AG is headquartered at St. Veiter Ring 43, 9020 Klagenfurt, Austria. As the parent of the BKS Bank Group, it prepared its Consolidated Financial Statements in accordance with the principles of the International Financial Reporting Standards (IFRSs) published by the International Accounting Standards Board (IASB) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU for the 2014 financial year as exempting consolidated financial statements within the meaning of § 59a BWG (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* have the strength of a major bank combined with the flexibility and closeness to the market of a regional bank.

The Management Board of BKS Bank AG signed the Consolidated Financial Statements on 12 March 2015 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 2013 financial year were retained in 2014. 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 2014 financial year

The following standards were 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
- IFRS 10, IFRS 11 and IFRS 12 (Amendments): Transition Guidance
- IFRS 10, IFRS 12 and IFRS 27 (Amendments): Investment Entities
- IAS 27: Separate Financial Statements
- IAS 28: Investments in Associates
- IAS 32 (Amendment): Offsetting Financial Assets and Financial Liabilities
- IAS 36 (Amendment): Impairment of Assets
- IAS 39 (Amendment): Novation of Derivatives and Continuation of Hedge Accounting

All of the standards and amendments to IFRS 10, IFRS 11, IFRS 12 and IAS 28 concern consolidation. With one exception, the standards IFRS 10, 11 and IAS 28 did not result in any change in the scope of consolidation or consolidation

policies. Because of the changes, BKS Bank AG's investment in *Alpenländische Garantie-GmbH (ALGAR)* required classification as a joint operation pursuant to IFRS 11 and inclusion in the Consolidated Financial Statements on a proportionate basis. The application of IFRS 12 necessitates the publication of additional information, and we have met that requirement in note (37). The standard IAS 27 does not affect BKS Bank because it deals with separate financial statements prepared in conformity with IFRSs. The other amendments listed above did not have any material effects on BKS Bank's Consolidated Financial Statements.

Effects of new standards effective from the 2015 financial year

The following will be effective for annual periods beginning on or after 1 January 2015:

- IFRIC 21: Levies
- Annual Improvements 2012–2014 cycle

IFRIC 21: The IASB issued the IFRIC 21 interpretation on levies in May 2013. It specifies in concrete terms how and when levies raised by governmental authorities should be recognized as liabilities (provisions, contingent liabilities and contingent assets) under IAS 37. It was endorsed by the EU in June 2014. IFRIC 21 is effective for annual periods beginning on or after 17 June 2014. No action is required on the part of BKS Bank as a result of this interpretation.

Annual Improvements 2011–2013 cycle: The resulting changes related mainly to clarifications and editorial changes. The IASB issued the Annual Improvements 2011–2013 cycle in December 2013. The changes were adopted by the EU in December 2014.

Standards effective for annual periods beginning on or after 1 January 2016

- Annual Improvements 2010–2012 cycle
- IFRS 14: Regulatory Deferral Accounts
- IFRS 11 (Amendment): Acquisition of an Interest in a Joint Operation
- IAS 16 and IAS 38 (Amendments): Clarification of Acceptable Methods of Depreciation and Amortization
- IAS 19 (Amendment): Employee Benefits
- IAS 41 and IAS 16 (Amendments): Agriculture: Bearer Plants
- IAS 27 (Amendment): Equity Method in Separate Financial Statements
- IAS 28 and IFRS 10 (Amendments): Sale or Contribution of Investments in Associates and Joint Ventures
- IFRS 10, IFRS 12 and IAS 28 (Amendments): Investment Entities
- IAS 1 (Amendment): Presentation of Financial Statements
- Annual Improvements 2012–2014 cycle
- IFRS 15: Revenue from Contracts with Customers
- IFRS 9: Financial Instruments

Annual Improvements 2010–2012 cycle: The resulting changes related mainly to clarifications and editorial changes. The IASB issued the Annual Improvements 2010–2012 cycle in December 2013 and it was adopted by the EU in January 2015. Changes resulting from these improvements will be effective for annual periods beginning on or after 1 February 2015.

IFRS 14: The IASB issued the interim standard IFRS 14: Regulatory Deferral Accounts on 30 January 2014. It will be effective from 1 January 2016. It has yet to be adopted by the EU. The objective of this standard is to enhance the comparability of financial reporting by entities with rate-regulated activities. This standard will not change anything for BKS Bank because BKS Bank does not carry on any rate-regulated activities.

IFRS 11 (Amendment): On 6 May 2014, the IASB issued an amendment to IFRS 11 on the accounting for the acquisition of an interest in a joint operation that constitutes a business within the meaning of IFRS 3: Business Combinations.

According to the amendment, such cases must be accounted for as business combinations within the meaning of IFRS 3. The amendment will be effective for annual periods beginning on or after 1 January 2016. It has not yet been endorsed by the EU. This amendment could affect BKS Bank in the future.

IAS 16 and IAS 38 (Amendments): On 12 May 2014, the IASB issued an amendment on acceptable methods of depreciation and amortization. Under the amendment, the revenue-based depreciation of tangible assets will not be permitted and the revenue-based amortization of intangible assets will only be permissible in certain exceptional cases. The changes are likely to be effective from 1 January 2016. They have not yet been endorsed by the EU. This standard will not cause any changes for BKS Bank because BKS Bank does not use any revenue-based depreciation or amortization methods.

IAS 19 (Amendment): The amendment clarifies how employee contributions in respect of service should be accounted for by the promising entity. According to the amendment, it would be permissible to deduct the nominal amount of employee contributions from the service cost in the period in which the related service is rendered if the amount of the contributions does not depend on the number of years of service. The amendment will be effective for annual periods beginning on or after 1 July 2014. The amendment was endorsed by the EU in January 2015. This clarification will not have material implications for BKS Bank.

IAS 41 and IAS 16 (Amendments): On 30 June 2014, the IASB issued amendments to IAS 16 and IAS 41 on accounting for so-called bearer plants. The amendments will be effective from 1 January 2016. They have not yet been endorsed by the EU. Since it does not apply IAS 41, this will not cause any changes for BKS Bank.

IAS 27 (Amendment): On 12 August 2014, the IASB published changes to IAS 27: Separate Financial Statements on investments in subsidiaries, joint ventures and associates. In future, IFRS-compliant separate financial statements can also account for them using the equity method, with the changes being applicable retrospectively from the beginning of 2016. They have not yet been endorsed by the EU. Since BKS Bank does not prepare and IFRS-compliant separate financial statements, this amendment this will not cause any changes for BKS Bank.

IAS 28 and IFRS 10 (Amendment): The amendment to IAS 28 and IFRS 10 addresses a known inconsistency between IAS 28 and IFRS 10. It was issued by the IASB on 11 September 2014. According to the amendment, any gains or losses upon the sale of assets of an associate or joint venture or the contribution of assets to an associate or joint venture can only be recognized in full in the annual financial statements if the sold or contributed assets constitute a business as defined in IFRS 3. If the assets do not constitute a business, only a partial gain or loss can be recognized. The amendment will be effective for annual periods beginning on or after 1 January 2016. It has not yet been endorsed by the EU. This amendment could affect BKS Bank in the future.

IFRS 10, IFRS 12 and IAS 28 (Amendments): The IASB issued amendments to these standard on 18 December 2014. They address questions about applying the consolidation exception under IFRS 10 if the parent satisfies the definition of an investment entity. The amendments will be effective for annual periods beginning on or after 1 January 2016. They have not yet been endorsed by the EU. Since they are not applicable at BKS Bank, they will not cause any changes for BKS Bank.

IAS 1 (Amendment): The IASB also issued an amendment to IAS 1 on 18 December 2014. Under the amendment, information must only be disclosed in the notes if its content is not immaterial. In addition, and among other things, it precisely regulates the aggregation and disaggregation of items on the balance sheet and in the comprehensive income statement. Furthermore, it explains how an entity's share of the profit or loss of equity-accounted entities should be presented in the comprehensive income statement and elucidates the deletion of the sample structure of the Notes and consideration of the relevance of entity-specific information. The amendment will be effective for annual periods beginning on or after 1 January 2016. It has not yet been endorsed by the EU. This amendment could affect BKS Bank.

Annual Improvements 2012 – 2014 cycle: The IASB issued amendments to the standards IFRS 5, IFRS 7, IFRS 1, IAS 19 and IAS 34 within the scope of this annual project. The amendments will be effective for annual periods beginning on or after 1 January 2016. They have not yet been endorsed by the EU. This cycle will not have a material impact on BKS Bank.

IFRS 15: The IASB and the FASB (Financial Accounting Standards Board) issued IFRS 15 jointly on 28 May 2014. It regulates revenues from contracts with customers. The purpose of this standard is to combine into one standard the many standards and interpretations on the subject that existed beforehand. This standard replaces IAS 11: Construction Contracts; IAS 18: Revenue; IFRIC 13: Customer Loyalty Programmes; IFRIC 15: Agreements for the Construction of Real Estate; IFRIC 18 : Transfer of Assets from Customers; and SIC 31: Revenue—Barter Transactions Involving Advertising Services. This standard will be effective for annual periods beginning on or after 1 January 2017. It has not yet been endorsed by the EU. We are still studying the likely impact of this standard on our financial statements.

IFRS 9: The IASB issued the final version of IFRS 9 on 24 July 2014. The main points of the new standard are a new classification of financial instruments, including the new category *fair value through other comprehensive income*, new rules on calculating impairments, including the new *expected loss model* that captures both actual and expected future losses, and new and extensive disclosures in notes. We expect the adoption of IFRS 9 to take a great deal of time and cost a lot of money. Its adoption at BKS Bank will begin with a project in 2015. First-time adoption will take place as of 1 January 2018. It has not yet been endorsed by the EU.

III. Recognition and measurement

General notes

The Annual Financial Statements were prepared in euros (the functional currency). Unless stated otherwise, all figures in the Notes to the Consolidated Financial Statements that follow are rounded to thousands of euros. The Balance Sheet is arranged in descending order of liquidity. The going concern assumption was used in the preparation of the financial statements.

Scope of consolidation

Besides BKS Bank AG, the Consolidated Financial Statements accounted for a total of 19 entities (15 consolidated, three accounted for using the equity method and one accounted for on a proportionate basis). The 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 on common Group-wide criteria on the basis of qualitative and quantitative parameters. The quantitative parameter used in the case of subsidiaries was their balance sheet total. In the case of associates, it was the Group's interest in their equity. The number of employees was another criterion. Furthermore, each entity was evaluated to ascertain whether its exclusion might affect financial decisions on the part of the report's addressees. Here, the key criteria were an entity's business activity and future business expectations. During first-time consolidation, an entity's cost was compared with (the Group's interest in) its remeasured equity.

Consolidated entities

The following entities conformed to the control concept for the purposes of IFRS 10. This meant that BKS Bank AG as parent had the decision-making power needed to be able to steer variable returns. Besides BKS Bank AG, the following entities were consolidated members of the Group:

CONSOLIDATED ENTITIES

Entity	Head Office	Direct Equity Interest	Indirect Equity Interest	Date of Financial Statements
BKS Bank d.d.	Rijeka	100.00%	—	31/12/2014
BKS Leasing Gesellschaft m.b.H	Klagenfurt	99.75%	0.25%	31/12/2014
BKS-leasing d.o.o.	Ljubljana	100.00%	—	31/12/2014
BKS-leasing Croatia d.o.o.	Zagreb	100.00%	—	31/12/2014
BKS Leasing s.r.o.	Bratislava	100.00%	—	31/12/2014
IEV Immobilien GmbH	Klagenfurt	100.00%	—	31/12/2014
Immobilien Errichtungs- und Vermietungs GmbH & Co KG	Klagenfurt	100.00%	—	31/12/2014
BKS 2000 Beteiligungs- und Verwaltungs GmbH	Klagenfurt	100.00%	—	31/12/2014
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	—	100.00%	31/12/2014
BKS Hybrid alpha GmbH	Klagenfurt	100.00%	—	31/12/2014
BKS Hybrid beta GmbH	Klagenfurt	100.00%	—	31/12/2014
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	—	31/12/2014
LVM Beteiligungs Gesellschaft mbH	Klagenfurt	—	100.00%	31/12/2014
BKS Immobilienservice GmbH	Klagenfurt	100.00%	—	31/12/2014
BKS-Service GmbH	Klagenfurt	100.00%	—	31/12/2014

BKS 2000 Beteiligungsverwaltungsgesellschaft m.b.H. was already added to the consolidated group as of 1 January 2014. Besides materiality considerations and the first-time adoption of the IFRS consolidation package—including, in particular, IFRS 10—the desire to harmonize the scopes of consolidation (the regulatory scope of consolidation and the scope of consolidation in conformity with IFRSs) also entered into this discretionary decision. BKS-Finance s.r.o. was merged into BKS Leasing s.r.o. as of 5 July 2014. Otherwise, no changes to the scope of consolidation took place with respect to consolidated entities compared with the 31 December 2013 reporting date.

Entities accounted for using the equity method

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

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Entity	Head Office	Direct Equity Interest	Date of Financial Statements
Oberbank AG	Linz	16.95%	30/9/2014
Bank für Tirol und Vorarlberg AG	Innsbruck	13.59%	30/9/2014
Drei-Banken Versicherungs AG	Linz	20.00%	31/12/2014

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 those 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.

Entities accounted for on a proportionate basis

As a result of the application of IFRS 11 in the 2014 financial year, our investment in Alpenländische Garantie-GmbH required classification as a joint operation and was, therefore, accounted for on a proportionate basis.

ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

Entity	Head Office	Direct Equity Interest	Date of Financial Statements
Alpenländische Garantie-GmbH	Linz	25.00%	31/12/2014

As a result of the provisions regarding discretionary decisions described above, the following entities in which BKS Bank held stakes of more than 20 per cent 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 INCLUDED IN THE SCOPE OF CONSOLIDATION

Entity	Head Office	Direct Equity Interest	Indirect Equity Interest	Date of Financial Statements
Drei-Banken-EDV GmbH	Linz	30.00%	—	31/12/2014
VBG Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	—	31/12/2014
E 2000 Liegenschaftsverwaltungs GmbH	Klagenfurt	100.00%	—	31/12/2014
Pekra Holding GmbH	Pörschach	100.00%	—	31/12/2014

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

Foreign currency translation

FOREIGN SUBSIDIARIES AND BRANCHES AT 31 DECEMBER 2014

€k	Net Interest Income	Operating Profit	Number of Staff (Full Year Equivalents)	Profit/(Loss) for the Period before Tax	Income Tax Expense	Profit/(Loss) for the Period after Tax
Branches abroad						
Slovenia Branch (banking branch)	11,354	13,703	90,3	225	0	225
Slovakia Branch (banking branch)	1,200	1,322	19,0	(337)	0	(337)
Subsidiaries						
BKS Leasing d.o.o., Ljubljana	2,041	2,315	10,6	845	(143)	702
BKS-leasing Croatia d.o.o., Zagreb	1,353	1,409	10,0	181	(54)	127
BKS-Leasing s.r.o., Bratislava	1,072	1,528	14,0	31	(45)	(14)
BKS Bank d.d., Rijeka	4,627	5,422	59,0	(75)	83	8

Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates ruling at the balance sheet date. The financial statements of subsidiaries that were not prepared in euros were translated using the *closing rate method*. Within the Group, there were just two companies that did not prepare their financial statements in euros. They were Croatian companies that prepared their financial statements in Croatian kunas. Their assets and liabilities were translated at the exchange rates ruling at their balance sheet dates. Expenses and income were translated applying the average rate of exchange in the respective 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 conformity with the provisions of IAS 39 and according to their assignment to one of the following categories:

- financial assets and liabilities requiring measurement to fair value, subdivided into
 - trading assets and trading liabilities: these are financial instrument held for trading, inclusive of all derivatives with the exception of those designated as hedges (held for trading);
 - financial assets and liabilities designated as at fair value through profit or loss (fair value option);
- available-for-sale financial assets and liabilities (AFS);
- held-to-maturity financial assets and liabilities (HTM);
- loans and receivables (LAR);
- financial liabilities (other liabilities).

In following valuations, financial instruments were measured either 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 MEASUREMENT 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 2013, 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 assignment to this category was decided by the Asset Liability Management Committee to avoid an accounting mismatch (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 accounted for neither as a held-to-maturity asset nor as an asset designated as at fair value through profit or loss. They were generally measured applying stock exchange prices. If these were not available, values of interest rate products were measured using present value techniques. Revaluation gains and losses were recognized in the AFS reserve and not through profit or loss. If such securities were sold, the corresponding part of the AFS reserve was released through profit or loss.

In the event of impairment (e.g. a debtor in severe financial difficulties or a measurable decline in the expected future cash flows), a charge was recognized in the Income Statement. If the reason for such a charge no longer existed, a write-back was recorded. In the case of equity capital instruments, it was made to equity through the AFS reserve. In the case of debt instruments, it was made to income. Investments in entities that were neither consolidated nor accounted for using the equity method were deemed to be part of the AFS portfolio. Where market prices were unavailable, equity investments were valued on a cost basis. No sales of such financial assets were planned at the balance sheet date.

Held-to-maturity financial assets

In this line item, we account for financial instruments that were to be held to maturity (HTM). Premiums and discounts were spread over their term using the *effective interest rate method*. Impairment losses were recognized through profit or loss.

Investments in entities accounted for using the equity method

Entities in which BKS Bank held a stake of over 20 per cent and that required recognition as associates or joint ventures 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 our stakes in *Oberbank* and *Bank für Tirol und Vorarlberg* were below 20 per cent—as syndicate agreements were in place that allowed participation in those banks' financial and business policy decisions 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 6.5 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 the asset and recognized in profit or loss. *Other liabilities* comprises *Payables to other banks* and *Payables to customers*. These liabilities were recognized at the amounts payable.

Impairment allowance balance

Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing individual impairment charges (in the case of material exposures, these were calculated on the basis of the *discounted cash flow method*), by recognizing individual impairment charges applying class-specific criteria and by way of collective portfolio impairment assessments carried out in accordance with IAS 39.64. The latter captured incurred but not yet identifiable losses. Provisions were recognized for risks arising from contingent liabilities in accordance with IAS 37. A portfolio impairment allowance for country risk was created, 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 by certified appraisers. 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 mainly 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 66.7 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 of software was 25 per cent (i.e. 4 years).

Purchased goodwill was recognized at cost at the date of acquisition. It is not amortized. Instead, an impairment test is carried out at least once a year. When goodwill on the Balance Sheet was tested for impairment, its carrying amount was compared with the present value of the company's interest in all future cash flows (value in use). Present value was measured on the basis of a discounted cash flow model. A two-phase mathematical model was used:

Phase 1: In phase 1, cash flows in the ensuing five years were calculated and discounted on the basis of the company's budgets.

Phase 2: In phase 2, a perpetual annuity was calculated on the basis of the cash flow in the most recent plan year.

No goodwill was shown on the Balance Sheet in the financial year under review.

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 positive and negative fair values of derivative financial 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 death benefits was also calculated in accordance with the IFRS principles contained in IAS 19. In the 2014 financial year, the provisions for post-employment, termination, jubilee and death 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. Actuarial gains and losses on provisions for termination and post-employment benefits were taken directly to equity.

Because of the first-time proportionate consolidation in 2014 of *Alpenländische Garantie-GmbH (ALGAR)* in conformity with IFRS 11, free provisions in the amount of €33.6 million were accounted for on a proportionate basis and recognized in the line item *Provisions*.

Equity

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

Notes on 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. 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 too note (2) 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. Fees and commission in connection with newly granted loans with original durations of more than one year were recognized in the Income Statement *pro rata temporis*.

General administrative expenses

The line item *General administrative expenses* includes staff costs, other administrative costs and depreciation and amortization. They were accounted for on an accrual basis.

Net trading income

This line item comprises income and expenses arising from our proprietary trading activities. Positions in the trading book were marked to market. *Net trading income* also includes revaluation gains and losses.

Other operating income net of other operating expenses

This line item comprises fees, levies, damages, compensation for damages, proceeds from property sales and similar items. They were accounted for on an accrual basis.

IV. Discretionary Decisions

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 was operating in the Austrian, Croatian, Slovenian, northern Italian, western Hungarian and Slovakian markets. In a number of areas in which discretionary decisions, assumptions and estimates were made, the economic environments in the aforementioned markets were precisely analyzed and the results were brought into the decision-making process.

Material discretionary decisions, assumptions and estimates were made in the following areas:

Impairment of financial assets: impairment 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.

Measuring the fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 regulates the measurement to fair value, with validity for all standards, of financial assets and liabilities that must or may be measured to fair value as well as the disclosures that are required regarding fair value measurements. IFRS 13 assigns the fair values of financial assets and liabilities to one of three categories.

Level 1: If there is an active market, the fair value can best be determined on the basis of quoted prices in the primary market or, if there is no primary market, in the market that produces the most advantageous results.

Level 2: If the financial instrument is not listed on an exchange, its fair value is ascertained using the input factors available in the market. BKS Bank mainly used yield curves and foreign exchange rates as input factors.

Level 3: There are no indirectly or directly observable input factors for financial instruments in this category. Here, generally accepted valuation methods were used depending on the financial instrument.

Generally, reclassifications take place at the end of a reporting period.

Using the fair value option

The ALM Committee decided when to use the fair value option (i.e. designate a financial instrument as at fair value). See the Risk Report for further details.

Provisions for 'social capital' (Sozialkapitalrückstellung)

Estimates regarding the discount rate, salary growth, the career trend and the retirement age were required to calculate provisions for post-employment, termination, jubilee and death benefits. The discount rate is 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	2014	2013	+/(-) Change, %
Interest income from:			
Credit operations	146,009	145,079	0.6
Fixed-interest securities designated as at fair value through profit or loss	2,449	3,160	(22.5)
Fixed-interest securities classified as available for sale	2,381	2,992	(20.4)
Fixed-interest securities classified as held to maturity	22,492	24,171	(6.9)
Lease receivables	8,699	8,014	8.5
Shares	2,447	3,011	(18.7)
Investment property	2,773	2,437	13.8
Investments in 'other' subsidiaries	0	1,053	(100.0)
Other equity investments	4,924	4,704	4.7
Total interest income	192,174	194,621	(1.3)
Interest expenses on:			
Deposits from customers and other banks ¹	35,339	45,906	(23.0)
Liabilities evidenced by paper	27,355	26,894	1.7
Investment property	699	680	2.8
Total interest expenses	63,393	73,480	(13.7)
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	28,802	25,868	11.3
Financing costs of investments in entities accounted for using the equity method ²	(240)	(805)	(70.2)
Profit from investments in entities accounted for using the equity method	28,562	25,063	14.0
Net interest income	157,343	146,204	7.6

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 €8.6 million (31 December 2013: €6.8 million) and income from unwinding (i.e. from changes in the present values of cash flows) in the amount of €2.3 million.

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	2014	2013	+/(-) Change, %
Impairment allowances	60,419	47,018	28.5
Impairment reversals	(11,172)	(5,363)	>100
Direct write-offs	744	1,446	(48.5)
Recoveries on receivables previously written off	(471)	(391)	20.5
Impairment charge on loans and advances	49,520	42,710	15.9

This line item contains impairment charges on lease receivables in the amount of €1.3 million (31 December 2013: €1.7 million).

(3) FEE AND COMMISSION INCOME

€k	2014	2013	+/(-) Change, %
Fee and commission income:			
Payment services	20,278	19,220	5.5
Securities operations	13,105	12,037	8.9
Credit operations	10,500	13,648	(23.1)
Foreign exchange operations	2,812	2,311	21.7
Other services	1,128	1,113	1.3
Total fee and commission income	47,823	48,329	(1.0)
Fee and commission expenses arising from:			
Payment services	1,538	1,425	7.9
Securities operations	850	735	15.6
Credit operations	294	431	(31.8)
Foreign exchange operations	277	174	59.2
Other services	125	142	(12.0)
Total fee and commission expenses	3,084	2,907	6.1
Net fee and commission income	44,739	45,422	(1.5)

(4) NET TRADING INCOME

€k	2014	2013	+/(-) Change, %
Price-based contracts	(10)	(11)	(9.1)
Interest rate and currency contracts	1,383	1,534	(9.8)
Net trading income	1,373	1,523	(9.8)

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	2014	2013	+/(-) Change, %
Staff costs	69,872	66,972	4.3
– Wages and salaries	50,955	47,563	7.1
– Social security costs	13,521	13,610	(0.7)
– Costs of old-age benefits	5,396	5,799	(6.9)
Other administrative costs	28,959	27,085	6.9
Depreciation/amortization	6,978	6,756	3.3
General administrative expenses	105,809	100,813	5.0

Expenditure on old-age benefits included defined contribution plan payments to a pension fund in the amount of €1.4 million (2013: €1.5 million).

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	2014	2013	+/(-) Change, %
Other operating income	5,973	3,567	67.5
Other operating expenses	(8,485)	(10,886)	(22.1)
Other operating income net of other operating expenses	(2,512)	(7,319)	(65.7)

The line item *Other operating income* includes non-interest income from leases in the amount of €920 thousand (2013: €829 thousand), rental income in the amount of €233 thousand (2013: €319 thousand) and other income in the amount of €4,820 thousand (2013: €2,419 thousand). In 2014, no expense was incurred for a goodwill write-off (2013: €5,414 thousand). The stability levy came to €4,529 thousand (2013: €2,074 thousand) and other expenses amounted to €3,956 thousand (2013: €3.398 thousand). *Other operating income net of other operating expenses* included income tax expense in the amount of €0.2 million (2013: 0).

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

€k	2014	2013	+/(-) Change, %
Revaluation gains and losses on and gains and losses on disposals of derivatives	1,623	2,587	(37.3)
Gain/(loss) as a result of using the fair value option	(3,704)	(1,006)	>100
Profit/(loss) from financial assets designated as at fair value through profit or loss	(2,081)	1,581	(>100)

Fixed-interest loans to customers in the amount of €87.1 million (2013: €101.6 million), bonds in the asset portfolio in the amount of €62.3 million (2013: €87.0 million) and BKS Bank's own issuances in the amount of €106.3 million (2013: €115.5 million) were hedged by means of interest rate swaps using the fair value option. The effect of these hedges totalled negative €3.7 million (2013: negative €1.0 million). The effect of the fair value option essentially reflects the amount that can be attributed to counterparty risk rather than changes in market risk

(8) PROFIT/(LOSS) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	2014	2013	+/(-) Change, %
Revaluation gains and losses	(746)	(3,491)	(78.6)
Gains and losses realized on disposal	3,763	5,132	(26.7)
Profit/(loss) from available-for-sale financial assets	3,017	1,641	83.9

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

€k	2014	2013	+/(-) Change, %
Revaluation gains and losses	0	0	—
Gains and losses realized on disposal	4,687	0	—
Profit/(loss) from held-to-maturity financial assets	4,687	0	—

(10) INCOME TAX EXPENSE

€k	2014	2013	+/(-) Change, %
Current taxes	(5,954)	(7,530)	(20.9)
Deferred taxes	1,331	2,597	(48.8)
Income tax expense	(4,623)	(4,933)	(6.3)

RECONCILIATION

€k unless stated otherwise	2014	2013
Profit for the year before tax	51,237	45,529
Applicable tax rate	25%	25%
Computed tax expense	12,809	11,382
Effect of differing tax rates	(102)	(240)
Tax savings		
– Arising from tax-exempt profit from equity investments	(8,749)	(8,182)
– Arising from other tax-exempt income	(173)	(611)
– Arising from other valuation adjustments	(35)	71
Additional tax incurred		
– As a result of non-allowable expenses	803	1,643
– Arising from other tax effects	69	869
Aperiodic tax expenses	0	0
Income tax expense in period	4,623	4,933
Effective tax rate	9.0%	10.8%

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2014	31/12/2013	+/(-) Change, %
Cash in hand	34,693	37,016	(6.3)
Credit balances with central banks of issue	180,576	67,799	>100
Cash and balances with the central bank	215,269	104,815	>100

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Receivables from Austrian banks ¹	167,323	45,485	>100
Receivables from foreign banks	102,159	71,432	43.0
Receivables from other banks	269,482	116,917	>100

¹ Of which €45.9 million resulting from the first-time proportionate consolidation of *Alpenländische Garantie-GmbH*.

RECEIVABLES FROM OTHER BANKS, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2013	+/(-) Change, %
Due on demand	102,024	79,370	28.5
Up to 3 months	164,982	23,034	>100
From 3 months to 1 year	653	12,262	(94.7)
From 1 year to 5 years	110	2,251	(95.1)
From 5 years and over	1,713	0	—
Receivables from other banks	269,482	116,917	>100

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Corporate and business banking customers	3,893,421	3,946,284	(1.3)
Retail banking customers	1,129,659	1,104,030	2.3
Receivables from customers	5,023,080	5,050,314	(0.5)

The line item *Receivables from customers* includes receivables arising from finance leases in the amount of €296.0 million (31 December 2013: €289.0 million). No material sale and leaseback transactions took place during the year under review.

RECEIVABLES FROM CUSTOMERS, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2013	+/(-) Change, %
Due on demand	313,847	304,725	3.0
Up to 3 months	793,675	741,473	7.0
From 3 months to 1 year	740,743	737,670	0.4
From 1 year to 5 years	1,404,286	1,377,407	2.0
From 5 years and over	1,770,529	1,889,039	(6.3)
Receivables from customers	5,023,080	5,050,314	(0.5)

RECEIVABLES ARISING FROM FINANCE LEASES, BY REMAINING TERM TO MATURITY

€k	2014	< 1 Year	1–5 Years	> 5 Years	2013	+/(-) Change, %
Gross value of investments	162,043	32,005	84,466	48,065	153,422	5.6
Unrealized financial gains	27,721	7,082	15,712	4,573	19,182	44.5
Net value of investments	134,322	24,923	68,754	43,492	134,240	0.1

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

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2014	31/12/2013	+/(-) Change, %
At beginning of year under review	176,109	168,101	4.8
Change in consolidation policies ¹	28,285	0	—
+ Added	55,566	43,789	26.9
– Reversed	(13,147)	(5,364)	>100
– Used	(52,607)	(30,334)	73.4
+/(-) Exchange differences	(45)	(83)	(45.8)
At end of year under review	194,161	176,109	10.3

¹ As a result of the proportionate consolidation of *Alpenländische Garantie-GmbH* (ALGAR), dedicated provisions and provisions for declarations of non-impairment by ALGAR were recognized as specific impairment allowances.

The line item *Impairment allowance balance* includes provisions for the economic risks arising in connection with leasing operations and impairment charges on lease receivables in the amount of €16.8 million (31 December 2013: €17.4 million). The Risk Report contains further notes on the impairment allowance balance.

(15) TRADING ASSETS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Bonds and other fixed-interest securities	0	0	—
Positive fair values of derivative financial instruments			
– Currency contracts	0	0	—
– Interest rate contracts	46	352	(86.9)
Trading assets	46	352	(86.9)

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

€k	31/12/2014	31/12/2013	+/(-) Change, %
Bonds and other fixed-interest securities	62,339	87,004	(28.3)
Loans	87,060	101,622	(14.3)
Financial assets designated as at fair value through profit or loss	149,399	188,626	(20.8)

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

€k	31/12/2014	31/12/2013	+/(-) Change, %
Up to 3 months	1,677	12,054	(86.1)
From 3 months to 1 year	35,832	28,754	24.6
From 1 year to 5 years	52,139	80,508	(35.2)
From 5 years and over	59,751	67,310	(11.2)
Financial assets designated as at fair value through profit or loss	149,399	188,626	(20.8)

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Bonds and other fixed-interest securities	82,636	117,814	(29.9)
Shares and non-interest-bearing securities	42,281	83,574	(49.4)
Investments in other associates and in subsidiaries	4,393	35,399	(87.6)
Other equity investments	54,000	14,696	> 100
Available-for-sale financial assets	183,310	251,483	(27.1)

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

€k	31/12/2014	31/12/2013	+/(-) Change, %
Bonds and other fixed-interest securities			
– Up to 3 months	13,384	3,768	>100
– From 3 months to 1 year	17,090	42,433	(59.7)
– From 1 year to 5 years	52,162	70,822	(26.3)
– From 5 years and over	0	791	(100.0)
Available-for-sale financial assets	82,636	117,814	(29.9)

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Bonds and other fixed-interest securities	678,757	715,548	(5.1)
Held-to-maturity financial assets	678,757	715,548	(5.1)

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

€k	31/12/2014	31/12/2013	+/(-) Change, %
Bonds and other fixed-interest securities			
– Up to 3 months	25,053	23,295	7.5
– From 3 months to 1 year	56,223	61,925	(9.2)
– From 1 year to 5 years	262,015	275,321	(4.8)
– From 5 years and over	335,466	355,007	(5.5)
Held-to-maturity financial assets	678,757	715,548	(5.1)

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

€k	31/12/2014	31/12/2013	+/(-) Change, %
<i>Oberbank AG</i>	259,001	237,139	9.2
<i>Bank für Tirol und Vorarlberg AG</i>	132,631	118,849	11.6
<i>Alpenländische Garantie-GmbH¹</i>	0	974	(100.0)
<i>Drei-Banken Versicherungs-AG</i>	4,264	4,164	2.4
Investments in entities accounted for using the equity method	395,896	361,126	9.6

¹ Proportionate consolidations as of the reporting date of 31 December 2014.

(20) INTANGIBLE ASSETS AND GOODWILL

€k	31/12/2014	31/12/2013	+/(-) Change, %
Goodwill	0	0	—
Other intangible assets	1,993	1,907	4.5
Intangible assets	1,993	1,907	4.5

(21) PROPERTY AND EQUIPMENT

€k	31/12/2014	31/12/2013	+/(-) Change, %
Land	7,856	8,840	(11.1)
Buildings	41,232	43,365	(4.9)
Other	9,952	11,046	(9.9)
Property and equipment	59,040	63,251	(6.7)

(22) INVESTMENT PROPERTY

€k	31/12/2014	31/12/2013	+/(-) Change, %
Land	11,842	7,679	54.2
Buildings	17,143	15,135	13.3
Investment property	28,985	22,814	27.0

At 31 December 2014, the fair values of our investment properties totalled €44,6 million (31 December 2013: €34.5 million). Rental income during the year under review came to €2.8 million (2013: €2.4 million). Expenses associated with achieving this rental income came to €0.7 million (2013: €0.7 million).

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

€k	Property and Equipment	Intangible Assets ¹	Property ²	Total
Cost at 1 January 2014	127,791	9,638	42,919	180,348
Added	5,182	1,311	3,233	9,726
Disposals	(3,499)	(4)	(650)	(4,153)
Exchange differences	(21)	(14)	0	(35)
Reclassified	(5,328)	0	5,328	0
Cost at 31 December 2014	124,125	10,931	50,830	185,886
Accumulated depreciation/amortization	65,085	8,938	21,845	95,868
Carrying amount at 31 December 2014	59,040	1,993	28,985	90,018
Carrying amount at 31 December 2013	63,251	1,907	22,814	87,972
Depreciation/amortization in 2014	4,801	1,223	953	6,977

¹ 'Other' intangible assets.

² Investment property.

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

€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.

(23) DEFERRED TAX ASSETS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Receivables from customers	150	286	(47.6)
Trading assets and trading liabilities	24	42	(42.9)
Impairment allowance balance	5,906	7,118	(17.0)
Available-for-sale financial assets	307	300	2.3
Held-to-maturity financial assets	259	302	(14.2)
Property and equipment	624	365	71.0
Other assets and liabilities	3,849	3,103	24.0
Liabilities evidenced by paper	2,289	0	—
Provisions (for post-employment and termination benefits, other provisions)	8,262	5,594	47.7
Tax loss carryforwards	0	0	—
Deferred tax assets	21,670	17,109	26.7

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, use of the fair value option for debt securities 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 €2.1 million (31 December 2013: €0.2 million).

(24) OTHER ASSETS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Positive fair values of derivative financial instruments	15,821	8,903	77.7
Other items	13,566	13,716	(1.1)
Deferred items	2,351	2,988	(21.3)
Other assets	31,738	25,607	23.9

(25) PAYABLES TO OTHER BANKS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Payables to Austrian banks	593,228	961,493	(38.3)
Payables to foreign banks	267,289	340,839	(21.6)
Payables to other banks	860,517	1,302,332	(33.9)

PAYABLES TO OTHER BANKS, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2013	+/(-) Change, %
Due on demand	3,905	155,021	(97.5)
Up to 3 months	424,127	617,053	(31.3)
From 3 months to 1 year	163,009	204,437	(20.3)
From 1 year to 5 years	262,987	305,858	(14.0)
From 5 years and over	6,489	19,963	(67.5)
Payables to other banks	860,517	1,302,332	(33.9)

(26) PAYABLES TO CUSTOMERS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Savings deposit balances	1,705,481	1,741,201	(2.1)
Corporate and business banking customers	195,651	228,814	(14.5)
Retail banking customers	1,509,830	1,512,387	(0.2)
Other payables	2,518,485	2,042,394	23.3
Corporate and business banking customers	1,742,938	1,394,145	25.0
Retail banking customers	775,547	648,249	19.6
Payables to customers	4,223,966	3,783,595	11.6

PAYABLES TO CUSTOMERS, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2013	+/(-) Change, %
Due on demand	2,083,269	1,645,279	26.6
Up to 3 months	564,868	541,561	4.3
From 3 months to 1 year	892,895	800,228	11.6
From 1 year to 5 years	669,296	587,602	13.9
From 5 years and over	13,638	208,925	(93.5)
Payables to customers	4,223,966	3,783,595	11.6

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2014	31/12/2013	+/(-) Change, %
Issued bonds	500,655	480,382	4.2
Other liabilities evidenced by paper	92,959	110,701	(16.0)
Liabilities evidenced by paper	593,614	591,083	0.4

€106.3 million (31 December 2013: €115.5 million) of the liabilities evidenced by paper were measured at fair value (use of the fair value option). During the year under review, the fair value of the financial liabilities to which the fair value option was applied increased by €0.6 million. This was a result of BKS Bank's own default risk.

LIABILITIES EVIDENCED BY PAPER, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2013	+/(-) Change, %
Up to 3 months	36,610	52,713	(30.5)
From 3 months to 1 year	33,530	45,267	(25.9)
From 1 year to 5 years	268,030	286,852	(6.6)
From 5 years and over	255,444	206,251	23.9
Liabilities evidenced by paper	593,614	591,083	0.4

(28) TRADING LIABILITIES

€k	31/12/2014	31/12/2013	+/(-) Change, %
Interest rate contracts	45	404	(88.9)
Trading liabilities	45	404	(88.9)

(29) PROVISIONS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Provisions for post-employment benefits and similar obligations	78,917	69,814	13.0
Provisions for taxes (current taxes)	117	178	(34.3)
Other provisions ¹	49,485	14,000	>100
Provisions	128,519	83,992	53.0

¹ Of which €33.6 million due to the first-time proportionate consolidation of *Alpenländische Garantie-GmbH*.

Provision for termination benefits

According to the requirements of the *Angestelltengesetz* (Austrian salaried employees act) and the *Abfertigungsgesetz* (Austrian termination benefits act), Austrian employees of BKS Bank whose employment began before 1 January 2003 are entitled to a termination benefit insofar as suitable grounds for the termination exist. Moreover, the *Kollektivvertrag für Banken und Bankiers* (collective agreement for banks and bankers) generally gives people who have been in service for more than 5 years the right to two additional months' salary if the employer gives notice.

Provisions for post-employment benefits

Post-employment benefit obligations existed on the basis of the collective agreement revising post-employment benefit law as amended on 23 December 1996. Essentially, the post-employment benefit promises embraced old-age pensions, occupational disability pensions and widow(er)s' and orphans' pensions. In the 2000 financial year, the existing benefit promises were transferred to *VBV-Pensionkassen AG* as the legal successor to *BVP-Pensionkassen AG*. BKS Bank's benefit obligations were the result of post-employment benefits that were already being paid to former employees or their surviving dependants.

ACTUARIAL ASSUMPTIONS

%	2014	2013
Financial assumptions		
Interest rate	2.20%	3.70%
Salary trend	2.00%	2.10%
Career dynamic	0.25%	0.25%
Demographic assumptions		
Increase in retirement age to	65 years	65 years
Mortality table	AVÖ 2008	AVÖ 2008

The interest rate was calculated in conformity with IAS 19.83 on the basis of yields on fixed-interest blue chip industrial bonds. As in 2012, use was made of the table produced by *Mercer (Austria) GmbH*.

PROVISIONS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Provision balance at 1 January	69,814	70,359	(0.8)
+ Interest cost	2,228	2,254	(1.2)
+ Service cost	1,536	467	>100
– Payments during the year under review	(3,800)	(3,931)	3.3
+/(-) Actuarial gains and losses	9,139	665	>100
Provision balance at 31 December	78,917	69,814	13.0

BREAKDOWN OF PROVISIONS

€k	Post-emp. Benefits & Similar Obligations	Taxes and Other	Total in 2014	Total in 2013	+/(-) Change, %
Provision balance at 1 January	69,814	14,178	83,992	81,289	3.3
+/(-) Change in scope of consolidation	0	33,598 ¹	33,598 ¹		—
+/(-) Exchange differences	0	(3)	(3)	(4)	(25.0)
+/(-) Transferred	389	(389)	0	0	—
+ Added	10,704	7,184	17,888	9,100	96.6
– Used	1,291	4,505	5,796	5,355	8.2
– Reversed	699	461	1,160	1,038	11.8
Provision balance at 31 December	78,917	49,602	128,519	83,992	53.0

¹ First-time proportionate consolidation of *Alpenländische Garantie-GmbH*.

SENSITIVITY ANALYSIS OF POST-EMPLOYMENT BENEFIT OBLIGATIONS AND SIMILAR OBLIGATIONS

Sensitivity Analysis of DBO, Present Values of Obligations, €k	Termination Benefits 31/12/2014	Post-employ- ment Benefits 31/12/2014	Termination Benefits 31/12/2013	Post-employ- ment Benefits 31/12/2013
Discount rate + 1.0%	19,312	46,153	17,528	41,510
Discount rate – 1.0%	23,384	58,605	20,948	50,848
Salary increase + 0.5%	22,247	52,221	20,008	45,951
Salary increase – 0.5%	20,217	51,244	18,282	44,827
Pension increase + 0.5%	0	54,208	0	47,503
Pension increase – 0.5%	0	49,409	0	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.

MATURITY ANALYSIS

Cash Flows, €k	Termination Benefits 31/12/2014	Post-employ- ment Benefits 31/12/2014
Expected payments in 2015	730	3,470
Expected payments in 2016	640	3,273
Expected payments in 2017	776	3,087
Expected payments in 2018	1,653	2,909
Expected payments in 2019	1,927	2,737
Total expected payments (2015–2019)	5,726	15,476
Weighted average maturity	9.79 years	12.50 years

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	31/12/2014	31/12/2013	+/(-) Change, %
Receivables from customers	0	0	—
Trading assets and trading liabilities	34	43	(20.9)
Financial assets designated as at fair value through profit or loss	3,273	3,057	7.1
Available-for-sale financial assets	4,628	1,034	>100
Held-to-maturity financial assets	441	501	(12.0)
Property and equipment	0	0	—
Other assets and liabilities	2,101	724	>100
Liabilities evidenced by paper	0	40	(100.0)
Provisions (for post-employment and termination benefits) and other liabilities	28	194	(85.6)
Deferred tax liabilities	10,505	5,593	87.8

The deferred tax liabilities were mainly attributable to the measurement of financial investments to fair value and the positive fair values of the derivatives in the banking book. The increase in deferred tax liabilities was mainly due to increases in the positive fair values of the derivatives in the banking book and the addition due to the first-time consolidation of available-for-sale investments measured to fair value.

(31) OTHER LIABILITIES

€k	31/12/2014	31/12/2013	+/(-) Change, %
Negative fair values of derivative financial instruments	26,257	21,458	22.4
Other items	13,928	16,659	(16.4)
Deferred items	5,988	1,671	>100
Other liabilities	46,173	39,788	16.0

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2014	31/12/2013	+/(-) Change, %
Supplementary capital	155,453	182,809	(15.0)
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	195,453	222,809	(12.3)

SUBORDINATED DEBT CAPITAL, BY REMAINING TERM TO MATURITY

€k	31/12/2014	31/12/2013	+/(-) Change, %
Up to 3 months	10,781	20,774	(48.1)
From 3 months to 1 year	15,003	29,775	(49.6)
From 1 year to 5 years	96,270	80,046	20.3
From 5 years and over	73,399	92,214	(20.4)
Subordinated debt capital	195,453	222,809	(12.3)

Supplementary capital notes in the amount of €25.0 million will mature during the 2015 financial year (2013: €52.6 million). In conformity with CRR Article 484, €40 million of hybrid capital was counted towards consolidated own funds (2013: €40 million). It did not constitute a component of consolidated equity.

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

€k	31/12/2014	31/12/2013	Full Term
Variable Ergänzungskapital-Obligation 2006-2014/1	0	22,000	8 years
Variable Ergänzungskapital-Obligation 2006-2021/PP	2,350	2,350	15 years
4 ½% Ergänzungskapital-Obligation 2006-2014/3	0	5,600	8 years
Variable Ergänzungskapital-Obligation 2006-2014/4	0	25,000	8 years
4 ¾% Ergänzungskapital-Obligation 2007-2015/1	10,000	10,000	8 years
5% Ergänzungskapital-Obligation 2007-2017/3	9,100	9,100	10 years
5% Ergänzungskapital-Obligation 2007-2015/6	15,000	15,000	8 years
4 ½% Ergänzungskapital-Obligation 2008-2016/2	7,700	7,700	8 years
Stufenzins-Ergänzungskapital-Obligation 2008-2020/4	15,000	15,000	12 years
5% Ergänzungskapital-Obligation 2009-2017/3	20,000	20,000	8 years
4 ¾% Ergänzungskapital-Obligation 2009-2017/8	19,500	19,500	8 years
Stufenzins-Ergänzungskapital-Obligation 2010-2020/2	16,000	16,000	10 years
4 ¾% Ergänzungskapital-Obligation 2011-2019/3	20,000	20,000	8 years
7,35% Hybridanleihe der BKS Hybrid alpha GmbH 2008	20,000	20,000	Unlimited
6% Hybridanleihe der BKS Hybrid beta GmbH 2010	20,000	20,000	Unlimited
5% Nachrangige Obligation 2014-2023/2	20,000	0	9 years
Total subordinated debt capital	194,650	227,250	

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 free of charge from the issuer's website at www.bks.at or from branches of BKS Bank AG, St. Veiter Ring 43, 9020 Klagenfurt, Austria, during normal business hours.

Expenditure on subordinated obligations during the financial year came to €10.3 million (2013: €11.5 million).

(33) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Subscribed capital	72,072	65,520	10.0
– Share capital	72,072	65,520	10.0
Capital reserves	143,056	97,929	46.1
Retained earnings and other reserves	590,584	550,715	7.2
Shareholders' equity before minority interests	805,712	714,164	12.8
Minority interests	(12)	(10)	20.0
Shareholders' equity after minority interests	805,700	714,154	12.8

The share capital was represented by 34,236,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. Each share had a nominal value of €2.0. *Capital reserves* contains premiums arising from the issuance of shares. *Retained earnings and other reserves* consists essentially of ploughed back profits.

(34) CAPITAL MANAGEMENT

Capital management at BKS Bank consisted of two elements of equal importance, namely management within the scope of the regulatory minimum capital ratio requirements and internal management within the scope of ICAAP (the Internal Capital Adequacy Assessment Process).

The aim was to maintain the regulatory minimum capital ratios required by CRR at all times and to maintain sufficient assets to cover risk within the scope of ICAAP. The main focus of our capital management activities was on limiting and controlling the risks assumed by the Bank as part of the overall bank risk management process.

To achieve these goals, the degree of utilization of all risk limits was checked and reported upon during the management information process. The core variables used for analysis and management purposes in the capital management process were the own funds ratio, the Tier 1 ratio, the degree of utilization of the assets available to cover risks and, additionally, the leverage ratio.

The way we calculate our own funds changed significantly when Basel III was implemented by CRD IV and CRR at the beginning of 2014 and to conform to the amended *Bankwesengesetz* (BWG neu: new Austrian banking act). In accordance with the transitional provisions of CRR and CRD IV, capital instruments that are no longer eligible are gradually being eliminated while the new rules associated with the regulatory adjustments are successively being introduced. At the reporting date, the regulatory scope of consolidation and the scope of consolidation in accordance with IFRSs were the same.

BKS BANK KREDITINSTITUTSGRUPPE: OWN FUNDS FOR THE PURPOSES OF CRR

€m	31/12/2014
Eligible share capital	71.4
Reserves net of intangible assets	714.5
Deductions	(242.2)
Common equity Tier 1¹	543.7
Common equity Tier 1 ratio	11.2%
Hybrid capital	32.0
Deductions	(32.0)
Additional Tier 1	0
Tier 1	543.7
Tier 1 ratio (including additional Tier 1 capital)	11.2%
Ancillary capital items and instruments	117.8
Deductions	(80.6)
Ancillary capital	37.2
Total own funds	580.9
Own funds ratio	12.0%
Basis of assessment	4,846.6
Surplus own funds	193.2

¹ Includes profit for the year 2014. The formal vote on the proposal has yet to take place.

Until 31 December 2013, our own funds were calculated in conformity with the provisions of BWG. Comparisons are therefore of limited validity. Own funds at the end of 2013 were calculated to be €707.6 million on the basis of the provisions that applied at the time. Surplus own funds came to €353.8 million.

The external minimum capital adequacy requirements were met throughout the 2014 reporting year. The minimum common equity Tier 1 ratio was 4 per cent, and the minimum total own funds ratio requirement was 8 per cent.

(35) FAIR VALUES

31 DECEMBER 2014	LEVEL 1 'Market Values'	LEVEL 2 'Based on Market Data'	LEVEL 3 'Internal Valuation Methodol- ogy'	Fair Values (Total)	Carrying Amounts 31/12/2014	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	269,535	0	269,535	269,482	+ 53
Receivables from customers	0	5,096,551	0	5,096,551	5,023,080	+ 73,471
Trading assets	0	46	0	46	46	+ 0
Financial assets designated as at fair value through profit or loss	62,338	0	87,061	149,399	149,399	+ 0
Available-for-sale financial assets	158,345	0	24,965	183,310	183,310	+ 0
Held-to-maturity financial assets	758,106	0	0	758,106	678,757	+ 79,349
Investments in entities accounted for using the equity method	316,811	0	4,264	321,075	395,896	(74,821) ¹
Investment property	0	0	44,520	44,520	28,986	+ 15,534
Other assets (derivatives)	0	15,821	0	15,821	15,821	+ 0
Equity and liabilities						
Payables to other banks	0	863,933	0	863,933	860,517	+ 3,416
Payables to customers	0	4,242,935	0	4,242,935	4,223,966	+ 18,969
Liabilities evidenced by paper	431,111	78,488	106,316	615,915	593,614	+ 22,301
– Of which designated as at fair value through profit or loss	0	0	106,316	106,316	106,316	+ 0
Subordinated debt capital	197,585	2,354	0	199,939	195,453	+ 4,486
Trading liabilities	0	45	0	45	45	+ 0
Other liabilities (derivatives)	0	26,257	0	26,257	26,257	+ 0

¹ As in 2013, the internal valuation of the entities accounted for using the equity method on the basis of planned values did not reveal any need for impairment allowances at the reporting date.

31 DECEMBER 2013	LEVEL 1 'Market Values'	LEVEL 2 'Based on Market Data'	LEVEL 3 'Internal Valuation Methodol- ogy'	Fair Values (Total)	Carrying Amounts 31/12/2014	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) ²
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 2013, the internal valuation of the entities accounted for using the equity method on the basis of planned values did not reveal any need for impairment allowances at the reporting date.

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.

Valuation policies and classification

The fair values shown in the category *Level 1 'Market Values'* were determined using prices quoted on active markets (stock exchange).

If market values were unavailable, fair value was ascertained using customary valuation models based on observable input factors and market data and presented in the category *Level 2 'Based on Market Data'* (e.g. by discounting future cash flows from financial instruments). In general, fair values shown in this category were ascertained on the basis of market data that were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). In general, items in the category *Level 2* were measured using present value techniques.

In the category *Level 3 'Internal Valuation Methodology'*, the values of individual financial instruments were measured on the basis of special generally accepted valuation methods. If their fair value could not be reliably ascertained, available-for-sale equity investments and investments in entities accounted for using the equity method in the category *Level 3* were recognized at their carrying amounts. In general, receivables from customers and liabilities evidenced by paper in the category *Level 3* were measured on the basis of market data that were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). The factors affecting the values of positions in the category *Level 3* that were not observable in the market were adjustments to the credit ratings of customers and BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in the category *Level 3* were measured using present value techniques.

LEVEL 3: CHANGES BETWEEN 1 JANUARY AND 31 DECEMBER 2014

€k	Available for Sale (FAs) ⁴	Investments in Entities Accounted for using the Equity Method	At Fair Value Through Profit or Loss (FAs)	Liabilities Evidenced by Paper, of which Fair Value Through Profit or Loss
At 31 December 2013	19,052	5,138	—	—
Reclassified	5,946 ¹	(974) ²	101,622	115,525
Income Statement ³	(72)	100	(14,561)	(9,209)
Other profit or loss	—	—	—	—
Purchased	39	—	—	—
Sold	0	—	—	—
At 31 December 2014	24,965	4,264	87,061	106,316

¹ Change in scope of consolidation.

² Change in consolidation policies.

³ Revaluations through profit or loss.

⁴ FAs = financial assets.

Reclassification

Reclassifications between the individual categories were carried out if market values (*Level 1*) or reliable input factors (*Level 2*) were no longer available or if market values (*Level 1*) became newly available for individual financial instruments (e.g. because of an IPO).

During the period under review, the consolidation of *BKS 2000 Beteiligungsverwaltungs GmbH* added €5.9 million to the category *Level 3*.

Furthermore, liabilities of BKS Bank evidenced by paper in the amount of €69.8 million were reclassified from the category *Level 1* to the category *Level 3*, liabilities of BKS Bank evidenced by paper in the amount of €45.7 million were reclassified from the category *Level 2* to the category *Level 3* and customer loans designated as at fair value through profit or loss in the amount of €101.6 million were reclassified from the category *Level 2* to the category *Level 3*. The reclassifications were connected with the factoring in of credit rating related adjustments to market prices by way of credit spreads. Adjustments to receivables from customers came to a total of about €1.9 million, and adjustments to liabilities evidenced by paper came to €0.3 million. Because they were immaterial, we have not provided comparative figures.

Changes in the ratings of liabilities measured to fair value

In the 2014 reporting year, the change in BKS Bank's credit standing reduced the value of the liabilities measured to fair value by €0.6 million.

Sensitivity analysis

To test the sensitivity of the approaches used to measure equity investments in the category *Level 3*, entity valuations were carried out for material equity investments.

The result of the sensitivity analysis of receivables from customers assuming a rating based improvement or deterioration in the credit spread of 10 basis points was an accumulated change in value of €0.4 million. Analysis of a 10 basis point improvement or deterioration in BKS Bank's rating predicted an accumulated change in value of €0.7 million.

(36) INCOME STATEMENT BY VALUATION CATEGORY

€k	31/12/2014	31/12/2013
Net interest income in the held-for-trading portfolio	113	184
Gains/(losses) in the held-for-trading portfolio	1,260	1,340
Net income in the held-for-trading portfolio	1,373	1,523
Net interest income from FAs designated as at fair value through profit or loss ¹	(177)	(418)
Gains/(losses) on items designated as at fair value through profit or loss	(2,081)	1,581
Net income from FAs designated as at fair value through profit or loss²	(2,258)	1,163
Net interest income in the portfolio of available-for-sale FAs	5,690	8,212
Gains/(losses) in the portfolio of available-for-sale FAs	3,763	5,132
Impairment losses in the portfolio of available-for-sale FAs	(746)	(3,491)
Net income in the portfolio of available-for-sale FAs	8,708	9,853
Net interest income from loans and receivables	150,851	148,980
Impairment losses (impairment charge) on loans and receivables	(49,520)	(42,710)
Net fee and commission income on loans and receivables	31,480	33,149
Net income from loans and receivables	132,811	139,419
Net interest income in the portfolio of held-to-maturity FAs	22,492	24,171
Gains/(losses) in the portfolio of held-to-maturity FAs	4,687	0
Impairment losses in the portfolio of held-to-maturity FAs	0	0
Net income in the portfolio of held-to-maturity FAs	27,179	24,171
Interest expenses on financial liabilities measured at amortized cost	(56,394)	(65,109)
Net income on financial liabilities measured at amortized cost	(56,394)	(65,109)
Other operating income net of other operating expenses³	(60,182)	(65,491)
Profit for the year before tax	51,237	45,529

¹ FAs = financial assets.

² Effect of using the fair value option and revaluation gains and losses on *Other assets* and *Other liabilities*.

³ Includes the line items *Other net interest income* and *Other net fee and commission income*, *General administrative expenses* and *Other operating income net of other operating expenses*.

(37) INVESTMENTS IN ASSOCIATES

Of the entities accounted for using the equity method, *Oberbank AG* and *BTV AG* were, for the following reasons, thus accounted for in the Consolidated Financial Statements even though a stake of at least 20 per cent was not held: A syndicate agreement is in place between *BKS Bank AG*, *BTV AG* and *Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH* covering 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* covering their equity investments in *BTV AG*.

Because tight schedules meant that the figures in their IFRS-compliant consolidated financial statements for year-end were not available, *Oberbank AG* and *BTV AG* were included in the Consolidated Financial Statements with a cutoff date of 30 September 2014. The carrying amount of the equity investment in *Drei Banken Versicherung AG*, which was accounted for using the equity method, was €4.3 million at 31 December 2014. Its profit for the year before tax was €0.8 million.

ASSOCIATES

At 31 December	Relationship	Head Office	Voting Interest, %		Equity Interest, %		Fair Value of Interests	
			2014	2013	2014	2013	2014	2013
Oberbank AG	Strategic investment to secure our autonomy	Linz	18.51	18.51	16.95	16.95	244,278	235,442
BTV AG	Strategic investment to secure our autonomy	Innsbruck	15.10	15.10	13.59	13.59	72,533	66,249
Drei-Banken Versicherungs-AG	Strategic investment to sell insurance	Linz	20.00	20.00	20.00	20.00	4,264	4,164

FINANCIAL INFORMATION ABOUT THE MATERIAL ASSOCIATES

€m	Oberbank		BTV	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Net interest income	372.9	335.6	182.3	180.2
Net fee and commission income	119.3	114.6	43.7	45.3
Consolidated profit for the year after tax	136.5	122.4	76.1	68.5
Assets	17,774.9	17,531.8	9,597.7	9,591.8
Receivables from customers after impairment charge	11,801.8	11,277.9	6,187.2	6,197.4
Equity	1,534.1	1,421.0	1,004.4	932.7
Primary funds	12,288.6	12,250.4	6,918.6	6,715.9
Dividend received	2.4	2.4	1.0	1.0

Joint arrangement: joint operation

Under IFRS 11, *Alpenländische Garantie-GmbH* required classification as a joint operation and had to be included in the scope of consolidation on a proportionate basis. *Alpenländische Garantie GmbH* was run jointly by *Oberbank AG*, *Bank für Tirol und Vorarlberg AG* and *BKS Bank AG*. Each bank nominated a director, and the company was represented by two directors together. The General Meeting made all decisions unanimously.

ALPENLÄNDISCHE GARANTIE-GMBH: TRANSITION FROM THE EQUITY METHOD OF ACCOUNTING TO PROPORTIONATE CONSOLIDATION

€k	2014
Interest at 1 January 2014 using the equity method	974
Recognized assets and liabilities	
Receivables from other banks	45,898
Impairment allowance balance	(28,285)
Provision for guarantees	(33,592)
Payables to other banks	16,959
Other provisions	(6)
Equity at 31 December 2014	974

NON-CONTROLLING INTERESTS

Non-controlling interests played a minimal role in the BKS Bank Group, so disclosures thereof have not been provided on the grounds of immateriality.

(38) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

The following tables contain the mandatory disclosures of BKS Bank's relations with related entities and persons 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 supervising 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		Guarantees Received		Guarantees Provided	
	At 31/12/2014	At 31/12/2013	At 31/12/2014	At 31/12/2013	At 31/12/2014	At 31/12/2013
Unconsolidated subsidiaries			0	0	0	0
Receivables	5,597	9,611				
Payables	1,165	1,675				
Associates and joint arrangements			0	0	0	0
Receivables	59,585	48,968				
Payables	145,108	186,412				
Management personnel			0	0	0	0
Receivables	440	505				
Payables	479	895				
Other related persons			0	0	109	0
Receivables	16	8				
Payables	592	1,046				

Transactions with related entities and persons were on arm's length terms. During the financial year, there were no provisions for doubtful receivables and there was no expenditure on irrecoverable or doubtful receivables from related entities or persons.

RELATED PERSON DISCLOSURES

€k	2014	2013
Average number of staff	992	990
– Blue-collar workers (<i>Arbeiter</i>) employed in the BKS Bank Group	49	49
– White-collar staff (<i>Angestellte</i>) employed in the BKS Bank Group	943	941
Average number of people employed by entities accounted for on a proportionate basis	3,236	2,821
Remunerations paid to the Management Board		
– Remunerations paid to active members of the Management Board	1,194	1,418
– Remunerations paid to former members of the Management Board and their surviving dependants	726	742
Remunerations paid to the Supervisory Board		
– Remunerations paid to active members of the Supervisory Board	207	171
– Remunerations paid to former members of the Supervisory Board and their surviving dependants	0	0
Management compensation for the purposes of IAS 24	1,962	1,589
– Short-term employee benefits	1,291	1,484
– Post-employment benefits	671	105
– Other long-term benefits	0	0
– Termination benefits	0	0
– Share-based payment benefits	0	0
Loans and advances granted		
– Loans and advances granted to members of the Management Board	165	192
– Loans and advances granted to members of the Supervisory Board	275	313
Expenditure on termination and post-employment benefits		
– Expenditure on termination and post-employment benefits for members of the Management Board	(4,689)	(28)
– Expenditure on termination and post-employment benefits for other employees	2,408	6,052

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

(39) SEGMENTAL REPORTING

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 exceptional circumstances.

SEGMENTAL BREAKDOWN

€k	Retail Banking		Corporate and Business Banking		Financial Markets	
	2014	2013	2014	2013	2014	2013
Net interest income	34,401	32,623	80,971	79,941	41,006	33,221
– Of which from investments in entities accounted for using the equity method	0	0	0	0	28,562	25,063
Impairment charge on loans and advances	(1,209)	(1,810)	(47,832)	(40,003)	(479)	(897)
Net fee and commission income	21,430	20,620	23,358	24,433	189	149
Net trading income	0	0	0	0	1,373	1,523
General administrative expenses	(54,589)	(52,275)	(38,642)	(38,184)	(6,779)	(6,505)
Other operating income net of other operating expenses	(11)	866	728	1,318	(143)	(7,338)
Profit from financial assets	0	0	0	0	5,623	3,222
Profit/(loss) for the year before tax	22	24	18,583	27,505	40,790	23,375
Average risk-weighted assets	515,565	564,302	3,137,762	3,262,148	721,542	569,417
Average allocated equity	41,245	45,144	251,021	260,972	459,984	388,787
Segment liabilities	2,839,303	2,771,194	2,407,880	2,082,359	1,423,111	1,754,471
ROE based on profit for the year	0.1%	0.1%	7.4%	10.5%	8.9%	6.0%
Cost:income ratio	97.8%	96.6%	36.8%	36.1%	16.0%	23.6%
Risk:earnings ratio	3.5%	5.5%	59.1%	50.0%	1.2%	2.7%

€k	Other		Total	
	2014	2013	2014	2013
Net interest income	965	419	157,343	146,204
– Of which from investments in entities accounted for using the equity method	0	0	28,562	25,063
Impairment charge on loans and advances	0	0	(49,520)	(42,710)
Net fee and commission income	(238)	220	44,739	45,422
Net trading income	0	0	1,373	1,523
General administrative expenses	(5,799)	(3,849)	(105,809)	(100,813)
Other operating income net of other operating expenses	(3,086)	(2,165)	(2,512)	(7,319)
Profit from financial assets	0	0	5,623	3,222
Profit/(loss) for the year before tax	(8,158)	(5,375)	51,237	45,529
Average risk-weighted assets	44,407	40,024	4,419,276	4,435,891
Average allocated equity	7,687	6,325	759,937	701,228
Segment liabilities	194,210	135,735	6,864,504	6,743,759
ROE based on profit for the year	—	—	6.7%	6.5%
Cost:income ratio	—	—	52.7%	54.3%
Risk:earnings ratio	—	—	31.5%	29.2%

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).

(40) NON-INTEREST ASSETS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Non-interest assets	235,941	281,250	(16.1)

Non-interest receivables from customers less impairments came to €138.7 million (31 December 2013: €156.9 million).

(41) SUBORDINATED ASSETS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Receivables from customers	15,655	13,279	17.9
Bonds and other fixed-interest securities	0	5,208	(100)
Shares and other variable-yield securities	0	7,007	(100)

(42) BALANCES IN FOREIGN CURRENCIES

€k	31/12/2014	31/12/2013	+/(-) Change, %
Assets	597,965	668,219	(10.5)
Liabilities	189,234	176,980	6.9

(43) ADMINISTRATION AND AGENCY SERVICES

€k	31/12/2014	31/12/2013	+/(-) Change, %
Administration and agency services	1,542	1,562	(1.3)

(44) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2014	31/12/2013	+/(-) Change, %
Guarantees	392,244	379,178	3.4
Letters of credit	2,948	3,119	(5.5)
Contingent liabilities	395,192	382,297	3.4
Other commitments	868,499	750,001	15.8
Commitments	868,499	750,001	15.8

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

(45) EVENTS AFTER THE BALANCE SHEET DATE

On 15 January 2015, the Swiss National Bank abolished the €/SFr minimum rate that had been in place since September 2011. Because of existing stop loss agreements, SFr 76.2 million of loans (of which SFr 25.3 million of consumer loans) worth €75.4 million were converted into euro loans. Based on the voluntary undertaking entered into between the

Sozialministerium (Austrian ministry of social affairs), the FMA and the banking and insurance division of WKO (Austrian economic chamber), consumer loans in the amount of €5.5 million had been switched back into Swiss franc loans at the current rate by the end of February.

(46) ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES

Liabilities	Assets	31/12/2014	31/12/2013
Money held in trust pursuant to § 230 a ABGB	Securities	12,983	12,978
Arrangement deposit for stock exchange trading	Securities	1,578	1,575
Deposit for EUREX trading	Securities	551	50
Xetra collateral	Securities	1,237	1,229
Euroclear pledge	Securities	15,044	15,056
SEPA collateral for the Slovenia branch	Securities	0	825
Repos margin	Securities	1,001	1,001
Financial futures margin	Receivables from other banks	17,850	16,720
Collateral for OeNB funding	Securities	0	9,325
Collateral for OeNB funding	Loans	219,015	364,688
Cover pool of mortgage loans for covered bonds	Loans	152,126	137,411
Cover pool of public sector debt for covered bonds	Loans	14,751	16,263
OeKB CCPA solidarity pledge	Receivables from other banks	25	0

(47) FEES PAID TO THE BANK AUDITOR

€k	2014	2013
Fees for statutory audits	353	353
Other fees	109	92
Total fees	462	445

(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 Annual Financial Statements on the same terms and at the same time as the Annual Financial Statements.

(49) BALANCE OF DERIVATIVES OUTSTANDING (BANKING BOOK)

€k	Nominal, by Term to Maturity		
	Less Than 1 Year	1–5 Years	Over 5 Years
Interest rate contracts	209,000	163,250	265,910
OTC products	209,000	163,250	265,910
Interest rate swaps	209,000	163,250	265,910
– Calls	104,500	81,625	132,955
– Puts	104,500	81,625	132,955
Interest rate options	—	—	—
– Calls	—	—	—
– Puts	—	—	—
Currency contracts	1,365,225	630,789	—
OTC products	1,365,225	630,789	—
Currency forwards	576,419	—	—
– Calls	290,731	—	—
– Puts	285,688	—	—
Capital market swaps	317,015	630,789	—
– Calls	151,392	314,754	—
– Puts	165,623	316,035	—
Money market swaps (currency swaps)	471,791	—	—
– Calls	234,953	—	—
– Puts	236,838	—	—
Securities contracts	—	—	—
Exchange traded products	—	—	—
Equity options	—	—	—
– Calls	—	—	—
– Puts	—	—	—

BALANCE OF DERIVATIVES OUTSTANDING (TRADING BOOK)

€k	Nominal, by Term to Maturity		
	Less Than 1 Year	1–5 Years	Over 5 Years
Interest rate contracts	2,928	9,324	14,986
OTC products	2,928	9,324	14,986
Interest rate swaps	—	1,560	—
– Calls	—	780	—
– Puts	—	780	—
Interest rate options	2,928	7,764	14,986
– Calls	1,464	3,882	7,493
– Puts	1,464	3,882	7,493
Currency contracts	—	—	—
OTC products	—	—	—
Currency options	—	—	—
– Calls	—	—	—
– Puts	—	—	—

FINANCIAL INSTRUMENTS (TRADING BOOK)

€k	31/12/2014	31/12/2013
Interest-bearing securities	—	—
Treasury shares	9,233	9,686

	Nominal		Fair Value (Positive)		Fair Value (Negative)	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
	638,160	837,460	8,274	3,220	11,557	12,773
	638,160	837,460	8,274	3,220	11,557	12,773
	638,160	837,460	8,274	3,220	11,557	12,773
	319,080	418,730	139	322	11,412	10,612
	319,080	418,730	8,135	2,898	145	2,161
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	1,996,014	1,585,177	6,743	5,296	13,094	6,361
	1,996,014	1,585,177	6,743	5,296	13,094	6,361
	576,419	459,503	5,309	437	322	543
	290,731	229,698	5,213	20	7	541
	285,688	229,805	96	417	315	2
	947,804	939,317	667	2,375	10,224	5,788
	466,146	467,547	—	—	—	—
	481,658	471,770	667	2,375	10,224	5,788
	471,791	186,357	767	2,484	2,548	30
	234,953	94,405	767	2,484	26	—
	236,838	91,952	—	—	2,522	30
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—

	Nominal		Fair Value (Positive)		Fair Value (Negative)	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
	27,238	32,860	46	169	46	169
	27,238	32,860	46	169	46	169
	1,560	2,040	28	41	28	41
	780	1,020	—	—	28	41
	780	1,020	28	41	—	—
	25,678	30,820	18	128	18	128
	12,839	15,410	18	128	—	—
	12,839	15,410	—	—	18	128
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—
	—	—	—	—	—	—

Positions (securities and derivatives) entered into by our Money, Foreign Exchange and Securities Trading organizational unit to make market gains or take advantage of interest rate fluctuations were assigned to the trading book. Market value is the amount that could be obtained from the sale of a financial instrument in an active market or would need to be paid to purchase it. If a market price was available, this was taken to be a position's fair value. Where market prices were unavailable, we used internal valuation models, including in particular present value techniques.

The Company's Boards and Officers

The Management Board

Heimo Penker (CEO) (to 28 February 2014)

Herta Stockbauer, Chairwoman

Dieter Krassnitzer, Member

Wolfgang Mandl, Member

Representatives of the Equity Holders on the Supervisory Board

Hermann Bell, Chairman (to 15 May 2014)

Peter Gaugg, Chairman (from 15 May 2014)

Franz Gasselsberger, Vice-Chairman

Christina Fromme-Knoch

Reinhard Iro

Waldemar Jud

Dietrich Karner

Michael Kastner (to 15 May 2014)

Josef Korak

Heimo Penker (from 15 May 2014)

Karl Samstag

Sabine Urnik (from 15 May 2014)

Staff Representatives on the Supervisory Board

Maximilian Medwed

Herta Pobaschnig

Manfred Suntinger

Hanspeter Traar

Gertrude Wolf

Klagenfurt am Wörthersee

12 March 2015

The Management Board



Herta Stockbauer
Chairwoman



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
12 March 2015

The Management Board



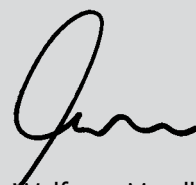
Herta Stockbauer

Chairwoman of the Management Board



Dieter Krassnitzer

Member of the Management Board



Wolfgang Mandl

Member of the Management Board

Chairwoman of the Management Board responsible for Corporates, Accounts and Sales Controlling, Human Resources, Treasury and Proprietary Trading, Public Relations, Marketing and Investor Relations, Construction, Subsidiaries and Equity Investments; abroad, she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

Member of the Management Board responsible for Risk Management, Risk Controlling, BKS Bank's Credit Back Office and Service Companies, Business Organization, IT and Technical Services and *3-Banken-EDV Gesellschaft*: abroad, he is responsible for the Back Office, Risk Management and IT.

Member of the Management Board responsible for Retail Personal Banking and Retail Business Banking in Austria, Private Banking and Securities Operations, Capital Management and Custodian Operations, Online Sales and Social Media and Sales Partners; abroad, he is responsible for the Italy region.

Profit Appropriation Proposal

BKS Bank AG's 2014 financial year closed with net profit of €8,447,565.26. We propose that a dividend of €0.23 per share be distributed out of the reported net profit as at 31 December 2014. The resulting distribution on 36,036,000 shares would be €8,288,280. Subject to § 65 Abs. 5 Aktiengesetz, we propose that the remainder be carried forward to a new account.

Klagenfurt am Wörthersee
12 March 2015

The Management Board



Herta Stockbauer

Chairwoman of the Management Board



Dieter Krassnitzer

Member of the Management Board



Wolfgang Mandl

Member of the Management Board

Auditor's Report

[Translation Provided by the Auditor]

Report on the Consolidated Financial Statements

We have audited the accompanying **consolidated financial statements** of

**BKS Bank AG,
Klagenfurt am Wörthersee,**

for the **year from 1 January 2014 to 31 December 2014**. These consolidated financial statements comprise the consolidated balance sheet as of 31 December 2014, the consolidated income statement, the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year 2014 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type 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 Austrian Standards on Auditing, as well as in accordance with International Standards on Auditing, 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 guidelines and that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also in-

cludes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2014 and of its financial performance and its cash flows for the year from 1 January 2014 to 31 December 2014 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Klagenfurt, 12 March 2015

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

signed by:

MMag. Dr. Peter Fritzer
Wirtschaftsprüfer

(Austrian Chartered Accountants)

Mag. Walter Reiffenstuhl
Wirtschaftsprüfer

Additional Notes

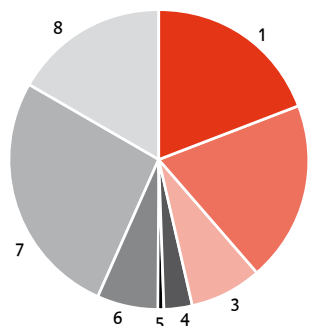
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Overview of the 3 Banken Group

SHAREHOLDER STRUCTURE OF BKS BANK AG

%	By Voting Interest	By Equity interest
1 Oberbank AG	19.44	18.52
2 Bank für Tirol und Vorarlberg AG	19.57	18.89
3 Generali 3 Banken Holding AG	7.84	7.44
4 Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH	3.10	2.99
5 BKS-Belegschaftsbeteiligungsprivatstiftung	0.37	0.66
6 UniCredit Bank Austria AG	6.74	7.29
7 CABO Beteiligungs GmbH	26.81	25.47
8 Free float	16.13	18.74

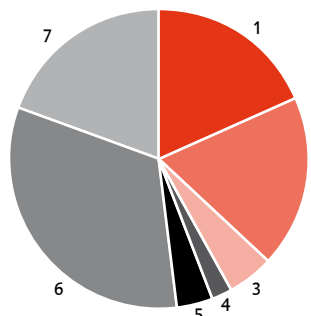
The shareholders shown in red have entered into syndicate agreements.



Share capital, €	72,072,000
Ordinary no-par shares in issue	34,236,000
No-par preference shares in issue	1,800,000

SHAREHOLDER STRUCTURE OF OBERBANK AG

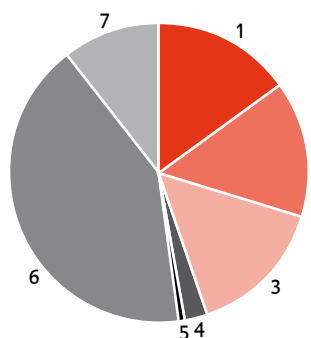
%	By Voting Interest	By Equity interest
1 BKS Bank AG	18.51	16.95
2 Bank für Tirol und Vorarlberg AG	18.51	17.00
3 Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH	5.13	4.62
4 Generali 3 Banken Holding AG	2.21	1.98
5 Staff shares	3.82	3.54
6 CABO Beteiligungs GmbH	32.54	29.15
7 Free float	19.28	26.76



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 reg. Genossenschaft mbH	2.53	2.28
5 BTV Privatstiftung	0.40	0.36
6 CABO Beteiligungs GmbH	41.70	37.53
7 Free float	10.46	19.42



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

INCOME ACCOUNT, €m	BKS Bank Group		Oberbank Group		BTV Group	
	2014	2013	2014	2013	2014	2013
Net interest income	157.3	146.2	372.9	335.6	182.3	180.2
Impairment charge on loans and advances	(49.5)	(42.7)	(78.0)	(70.6)	(29.0)	(46.9)
Net fee and commission income	44.7	45.4	119.3	114.6	43.7	45.3
General administrative expenses	(105.8)	(100.8)	(236.9)	(231.0)	(139.6)	(96.0)
Other operating income net of other operating expenses	(2.5)	(7.3)	(25.0)	(12.1)	30.0	(2.3)
Profit for the year before tax	51.2	45.5	157.6	141.7	89.8	86.3
Consolidated profit for the year after tax	46.6	40.6	136.5	122.4	76.1	68.5

BALANCE SHEET DATA, €m

Assets	6,864.5	6,743.8	17,774.9	17,531.8	9,597.7	9,591.8
Receivables from customers after impairment charge	4,828.9	4,874.2	11,801.8	11,277.9	6,187.2	6,197.4
Primary deposit balances	5,013.0	4,597.5	12,288.6	12,250.4	6,918.6	6,715.9
– Of which savings deposit balances	1,705.5	1,741.2	3,098.5	3,352.1	1,176.3	1,175.8
– Of which liabilities evidenced by paper, including subordinated debt capital	789.1	813.9	2,295.0	2,224.4	1,391.5	1,282.3
Equity	805.7	714.2	1,534.1	1,421.0	1,004.4	932.7
Customer assets under management	12,972.0	11,383.4	23,441.9	22,787.5	12,155.4	11,545.8
Of which in customers' securities accounts	7,959.0	6,785.9	11,153.3	10,537.1	5,236.8	4,829.9

OWN FUNDS WITHIN THE MEANING OF CRR (2013: BWC), €m

Basis of assessment for own funds	4,846.6	4,423.3	11,935.2	10,734.0	6,210.5	6,055.4
Own funds	580.9	707.6	1,874.4	1,824.8	930.1	964.4
– Of which common equity Tier 1 (CET1)	543.7	n.a.	1,306.9	n.a.	796.1	n.a.
– Of which total Tier 1 (CET1 and AT1)	543.7	662.5	1,385.2	1,320.6	796.1	807.0
Common equity Tier 1 ratio, %	11.2	n.a.	11.0	n.a.	12.8	n.a.
Tier 1 ratio, % (2013: Basel II)	11.2	13.9	11.6	12.3	12.8	13.3
Own funds ratio, % (2013: Basel II)	12.0	16.0	15.7	17.0	15.0	15.9

PERFORMANCE, %

Return on equity before tax	6.7	6.5	10.7	10.3	9.3	9.5
Return on equity after tax	6.1	5.8	9.3	8.9	7.9	7.5
Cost:income ratio	52.7	54.3	50.1	52.1	54.4	42.8
Risk:earnings ratio (credit risk in % of net interest income)	31.5	29.2	20.9	21.1	15.9	26.0

RESOURCES

Average number of staff	915	910	2,004	2,001	1,195	793
Branches and other business units	57	56	156	150	38	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 in each of the 3 Banks (Oberbank, BKS and BTV) held by *Creditanstalt* are transferred to the two other sister banks and cooperation between the 3 Banks and CA is regulated in a syndicate agreement.
-
- 1964** The bank adds small personal loans to its range as a new line of business. In the years that follow, it gradually enlarges its branch network.
-
- 1965** The bank enters into its successful alliance with the *Wüstenrot* building and loan association, enabling it to offer its customers building and loan products and services.
-
- 1970** The first joint *Drei-Banken* (3 Banks) bond is issued in partnership with *Bank für Oberösterreich und Salzburg* and *Bank für Tirol und Vorarlberg*.
-
- 1983** The bank's first expansion across the Carinthian border takes place when it opens a branch in Graz. The company's name is changed to *Bank für Kärnten und Steiermark Aktiengesellschaft* (BKS: Bank for Carinthia and Styria). *Alpenländische Garantie-GmbH*, Linz (ALGAR) is set up. This company safeguards BKS Bank, Oberbank and Bank für Tirol und Vorarlberg against possible losses on big loans.
-
- 1986** IPO of BKS ordinary stock, which is traded in the *Amtlicher Handel* (official trading) segment on the Vienna Stock Exchange. At the time, BKS Bank's share capital is divided into 3.0 million shares with a nominal value of öS100 each.
-
- 1988** BKS enters the leasing market and sets up insurer *Drei-Banken Versicherungs-AG* with its sister banks.
-
- 1990** The first branch in Vienna opens.
-
- 1991** BKS and its sister banks set up IT subsidiary *DREI-BANKEN-EDV Gesellschaft mbH*. Construction of the BKS Bank Head Office building at *St. Veiter Ring 43* begins to plans by architect Wilhelm Holzbauer.
-

-
- 1993** We move into the new offices on *St. Veiter Ring* on schedule in November 1993.
-
- 1998** Conclusion of a sales and cooperation agreement with the *Generali Vienna Group* covering the insurance and investment fund sectors. After the departure of the bank's long-standing shareholder *Bayerische Hypotheken- und Wechselbank AG*, the *Generali Group* acquires roughly 7.44 per cent of BKS Bank's ordinary shares. International expansion begins with the opening of a representative office in Zagreb, Croatia, and the acquisition of a leasing company in Ljubljana, Slovenia, now called *BKS-leasing d.o.o.*
-
- 2000** BKS and its sister banks make their first highly-publicized joint appearance as the *3 Banken Group*.
-
- 2002** Formation of *BKS-leasing Croatia d.o.o.* in Croatia. It is headquartered in Zagreb.
-
- 2003** Acquisition of a majority stake in *Die Burgenländische Anlage & Kredit Bank AG (Die BAnK)*.
-
- 2004** The first banking branch in Slovenia opens, in Ljubljana, and a representative office is set up in Italy.
-
- 2005** *Die BAnK* in Burgenland is merged into BKS. A representative office is set up in Hungary. Reflecting its expansion in recent years, the company is renamed as *BKS Bank AG*.
-
- 2006** BKS acquires *Kvarner banka d.d.*, Rijeka, to enter the Croatian banking market.
-
- 2007** Acquisition of *KOFIS Leasing* in Slovakia. It is assimilated into the BKS Bank Group and renamed as *BKS-Leasing a.s.*
-
- 2008** *Kvarner banka d.d.* is renamed as *BKS Bank d.d.* and a branch is opened in Zagreb.
-
- 2010** Securities operations begin in Slovenia, enabling BKS to provide all the products and services that are normally available from a so-called *universal bank*. Retail customer operations in Croatia are expanded.
-
- 2011** BKS enters the banking market in Slovakia, opening a branch in Bratislava.
-
- 2012** Retail customer operations are launched in Slovakia. The Vienna Regional Head Office is relocated from *Lugeck* to *Renngasse*. *BKS Bank AG* celebrates its 90th anniversary.
-
- 2013** The leasing subsidiaries in Austria are merged. *BKS Service GmbH* is set up to handle the bank's back office activities.
-
- 2014** BKS Bank is admitted to the list of Austrian companies of excellence with the title of *Recognised for excellence 5**, is voted Austria's 'Best Branch Based Bank' and posts one of the best results in the enterprise's history. It attracts some 700 new shareholders during the increase in share capital carried out in October, broadening the free float. In Slovenia, it takes over the securities operations of *Factor banka d.d.*, which is in liquidation.
-

Glossary

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

AIFMG (Austrian Alternative Investment Fund Manager Act): The AIFMG regulates the ‘Alternative Investment Fund Manager’ (AIFM). This is a legal entity whose regular business activity consists of managing one or more ‘Alternative Investment Funds’ (AIFs). An AIF is any joint investment instrument that collects capital from a number of investors in order to invest it for the benefit of those investors using an investment strategy as decided by the AIFM.

ALM Committee: The Asset Liability Management Committee is an internal committee at BKS Bank with responsibility for managing the structure of the balance sheet and liquidity.

Entities accounted for using the equity method are entities in which equity investments are held that are not controlled but upon whose financial and business policy decisions a significant influence can be exercised. On a consolidated balance sheet, they are recognized in the amount of a group’s interest in their equity. In a consolidated income statement, the group’s interest in their profit for the year is recognized according to the equity interest held.

The **banking book** contains all on-balance sheet and off-balance sheet items recognized on a bank’s balance sheet that are not assigned to the trading book.

Basel III: The package of measures known under the heading of Basel III contains the changes to the international regulatory requirements for banks adopted by the Basel Committee on Banking Supervision (BCBS) in December 2010. These requirements supplement or amend the capital adequacy framework for banks adopted in 2004 (Basel II). The overall aim of the changes is to strengthen regulation, supervision and risk management in the banking sector and thus to make it more crisis resistant. Major elements of the Basel Committee’s recommendations for Basel III were incorporated in CRD IV and CRR I (see also *Capital Requirements Directive* and *Capital Requirements Regulation*).

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

GDP: GDP is the total value of all goods (i.e. goods and services) produced in an economy in a year less all inputs. In order to view GDP without the effect of changes in prices, one uses ‘real’ GDP, where all goods and services are valued at the prices ruling in a base year.

BIRG is the abbreviation for *Bankeninterventions- und restrukturierungsgesetz* (Austrian bank intervention and restructuring act), which entered into force on 1 January 2014. It obliges all banks in Austria, including those with assets of less than €30 billion, to make organizational preparations for any crisis situations and to draw up recovery plans by 30 June 2015 and resolution plans by the end of 2015. The intention is to ensure that public funds will no longer be needed to rescue banks in the future. BIRG will be repealed at the end of 2014 and replaced by BaSAG (Austrian bank recovery and resolution act). BaSAG will transpose the BRRD (see ‘BRRD’) into Austrian law.

BRRD: The Bank Recovery and Resolution Directive (2014/59/EU) has created the future framework for crisis management in the financial sector. The aim is to make it possible to resolve every bank, regardless of its size and complexity, without endangering the stability of the financial market.

The **Capital Requirements Directive IV (CRD IV)** has smoothed the path towards a more solid and secure European financial system. The Member States were required to transpose this directive into their national law by 31 December 2013. However, all competing provisions and those that were not consistent with the regulation (CRR) had to be removed from existing national legal standards. In Austria, by far the larger part of the changes to the law had to take place in the *Bankwesengesetz* (BWG: Austrian banking act) and related regulatory legislation. These were comprehensively amended.

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

Corporate social responsibility (CSR) is a corporate concept whereby enterprises combine social justice and environmental concerns with commercial goals and do so systematically, traceably, transparently and voluntarily.

The **cost:income ratio** measures a bank's operating expenses against its operating income, comparing its general administrative expenses with its operating income in a particular financial year. Operating income is the total of net interest income, net fee and commission income, net trading income and other operating profit or loss. This indicator states the percentage of operating profit used up by general administrative expenses, providing information about an entity's cost management and cost efficiency. The lower the ratio, the more economically a company is operating.

Counterbalancing capacity (CBC) in the name of the liquidity buffer made up of assets that are 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.

Fair value is defined as the amount for which an asset could currently be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Insofar as market prices exist on exchanges or other functioning markets, these are taken to be the fair value of an asset or liability.

The United States Congress enacted **FATCA** (the Foreign Account Tax Compliance Act) on 18 March 2010 to ensure that U.S. subjects with accounts abroad meet their tax obligations. Under the act, all banks are obliged to identify customers with U.S. ties and, if they consent, to report their names to the U.S. tax authorities.

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.

Forbearance is the term for concessions made to debtors (e.g. modifications of agreements) if they are in danger of no longer being able to meet their payment obligations. The term encompasses loans, bonds and revocable and irrevocable loan commitments with the exception of held-for-trading exposures. According to European Banking Authority (EBA) guidance, forbearance status must be reported on a quarterly basis.

Maturity transformation is the professional management of differing maturities and the associated differences between the rates of interest receivable and payable on assets and liabilities on a bank's balance sheet while taking account of current and expected market rate curves and maturity structures.

The **going-concern principle** is the principle according to which financial statements and risk assessments view the entity as continuing in business unless actual or legislative circumstances dictate otherwise. Among other things, this is important when measuring assets.

The **trading book** contains all positions held by a bank within the scope of its proprietary trading in financial instruments that it holds for re-sale or has acquired so as to exploit, on a short-term basis, existing or expected differences between buying and selling prices or movements in prices or interest rates. Positions not included in the trading book are assigned to the banking book.

Hedging is used to protect existing or future positions against the exposure to risks such as currency and interest rate risks. It involves taking a counter-position to another position so as to completely or partially offset risk.

Historical simulation is a statistical method for measuring value at risk using historical time series data.

ICAAP (the Internal Capital Adequacy Assessment Process) is the name of the extensive process and associated strategy with which banks decide the amount, composition and distribution of their (internal) capital resources. The distribution of economic capital steers and limits all the material operational and other banking risks 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 financial reporting standards issued by the International Accounting Standards Board (IASB) in the form of individual standards. The purpose of IFRS-compliant

annual financial statements is to give investors information of relevance to their decisions regarding an entity's assets, liabilities, financial position and profit or loss as well as changes therein over time. In contrast, annual financial statements prepared in accordance with the Austrian *Unternehmensgesetzbuch* (UGB: enterprises code) are primarily geared to protecting creditors.

Under Basel II, the **internal ratings based approach** (IRB approach) was a second possible approach to calculating the minimum capital adequacy requirement for credit risk alongside the *standardized approach*. The IRB approach allowed banks to use their own, internal estimates of borrowers' credit standings. However, a bank's rating processes had to meet stringent requirements, and their adequacy was constantly reviewed by the bank regulators. Banks could 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). They are published in the annual manual of the International Federation of Accountants (IFAC).

The **International Swaps and Derivatives Association** (ISDA) is a trading 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 alphanumeric code comprising a two-character international country ID (e.g. AT for Austria), a nine-character national code and a one-digit control key. The ISIN of the ordinary BKS Bank AG share is AT0000624705; that of the preference share is AT0000624739.

Tier 1 capital is divided into common equity and additional Tier 1 capital. Common equity Tier 1 capital consists of eligible share capital, retained earnings and other reserves. The additional components of Tier 1 capital include liabilities evidenced by paper that meet the requirements of Article 52 CRR.

The **price/earnings ratio** (P/E) is important to investors when assessing shares. To calculate it, the share's stock market price is divided by the per-share earnings recorded or expected in the respective period. If the P/E ratio is relatively low, the stock is felt to be cheaply priced; if it is relatively high, it is seen as expensive. The bases for comparing P/E ratios are the interest rate, the P/E ratios of comparable entities, average P/E ratios in the past and, in the case of growth stocks, the expected rate of growth.

LAR stands for *loans and receivables*.

The **leverage ratio** measures the relationship between common equity Tier 1 capital and non-risk weighted assets inclusive of off-balance sheet items. Its purpose is to restrain business models that are based on lending large amounts to prime borrowers while keeping capital charges to a minimum.

Liquidity coverage ratio (LCR): The Basel Committee implemented the liquidity coverage ratio to ensure that a bank always has short-term liquidity in a stress situation lasting for 30 days. This is to be achieved by making sure that the net cash outflows under stress—known 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 horizon of more than one year. It is part of the new liquidity requirements. The NSFR is designed to ensure that the amount of longer-term (stable) funding employed is at least sufficient relative to the liquidity profiles of the assets funded. The aim is to reduce banks' dependence on the functioning and liquidity of the interbank market.

ÖNACE is the Austrian version of the European system for the industrial classification of economic activities called NACE (*Nomenclature statistique des activités économiques dans la Communauté européenne*). The current NACE-compatible nomenclature is called ÖNACE 2008.

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

PIIGS countries: PIIGS was 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 in the international financial reporting standard IAS 19 and in many foreign accounting standards. On each valuation date, one only measures the part of the obligation that has already been earned. The present value of the earned part of the obligation is known as the defined benefit obligation.

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

The **return on equity (ROE)** before or after tax expresses the relationship between profit before or after tax and average equity. The higher this figure is, the more profit the entity has made in relation to its equity.

The **risk:earnings ratio (RER)** expresses the relationship between credit risk costs and net interest income. This percentage states what proportion of net interest income has been used to cover credit risk.

The term **solvency** expresses the relationship between the own funds requirement arising from a bank's (weighted) balance sheet assets and off-balance sheet items and its eligible own funds within the meaning of the CRR. Solvency is regulated in the CRR.

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.

Unwinding means capturing the change in the present value of impaired receivables as interest income.

Value-at-risk analysis is one means of quantifying risk. It measures the potential 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 12 March 2015. 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
Idea, concept and layout:	R. Kriesche, gantnerundenzi.at
Photos:	Gernot Gleiss
Graphic art:	<i>boss grafik</i> , Sigrid Bostjancic
Sub-editor:	Andreas Hartl
Printing and lithography:	Druckerei Theiss GmbH
Paper:	Printed on PlanoJet® FSC®-Mix
Translation:	Adrian Weisweiler MA (Oxford), London

ClimatePartner^o
klimaneutral

Druck | ID: 10944-1503-1001



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