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ANNUAL REPORT 2016

BKS Bank
3 Banken Gruppe

Preserving the Valuable Creating the New

Palace Christalnigg is a special jewel of Baroque art. For a long time, it was the meeting place and hub of public life in Klagenfurt and has been the property of BKS Bank for the past 70 years.

From 2014 to 2016 it was restored with great care. The stucco ceiling covers an area of around 600 square metres. Estimates places its erection at some time from 1730 to 1740. It is said to have been created by the then very famous stucco plasterer Kilian Pittner and his son Marx Josef who also designed the stucco for the Porcia Castle and the Klagenfurt Cathedral.

The restoration of the stucco ceiling was done applying very fine artwork in traditional techniques and in close cooperation with the Federal Monuments Office.

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Minimal deviations of the values in the tables and charts are due to rounding differences.

THREE-YEAR PERFORMANCE COMPARISON

INCOME STATEMENT in €m	2014	2015	2016
Net interest income	157.3	166.4	154.2
Charges for losses on loans and advances	-49.5	-48.5	-31.0
Net fee and commission income	47.6	53.0	48.8
General administrative expenses	-105.8	-105.1	-106.4
Profit for the year before tax	54.1	60.7	49.8
Profit for the year after tax	48.7	53.6	46.2
BALANCE SHEET in €m			
Total assets	6,854.6	7,063.4	7,581.1
Receivables from customers after impairment charges	4,815.8	4,920.1	5,175.3
Primary deposits	5,013.0	5,109.8	5,568.0
– of which savings deposits	1,705.5	1,629.8	1,529.0
– of which securitized debt incl. subordinated capital	789.1	758.1	743.2
Equity	795.8	860.2	958.8
Customer funds under management	12,972.0	13,212.1	13,723.2
– of which on custody accounts	7,959.0	8,102.3	8,155.1
OWN FUNDS PURS. TO CRR in €m			
Average risk-weighted assets	4,846.6	4,883.4	4,974.1
Own funds	580.9	599.9	670.0
– of which Common Equity Tier 1 capital (CET 1)	543.7	575.6	625.9
– of which total Tier 1 capital (CET1 and AT1)	543.7	575.6	625.9
Own funds surplus	193.2	209.2	241.0
Common Equity Tier 1 capital ratio (in %)	11.2	11.8	12.6
Total capital ratio, %	12.0	12.3	13.5
PERFORMANCE RATIOS			
Return on equity before tax	7.2	7.3	5.5
Return on equity after tax	6.5	6.5	5.1
Cost/income ratio (cost/income coefficient)	51.9	48.7	56.2
Risk/earnings ratio (credit risk/net interest income)	31.5	29.2	20.1
RESOURCES			
Average number of staff	915	923	926
Number of branches	57	59	60
THE BKS BANK'S SHARES			
Number of no-par ordinary shares (ISIN AT0000624705)	34,236,000	34,236,000	37,839,600
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000	1,800,000
High (ordinary/preference share) in €	17.8/15.6	17.5/15.7	17.3/15.4
Low (ordinary/preference share) in €	16.9/14.9	16.5/14.8	15.8/13.9
Close (ordinary/preference share) in €	17.3/15.3	16.9/15.1	16.8/15.4
Market capitalization in €m as at 31 Dec.	619.8	605.8	662.7
Dividend per share in €	0.23	0.23	0.23[1)]
P/E ratio, ordinary/preference share	11.6/10.3	11.3/10.1	13.3/12.2

[1)] Proposal made to the 78th annual general meeting of BKS Bank AG on 9 May 2017

PREFACE BY THE CHAIRWOMAN OF THE MANAGEMENT BOARD

Creating Space for New Ideas

Herta Stockbauer
Chairwomen of the Management Board

DEAR SHAREHOLDERS,

“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change." This quote by Charles Darwin applies to the banking industry today more than ever. Our industry is one of the sectors the most severely affected by digital change.

On the one hand, customer behaviour is changing dramatically. It is especially younger customers who are demanding new and innovative banking services, and are shifting their banking activities to the internet. On the other hand, it is also necessary to adapt systems to provide smooth and continuous end-to-end processes. We are confronted with new forms of payment services that run on new technologies such as the distributed-ledger technology, better known as 'blockchain' technology.

BKS Bank does not view the advance of digitization as a threat, but rather as an opportunity. We are progressing very well in our work to transform our organisation for the digital age. Moreover, we believe that digital will not mean anonymous in the future either. Complex banking transactions will always require personal advice. By offering personal advisory services, we have long since set ourselves apart from most of our peers.

EXCELLENT ADVISORY SERVICES: OUR COMPETITIVE ADVANTAGE TODAY AND TOMORROW

Therefore, we are optimistic about the future. With our branch network we are well prepared and do not have any widespread plans to close branches like other banks are doing. On the contrary, we plan to open new ones in our growth markets. In 2016, we served 152,000 individuals and businesses, which is 2,000 more than in the year before. The expansion is taking place primarily in our growth markets of Slovenia and Vienna. BKS Bank is now well-established in both markets. Our customers appreciate us as a reliable customer-oriented partner.

Just as we are expanding our branch network, we also plan to continue the further education and training programme for our employees. In 2016, our employees spent more than 39,000 hours in training. The success of all of these measures is reflected in the high degree of satisfaction with our advisory services and the quality of our company.

- Our customers gave us very good ratings in the customer satisfaction survey we conducted in the reporting year.
- The Recommender Award 2016 confirmed our outstanding customer orientation.
- We are also very pleased about the two awards we received from Österreichische Gesellschaft für Verbraucherstudien and 'trend' magazine. We were designated the best branch bank in Austria and the best bank in advisory services for real estate financing.
- We again won the designation "EFQM Recognised for Excellence 5*" in the competition that honours company quality and are included the "List of Excellent Companies in Austria".

Our numerous activities in the area of sustainability also distinguishes us from others. Our customers and business partners appreciate our accountability in business dealings, and in social and ecological aspects. Our corporate social responsibility (CSR) policy strengthens our innovation capacity.

Thus, at the beginning of 2017, we were the first bank in Austria to issue a social bond[1)]. The BKS Bank ordinary share has been included in the VÖNIX sustainability index of the Vienna Stock Exchange since June 2016. This ranks us among the top CSR companies in Austria.

746 NEW SHAREHOLDERS

We are pleased that our shares continue to be an attractive investment for our shareholders. In 2016, the BKS Bank ordinary and preference shares celebrated their 30-year anniversary of listing on the stock exchange. We also successfully completed a capital increase in the same year. We acquired 746 new shareholders and placed the entire volume of new shares on the market. I would like to thank you for helping us achieve this success.

The capital increase contributed enormously to further strengthening our own funds, which has always stood on solid ground. Own funds amounted to EUR 670 million at the end of the year. The equity ratio of 13.5% is much higher than the minimum statutory requirements and the same is true for the Common Equity Tier 1 capital ratio of 12.6%.

INCREASE IN LENDING VOLUME AND PRIMARY FUNDS

We know that our business success is also important to you as an investor. I have good news to report in this respect as well. In the reporting year, our total assets increased by 7.3% to EUR 7.58 billion. Both the lending and deposits business developed very gratifyingly. After the economic slump in the past few years, economic activity picked up again in all of our markets in 2016. This boosted corporate spending. At the end of the year 2016, the lending volume was EUR 5.33 billion – and therefore 4.2% higher year on year. Primary funds achieved a record level of EUR 5.57 billion at year-end even though we only pay interest in line with market rates. We believe this shows the trust customers place in us.

This is a marketing publication. The information provided in this text serves only as non-binding information and does not replace in any way advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bonds mentioned here, and neither is it a buy or sell recommendation. The offer for the product described is based on the base prospectus published by BKS Bank AG on 1 April 2016 including all documents to which a reference is made and all supplementary information to the base prospectus as well as the final terms published on 5 January 2017. The base prospectus including supplementary information and the final terms are available free of charge on the website of the issuer at http://www.bks.at, under Investor Relations > BKS Bank Bond Issues and also at the offices of BKS Bank AG, 9020 Klagenfurt, St. Veiter Ring 43 during usual office hours.

The development of earnings of BKS Bank was also very satisfactory. The low-interest rate policy continued to prevail in the reporting year. Additionally, the environment is very challenging due to numerous regulatory requirements and fierce competition. Nonetheless, BKS Bank attained a consolidated profit before tax of EUR 49.8 million. This was below the record level achieved in 2015 as expected, because of the strong influence of the special effects of the equity method recognition applied to Bank für Tirol und Vorarlberg Aktiengesellschaft. Moreover, in 2016 we paid the one-time charge for the stability tax (banking tax) of EUR 7.8 million, which also left its mark on earnings. Despite these additional burdens in the reporting year, we are very pleased that the Austrian government has lowered the stability tax, thereby greatly easing the burden on the banking sector.

INTERNATIONAL SUCCESS

Our international markets also contributed to the solid earnings achieved. In Slovenia, we attained a profit before tax of EUR 3.9 million. Our local leasing company increased the leasing volume by 19.3% and achieved the best annual result to date in its soon-to-be 20-year history.

In Croatia, we are pleased to have achieved the best profit before tax of EUR 3.9 million since the acquisition of the former Kvarner banka d.d. We also wrote banking history there in the last reporting year: We were the first bank to establish an EU subsidiary. This was preceded by the first cross-border merger of a bank from another EU country with a Croatian bank. We merged our subsidiary BKS Bank d.d. into BKS Bank AG. We have thus created a uniform group structure in all of our foreign markets.

NEW CHAIRMAN OF THE SUPERVISORY BOARD

The year 2016 also saw changes on our Supervisory Board. The Chairman of the Supervisory Board up to now, Peter Gaugg, was no longer available for another term. He had been a member of our Supervisory Board for 18 years. Peter Gaugg played a key role in the milestones achieved in the history of our company. He had served as Chairman of the Supervisory Board since 2014. We would like to thank him in behalf of the entire BKS Bank and of the Supervisory Board for his commitment and hard work. His outstanding expertise was always very valuable to us. His successor as chairman is Gerhard Burtscher, CEO of Bank für Tirol und Vorarlberg Aktiengesellschaft.

IN MEMORIAM GUIDO SCHMIDT-CHIARI

In August, we were deeply grieved to learn of the passing away of our former Chairman of the Supervisory Board Guido Schmidt-Chiari.
He was a doyen of the Austrian banking industry and played a very influential role in the sector for many years. His work received public recognition and he was conferred many prestigious awards. We will always cherish his memory.

Finally, we would like to express our great appreciation to all those who made our success possible: to our employees. The great loyalty and commitment of our employees are exceptional. We are very thankful for both. Our personal thanks also go to all capital and employee representatives on the Supervisory Board. Their engaged and competent work is highly valuable for BKS Bank.

Herta Stockbauer
Chairwoman of the Management Board

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE AT BKS BANK

Effective corporate governance is a matter of course for us. It guarantees accountable management and control with a focus on the sustainable creation of value for the bank. We are committed to the principles of good and responsible management as defined in the Austrian Code of Corporate Governance (ÖCGK). We meet all of the recommendations and proposals of the Code with the exception of those that we cannot implement precisely as defined due to the individual situation of BKS Bank AG, of the 3 Banken Group and statutory provisions applicable to credit institutions.

Our corporate social responsibility (CSR) policy implemented throughout the Group commits us to assume responsibility for society and the environment. We invest great efforts in CSR, because we believe that a bank needs a solid reputation. The Sustainability Report, which we publish separately, contains an impressive description of how we do not simply take isolated measures, but have been pursuing a holistic sustainability strategy for many years. We want to create lasting added value for our customers and employees, for our shareholders and for society. Economic performance, social responsibility towards our employees and the public as well as environmental stewardship are indispensable tenets of our business practices.

EXPLANATIONS ON THE AUSTRIAN CODE OF CORPORATE GOVERNANCE (ÖCGK)

The Austrian Code of Corporate Governance (ÖCGK) provides listed companies with a framework for the governance of their companies and is a benchmark for effective corporate management and monitoring. It was published for the first time in October 2002 and has been regularly updated – last in January 2015 – with the involvement of all relevant stakeholders.

As an instrument of self-regulation, the Code is based on company law, the Stock Exchange Act (BörseG) and the Capital Market Act as well as on standards applied throughout the EU and internationally to corporate governance. The Code of Corporate Governance (ÖCGK) has the aim of promoting confidence of financial markets, investors, business partners, employees and the general public in exchange-listed companies.

Five core elements are characteristic of good corporate governance:
- relationships with stakeholders based on trust
- regular and open communication between supervisory board and management board
- a performance-linked remuneration system
- transparent accounting, and
- transparent corporate governance

Additional important principles of this voluntary code of conduct, which is based on the principle of comply-or-explain, include the equal treatment of all shareholders of exchange-listed companies, the declared independence of supervisory board members, the minimization of conflicts of interest, and comprehensive supervision by the supervisory board and auditors.

The Austrian Working Group for Corporate Governance developed standards for responsible corporate governance that are grouped into three categories:
The L Rules (“Legal Requirements”) – these rules are based on mandatory legal requirements — as well as the C Rules (“comply or explain”) which permits deviations, but these must be explained. The Code also contains R Rules (“Recommendations”) that are only only recommendations. It is not required to disclose or explain non-compliance with the R Rules. The special rules applicable to banks and insurance companies are affected by the Code. The Rules of the Code do not require the disclosure of operational or business secrets.

CONFORMITY DECLARATION OF THE CORPORATE BODIES OF BKS BANK

As an exchange-listed company, BKS Bank’s corporate bodies have in the past and continue today to publish conformity declarations in accordance with § 243b Austrian Business Code (UGB). The Austrian Code of Corporate Governance (ÖCGK) serves as valuable guidance for the design of internal banking processes, and of rules and regulations. Characteristic of the way the bank sees itself is the close cooperation of the Management Board and Supervisory Board, the performance-linked remuneration system that takes into account the economic situation of the credit institution, respect for shareholder interests as well as openness and transparency in corporate communications. Furthermore, we take care to ensure the integrity and law-abiding behaviour of all employees and management staff in accordance with the principle of zero error tolerance. Compliance with the Code is not just lip service for BKS Bank, but is constantly being propagated and lived.

The members of the Supervisory Board and of the Management Board of BKS Bank explicitly declare themselves committed to comply with C Rule 61 and with the principles, objectives and purposes of the Code of Corporate Governance (ÖCGK). Therefore, BKS Bank also follows the comply-or-explain principle. In this respect, we are under the obligation to disclose any deviations from the Corporate Governance Rules. There are deviations where the individual situation of BKS Bank AG or of the 3 Banken Group and legal provisions for credit institutions do not permit them to comply 1:1 with the Rules of the Code of Corporate Governance (ÖCGK). The relevant declaration of the Management Board and Supervisory Board is published on the website www.bks.at » Investor Relations » Corporate Governance. By disclosing information and the declaration on the deviations from the C Rules 2, 31 and 45, BKS Bank was in conformity with the Code of Corporate Governance (ÖCGK) in the financial year 2016.

Page 50 of this report lists the internet addresses containing all relevant information on the Code of Corporate Governance (ÖCGK) and BKS Bank. The Code of Corporate Governance (ÖCGK), the Guidelines for the Independence of Supervisory Board Members and the Articles of Association of BKS Bank are available on our website.

The Supervisory Board renewed its commitment to the Code of Corporate Governance (ÖCGK) at its meeting of 30 March 2016 and declared its intention of complying with the Rules of the Code of Corporate Governance (ÖCGK), as amended, in the version of January 2015.

This report deals with working procedures of the Management Board and of the Supervisory Board pursuant to L Rule 60, with the remuneration policy as well as with the measures taken to promote women pursuant to L Rule 60. Furthermore, the accounting policies and disclosure principles (L Rules 63, 65 and 69, C Rules 64, 66, 67, 68 and 70), the functionality of the risk management system (C Rule 83) as well as the compliance management system are analysed. Further themes of relevance for the Code of Corporate Governance (ÖCGK) such as shareholding structure and the annual general meeting, corporate communications and the passing on of information are described in the Group management report, in the Chapter on investor relations as well as in the notes to the consolidated financial statements.

The Rules of the Code of Corporate Governance (ÖCGK) apply to all companies of the BKS Bank Group. At these companies, the governance tasks and, as necessary, the Supervisory Board mandates are assumed by the serving members of the Management Board, heads of departments and former management staff members of BKS Bank. All Group companies are included in the reporting of the BKS Bank Group. Additionally, the directors of these subsidiaries report regularly to their supervisory boards and to the management board of the parent company. They are also strongly involved in the AML, the risk and compliance management system of the BKS Bank Group regardless of whether or not they have one in place at the company. The remuneration principles also apply to their management staff, provided the respective executive bodies receive remuneration for their activities in these companies. Regular reports are made to the supervisory board of the parent company on developments at significant subsidiaries with business operations.

EXPLANATIONS OF BKS BANK ON THE DEVIATIONS FROM THE C RULES

Rule 2 C *('one share – one vote'): Apart from ordinary shares, BKS Bank has also issued non-voting preference shares, which are an attractive investment alternative for shareholders due to their preferred treatment with respect to dividends rights. The ordinary shares issued by BKS Bank have one vote each. No single shareholder holds a disproportionate number of voting rights. The decision to issue non-voting preference shares was taken in 1991.*

Rule 31 C: *The disclosure of the remuneration of the members of the Management Board is done in accordance with statutory provisions. For reasons of data protection and to protect the privacy of the individual Management Board members, no breakdown of the remuneration into its fixed and variable components has been disclosed. The remuneration rules defined by BKS Bank ensure that the variable remuneration paid to the members of the Management Board is commensurate with the personal performance of the respective member. Furthermore, the earnings, risk and liquidity situation of the credit institution is accordingly taken into account.*

Rule 45 C: *On account of the expansion of the body of shareholders, representatives of the largest shareholders have been elected to the Supervisory Board. As the major shareholders are also banks, their representatives also hold executive positions in other credit institutions which are competitors of BKS Bank. These persons have declared their independence in individual declarations.*

MANAGEMENT BOARD AND SUPERVISORY BOARD

WORKING PROCEDURES OF THE MANAGEMENT BOARD

The Management Board as the executive body of the BKS Bank Group is committed to upholding the interests of the company and manages the business in accordance with the law, the articles of association and the internal business rules. The internal business rules for the Management Board define the distribution of responsibilities, the working procedures of Management Board and the mutual representation rules. Additionally, the rules contains a catalogue of measures that require the approval of the Supervisory Board as well as the information and reporting obligations of the Management Board. The Management Board cooperates on the basis of trust with the other executive bodies of BKS Bank and the Works' Council. The Supervisory Board is informed immediately of any material events.

The Management Board deals primarily with the strategic orientation of the bank based on extensive reporting, on defining the company's goals for the respective areas of responsibility and for the entire company Group. Bearing in mind the objective of creating sustainable profits, the Management Board is committed to serving the interests of shareholders, customers, employees and other groups related to the bank. The Management Board takes the appropriate measures to ensure compliance with relevant laws and guarantees efficient risk management and risk control.

The Management Board member responsible for a specific business area is directly responsible for it. However, the other members are comprehensively informed of development in the entire company and present fundamental matters to be decided to the full Management Board. In some areas of responsibility, the Management Board members are involved in the daily business and are informed continuously of the business situation and of major transactions. Events of relevance for the company, strategic issues and measures are discussed at regular and ad hoc meetings or by circular for implementation by the Management Board member responsible or by the full Board.

Management Board decisions are usually reached by consensus. The principle of dual control applies to the signing of contracts and to risk-sensitive internal approvals. Comprehensive internal reporting supports the careful preparation of management decisions.

MEMBERS OF THE MANAGEMENT BOARD

In the reporting year, there were three jointly responsible members on the Management Board of BKS Bank.

Herta Stockbauer

Chairwoman of the Management Board, born 1960
Date of initial appointment: 1 July 2004
End of the period of office: 30 June 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. In 1992, she joined BKS Bank and worked in corporate customers and securities before she switched to the controlling and accounting department. In 1996, she was appointed head of department; in 2004 she became member of the Management Board and in March 2014 Chairwoman of the Management Board.

Her areas of responsibility include Corporate and Business Banking, Treasury and Proprietary Trading, Human Resources, Public Relations, Marketing, Social Media, Investor Relations, Accounting and Sales Management Accounting, real estate and construction, subsidiaries and investments as well as the international business in Slovenia, Croatia, Hungary and in Slovakia.

Mandates in companies included in the group of consolidated companies:
– Chairwoman of the Supervisory Board of Oberbank AG
– Vice Chairwoman of the Supervisory Board of Bank fur Tirol und Vorarlberg Aktiengesellschaft
– Member of the Supervisory Board of BKS-leasing Croatia d.o.o.

Mandates in other Austrian companies not included in the group of consolidated companies:
– Member of the Supervisory Board of Österreichische Post Aktiengesellschaft
– Member of the Supervisory Board of SW-Umwelttechnik Stoiser & Wolschner AG
– Member of the Supervisory Board of Oesterreichische Kontrollbank Aktiengesellschaft

Further positions:
– Member of the Management Board of the Austrian Bankers Association (Verband österreichischer Banken und Bankiers)
– Member of the Management Board of Federation of Industrialists in Carinthia (Industriellenvereinigung Kärnten)
– Member of the Board of the Austrian Society for Banking Research (Österreichische Bankwissenschaftliche Gesellschaft)
– Spokeswoman of the Banking and Insurance Section of the Chamber of Commerce of Carinthia
– Member of the Advisory Council of the Bank Deposit Protection Organisation
– Vice President of respACT – Austrian Business Council for Sustainable Development

Honorary Counsul for Sweden for the province of Carinthia

Dieter Kraßnitzer

Member of the Management Board, born 1959
Date of initial appointment: 1 September 2010
End of the period of office: 31 August 2020

After completing his study of business administration, Dieter Kraßnitzer worked for the publication Börsenkurier as a journalist and completed several internships at auditing and tax advisory firms. He has worked at BKS Bank since 1987. He became the bank's Head of Internal Audit in 1992. In 2006, he qualified as a Certified Internal Auditor (CIA©) at the Institute of Internal Auditors in the United States.

Dieter Kraßnitzer is on the Management Board of BKS Bank and responsible for Risk Management, Risk Controlling, Back Office Lending, Back Office Treasury, IT, Organization and Technical Services as well as for cooperation with DREI-BANKEN-EDV Gesellschaft m.b.H. In the area of international business, he is responsible for the Back Office, Risk Management and IT.

Mandates in companies included in the group of consolidated companies:
– Chairman of the Supervisory Board of BKS-leasing Croatia d.o.o.
– Member of the Expert Advisory Council of DREI-BANKEN-EDV Gesellschaft m.b.H.

Wolfgang Mandl

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

Wolfgang Mandl started his career in 1990 as an account manager for retail customers at the Spittal branch and completed his study of applied business administration in 1997 at the Alpen-Adria University Klagenfurt Afterwards, he assumed several assignments for corporates at the head office in Klagenfurt. In 2003, he was assigned head of corporates services and assumed responsibility for the retail segment.

Wolfgang Mandl is on the Management Board of BKS Bank and is responsible for Retail, Private Banking and the Securities and Custody Account Business. He is additionally responsible for cooperation with sales partners such as Wüstenrot, card complete Service Bank AG, 3 Banken-Generali Investment-Gesellschaft m.b.H., which is the joint investment management company of 3 Banken Group. He is responsible for the region of Italy in the area of international business of BKS Bank.

Further positions:
Honorary Counsul of Italy for the province of Carinthia.

REMITS OF THE MANAGEMENT BOARD

Herta Stockbauer	**Dieter Kraßnitzer**	**Wolfgang Mandl**
Internal Revision Compliance Anti-Money Laundering Due Diligence and Risk Management as Defined in the Internal Business Rules, the Austrian Code of Corporate Governance (ÖCGK) and Supervisory Law		
Corporate and Business Banking Treasury and Proprietary Trading Human Resources Public Relations, Marketing, Social Media, Investor Relations Accounting and Management Accounting for Sales Real Estate and Construction Subsidiaries and Investees International Business: Slovak Republic, Slovenia, Croatia, Hungary	*Risk Management Risk Controlling IT, Business Organization, Technical Services Credit Back Office, BKS Service GmbH (BSG) DREI-BANKEN-EDV Gesellschaft m.b.H. Treasury Back Office International Business: Back Office, Risk Management and IT*	*Retail and Healing Professions Private Banking, Securities Business Asset Management and Custodian Operations Sales Partners International Business: Italy*

The number and type of all additional mandates of the Members of the Management Board are in conformity with the guidelines of the C Rule 26 of the Code of Corporate Governance (ÖCGK) and the provisions of § 28a Austrian Banking Act (BWG).

WORKING PROCEDURES OF THE SUPERVISORY BOARD

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

The Supervisory Board of BKS Bank has had nine shareholder representatives since 1 October 2016 and five members nominated by the Works' Council under the one-third-parity rule. The Supervisory Board advises and monitors the Management Board of the bank, with the expert work being conducted at the plenary board meetings and also in the individual working groups. The Supervisory Board reaches decisions autonomously on appointments to the Management Board and on the appointment of the chairperson of the Management Board, and it develops long-term successor planning together with the Management Board. The Supervisory Board monitors the management in accordance with the requirements of the law, the articles of association and the internal business rules. The Supervisory Board discusses the implementation of strategic planning and projects in its remit, and decides on matters of relevance for the company together with the Management Board. The Supervisory Board may, moreover, at any time conduct exhaustive audits itself or commission experts to conduct such audits. The Supervisory Board deals especially with the audit of the financial statements of BKS Bank AG and of the BKS Bank Group in accordance with international auditing standards (ISAs) and is, therefore, also directly involved in decisions on dividend distributions. The chairperson of of the Supervisory Board is responsible for the organization of the Supervisory Board, for preparing meetings and for collaboration with the Management Board. The Supervisory Board also leads the annual general meetings of BKS Bank and heads the committees of the Supervisory Board.

The rights and obligations of the employees' representatives are generally equal to those of shareholders. This applies, in particular, to the right to receive information and to monitoring rights, to the obligation to act with due diligence, to the obligation to maintain secrecy and to liability for failure to comply. In the event of personal conflicts of interest, employees' representatives shall abstain from voting, the same being applicable to shareholders' representatives. In the reporting year, no member of the Supervisory Board had a conflict of interests in the meaning the C Rule 46 of the Austrian Code of Corporate Governance (ÖCGK). The remuneration of the Members of the Supervisory Board is presented in detail in the remuneration report on page 37 et seq.

MEMBERS OF THE SUPERVISORY BOARD OF BKS BANK AG

HONORARY PRESIDENT

Hermann Bell

Hermann Bell was elected honorary president of the Supervisory Board for life at the 2nd meeting of the Supervisory Board on 15 May 2014.

SHAREHOLDER REPRESENTATIVES

Peter Gaugg

Chairman until 19 May 2016

Peter Gaugg resigned from his mandate as chairman of the Supervisory Board at the close of the 77th annual general meeting and resigned from the Supervisory Board.

Gerhard Burtscher
Chairman from 19 May 1916, independent, born 1967
Initially elected: 19 May 2016, appointed until the 82nd annual general meeting (2021)
Gerhard Burtscher was elected new Chairman of the Supervisory Board at the 2nd meeting of the Supervisory Board in the elections for the chair and vice chair of the Board.
Mandates on supervisory boards and similar functions in domestic and foreign listed companies:
– Vice Chairman of the Supervisory Board of Oberbank AG

Franz Gasselsberger
Vice-Chairman, independent, born 1959
Initially elected: 19 April 2002, appointed until the 81st annual general meeting (2020)
Mandates on supervisory boards and similar functions in domestic and foreign listed companies:
– Chairman of the Supervisory Board of Bank für Tirol und Vorarlberg Aktiengesellschaft
– Member of the Supervisory Board of AMAG Austria Metall AG
– Member of the Supervisory Board of Lenzing Aktiengesellschaft
– Member of the Supervisory Board of voestalpine AG

Christina Fromme-Knoch
Independent, born 1970
Initially elected: 15 May 2012, appointed until the 79th annual general meeting (2018)

Peter Hofbauer
Independent, born 1964
Initially elected: 20 May 2015
Peter Hofbauer resigned from his mandated on the Supervisory Board as of 30 September 2016.

Reinhard Iro
Independent, born 1949
Initially elected: 26 April 2000, appointed until the 79th annual general meeting (2018)
Mandates on supervisory boards and similar functions in domestic and foreign listed companies:
– Member of the Supervisory Board of SW-Umwelttechnik Stoiser & Wolschner AG

Josef Korak
Independent, born 1948
Initially elected: 26 April 2005, appointed until the 80th annual general meeting (2019)

Heimo Penker
Independent, born 1947
Initially elected: 15 May 2014, appointed until the 80th annual general meeting (2019)

Karl Samstag
Independent, born 1944
Initially elected: 19 April 2002, appointed until the 82nd annual general meeting (2021)
Mandates on supervisory boards and similar functions in domestic and foreign listed companies:
– Member of the Supervisory Board of Bank für Tirol und Vorarlberg Aktiengesellschaft
– Member of the Supervisory Board of Oberbank AG

Sabine Urnik
Independent, born 1967
Initially elected: 15 May 2014, appointed until the 80th annual general meeting (2019)

Klaus Wallner
Independent, born 1966
Initially elected: 20 May 2015, appointed until the 81st annual general meeting (2020)

REPRESENTATIVES DELEGATED BY THE WORKS COUNCIL

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

The number and type of all additional mandates of the Supervisory Board comply with the mandate restrictions for all members pursuant to § 28a, Banking Act (BWG), effective since 1 July 2014.

REPRESENTATIVES OF THE SUPERVISORY AUTHORITY

Director Alois Schneebauer, *born 1954,*
initially appointed: 1 August 1999 until 30 November 2016
Director Peter Ladislav, *born 1962, initially appointed: 1 January 2016*

INDEPENDENCE OF THE SUPERVISORY BOARD

The majority of the members of the Supervisory Board should be independent as specified in C Rule 53 of the Code of Corporate Governance (ÖCGK). A member of the Supervisory Board shall be deemed independent if said member does not have any business or personal relations with the company or its management board that constitute a material conflict of interests and would therefore be capable of influencing the behaviour of the member.

When making proposals to the annual general meeting regarding appointments for the mandates becoming vacant, the Supervisory Board and the Nominations Committee must give due consideration to the diversity of this body. The focus must be on an adequate representation of both genders, internationality, age structure and diversity of know-how and skills.

All representatives on the Supervisory Board of BKS Bank are highly qualified banking and economic experts with professional experience in strategic matters and in accounting and financing. Each of them have declared their independence in accordance with the guidelines below in an individual declaration. Additionally, with the exception of Franz Gasselsberger (Oberbank AG), Peter Gaugg (Bank für Tirol und Vorarlberg

Aktiengesellschaft until 19 May 2016), Gerhard Burtscher (Bank für Tirol und Vorarlberg Aktiengesellschaft as of 19 Mai 2016), Karl Samstag and Peter Hofbauer (until 30 September 2016), all members of the Supervisory Board elected by the annual general meeting are members who are not shareholders with a stake of more than 10% or who represent the interests of such shareholders.

Outside the scope of its ordinary banking activities, BKS Bank has no business relationships with subsidiaries or individuals (including Supervisory Board members) that could jeopardise the Bank's independence.

GUIDELINES OF THE SUPERVISORY BOARD OF BKS BANK ON INDEPENDENCE

The Supervisory Board member is not permitted to have been a member of the Management Board or have held a management at the company or a subsidiary of BKS Bank in the preceding three years. A previous position on a management board does not disqualify a member on the grounds of lacking independence, especially when there is no doubt that the mandate will be exercised independently based on a presentation of all relevant circumstances as defined in § 87 para. 2 Stock Corporation Act (AktG).

The Supervisory Board member is not permitted to have, or to have had, a business relationship with BKS Bank or one of its subsidiaries to an extent of relevance for the Supervisory Board member in the past year. This also applies to business relationships with companies in which the Supervisory Board member has a significant business interest. The approval of individual transactions by the Supervisory Board pursuant to L Rule 48 does not automatically result in disqualification due to lack of independence. The existence or conclusion of new contracts with the company that are common usage in the banking industry does not detract from the status of independence.

The Supervisory Board member is not permitted to have served as an auditor of BKS Bank or have been a shareholder or employee of the auditing firm in the preceding three years.
The Supervisory Board member is not permitted to be on the Management Board of another company that has a member of the Management Board of BKS Bank on its Supervisory Board unless the one company is related to the other within a company group or holds an economic interest in it.

The Supervisory Board member is not permitted to be a close relative (child, spouse, life partner, parent, uncle, aunt, brother or sister, nephew, niece) of a member of the Management Board or of a person who holds one of the positions described above.

COMMITTEES OF THE SUPERVISORY BOARD AND THEIR DECISION-MAKING POWERS

The Supervisory Board takes care of its business as a rule at its plenary meetings, but delegates individual matters to five qualified committees. The establishment of these committees and their decision-making powers are defined in the internal business rules for the Supervisory Board. The nomination of members to the committees from the Works Council is done in accordance with the provisions of the Austrian Labour Constitutional Act (Arbeitsverfassungsgesetz). The proposals submitted in the reporting year for appointments to the committees of the Supervisory Board were approved unanimously.

MEMBERS AND COMMITTEES OF THE SUPERVISORY BOARD

HONORARY

President Hermann Bell

SHAREHOLDER REPRESENTATIVES

Gerhard Burtscher, *Chairman*

Franz Gasselsberger
Vice Chairman

Christina Fromme-Knoch
Reinhard Iro
Josef Korak
Heimo Penker
Karl Samstag
Sabine Urnik
Klaus Wallner

EMPLOYEE REPRESENTATIVES

Maximilian Medwed
Herta Pobaschnig
Hanspeter Traar
Gertrude Wolf
Ulrike Zambelli

REPRESENTATIVES OF THE SUPERVISORY AUTHORITY

Peter Ladislav
Director

COMMITTEES OF THE SUPERVISORY BOARD

Audit Committee
Gerhard Burtscher, Chairman
Franz Gasselsberger
Sabine Urnik
Maximilian Medwed
Herta Pobaschnig

Remuneration Committee
Gerhard Burtscher, Chairman
Reinhard Iro
Heimo Penker
Herta Pobaschnig

Nominations Committee
Gerhard Burtscher, Chairman
Heimo Penker

Risk and Credit Committee
Gerhard Burtscher, Chairman
Franz Gasselsberger
Heimo Penker
Ulrike Zambelli
Hanspeter Traar

Working Committee
Gerhard Burtscher, Chairman
Franz Gasselsberger
Heimo Penker
Reinhard Iro
Ulrike Zambelli
Hanspeter Traar

As at 31 December 2016

Audit Committee

The Act Amending Audit Regulations of 2016 (Abschlussprüfungsrechts-Änderungsgesetz, APRÄG) entered into force on 13 June 2016. This Amendment implemented the requirements of the EU Audit Reform (EU Directive 2014/56/EU and EU Regulation No. 537/2014). The provisions of the Act Amending Audit Regulations apply to business years staring on or after 17 June 2016. The new requirements target public-interest entities. These include all listed companies, credit institutions and insurance companies.

The amendments refer to the establishment and composition of audit committees and their tasks. The focus is on precise requirements for the selection procedure, the monitoring of the period of office and the independence of the auditors. It also contains new reporting rules.

The extended auditor's report must describe the key audit matters of the auditor. The auditors report separately in the Audit Committee. As a measure to strengthen the independence of the auditor, external rotation has been introduced. After ten years, the auditors must be rotated. Furthermore, it contains changes to permitted non-audit services that may be provided by the auditor and its networks.

With the supplementary changes pursuant to APRÄG 2016, the Audit Committee conducts the audit activities listed below pursuant to § 63a para. 4 Banking Act (BWG):

– Monitoring the accounting process and presenting recommendations and proposals to guarantee reliability
– Monitoring the effectiveness of the Company's internal control system (ICS), the internal auditing system and the risk management system
– Monitoring the audit of the single-entity and consolidated financial statements taking into account the findings and conclusions in reports published by the supervisory body for the auditing profession
– The review and monitoring of the independence of the auditor especially with respect to the additional services provided to the audited company
– Reporting the findings of the audit of the financial statements to the Supervisory Board and presenting how the audit of the financial statements contributed to the reliability of financial reporting as well as on the role of the Audit Committee
– The audit of the financial statements and the preparations of their approval, examination of the proposal for the distribution of the profit, the management report and, if applicable, the corporate governance report, as well as reporting the audit findings to Supervisory Board
– The audit of the consolidated financial statements and Group management report, the consolidated corporate governance report as well as reporting the audit findings to Supervisory Board
– Carrying out the procedure for the selection of the auditor of the financial statements, taking into consideration the appropriateness of the fee and also the recommendation for the appointment of the auditor to the Supervisory Board

Working Committee

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

Risk and Credit Committee

The Risk and Credit Committee decides on the granting of new loans and loan prolongations, and on leasing and guarantee transactions as of a certain volume of debt. As a rule, these decisions are reached by circular vote. At the subsequent meetings, the Supervisory Board is informed of the decisions reached by the Risk and Credit Committee. Additionally, it also takes care of the following tasks pursuant to § 39d Banking Act (BWG):

– Providing consulting to the Management Board with respect to the current and future risk appetite and risk strategy of the credit institution
– Monitoring implementation of the risk strategy in connection with the management, monitoring and mitigation of risks pursuant to § 39 (2b) nos. 1 to 14, and the own funds requirements and liquidity
– Review of the pricing policy for the services and products offered by the credit institution to check if these adequately take the business model and risk strategy of the credit institution into account
– Regardless of the tasks of the Remuneration Committee, it checks to ascertain if the incentives of the internal remuneration system take risk, capital, liquidity, probability and timing of profits realized into consideration

Nominations Committee

This body makes proposals to the Supervisory Board based on statutory provisions (§ 29 Banking Act (BWG)) for filling mandates becoming vacant on the Management Board and Supervisory Board, unless the Remuneration Committee is responsible. The Committee defines the target ratio for underrepresented gender on the Management Board and on the Supervisory Board, and develops a strategy on how to attain the target. It regularly evaluates - in any case when events occur that indicate the need for a re-assessment - the structure, size, composition and performance of the Management Board and of the Supervisory Board. Should it seem necessary, the Committee makes proposals for changes to the Supervisory Board. It also supports the Supervisory Board at least once a year with the assessment of the knowledge, capabilities and experience of the members of the Management Board and Supervisory Board, and with the assessment of the respective body in its entirety. Furthermore, it evaluates the management's policies for the selection and appointment of persons to top management positions. Just like all other committees, the Nominations Committee also reports in detail at the next plenary meeting of the Supervisory Board after a decision is taken.

Remuneration Committee
The Remuneration Committee deals with the content of the employment contracts of the Management Board members and monitors remuneration policy, the practices applied and the remuneration-linked incentives pursuant to § 39b Banking Act (BWG) and the related Annexes. It approves, among other things, changes to the remuneration policy guidelines of BKS Bank and the Group.

COMMITTEES ESTABLISHED BY THE SUPERVISORY BOARD

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

1) until 19 May 2016
2) from 19 May 2016
3) until 30 September 2016
4) from 19 May 2016

MEETINGS AND MAIN ACTIVITIES OF THE SUPERVISORY BOARD

Four meetings of the Supervisory Board were held in the financial year 2016. At every Supervisory Board meeting, the Management Board members reported on the current development of the financial position, profit or loss and assets of the company and on the risk situation of BKS Bank and its affiliates. Furthermore, at every meeting, current regulatory requirements and their impact on BKS Bank were discussed. The Management Board presented all matters requiring its approval to the Supervisory Board in timely manner.

The first meeting took place on 30 March 2016. The Supervisory Board reviewed the financial statements and management report for 2015 of BKS Bank AG, the consolidated financial statements and Group management report 2015 as well as the corporate governance report 2015. The audit reports were were discussed in detail with the representatives of KPMG Austria GmbH. In accordance with the recommendations of the Audit Committee, the Supervisory Board approved the single-entity financial statements and management report for the year ended on 31 December 2015 and the consolidated financial statements and Group management report for the year ending on 31 December 2015 as well as the proposal for the distribution of the profit for 2015.

The Chairperson of the Audit, Nominations and Remuneration Committee reported on the key issues discussed at the Committees. The Supervisory Board agreed to the proposal of the Remuneration Committee with respect to the changes to the Remuneration Guidelines for BKS Bank AG and the Group, and approved it by unanimous vote. Furthermore, reports were made to the full Supervisory Board on developments in the current financial year and lending matters. The Supervisory Board also authorized transactions with Board members under the requested conditions. A report was also given on the current status of the merger of BKS Bank AG with Croatian subsidiary BKS Bank d.d. The final report on the assignment of obligations from the insurance business of Drei-Banken Versicherungs-Aktiengesellschaft to Generali Versicherung AG was also dealt with. As in previous years, an employee share participation plan was decided within the scope of the annual bonus payments to the staff. The Agenda and the documents required to pass the resolutions at the 77th annual general meeting were also prepared.

The second meeting of the Supervisory Board was held right after the 77th annual general meeting on 19 May 2016. At this meeting, the assembly dealt with the elections for the chairperson and vice chairperson as well as with the appointments to the five committees of the Supervisory Board. As Peter Gaugg was no longer on the Supervisory Board at the end of the annual general meeting, the Supervisory Board appointed Gerhard Burtscher as a new chairman of the Supervisory Board by unanimous vote. Franz Gasselsberger was elected vice chairman. The current appointments to the committees of the Supervisory Report are presented on page 27. The chairperson of the Supervisory Board also holds the position of chairperson of all committees.

After the Supervisory Board and its committees were constituted, reports were given on the current financial year and the risk situation. As Peter Gaugg was no longer on the Supervisory Board at the end of the annual general meeting, the Supervisory Board appointed Gerhard Burtscher as a new chairman of the Supervisory Board by unanimous vote. Additionally, the Supervisory Board passed a resolution on the establishment of an EU subsidiary in Croatia. After the meeting, a fit & proper training course was held on the topic of “market abuse”.

The third meeting took place on 8 September 2016. The Management Board reported on the current financial year, presented the outlook for the full year 2016 and the risk report. Afterwards, there were detailed reports from the Audit Committee. The reports dealt with the monitoring of the financial reporting process, the effectiveness of the internal control system, the internal audit system and the risk management system. Additionally, the independence of the auditor was ascertained. Afterwards, explanations were presented on the loans granted by the Risk and Credit Committee. Moreover, the revised financial recovery plan adjusted to comply with the supervisory requirements was approved and the resolution on the capital increase passed. The third meeting of the Supervisory Board closed with a fit & proper training course on the subject “EU audit reform” at which the new Act Amending Audit Regulations of 2016 (Abschlussprüfungsrechts-Änderungsgesetz 2016, APRÄG 2016 and EU-VO 537/2014) was dealt with in detail.

At the fourth meeting of the Supervisory Board on 24 November 2016, the Management Board presented the development of the BKS Bank Group referring to the balance sheet and income statement as well as the segment and risk reports. The Management Board presented the company strategy 2020 to the Supervisory Board, the targets and the measures needed to achieve the company goals defined. The new BKS Bank Mission Statement was also presented. Furthermore, the outlook for 2016, the earnings, costs and investment budget for 2017 as well as the planned volume of own issues were presented to the Supervisory Board for resolution. The full Supervisory Board also discussed the loans granted by the Risk and Credit Committee and with the annual report regarding major loans pursuant to § 28b Banking Act (BWG). The contents and the results of the preceding meetings held by the Risk and Credit Committee were also discussed. Furthermore, the full Supervisory Board confirmed that the members of the Nominations Committee were compliant with the fit & proper test pursuant to § 29 Banking Act (BWG) in conjunction with the circular of the FMA and also with the fit & proper guidelines of BKS Bank.

MEETINGS AND MAIN ACTIVITIES OF THE COMMITTEES

Audit Committee

The Audit Committee met twice in the reporting year. At the first meeting, the consolidated financial statements including the Group management report for 2015, the single-entity financial statements including the management report, the report of the chair of the Supervisory Board and the proposal for the distribution of the profit, the corporate governance report and the risk report were reviewed in detail. The report of the internal audit on the auditing activities conducted in the fourth quarter of 2015 was discussed as well as the audit plan for 2016. Furthermore, the decision was reached to propose to the Supervisory Board and subsequently to the 77th annual general meeting to charge KPMG Alpen-Treuhand G.m.b.H., Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt with the audit of the single-entity and consolidated financial statements 2017 of BKS Bank AG.

At the second meeting on 8 September 2016, the development of the current financial year, the risk situation and the preparations for the audit of the financial statements 2016 were discussed. Pursuant to § 63a para. 4 fig. 1 and 2 Banking Act (BWG), the Management Board reported in detail on the monitoring of the financial reporting process and the effectiveness of the internal control system, of the internal audit system and the risk management. In particular, the new requirements for the Audit Committee were discussed in detail and the so-called non-audit services requiring approval were presented. The members of the Audit Committee approved the motion made by Management Board regarding permissible non-audit services. Twice a year, a report is made to the Audit Committee on the non-audit services actually provided.

The representatives of the auditing firm KPMG Austria GmbH attended the two meetings as experts for the purpose of providing information.

Working Committee
At the Supervisory Board meeting of 8 September 2016, the Working Committee was authorized to pass a resolution on the final volume of the capital increase and the related changes to the articles of association of BKS Bank. On 20 October 2016, the Working Committee decided on the final volume of the capital increase -- based on the resolution of the Management Board -- of 3,603,600 ordinary bearer shares. The required amendment to the articles of association of BKS Bank was also passed.

Risk and Credit Committee
The Risk and Credit Committee made almost all of its decisions during the reporting year by circular resolutions due to the need for prompt decisions and dealt with 46 loan applications. The Committee reported on these resolutions at the respective subsequent plenary meetings of the Supervisory Board.

At the meeting of 24 November, the Committee discussed BKS Bank's risk situation as well as the operational and other banking risks pursuant to § 39 para. 2b Banking Act (BWG). Additionally, it reviewed its pricing policy for compliance with the bank's business model and risk appetite. The review of BKS Bank's remuneration system showed that the system's incentives took into account the risk, capital, liquidity and earnings situation and did not create any unwanted incentives. Subsequently, the Management Board deliberated the Bank's current and future risk strategy and its risk appetite. To this end, the members of the Committee scrutinized the risk management and the risk strategy developed. The Committee reached the conclusion that the risk strategy is comprehensive and all limits defined are observed. The risk management process of the Bank is effective and reasonable, and risk monitoring is done properly.

Nominations Committee
The Nominations Committee met on 29 March 2016. The members of the Nominations Committee verified the knowledge, capabilities and experience of the members of the Management Board and Supervisory Board in the course of the annual fit and proper evaluation. The corresponding suitability of the members of the Nominations Committee had been assessed and unanimously confirmed at the Supervisory Board's meeting of 25 November 2015.

The members of the Nominations Committee also dealt with the vacant mandates on the Supervisory Board and potential candidates. Karl Samstag and Peter Gaugg's mandates expired as scheduled with the close of the 77th annual general meeting. As Peter Gaugg was no longer available for re-election, it was recommended to the Supervisory Board to propose to the annual general meeting the re-election of Karl Samstag and Gerhard Burtscher to the Supervisory Board for the maximum period permissible pursuant to the articles of association.

The Nominations Committee assessed the suitability of the candidates proposed to the Supervisory Board for election and re-election. Furthermore, the Nominations Committee discussed the assessment of the structure, size, composition and performance of the Management Board and of the Supervisory Board, and reviewed the policy of the Management Board with respect to the selection of the top management.

Remuneration Committee

One meeting of the Remunerations Committee took place on 29 March of the financial year 2016. At the meeting, the Committee members discussed the principles of the remuneration policy and its implementation. Based on the Group's internal audit report, the Remuneration Committee ascertained that remuneration practices were in line with statutory requirements and with the guidelines adopted by the Remunerations Committee. Following the unanimous vote by the Remuneration Committee, the amendment to the Remuneration Guidelines for BKS Bank and the banking group were presented to the full Supervisory Board for approval. It also discussed the remuneration of top management members who work in risk management and compliance functions as well as the measurement of the variable remuneration for members of the Management Board for the financial year 2015.

SELF-EVALUATION IN ACCORDANCE WITH C RULE 36

In the reporting year, the Supervisory Board conducted a self-evaluation of its activities in accordance with C Rule 36 of the Austrian Code of Corporate Governance (ÖCGK). At the meeting of 30 March 2016, it examined the efficiency of its activities, including, in particular, its organization and work procedures. The resolution was passed to retain the current organization and efficient work procedures.

REMUNERATION REPORT

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

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

MANAGEMENT BOARD'S REMUNERATION

The Supervisory Board delegated all matters relating to the remuneration of the Management Board to the Remuneration Committee at its meeting of 25 November 2010. The Committee has since then regulated the relations between the company and the members of the Management Board and monitored remuneration policy, remuneration practices and remuneration-linked incentives pursuant to § 39b Banking Act (BWG) including Annexes.

The Remuneration Committee adopted the "Remuneration Guidelines for BKS Bank AG and the BKS Banking Group" and passed an amended version at its meeting of 29 March 2016 effective as of 1 April 2016. Apart from remuneration policy principles, the Guidelines also include a detailed complexity analysis documented in writing as well as parameters for the measurement and review of the variable remuneration components. The remuneration policy of BKS Bank is compliant with all principles set out in the Annex to § 39b Banking Act (BWG). By complying with the detailed regulatory provisions for banks regarding the remuneration policy of credit institutions, the requirements of § 78 para. 1 Stock Corporation Act (AktG) were also fully met.

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

The fixed remuneration component is based on the respective area of work. The variable components are guided by the sustainable and long-term achievement of the business strategy, the risk strategy and the sustainable, long-term economic development of BKS Bank. A shortfall in meeting these criteria is reflected in the measurement of the current variable annual remuneration. The criteria for the measurement of the variable remuneration components are: consolidated profit after tax, return on equity before tax, cost/income ratio, risk/-earnings ratio, staff turnover rate, trend in number of customers as well as the Common Equity Tier 1 capital ratio and own funds as a measure of the overall development of operations and business and of the development of the individual business areas. Moreover, the targets defined for risk-bearing capacity, credit, market, liquidity and operational risks as well as the risk of over-indebtedness were used as a measure for granting variable remuneration components.

These include, for example:
– percentage use of economic capital
– Measures for concentration risk in the lending business such as the share of large loans, the share lent outside the country and the share of foreign currency loans
– the interest rate risk in percentage of own funds
– loans-to-deposits ratio
– amount of operational risk

Joint as well as the personal performance of the members of the Management Board are taken into account. Non-financial aspects are also considered in the assessment. Should it turn out ex post that the variable remuneration components were paid out on the basis of obviously incorrect data, the members may be requested to return the amounts.

In the reporting year, the remuneration of active members of the Management Board totalled EUR 1,212.6k (prev. year: EUR 1,058.8k), of which some 83% was for fixed components and some 17% for the variable components. In accordance with the Remuneration Policy Guidelines, one-fifth of the variable remuneration set aside for 2012, 2013 and 2014 were paid out. No variable remuneration components in the form of instruments were allotted. BKS Bank does not have a stock option programme and therefore it does not have any partial payouts of variable components in the form of BKS Bank shares or options on these shares.

The rules defined for the variable remuneration components are based on the circular of the FMA on the "Principles of Remuneration Policy and Practices" and did not change in any material respect compared to the preceding year. Therefore, neither the variable components paid out to the members of the Management Board nor the remuneration system for the second-level management staff, for employees in control functions or for risk buyers resulted in any incentives to assume unreasonable risks.

The remuneration paid to the Management Board in the reporting year is also presented in the notes to the financial statements. Provisions for severance payments and post-employment benefits for Management Board members were set aside in an amount of EUR 112.6k.

The business rules for the Management Board states that the Supervisory Board must approve any sideline activities of the members of the Management Board to avoid conflicts of interest and contain unwanted financial incentives.
An exception is made for mandates in the subsidiaries of BKS Bank. There is no remuneration for these mandates.

Company pension fund contributions for active members of the Management Board are paid into a pension fund on a monthly basis. Furthermore, Management Board members are entitled to severance payment upon termination of their employment contracts under the terms applicable pursuant to the provisions of the Act on Salaried Employees and of the Collective Agreement for Banks. The rules applicable to the premature termination of the position on the Management Board complies with the provisions of the C Rule 27a of the Austrian Code of Corporate Governance (ÖCGK).

Agreements on termination compensation payments take into account the conditions under which the concerned member resigns from the Management Board and the economic situation of the bank. Unless there is good reason for the premature termination of the function on the Management Board, the compensation payment may only cover the remaining time to expiry of the Management Board contract. Should a Management Board member terminate an employment contract prematurely for reasons for which he or she is responsible, the compensation payment for a maximum amount of two total annual remunerations is fully forfeited.

Former Management Board members are entitled to old-age pension payments. The amount of the company pension contractually agreed is contingent on the period of employment and the amount of the fixed salary eligible for pension contributions. Surviving relatives are entitled to pension benefits after the death of an entitled member of the Management Board. The post-employment benefits of former Management Board members and their surviving relatives amounted to EUR 895k (prev. year: EUR 1,037k).

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

TOTAL REMUNERATION OF THE MANAGEMENT BOARD

in €k	2015	2016
Total remuneration of active Management Board members in the reporting year	1,059	1,213
– thereof, Herta Stockbauer	461	551
– thereof, Dieter Kraßnitzer	316	354
– thereof, Wolfgang Mandl	282	308
Post-employment benefits for former Management Board members and their survivors	1,037	895
Allocation to severance and retirement provisions for Management Board members	73	113

REMUNERATION OF TOP MANAGEMENT STAFF

The managing directors of the fully consolidated companies as well as the heads of subsidiaries of foreign branches are covered by the Remuneration Guidelines and classified as risk buyers. The Remuneration Committee regularly evaluates the variable components of their remuneration. Management staff is furthermore subject to the fit & proper rules of BKS Bank.

REMUNERATION OF SUPERVISORY BOARD MEMBERS

The remuneration paid to the Supervisory Board is regulated in the articles of association of BKS Bank and is adjusted as needed by the annual general meeting based on the resolution passed at the meeting of 15 May 2014.

In the reporting year 2016, the chairperson of the Supervisory Board received EUR 21,000, the vice chairperson EUR 17,000 and further shareholder representatives EUR 15,000 each per year. The reimbursement of expenses for each meeting attended was EUR 120 for each member of the Supervisory Board. Supervisory Board members who belong to one or more Committees set up by the supervisory Board were paid a fee for the additional work performed in the respective committees. The remuneration of members of the Audit, Risk and Credit Committees amounted to EUR 4,000 p.a. for each member. Members of the Working Committee each received EUR 2,000 p.a. and members of the Remuneration and Nominations Committee each EUR 1,000 p.a. The member of the Supervisory Board nominated by UniCredit Bank Austria AG, Peter Hofbauer, does not receive any remuneration. The company requested us to refrain from paying such remuneration due to current internal rules for Supervisory Board activities of active managers of the UniCredit Group.

Total remuneration paid out to the Supervisory Board was EUR 183.4k. The payments are made only after the Supervisory Board is discharged from liability by the annual general meeting for the relevant financial year. The members of the Works Council delegated to the Supervisory Board do not receive any fixed remuneration or attendance fees.

No member of the Supervisory Board participated on fewer than half of the plenary meetings. Only two persons were excused from attending one meeting. The attendance ratio of the representatives of the capital and of employees was therefore 97%.

SUPERVISORY BOARD REMUNERATION

Name in EUR	Fixed Fees for SB	Committee Work	Attendance Fees	Total remuneration 2016
Peter Gaugg[1)]	8,033	4,765	120	12,918
Gerhard Burtscher[2)]	13,025	7,240	360	20,625
Franz Gasselsberger	17,000	10,000	480	27,480
Christina Fromme-Knoch	15,000	-	480	15,480
Peter Hofbauer[3)]	-	-	-	-
Reinhard Iro	15,000	2,240	480	17,720
Josef Korak	15,000	-	480	15,480
Heimo Penker	15,000	8,000	480	23,480
Karl Samstag	15,000	-	360	15,360
Sabine Urnik	15,000	4,000	480	19,480
Klaus Wallner	15,000	-	360	15,360

1) until 19 May 2016
2) from 19 May 2016
3) until 30 September 2016 This member of the Supervisory Board did not receive any remuneration or attendance fees due to an internal rule of the UniCredit Group.

DIRECTORS' DEALINGS

At the close of the last day of trading on the stock market in 2016, the members of the Management Board held a total of 2,556 ordinary shares and 4,665 preference shares on their securities accounts with BKS Bank; Supervisory Board members held 4,714 ordinary shares and 2,951 preference shares. In total, this corresponds to a share of just short of 0.04% of shares issued. Buying and selling by members of the Management Board and of the Supervisory Board is reported to the Financial Market Authority (FMA) pursuant to § 48 Stock Exchange Act (BörseG) and is published in the Directors' Dealings Database when the value of the trades for own account reaches or exceeds EUR 5,000 in the calendar year. In the past financial year, there was one Directors' Dealings notification.

As already mentioned, BKS Bank does not have a stock options scheme for Management Board and Supervisory Board members or for management staff and neither are there any plans to create one. Within the scope of its regular business operations, the bank budgeted loans to members of the Supervisory Board in amount of EUR 386k (prev. year EUR 274k). Members of the Management Board were extended loans amounting to EUR 72k (prev.yr. EUR 92k).

REMUNERATION OF THE BANK AUDITOR

At the 76th annual general meeting of 20 May 2015, the resolution was taken by unanimous vote to charge KPMG Austria GmbH Wirtschafts-prüfungs- und Steuerberatungsgesellschaft, Klagenfurt with the audit of the financial statements and financial reporting process of BKS Bank AG and the Group for the financial year 2016. After the appointment and before the signing of the contract for the execution of the audit, the auditors informed the Supervisory Board immediately of the estimated scope of the audit. Pursuant to C Rule 77 of the Austrian Code of Corporate Governance (ÖCGK), the audit must be conducted in accordance with international auditing standards (ISA). The bank auditor also presented a list of all revenues received in the preceding financial year broken down by category of service to the Supervisory Board. KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt, also informed the Supervisory Board of its participation in a quality assurance system and plausibly declared its impartiality also confirming that there were no grounds that could give rise to reasons for its exclusion.

The costs of the audit and for audit-related services in accordance with the articles of association and regulatory provisions was EUR 427k (prev. yr.: EUR 434k).

INFORMATION ON FEES PAID TO THE BANK AUDITOR

in €k	2015	2016
Fees for mandatory audits of the single-entity and consolidated financial statements	434	427
Other auditing services	75	49
Other services	189	124
Total fees	**698**	**600**

INDEPENDENT ASSESSMENT OF THE FUNCTIONALITY OF THE RISK MANAGEMENT

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

Among other things, the auditor assesses the risk policy, risk strategy and organization of the risk management. Furthermore, the auditor investigated and identified risks, and conducted an analysis and assessment of the risks. The auditor also analyzed in detail risk management measures, risk monitoring and reporting on risk management. The auditor presented its report on the functionality of the risk management to the chair of the Supervisory Board and Audit Committee.

A detailed description of the risk management and current developments was given at the meeting of the Supervisory Board on 8 September 2016 within the scope of the catalogue of themes defined by § 63a para. 4 Banking Act (BWG) and at the meeting of the Risk and Credit Committee on 24 November 2016.

Risk management at BKS Bank is described in detail in the Risk Report which is an integral part of the Group management report starting on page 132.

BKS Bank has an internal revision system in accordance with C Rule 18 of the Austrian Code of Corporate Governance (ÖCGK) and pursuant to § 42 Banking Act (BWG) that follows an audit plan approved by the Management Board and accorded with the Audit Committee and the plenary meeting of the Supervisory Board. The internal audit unit assess the risks of all company activities and operational processes, it identifies the potential for improving efficiency and monitors compliance with statutory provisions and internal guidelines.

A further key element of the monitoring system at our bank is the internal control system (ICS). As early as in the 1980s, we started implementing the systematic expansion of the internal control system that serves primarily to safeguard assets and increase economic efficiency. We also invested large sums in the further development of the ICS in the past financial year. Details on this project are given in the Risk Report starting on page 172.

FINANCIAL STATEMENTS AND DISCLOSURE

As an exchange-listed company, BKS Bank AG applies L Rule 65 of the Austrian Code of Corporate Governance (ÖCGK) and prepares consolidated financial statements and a short interim Group report, which is part of the mid-year financial report pursuant to the International Financial Reporting Standards (IFRS) as adopted by the EU. We publish the annual financial statements at the latest four months after the end of the reporting period, the mid-year financial statements and interim reports at the latest two months after the end of the reporting period.

The reports are available to the public for at least ten years. We use the services of the Issuer Information Centre of Oesterreichische Kontrollbank AG (Oe), which is the officially appointed system for the central storage of mandatory disclosures. Apart from the statutory disclosure obligations, our bank published interim reports for the period ending 31 March and 30 September 2016 in the last financial year. The financial reports are published on the website of BKS Bank in German and in English in accordance with C Rule 68 of the Austrian Code of Corporate Governance (ÖCGK).

The financial reporting of the BKS Bank Group presents a true and fair view of the assets, financial position and result of operations of the company in accordance with L Rule 69 and C Rule 70 of the Austrian Code of Corporate Governance (ÖCGK). In the Group management report, the bank presents a relevant analysis of the development of business and describes the key financial and non-financial risks and uncertainties it is exposed to. Additionally, the key features of the internal control system are described as well as the risk management system with respect to the financial reporting process. The detailed risk report starts on page 132 of this annual report and contains information on how the company deals responsibly with the various types of risks.

The single-entity financial statements of BKS Bank AG were prepared in accordance with the provisions of Austrian Business Code (UGB). The consolidated financial statements and Group financial statements are prepared by the company and audited by the auditor elected at the annual general meeting, and are approved and confirmed by the Supervisory Board.

In the annual and interim reports, the Management Board discusses material changes or deviations from the revenue, profit and strategy goals published to date as well as the causes and effects for the current and subsequent financial years.

A calendar of corporate events is published in the financial reports and on the website for the current year and for the subsequent year in accordance with C Rule 74 of the Austrian Code of Corporate Governance (ÖCGK). The calendar contains all publication dates of importance for financial communications and the date of the next annual general meeting. BKS Bank discloses financial information on the company on its website that was also published in other media (e.g. printed reports, press releases, ad-hoc reports).

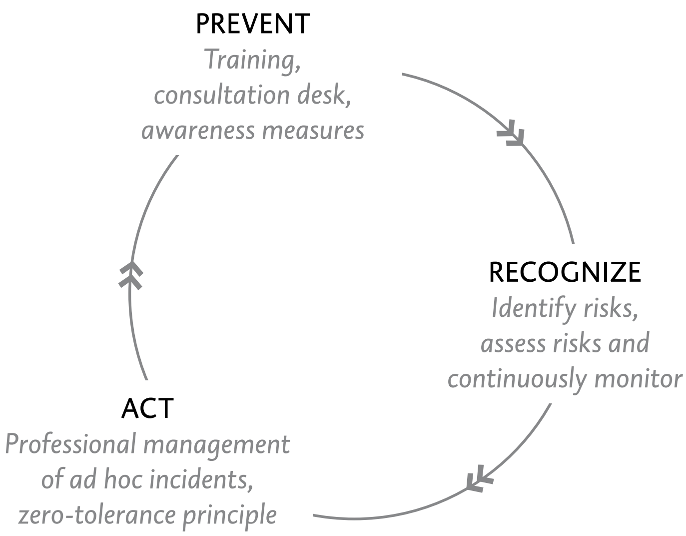
Further details on the relations of BKS Bank with its shareholders and stakeholders are given in the chapter “Investor Relations Communication” on page 58 of this annual report.

COMPLIANCE MANAGEMENT SYSTEM

In addition to risk management and the internal control system, compliance is the third pillar of monitoring at the bank. The primary goal is to prevent breaches of the law and regulations, and to protect the BKS Bank Group, its employees, the management and corporate bodies as well as the owners from compliance risks. To this end, a compliance management system has been set up at the BKS Bank Group.

We take our extensive compliance obligations very seriously. We expect our management staff and employees to comply with all laws, regulations and internal guidelines in their daily work and to take guidance from our corporate values. The term “integrity” plays a special role in this context. Integrity safeguards the trust that customers, shareholders, employees and business partners place in our bank and therefore assures our long-term success.

COMPLIANCE MANAGEMENT SYSTEM OF BKS BANK



To ensure behaviour that is in compliance with legal provisions and regulations as well as ethical norms, we have set up a compliance management system based on three elements: “recognize”, “prevent” and “act”. We dedicate special attention to the theme of prevention through specific communications and training measures. All new employees, for example, receive training at the start of work in anti-money laundering and compliance. Subsequently, all employees must attend mandatory compliance seminars every three years. Moreover, the e-learning modules on anti-money laundering and compliance themes must be completed every year. A further area of focus is strict adherence to the know-your-customer principle. This includes, among other things, clearly determining and documenting the identity of customers and the source of the funds being used in the business relationship or in a transaction.

The extensive compliance themes are dealt with by two expert teams that work independently: Capital Market Compliance and AML/CFT. Organizationally, the two teams belong to the group "Legal and Compliance". The head of this group acts as both Compliance Officer and AML Officer. This person reports directly to the entire Management Board.

The Compliance Officer has a number of supervisory, control, notification, reporting and information obligations in accordance with the Compliance Decree for Issuers issued by the Austrian Financial Market Authority. The Compliance Officer also has extensive powers for giving instructions, requesting information and investigating.
The Capital Market Compliance team is responsible for compliance tasks derived from statutory and regulatory provisions. These include, in particular, the creation of compliance rules and regulations, the development and execution of communications and training measures, the prevention and combatting of inside dealings and market manipulation, as well as the periodical assessment of compliance risks.

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

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

In the past financial year, we again dealt with numerous amendments to the legal framework. The implementation of the set of measures referred to as the "banking package" involved an enormous effort. These included all measures relating to the "OECD Common Reporting Standard", the "central accounts register" and the "reporting of capital inflows and outflows". Banks are now under the obligation to forward certain customer data to government institutions. These notification requirements needed a large volume of adaptation work and high investments in our IT systems. Additionally, extensive training courses were organized for our staff.

We also dealt in detail with the new rules for combatting inside trading and market abuse. Market abuse legislation was standardized throughout the European Union by the Market Abuse Regulation (MAR 2014/596/EU) and the EU Market Abuse Directive (MAD, 2014/57/EU). The objective was to create the same framework conditions for all actors on the capital market. The MAR contains the specific regulations for combatting inside trading and market manipulation. It has been in force since 3 July 2016. The EU Directive by contrast contains provisions imposing stricter sanctions for violations against the Market Abuse Regulation. These provisions were adopted as a Directive, because the enforcement of criminal sanctions cannot be regulated directly by the European Union due to the Treaty on the Functioning of the European Union, which stipulates that such sanctions can only be implemented by the member states. The Directive was enacted in Austrian law in the Stock Exchange Act (BörseG) and has been in force since 2 August 2016.

MEASURES TO PROMOTE WOMEN

BKS Bank's policy on human resources is designed to ensure equal opportunities and rights to all employees and to prevent any type of discrimination. We follow L Rule 52, therefore, when appointing members to the Management Board, when filling management positions and when making proposals for the election of members to the Supervisory Board we give due consideration to the expert know-how and personal qualifications of the candidates, to the goals of ensuring a balanced age mix and representation of both genders as well as the appropriate international experience of the candidates.

The share of women on the Management Board is 33%. On the Supervisory Board of BKS Bank, 22% of shareholder representatives and three-fifths of employee representatives are women. The percentage ratio evaluated and decided for female shareholder representatives on the Supervisory Board is 30%.

The number of women employed at BKS Bank is 619. We are pleased that today 32% of management positions at our company are filled by women. The aim is to raise the share of women in management positions to 35% throughout the entire Group by 2020.

All employees have equal career opportunities in management positions regardless of their gender, age or socio-cultural background. Nonetheless, the share of women in management positions throughout the Group in the reporting year is still lower than that of men. With the women's career promotion programme started in 2012, 'Frauen. Perspektiven.Zukunft' (Women.Perspectives.Future) we have taken a specific measure to support career opportunities for women. We view this as an important step to bring women with the relevant expert knowledge into management positions. In the autumn of 2016, the programme was already on its third round. Of the 31 graduates from the first two training courses, five women have already achieved the step forward to starting a management career, and eight women in the programme are currently on maternity leave.

In total, two management positions were newly filled by women in the year 2016. It was especially pleasing that another women rose to the top management rank of BKS Bank in January 2016. We have won over a female expert for modern branch network strategy and digital sales channels as head of retail. Another positive aspect is the steadily rising engagement of highly-motivated younger women.

INFORMATION ON MANAGEMENT POSITIONS FILLED BY WOMEN

As at 31 December 2016	Number of women	Ratio	Number of men	Ratio
Management Board	1	33%	2	67%
Supervisory Board (shareholder representatives)	2	22%	7	78%
Supervisory Board (employee representatives)	3	60%	2	40%
Other management positions	51	32%	108	68%

BKS Bank offers female employees many types of support to reconcile their career and their private lives. Flexible working time models, extensive further education and training opportunities, care services for small children at the day-care centre “Kinki”, and the proactive encouragement of men to take childcare leave are just a few examples for which adequate funding is also made available. These initiatives were awarded the certificate of the audit programme ‘berufundfamilie’ (workandfamily) by the Federal Ministry for Economy, Family and Youth in the years 2010, 2013 and 2016.

In accordance with the principle of “equal pay for equal work”, we make every effort to further reduce the gender wage gaps. The wage gap results mainly from the circumstance that there are many more women than men in part-time positions which causes their professional careers to develop along a flatter curve. We are also working on achieving an average retirement age among our female employees of 60 years of age. In 2016, the average retirement age was 59.5 years, which is very close to the target and improved considerably year on year (58.4 years).

Klagenfurt am Wörthersee, in March 2017

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Readers,

I would like to address you for the first time as Chairman of the Supervisory Board.

The year 2016 was once again very successful for BKS Bank. Even though the challenges did not diminish in the past financial year, BKS Bank very impressively demonstrated the important role it plays as a reliable partner for customers, shareholders and employees. The successful capital increase of October 2016 is also a strong signal of the high degree of trust people have in BKS Bank. BKS Bank will also easily master future challenges: digitization, new financial technologies, regulatory changes. The bank's committed and enterprising decision-makers are supported by a competent staff, thus creating the right structures to achieve future success. I am very pleased to have the opportunity to support BKS Bank in defining these important policy decisions as Chairman of the Supervisory Board.

CLOSE COORDINATION BETWEEN SUPERVISORY BOARD AND MANAGEMENT BOARD

The Supervisory Board monitored the work of the Management Board in the reporting year, providing support for the management of BKS Bank and its affiliated companies At the four regular meetings held in the reporting year, the Supervisory Board and the Management Board intensely deliberated and discussed the economic situation including the risk situation and risk management, the bank's strategic development and other events of relevance for the bank. The Supervisory Board received extensive written and oral reports from the Management Board in a timely manner. Additionally, I regularly communicated with the Chairwoman of the Management Board to analyse and discuss the strategy, the development of business and the risk management. The Supervisory Board was therefore always involved all in key decisions. The Supervisory Board thus met all of its responsibilities stipulated by law, the articles of association and the rules of the Austrian Code of Corporate Governance (ÖCGK), and confirmed the correctness, expediency and proper conduct of the company's management.

The Supervisory Board bundles its areas of competence in five Committees of which I have been Chairman since 19 May 2016. The Audit, Working, Risk and Credit, Nominations and Remuneration Committees passed decisions and prepared themes that required the approval of the full Supervisory Board. Decisions regarding credit matters were reached by circular vote. At its next full meeting after the decision, the full Supervisory Board was informed of approved loans. The members of the Audit Committee met twice during the reporting year. The Nominations Committee, the Risk and Credit Committee and the Remuneration Committee each met once during the year.

The composition and independence of the Supervisory Board, the criteria for its independence, its mode of procedure and decision-making powers and also the results of the full Supervisory Board meetings and of its Committees are presented in detail in the chapter on the Management Board and Supervisory Board starting on page 19 of this annual report.

CHANGES TO THE SUPERVISORY BOARD

There were changes to the Supervisory Board in the reporting year: Peter Gaugg, who had been on the Supervisory Board since 1998 and has served as Chairman since May 2014, resigned from his mandate at the close of the annual general meeting. For 18 years, Peter Gaugg played a key role in shaping the future of BKS Bank as a member of the Supervisory Board and was involved in the major milestones achieved in the development of BKS Bank. I would like to cordially thank him on behalf of BKS Bank and of the Supervisory Board for his hard work. His extensive knowledge was of enormous value for BKS Bank.

At the 77th annual general meeting of 19 May 2016, Karl Samstag was re-elected to the Supervisory Board for the maximum permissible period under the articles of association, and I was newly elected to the Supervisory Board. We both declared our independence and published the declaration on the website pursuant to § 87 para. 2 Stock Corporation Act (AktG). After the 77th annual general meeting, I was elected Chairman of the Supervisory Board on 19 May 2016 by unanimous vote and Franz Gasselsberger was confirmed as Vice Chairman.

Changes to the persons appointed to the Committees were also adopted at this Supervisory Board meeting. At the end of September 2016, Peter Hofbauer resigned from the Supervisory Board. Peter Hofbauer had been elected to the Supervisory Board on 20 May 2015. I would like to thank him for his valuable work and commitment.

The attendance ratio of the representatives of the capital and of the employees at the four Supervisory Board meetings was approximately 97%. Karl Samstag and Klaus Wallner were each unable to attend one meeting of the full Supervisory Board.

AUDIT OF THE FINANCIAL STATEMENTS

The bookkeeping, the financial statements and management report of BKS Bank AG as well as the consolidated financial statements and Group management report pursuant to the International Financial Reporting Standards (IFRS) for 2016 were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt branch. The audit was conducted in accordance with statutory provisions and did not give rise to any objections. The auditors confirmed this by awarding an unqualified audit certificate.

All materials relating to the financial statements, the proposal for the distribution of the profit and the audit reports of the auditor were discussed in detail with the auditors at the meeting of the Audit Committee and presented to the full Supervisory Board. The Supervisory Board concurred with the findings of the audit and declared its agreement with the financial statements including the management report presented by the Management Board, thus acknowledging and approving the financial statements 2016 of the company pursuant to § 96 para. 4 Stock Corporation Act (AktG). The consolidated financial statements, the Group management report, the annual risk report and the corporate governance report were also reviewed and approved by the Supervisory Board.

The Supervisory Board also agreed with the proposal of the Management Board to pay out a dividend on the net profit 2016 of EUR 0.23 per share – which results in a dividend distribution of EUR 9,117,108 at a number of 39,639,600 shares – and to carry the remaining profit to the new account.

The consolidated financial statements for the year ended on 31 December 2016 were prepared in accordance with IFRS as applicable in the EU and the Group management report prepared in accordance with Austrian company law were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt branch. This audit did not give rise to any objections. The legal requirements were complied with; therefore, the conditions for exemption from the obligation to prepare consolidated financial statements pursuant to Austrian law were met. In the opinion of the bank auditors, the consolidated financial statements present a true and fair view of the assets and financial position of the BKS Bank Group for the year ended on 31 December 2016 as well as of the result of operations and cash flows during the year from 1 January to 31 December 2016.

The Supervisory Board agreed with the findings of the audit and declared its agreement with the consolidated financial statements including the Group management report presented by the Management Board.

I would like to thank the Management Board, the management staff and all staff members on behalf of the Supervisory Board for their immeasurable personal commitment and hard work.

Klagenfurt am Wörthersee, in March 2017

Gerhard Burtscher
Chairman of the Supervisory Board

INFORMATION ON THE AUSTRIAN CODE OF CORPORATE GOVERNANCE AND ON BKS BANK AVAILABLE ON THE INTERNET

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

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

Shareholders
www.bks.at/Aktionaersstruktur

Calendar of events
www.bks.at/Aktionaerstermine

Annual General Meeting
www.bks.at/Hauptversammlung

Conformity Declaration of BKS Bank AG
Independence Guidelines
Report of BKS Bank on the Austrian Code of Corporate Governance
Publications pursuant to § 65a Banking Act on corporate governance and remuneration
Articles of association BKS Bank
www.bks.at/Corporate_Governance

Business, Financial and Sustainability Reports of BKS Bank
Information pursuant to the Capital Requirements Regulation (CRR)
www.bks.at/Berichte

OeKB Issuer Information Center
(Central storage system for information on Austrian issuers pursuant to § 86 Stock Exchange Act (BörseG))
http://issuerinfo.oekb.at/startpage.html

Press Releases of BKS Bank
www.bks.at/Pressemitteilungen

COMPLIANCE AND AML INFORMATION ON BKS BANK ON THE INTERNET

AML Declaration
Banking License
USA Patriot Act Certification
Wolfsberg Questionnaire of BKS Bank AG
W-8BEN-E
Directors' Dealings Reports
www.bks.at/Compliance

INVESTOR RELATIONS

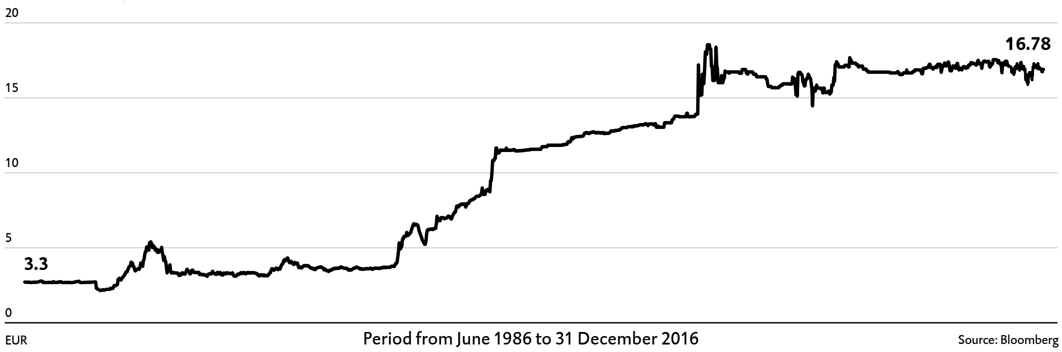
THE BKS BANK'S SHARES

30-YEAR ANNIVERSARY OF STOCK EXCHANGE LISTING AND CAPITAL INCREASE

1 July 1986 was a historic day for BKS Bank. The BKS Bank's Shares was floated on the Vienna Stock Exchange. The nominal value per share was ATS 100, the share capital was ATS 300 million or around EUR 21.8 million. Stock market capitalization on 1 July 1986 was around ATS 1.3 billion (EUR 92.7 million). The initial public offering made it possible to offer shares with a nominal value of ATS 30 million at an initial price of ATS 425 for the first time to a broad investing public shares. This move enlarged BKS Bank's shareholders by adding free float shares. At year-end 1986, the BKS share was trading at ATS 456. This was a price gain of 7.3% over the issue price and resulted in a market capitalization of around ATS 1.4 billion (EUR 100.7 million). At year-end 2016, market capitalization of BKS Bank was EUR 662.7 million which is more than six times as high as at year-end 1986. At year-end 2016, the closing price of the ordinary share was EUR 16.78 and the closing price of the preference share was EUR 15.40.

The ordinary shares of BKS Bank AG have been listed on the Vienna Stock Exchange since 1986 and the preference shares since 1991. The share classes are traded on the segment 'standard market auction' of the Vienna Stock Exchange. Each share corresponds to an equal share of the subscribed capital. The calculated nominal value of each share is EUR 2.0. In contrast to ordinary shares, the preference shares do not give shareholders any voting rights, but grant them a minimum dividend of 6.0% on the percentage share capital, payable at a later date. If the minimum dividend is not paid out for a financial year or not paid out in full, this remaining amount must be paid from the net profit of the subsequent financial year.

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



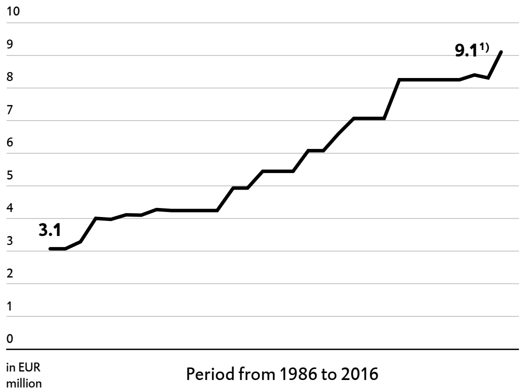
Price trend of the ordinary share (prices are adjusted for dividends and a stock split)

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

After 30 years of listing on the stock exchange, BKS Bank has proven that can provide its shareholders with a long-term increase in value on invested capital and reasonable annual returns on their shares despite all of the adverse market conditions and developments in society. Also in economically difficult years, BKS Bank has been remarkable for the stability, integrity and reasonable growth, and has created value for its shareholders and stakeholders.

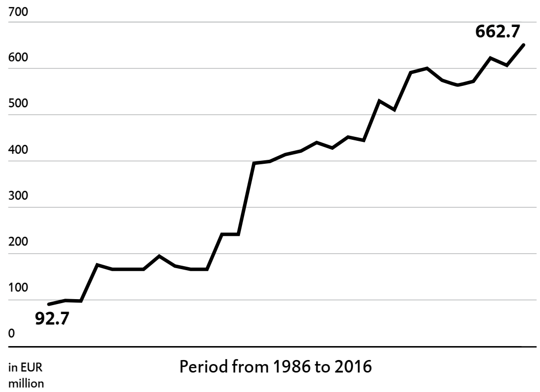
This objective, which was defined at the time of the initial public offering in June 1986, has been achieved every year – despite the sometimes turbulent times on financial markets. The BKS Bank's Shares has proven to be a crisis-resilient investment for private and institutional investors.

DEVELOPMENT OF DIVIDENDS OF BKS BANK'S SHARES



[1)] Proposal to the 78th annual general meeting

MARKET CAPITALIZATION OF BKS BANK



To continue this successful course, a capital increase was carried out from September to October of 2016 at a ratio of 10:1. Shareholders received subscription rights to one new ordinary share for ten "old" ordinary or preference shares. There was no trading in subscription rights. In total, 3,603,600 new ordinary shares were floated at an offer price of EUR 15.9 per share. The share capital increased by EUR 7,207,200 to EUR 79,279,200 and now breaks down into 37,839,600 ordinary shares and 1,800,000 preference shares. By taking this step, BKS Bank achieved another milestone on the path to attaining its corporate goals. The improved own funds ratio enables our bank to continue on its stable growth path.

With respect to the use of the net profit, BKS bank's aim is to achieve a balance between strengthening the level of own funds and paying out a reasonable dividend.
The excellent results achieved in 2016, permit us to continue on this course.
The Management Board will propose a dividend payout of EUR 9,117,108 for the financial year 2016 at the 78th annual general meeting, which corresponds to EUR 0.23 per share and a yield of 1.37% based on the year-end price of 2016 of the ordinary shares and of 1.49% for preference shares. The dividend payout ratio based on the net profit after tax of BKS Bank AG would be 31.0%.

The solid market position of BKS Bank must be viewed in the context of the two other autonomous and independent regional banks, Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft. The alliance based on mutual shareholdings and fixed shareholder structure that has evolved over decades is known to the public under the brand "3 Banken Group".

The subscribed capital of BKS Bank AG of EUR 79,279,200 is represented by 37,839,600 ordinary shares and 1,800,000 preference shares.

The voting share capital is held by the sister banks Oberbank AG, Linz, with 19.4% and Bank für Tirol und Vorarlberg Aktiengesellschaft, Innsbruck, with 19.5%. Generali 3Banken Holding AG, Vienna, owns 7.8% of ordinary shares. These three core shareholders have entered into a syndicate agreement and jointly own 46.7% of the shares with voting rights. The syndication of the shareholdings reinforces the independence of the credit institution and bundles the interests of the syndicate partners with respect to cooperation and sales partnerships. The agreement essentially contains arrangements on the joint exercise of voting rights at the annual general meeting and on mutual pre-emption rights of the members of the syndicate.

The largest single shareholder of BKS Bank AG is CABO Beteiligungsgesellschaft m.b.H., a company 100%-owned by UniCredit Bank Austria AG with its registered office in Vienna. If one adds the shares held directly by UniCredit Bank Austria AG, the UniCredit Group therefore holds 30.4% of voting rights. The remaining ordinary shares are mostly owned by private and institutional investors. BKS-Belegschaftsbeteiligungsprivatstiftu ng (employee foundation) – which serves exclusively to fully transfer income on shares to the employees of BKS Bank as set out in § 10 para. 1 Corporation Tax Act (KStG) – owned over 0.4% of shares with voting rights at the end of 2016. Apart from this foundation, BKS Bank AG does not know of any constellation of individuals or a group of shareholders who own a controlling interest in the company. Further information on the shareholder structure of BKS Bank is available in the Group management report from page 86 and on the website www.bks.at » Investor Relations » Aktionärsstruktur.

RESOLUTIONS PASSED BY THE 77TH ANNUAL GENERAL MEETING

Shareholders of BKS Bank with voting rights exercise their votes at the annual general meeting and law entitled to participate in important company decisions by law and the articles of association. Resolutions are generally passed by a simple majority of the votes cast, or, if the approval of a motion requires the majority of the votes of capital representatives, by a simple majority of the share capital representatives.

At the 77th annual general meeting of BKS Bank AG on 19 May 2016, some 88% of the voting capital was represented, with the free float presence of shareholders with voting rights being around 17%.

The shareholders acknowledged and approved the financial statements and the management report for the financial year 2015 with the Supervisory Board report and the consolidated financial statements and also the Group management report for the financial year 2015 with the Supervisory Board report and the corporate governance report as well as the explanations presented by the Chairman of the Supervisory Board regarding the principles of the remuneration system for the Management Board of BKS Bank.

The resolutions on the use of the net profit for the financial year 2015, the discharge of the Management Board and of the Supervisory Board from liability as well as the resolution on the selection of KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungs-gesellschaft, Klagenfurt, as bank auditor for the financial year 2017 were all reached by a majority vote.

Accordingly, the shareholders agreed with the recommendation to pay out a dividend of EUR 0.23 per share on the net profit for the year ended on 31 December 2015 and to carry the remainder to the new account in accordance with § 65 para. 5 Stock Corporation Act (AktG). The dividend payout date proposed was 25 May 2016.

The Agenda item "Elections to the Supervisory Board" was also passed by a majority vote – with the exception of the re-election of Karl Samstag. The Chairman of the Supervisory Board Peter Gaugg announced that he would no longer be available for re-election after the end of his period of office. The annual general meeting elected Gerhard Burtscher as a new member of the Supervisory Board for the maximum permissible period pursuant to the articles of association. Karl Samstag was again elected to the Supervisory Board for the maximum permissible period pursuant to the articles of association after the expiry of his mandate that lasts until the close of the annual general meeting that decides on the discharge of the Supervisory Board for financial year 2020.

At the 75th annual general meeting of 15 May 2014, a resolution was passed authorizing the Management Board to

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

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

The 77th annual general meeting of 19 May 2016 authorized the Management Board to revoke the aforementioned resolutions. At the same time, the resolution was passed to authorize the Management Board to acquire own shares in accordance with § 65 para. 1 nos 4, 7 and 8 Stock Corporation Act (AktG). This resolution at the 77th annual general meeting was passed by a majority vote.

INVESTOR RELATIONS COMMUNICATION

We value regular, open and proactive communication with our stakeholders. We inform our shareholders, employees, customers, media representatives and the interested public in a timely manner and extensively on BKS Bank to ensure the best possible level of transparency.
The information published is made available to all shareholders simultaneously. Our reporting practices comply with the provisions of the Austrian Code of Corporate Governance. In our financial communications, we give high priority to best practices in transparency and the fair dissemination of information to all market participants at press conferences and in our reporting.

On our website www.bks.at under Investor Relations, we provide extensive information on the company such as the annual reports and mid-year reports as well as interim reports on the results for the periods ending on 31 March and 30 September, on new bond issues planned, on changes to key investment thresholds and other capital actions subject to notification requirements. The notifications on directors' dealings pursuant to the Market Abuse Regulation (MAR) are also published here.
We additionally use the Issuer Information Upload Platform of OeKB, the euro adhoc-Service of APA-OTS and the website www.pressetext.com to publish mandatory reports pursuant to the ad hoc criteria of the EU Transparency Directive. We publish press releases on the website of BKS Bank under » Newsroom » BKS News.

We have been publishing an annual sustainability report in accordance with the requirements of the Global Reporting Initiative (GRI) since 2012. We explain our sustainability strategy in detail in this report and also discuss the numerous activities in the areas of company management and strategy, people, customers and products, society and social affairs as well as environment and climate protection. The next sustainability report is scheduled to be published in April 2017. It is made available for downloading from the internet at www.bks.at, » Investor Relations » Berichte und Veröffentlichungen.

CORPORATE EVENTS CALENDAR 2017

Date	Content of the notification
5 March to 4 April 2017	Quiet period
4 April 2017	Press conference at year-end 2016
5 April 2017	Publication of the financial statements and the consolidated financial statements 2016 on the internet and in the Official Gazette of the Republic of Austria “Wiener Zeitung”
26 April to 26 May 2017	Quiet period
9 May 2017	78th annual general meeting
15 May 2017	Dividend ex-day
17 May 2017	Dividend payout day
26 May 2017	Interim report for the period ended on 31 March 2017
26 July to 25 August 2017	Quiet period
25 August 2017	Half-year financial report
30 October to 29 November 2017	Quiet period
29 November 2017	Interim report for the period ended on 30 September 2017

INVESTOR RELATIONS CONTACT

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

CORPORATE STRATEGY

COMPANY PROFILE

BKS Bank is a universal regional bank with its headquarters in Carinthia. We are represented in six countries with subsidiaries and employ 1,071 persons and operate 60 branches in Austria and abroad. Since 1922, we have been constantly expanding our business activities. Originally established as a bank for corporate customers, we started providing services to retail customers in the 1960s. We began our international expansion in the late 1990s. Today, we serve over 152,000 corporate and retail customers in Austria and in our foreign markets. BKS's ordinary shares have been listed on the Vienna Stock Exchange since 1986. In the reporting year, we celebrated our 30-year anniversary on the stock market.

OUR CUSTOMERS

As a universal bank, we offer our corporate and retail customers a wide range of financial services designed to meet their specific needs. In the corporate segment, we focus on industrial, commercial and trade companies. Our advisory services and products are mainly in finance for working capital, capital goods and exports; advisory services for state subsidy schemes; payment transfers; investment products and leasing. We serve around 18,600 corporate customers. In the retail segment, we have approximately 133,600 customers. These include private individuals, members of the healthcare professions and private banking customers. In the retail segment, our range of services runs the gamut from standardized account services to customized finance solutions as well as retirement provisioning, savings and investment products.

Detailed information on the retail and corporate business is given in the segment reports starting on page 115.

OUR MARKETS

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

OUR PARTNERS

We are part of the 3 Banken Group, which consists of Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft, an alliance that gives us the strength of a major bank. Cross holdings secure our independence and joint subsidiaries create synergy effects. Our long-year partnership with the building society Wüstenrot and Generali Versicherung complete our range of products.

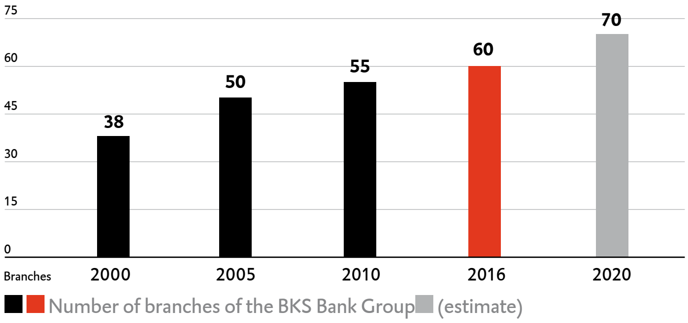
CORE REGIONS OF BKS BANK

BUSINESS ACTIVITIES OF BKS BANK - OVERVIEW BY REGION

Country	Company	Status, location	Employees
Austria	BKS Bank AG BKS-Leasing GmbH	Banking operations since 1922 49 bank branches	844
Slovenia	BKS-leasing d.o.o.	Banking operations since 2004 6 bank branches	115
Croatia	Croatia BKS-leasing Croatia d.o.o. Representation Office Zagreb	Banking operations since 2007 2 bank branches	68
Slovak Republic	BKS-Leasing s.r.o.	Banking operations since 2011 3 bank branches	39
Italy	Representation Office Padua BCS Fiduciaria S.r.l.	Cross-border business	4
Hungary	Representation Office Sopron	Cross-border business	1

As at 31 December 2016

DEVELOPMENT OF BANK BRANCHES



BKS BANK MISSION STATEMENT

We want to grow step-by-step on our own strength — and this remains our motto for the future. Within the scope of our strategic planning process, we have defined a vision and a mission that underpins our basic stance. The newly drafted mission statement of BKS Bank clearly defines the goals we pursue in the interest of our shareholders, customers, business partners, employees and society, and the values that define our self-concept, thinking and actions. Since 1922, today, and in the future.

OUR VISION

Regionally rooted
Open-minded
Excellent in our work

Our deep regional roots are the starting point of our organic growth in Austria and abroad. For demanding customers, we are the first choice. Why? Because we are able to combine advisory excellence with modern technical solutions. This reinforces our position as one of the leading banks in Austria.

OUR MISSION

Our mission is an expression of our self-concept and shows what BKS Bank stands for. The mission is based on our convictions and values as well as on our company's history. The mission statement expresses what BKS Bank wants to be for its customers, employees, partners and society:

- Our deep regional roots give us stability and permit us to grow nationally and internationally.
- We understand ourselves to be an international, universal bank, independent and autonomous in its decisions.
- Being part of the 3 Banken Group and the equal standing within the alliance gives us the strength of a large bank.
- We pursue a self-determined path. We are gradually working on becoming one of the ten most important banks in Austria.
- We take risks only when we are able to master them on our own strength. This is how we secure our independence and autonomy.
- We understand the individual needs of our customers better. We are the first choice for demanding customers and combine advisory excellence with modern technical solutions.
- Because we live our principles of sustainability in all respects, trust in our company is high and our capacity for innovation is strong.
- Our employees act responsibly and strive to provide good quality. We offer our employees an attractive workplace and challenging prospects. We invest in their further education and promote a good work-life balance.
- We offer shareholders long-term value appreciation and reasonable annual returns. This makes us appealing to investors and strengthens our capital base.

OUR VALUES

Our values dominate our perceptions within the company and externally. Our management staff rely on these values as a basis for their decisions and they serve our employees as a benchmark for their personal behaviour. It is important to us that the company's values are lived by all persons involved, and therefore, we have established these values in a new code of conduct as well as in BKS Bank's mission statement. Our actions are guided by the following values:

Focus on the future

"The future has many names: For the weak it is the unattainable; for the fearsome, it is the unknown; for the brave it is an opportunity." Victor Hugo. We are brave.

Stability

We are a responsible, predictable and reliable partner for our customers and employees - also in challenging times.

Professionalism

We accomplish all tasks assigned to us efficiently and professionally, also under difficult conditions. This is possible due to our high level of expert qualification, our credibility and our reliability towards customers and employees.

Accountability

Our accountability is shown by how we work and act: focused, conscientiously, carefully and always with a view to big picture.

Respect

Respect and appreciation of our colleagues, customers and partners are the key values we represent. We treat others the way we would like to be treated ourselves.
We hold our customers and colleagues in high esteem.

Integrity

Our actions are guided by high ethical principles and we are against any form of discrimination and corruption. We work in compliance with currently valid laws and internal guidelines.

STRATEGY PROCESS

BKS Bank has a well-thought-out strategy process. Once a year, the top management meets at a strategy retreat for several days to review and redefine our strategy. The strategy retreat is the initial step to the planning and budgeting process, and is held every year without fail. This ensures that the entire management team has worked on the strategy for the coming years and knows the strategy.

The strategy retreat is prepared well in advance of the actual strategy meeting. A separate strategy working group prepares the topics for the retreat. The topics are defined based on a preceding strategic analysis of the current starting situation in which a realistic assessment is made and information is gathered on relevant developments. In order to prepare the strategic analysis, we closely follow the topics listed below throughout the year.

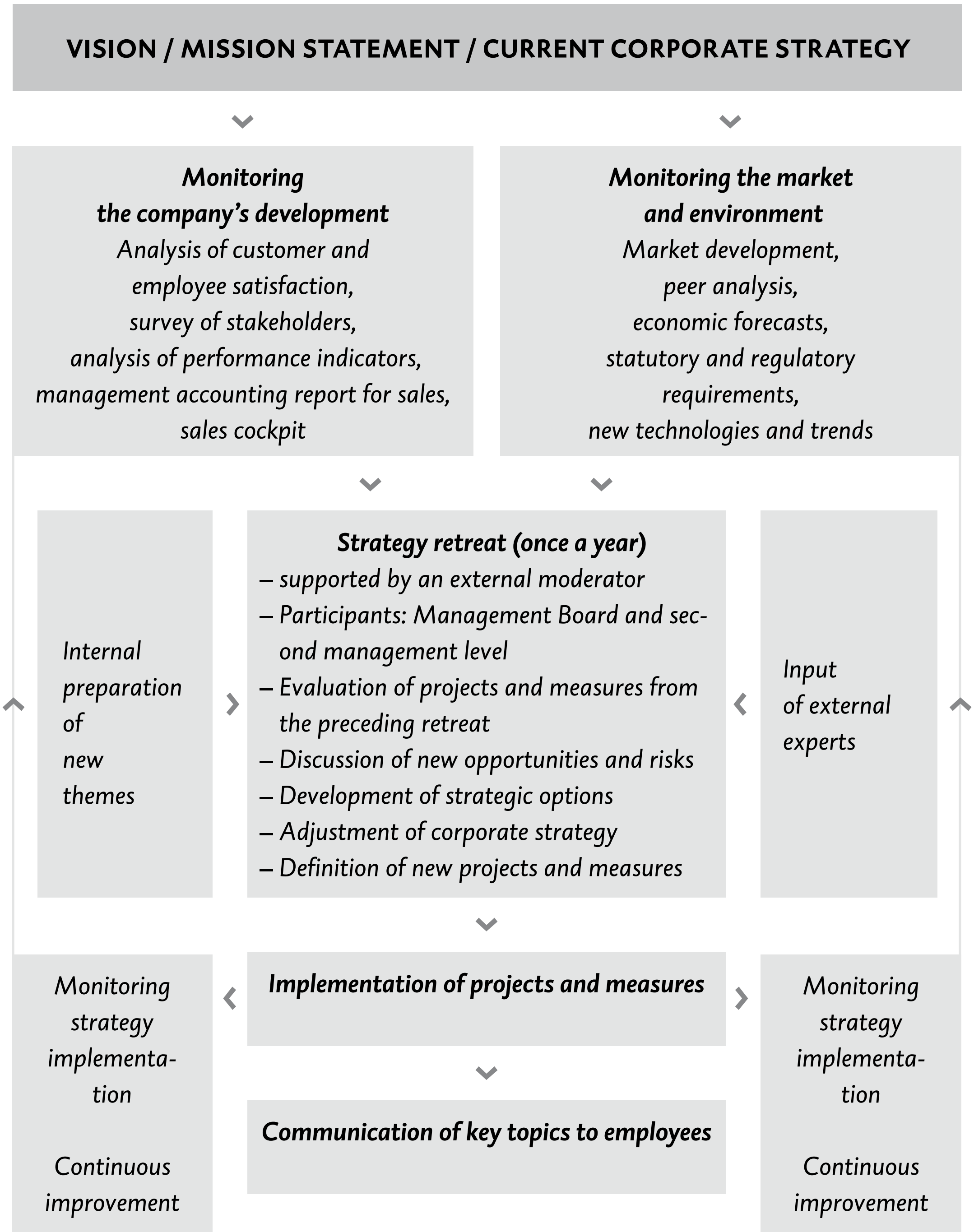
- The development of our company based on key indicators and surveys
- The development of the economy in our markets
- The public perception of BKS Bank in media reports, online reports and through awards and seals of quality received
- The market and our competitors
- Potential new competitors from other industries
- Changes to legal requirements and regulations
- New technologies and trends

At the strategy retreat an external moderator guides us through the process; additionally, there are expert inputs on the strategic topics that are currently especially important. At every strategy retreat, the strategic initiatives of the past business year are evaluated and the current status of implementation is ascertained. Afterwards, work continues on the further development of the strategy. The opportunities and risks are discussed and the diverse strategic options analysed. These may result in adjustment to the strategy as well as new projects and measures.

All key strategic plans are discussed and accorded with the Supervisory Board. The key results of the strategy retreat are communicated to the employees twice a year at the information talks of the Management Board

The monitoring of the strategy during the year takes place at regular meetings of the top management. This monitoring process helps us to take countermeasures in time if there are deviations from the targets.

VISUALISATION OF THE STRATEGY PROCESS



STRATEGY 2020

The challenges for banks remain enormous: The sustained phase of low interest rates, the increasing number of regulations, the advance of digitization and, not least, the fiercer competition are creating a growing need for change in the banking industry.

Interest rate levels are at all-time lows. No trend reversal is in sight. We are now starting to get used to the “new normalcy” of low interest rates. We are responding to declining earnings in the traditional lending business by expanding our sales activities in payment transfers and in the securities business. Although we are expanding into new areas with earnings potential and enlarging our range of products, we pursue strict cost discipline.

The increasing trend of digitization is drastically changing the behaviour of our customers. Especially younger customers are demanding new and innovative banking services and moving their banking activities to the internet. BKS Bank does not view the advance of digitization as a threat, but rather as an opportunity. At the strategy retreat 2016, we worked on the development of our digitization strategy. We are working hard on transforming our entire organisation for the digital era. In this context, we are not looking only the pace of change, but also at customers’ digital experience. We have already achieved a great step forward with BKS Bank online. The focus of development work on further digital offers is on smart solutions for standardized transactions. Another area of focus is the aspect of security in digital transactions.

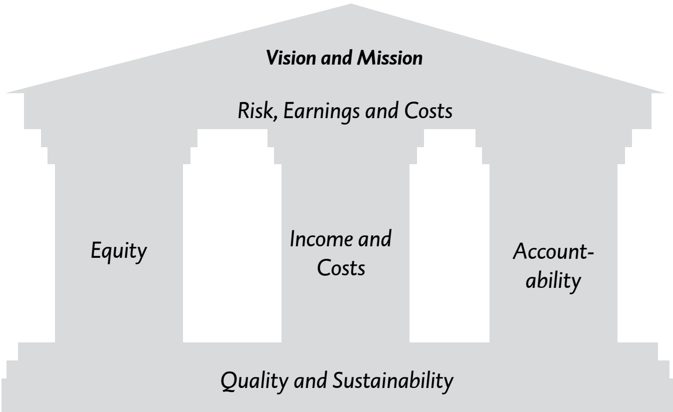
For us, digital does not mean anonymous. Although our customers are increasingly doing banking transactions online, we nonetheless believe our branches are crucial for business. Especially when dealing with complex products such as housing loans or retirement provisioning, our customers – also younger customers – like to have competent advisors to help them and for this they go to a bank branch. We remain a branch-based bank and will continue to open new branches unlike the general trend in the industry. Our new branches will have a focus on business customers.

The excellent advisory quality of our account managers is one of our strengths.
The numerous awards received from independent third parties reinforce our commitment to continue on this path. We are therefore investing substantially in the further education and training of our employees to continue meeting the high quality standards.

Along with the advance of digitization, a growing number of fintech companies are entering the market that offer convenient solutions, especially for payment transfers. It remains to be seen how the market will ultimately consolidate. However, we believe that fintechs are not just a passing fad.
Therefore, we are investigating the economic options of cooperating with fintechs and what we can learn from them. Nonetheless, we believe that our long-years of experience in payment transfers is a decisive competitive advantage that our customers still appreciate.

OUR STRATEGY MODEL

We have modelled our corporate strategy on a Greek temple. The three-pillar model features three groups of measures defined to support our plans to achieve future success. In combination with a professional risk strategy, we aim to shape and sustainability secure the future of our bank.



Equity as the key to further growth
Growth is only possible if you have sufficient equity capital. A strong level of own funds is therefore the key to future growth. The successful capital increase of October 2016 has considerably improved our capital adequacy and own funds ratio. This makes it possible continue pursuing organic growth in lending. Despite the sound capital adequacy and equity ratios, the continued improvement of our own funds remains a goal on our strategic agenda.

Focus on earnings and cost discipline for an independent future
We have enlarged the central pillar of our strategy to include costs which is an expression of our strong cost awareness. BKS Bank earned solid profits also during the financial and economic crisis, because we took advantage of every earnings opportunity and always use our resources efficiently.

Accountability to increase our competitive edge
Competent, well-trained employees are our most important asset. Entrepreneurial thinking and the independence the management staff in their actions with a view to the big picture are factors that support our competitive position. Quality awareness, the constant improvement of our own performance and a culture of open feedback are the cornerstones of success. A further area of focus in this context is the training of our future branch directors.

Risk management as a strategic success factor

The business strategy is the overarching framework for the definition of the risk strategy. A key element of our business is assuming risks. What is important in this respect is the early recognition of all relevant banking and operational risks and their active management and mitigation through effective risk management measures. The risk report describes in detail the risk strategy and risk management process as of page 132.

Building on corporate quality and sustainability

Long before corporate social responsibility (CSR) became a trend, we set great store by responsible business policies. We have developed our own sustainability strategy that defines the qualitative and quantitative goals until 2020 as well as measures for their attainment. We have received several awards for our numerous CSR activities. We are very proud of the "prime" status of the ratings we have received from the sustainability research organisation oekom research AG. Since 2016, we have been included in the sustainability index, VÖNIX, of the Vienna Stock Exchange. We are among the best in the area of sustainability.

Quality has always been important to us. We have our corporate quality improvement activities regularly reviewed by the organisation Quality Austria.
We are proud to have received the internationally-recognized distinction "EFQM Recognised for Excellence 5 Star". We are very pleased to have received this quality seal for a second time. We are still the only bank in Austria that is included in the list of excellent companies in Austria.

Further details on our CSR activities and our quality management programme are given in the Chapter "Sustainability and Non-financial Performance Indicators" on page 176 as well as in a separate sustainability report.

KEY STRATEGIC GOALS

We aim to improve our position as one of the leading banks in Austria and are working intensely on the following
– further increase profitability and productivity,
– adequately limit (credit) risks,
– strengthen the Tier 1 capital ratio, and
– raise the number of customers.

Additionally, we are constantly working to exploit the growth potential in Vienna und in Styria as well as in foreign markets to acquire more market shares. Apart from this, we focus our growth on business areas that use our capital resources responsibly. We also want to further strengthen our image as a responsible bank. Sustainability is an important differentiation feature for us. Therefore, we want to establish it more firmly in our core business and daily routines. And not least, it is our declared strategic goal to make our bank fit for the advance of digitization.

OVERVIEW OF STRATEGIC INITIATIVES

In the reporting year, we again successfully completed a number of important strategic projects. The following sections present an overview of the measures taken. We also report on the strategic initiatives in the corporate and retail business in the segment reports starting on page 115.

Successful capital increase: 746 new shareholders

We are very proud of the capital increase successfully completed. We acquired 746 new shareholders and succeeded in floating the entire volume of new BKS bank shares on the market. BKS Bank AG issued a total of 3,603,600 new ordinary no-par value shares. Calculated on the offer price of EUR 15.9 per new share, the gross proceeds from the capital increase was around EUR 57 million. The capital increase raised the free float ratio measured by shares with voting rights to 19.5%.

BKS Bank d.d. successfully merged

We completed an important project for our bank on 30 September 2016: Our Croatian subsidiary, BKS Bank d.d., was merged with BKS Bank AG. Since 1 October 2016, the new EU branch has been conducting the banking business of BKS Bank d.d. Up to now, we are the only bank that has carried out a cross-border merger with Croatia. We would also like to mention that all employees of BKS Bank d.d. were taken over in BKS Bank AG. Although the merger did not pursue any reduction in headcount, we expect it to substantially reduce general administrative expenses.
We will make use of these cost savings for the planned expansion on the Croatian market.

Customer portal successfully migrated

In April 2016, we migrated around 31,000 online banking customers to the new BKS Bank online services. A dedicated customer service centre was set up for the migration period. We are very pleased that our current online banking customers been very positive about the new system. With the successful migration, we have attained an important milestone in the enlargement of the range of digital offers.

Project Opex in the securities business

In the reporting year, we started an optimisation project for the securities business. The objective is to make the internal securities process and distribution structures for the securities business more efficient, leaner, digitally-oriented and to reduce personnel resources. Since the summer of 2016, we have been able to offer our customers with securities accounts the option of retrieving portfolio account statements and other documents directly from the communications centre of the customer portal. Some 2,600 securities customers are already using this convenient service. The archiving of all securities documents is done centrally and the internal procedures are simplified by workflow solutions.

New positioning of domestic leasing business
Lease financing is in high demand on the market, because this is an attractive financing alternative to classical loan financing. In order to better profit from this trend, we started repositioning our Austrian leasing company in the business year 2016. Apart from establishing a direct sales system, we are investing in the standardization of the application and approval procedures for automobile leasing. A further area of work is to speed up processing at our branches.

New loan application system accelerates loan processing
Fast. Efficient. Inexpensive— These are the features of our new application for corporate loans developed jointly with our IT service provider, 3BEG. The new system makes it possible to automate the lending process from the decision phased to the creation of the contract documents and the payout of the loan amount.
This considerably shortens processing time. With the introduction of the new loan application system, we have achieved a major step forward in the standardization of the lending business.

BKS Bank complete — one-stop-shop
In the year 2016, we dealt intensely with new product ideas.
We will soon be offering retail customers a complete range of services at an attractive flat rate that include online banking, an overdraft facility, bank cards, savings and household accounts. We involved customers and potential new customers in the design of the product by sending out a questionnaire on the appeal and price sensitivity.
This new product will be introduced to the market in the first half of 2017.

Expansion in Austria and abroad on schedule
Our goal is to steadily increase our market shares. This approach follows two paths: On the one hand, by increasing in the number of customers in the core markets through intensified sales activities. On the other, by opening new branches where we believe that the market chances good. In 2016, we opened one branch in the Slovak Republic and one in Slovenia. At the beginning of 2017, a further branch will start operations in Vienna. In Slovenia and Croatia, we plan to open a new branch in each country this year.

Project “Move” on schedule abroad
Last year, we reorganized the distribution structure in Austria within the “Move” project and introduced the sales cockpit as a tool to improve the management of sales activities. In the reporting year, we started reorganizing distribution channels in the foreign markets according to the Austrian model and organizing the branches by customer group and also introduced the sales cockpit.
The restructuring process is being done country by country. The first foreign market to complete the change on schedule was Slovakia with the project “Move”. Afterwards, Slovenia started with the project. The changes to the distribution organisation in Slovenia were completed in the first quarter of 2017. The next country to launch the “Move” project was Croatia.

Reorganisation of the insurance business

In the reporting year, we also reorganised our insurance segment. The insurance portfolio of the Drei-Banken Versicherungs-Aktiengesellschaft was transferred to our long-year partner, Generali Versicherung AG. Within the course of the restructuring, a separate 3 Banken service team has been established within Generali Versicherung AG. This guarantees shorter times for coordination work and regular mail delivery as well as closer collaboration and rapid adjustments to changes at both companies.

Wider range of sustainable products

At the beginning of the year 2016, we started the BKS “Silberkredit”, a new loan product for customers over 65. The product launch received wide coverage by the media, because to date this target group hardly has had access to the credit market. We give senior citizens a chance to invest in their quality of life or in the special needs for old age. A further product innovation was finalized shortly before Christmas: We were the first Austrian bank to issue a social bond[1)]. The proceeds of the issuance are dedicated to finance a competence centre for persons with dementia diseases in Carinthia.

“Banking package” implemented on time

We also dealt with numerous new changes to the legal framework in the reporting year generally referred to as the “banking package”. In this context, we implemented the new provisions in the areas “OECD Common Reporting Standard”, “central accounts register“ and “reporting of capital inflows and outflows”. Viewed together, these new laws place banks under the obligation to collect certain data on the their customers and current business relations and to report these to authorities. The data is used, among other things, for taxation purposes. The implementation of the new rules required extensive work. The work was completed at BKS on schedule despite the many unclear wordings in the text of the law, which made implementation harder.

[1)] This is a marketing publication. The information provided in this text serves only as non-binding information and does not replace in any way advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bond mentioned here, and neither is it a buy or sell recommendation. The offer for the product described is based on the base prospectus published by BKS Bank AG on 1 April 2016 including all documents to which a reference is made and all supplementary information to the base prospectus as well as the final terms published on 5 January 2017. The base prospectus including supplements and the final terms are available free of charge on the website of the issuer at http://www.bks.at, Investor Relations > BKS Bank Anleiheemissionen and also at the offices of BKS Bank AG, 9020 Klagenfurt, St. Veiter Ring 43, during regular office hours.

MiFID II

In the reporting year, we also dealt intensely with the new MiFID II / MiFIR rules effective from January 2018. The aim of the MiFID amendment is to increase resilience and the efficiency of market structures, raise transparency, widen the powers of supervisory bodies, regulate commodity markets more closely and further improve investor protection. Implementation involved an enormous effort on the part of banks, because literally nothing remained unchanged. The changes concern both product design and pricing as well as the advisory process itself and the training of the investment advisors due to stricter requirements. Despite the major changes, we are confident that the project will be implemented by the deadline defined by law.

IFRS 9

The preparations for the implementation of the new accounting standards pursuant to IRFS 9 are currently under way. Implementing IFRS 9 involves enormous technical resources, time and costs. The assessment system currently in place does not meet the complex requirements of IFRS 9, thus it was necessary to buy new software. Further details on the status of implementation of the IFRS 9 project and the expected effects are provided in the consolidated financial statements pursuant to IFRS as of page 202.

GROUP MANAGEMENT REPORT

ECONOMIC ENVIRONMENT

The year 2016 was an extremely eventful one: fear of a global recession dominated at the beginning of 2016. Later on, the surprising outcome of the Brexit vote started a new era of uncertainty. And finally, the election of Donald Trump as 45th president of the United States of America marked the close of a turbulent year. It is still unclear what the economic consequences of this development will be.

THE GLOBAL ECONOMY IS DEVELOPING ROBUSTLY

Considering the events around the world, the global economy is developing remarkably well. The International Monetary Fund (IMF) forecasts global economic growth at 3.1% for 2016. It corrected its original forecast for 2016 of 3.4% in mid-year 2016 to 3.1%. The greatest source of worry was China in 2016 where the economic growth rate slowed to 6.6%. Weak foreign exports and the low levels of industrial production contrasted with higher retail sales and more spending on infrastructure. This is a sign that the Chinese economy is shifting from exports to more domestic consumption and the expansion of the services sector. Russia's economy by contrast is very stable despite the persistent economic sanctions and the weakness of the rouble. Expensive imports are depressing volumes and stimulating domestic demand. Analysts assume that Russia has passed the trough and is now on the path to economic recovery.

US economy below expectations

In the past business year, the US economy was more sluggish than expected. In 2016, the US economy grew by only 1.6% according to estimates by IMF. The high consumption propensity of US citizens was a reliable pillar of support for moderate growth. The important US housing market also shows some clear signs of revival. By contrast, exports were down due to the strength of the US dollar. Investment activity was also below expectations. Nonetheless, consumer confidence at year-end 2016 was very positive and sentiment in the corporate sector in the US improved substantially. This trend is expected to continue in 2017. Many market participants expect the Trump administration to stimulate spending on capital goods and also considerable tax reliefs that will give a hefty boost to the US economy. The Federal Reserve Bank (Fed) also expected the US economy to move into a sustainable upswing. Therefore, the US Fed made the expected interest move and raised key lending rates slightly to 0.5% to 0.7% in December 2016. The US labour market was very robust in 2016. The unemployment rate remained below the important mark of 5% on the annual average of 2016.

European economy achieves moderate growth

The economic outlook in the euro area and in the European Union (EU) brightened over the course of the year 2016. Economic growth in Europe was 1.7% in the euro area for 2016 and for the entire EU it was 1.9% according to estimates of the European Commission. The unemployment rate was 8.5% for the entire EU. It was primarily the positive developments on the labour market and the high demand for consumer goods from private housholds that supported the moderate growth. It is also pleasing that GDP in the EU is again at pre-crisis levels, even though the growth rates of the individual member states vary widely.

The economic situation in Spain (+3.2%) and in the Netherlands (+2.1%) was extremely dynamic, and also Italy (+0.9 %) and France (+1.2 %) reported positive contributions. In Italy, there was no shock over the outcome of the referendum on the constitution. The economic data of our most important foreign markets of Slovenia (2.5%), Croatia (+2.8%) and Slovakia (+3.3%) also developed excellently in the year 2016.

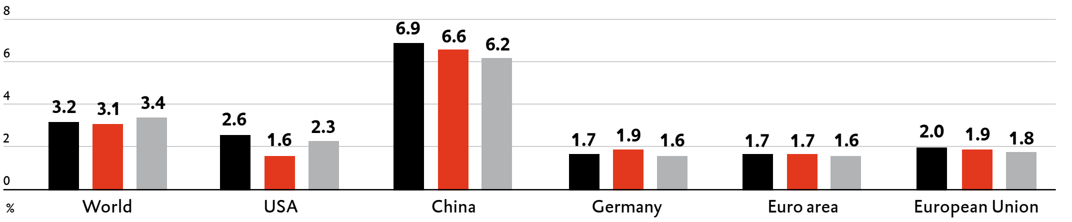
The British economy did surprisingly well considering the decision of the British to exit the EU. The economic plunge often predicted did not happen in 2016. Rather, the economic data from the third quarter 2016 indicates that growth in Great Britain (+1.9%) was even stronger than in the euro area. It was only the Britsh pound that depreciated substantially. The depreciation of the pound had started already before the referendum, but it accelerated due to the vote. In spite of the good economic development in the year 2016, the economic effects of the Brexit are still hard to assess. What we do know though is that there is a high probability of a "hard Brexit", i.e., leaving the European single market.

Germany remains the driving force behind the economy in the European Union, although the German economy slowed a bit in the third quarter of 2016. Private consumption and higher government spending proved once again to be an important pillar of support for the German economy. On the other hand, investments by German companies stagnated and exports also declined. Despite the drop in exports, Germany's economy developed soundly, with GDP rising to 1.9% in 2016 according to the European Commission.

Economic upswing also in Austria

The long-awaited economic upswing started in Austria in 2016. For the first time in four years, the domestic economy grew by more than one percentage point to 1.5%. This was announced at the beginning of 2017 by the Austrian Institute of Economic Research (Wifo). On the one hand, growth was driven by higher demand for consumer goods from private households. It was, above all, the reliefs of the tax reform 2016 that had a positive impact on consumer sentiment. On the other, the increase in investment activity among Austrian companies also supported the upswing. The economic recovery also had a benign influence on labour market data. The good economic situation helped increase the employment ratio, while at the same time the supply of labour also rose steeply. Therefore, the unemployment rate remained high on the annual average at 9.1% according to the national accounting method.

INTERNATIONAL ECONOMY



Change in real GDP vs. previous year in %
■ 2015 ■ 2016 (Forecast) ■ 2017 (Forecast)

Source: International Monetary Fund IMF, European Commission

VOLATILITY ON CAPITAL MARKETS CONTINUED

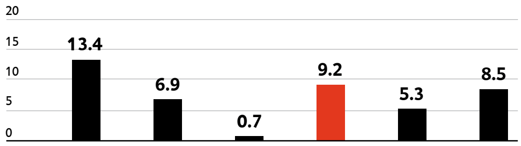
In the preceding year, both stocks and bonds fluctuated widely. At the beginning of the year, stock markets saw a substantial correction. Fears over the economy in China motivated many market participants to move “into safe havens”. They sold off risky assets such as stocks, and shifted their holdings to allegedly secure investments such as German shifted government bonds. Subsequently, stock indices in German and Austria lost almost 19% by mid-February. US stocks fared slightly better and prices dropped by “only” around 11%. By contrast, the decline in yields on German bonds continued. In June 2016, yields on ten-year German government bonds dropped for the first time into negative territory and hit a all-time low on the day of the Brexit vote on 23 June 2016 at -0.17%.

The rest of the year was also marked by intensive fluctuations. An example is the devleopment of stock markets in June 2016. Thus, the German stock index (DAX) lost -7.3% by mid month. Afterwards, the index gained ground until the day of the Brexit vote posting +7.7%. After the vote, the DAX lost -9.6% within just two days. It then gained +4.4% in the last three days of the month.

Stock markets moved rather sluggishly on a sideways trend until the US elections in November 2016 and after the electins set off on a year-end rally. As a result, many indices closed the year 2016 with clear gains despite the weak start at the beginning of the year. Especially US stocks outpaced European stocks. Strong recovery tendencies were seen among the stocks of companies from the commodity countries such as Brazil and Russia.

After an initial drop in yields on government and corporate bonds with good credit ratings, a countermovement set in as of the autumn of 2016. Yields on 10-year German government bonds rose after the US elections until mid-December to +0.4%. This caused price losses on euro government bonds. The reason for the substantial increase were higher inflationary expectations as a result of improved prospects for global growth. Yields on US dollars climbed more steeply than those of the euro zone.

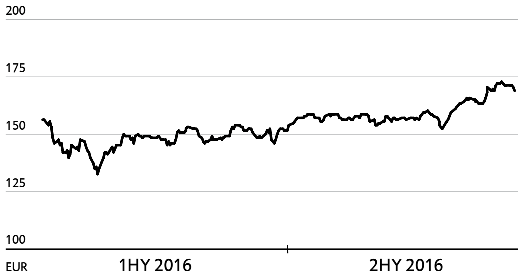
PERFORMANCE OF MAJOR STOCK INDICES



%	DJIA	DAX	DJ EUR Stoxx 50	ATX	MSCI in USD	MSCI in EUR
Stock market close	New York	Frankfurt	Zurich	Vienna	World-wide	
2016	19,762.60	11,481.06	3,290.52	2,618.43	1,751.22	169.54
2015	17,425.03	10,743.01	3,267.52	2,396.94	1,662.79	156.30

Index change y/y in percent

DEVELOPMENT OF STOCK MARKETS



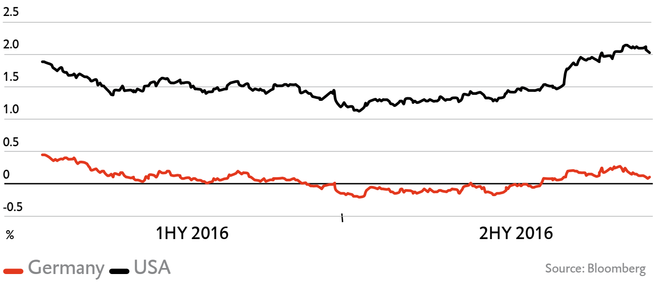
MSCI World

Source: Bloomberg

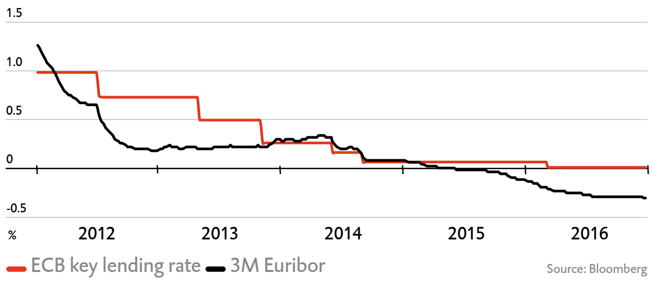
European Central Bank (ECB) continued expansive monetary policy

In 2016, the ECB's economic policy remained expansive. Due to higher inflation rates, market participants feared the ECB might end its bond purchase programme - which it had enlarged in 2016 to include corporate bonds - in March 2017. On 8 December 2016, the ECB announced that the purchasing programme would be prolonged to last after April 2017. However, monthly securities buying volumes would be reduced as of that time from EUR 80 billion to EUR 60 billion. This should not be considered the beginning of the phasing out of the ultra-expansive monetary policy. Rather the prolongation of the securities purchasing programme to the end of 2017 highlights the intent of the ECB to maintain the monetary stimulus for a longer time despite the still low levels of core inflation. Several analysts assume that the ECB will gradually phase out its securities buying programme as of spring 2018. The first hike in key lending rates will probably be much later though. Money market rates are therefore likely to continue their sideways trend below the zero line for some time to come.

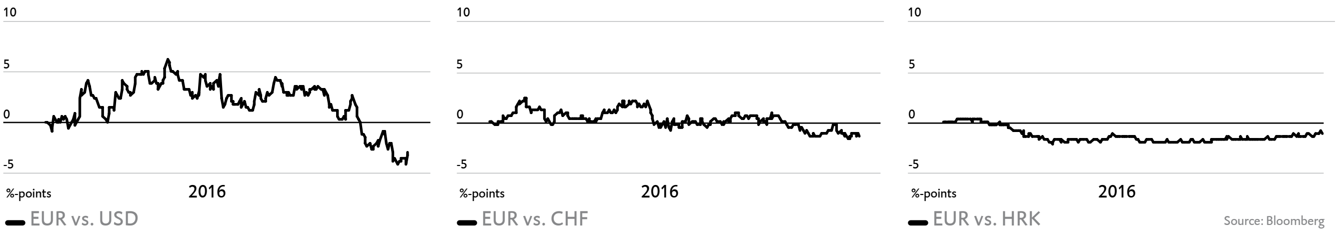
YIELDS ON LONG-TERM GOVERNMENT BONDS



DEVELOPMENT OF EURO INTEREST RATES



CHANGE IN MAJOR FX RATES



EXCHANGE RATES REMAINED DYNAMIC

The year 2016 painted a mixed picture for the euro. This is revealed by looking at the exchange rates versus the five major trade partners of the European Monetary Union (Chinese renminbi, US dollar, British pound, Japanischer yen and Swiss franc). The euro depreciated only moderately versus the US dollar from 1.08 to 1.05 EUR per US dollar. The depreciation versus the USD was not higher because of the suprisingly hesitant monetary policy stance of the US Fed. At the beginning of the year, expectations had been of two to three hikes in key lending rates by the Fed. In the end, there was only one in December 2016 by 25 basis points to within the corridor of 0.50% to 0.75%.

The euro depreciated only slightly also versus the Swiss franc from 1.08% to 1.07% per CHF. In 2016, the EUR/CHF exchange rate stayed within a narrow bandwidth with the support of the Swiss central bank of 1.11 to 1.07 EUR per CHF.

The steepest depreciation was seen in the euro versus the Japanese yen at 5.4%. The euro was the winner versus the Chinese renminbi in 2016 with an appreciation of 3.7%. The highest gains of the five currencies was attained by the euro versus the British pound (+17.8%). The British pound lost a lot of value before and especially after the Brexit vote on 23 June 2016 and it failed to regain the confidence lost until year-end. The pound weakened also due to the cut in the key lending rate by the Bank of England at the start of August 2016. The Croatian kuna, which is important to us, appreciated slightly versus the euro over the course of the year and was quoted at HRK 7.56 per EUR at the end of December 2016 after nach HRK 7.65 at the beginning of the year.

COMMODITIES MARKETS DEVELOPED WELL

The development of the commodities markets in 2016 was surprisingly good. Above all, energy commodities and precious metals gained in value. Demand for commodities was very robust, while supply developed weakly. However, it was probably not the beginning of a new strong commodities cycle. Price gains were achieved from pretty low levels and are also likely to continue on a moderate trend this year again with wide fluctuations. Generally, the sustained moderate economic growth of the global economy in 2017 together with rising inflationary expectations are good conditions for moderate increases in commodity prices. The risk of tighter trade restrictions by the US might, however, dampen both supply and demand on commodity markets and trigger some surprising price movements.

PRICE TREND CRUDE OIL

Brent crude oil in US dollar

Source: Bloomberg

PRICE TREND GOLD

Gold price in US dollar

Source: Bloomberg

MANAGEMENT AND ORGANIZATIONAL STRUCTURE

BKS Bank's sets great store by a flat hierarchy in its organizational structure. The highest management body of the BKS Bank Group is the Management Board. More details on the distribution of areas of responsibility and remits are contained in the Corporate Governance Report as of page 22.

FLAT ORGANIZATION

For the ideal management of the company, the organization of the company is structured as follows:

- Central administrative departments which report directly to the Management Board and include the Office of the Management Board, Controlling and Accounting as well as Human Resources and the Internal Audit that provide assistance for management and support processes.
- Central departments that manage sales and new product development (corporates, retail, private banking and securities); analyze and control credit risk (credit management) and ensure IT solutions to guarantee stable and secure IT operations.
  The international branches, subsidiaries and representantion offices of BKS Bank are assigned to the department for treasury and international operations which is also responsible for proprietary trading and treasury tasks.
  BKS-Leasing GmbH is assigned to the department for corporates and business banking.
- Regional Head Offices for Carinthia, Styria, Vienna-Lower Austria-Burgenland, Slovenia, Croatia and Slovakia that are responsible for local sales and the branches assigned to them.
- Service companies to which back office activities (BKS Service GmbH) and construction management, building administration and the vehicle fleet (BKS Immobilien-Service GmbH) have been outsourced.

PERSONNEL CHANGES

The first management level, which heads the so-called staff units, central departments, directorates and service companies, has a low level of staff turnover. Gudrun Matitz was newly appointed in the reporting year as head of Retail Banking. Thus, another woman advanced to the top management of BKS Bank. Another change took place on the staff of the Regional Head Office for Vienna-Lower Austria-Burgenland where Diethmar Wölle is now responsible for corporate customers. Diethmar Wölle holds this position as well as being head of corporates at the Regional Head Office for Carinthia.
At the Regional Head Office for Vienna-Lower Austria- Burgenland, he focuses primarily on the further development of the real estate business.

MERGER IN CROATIA

As of 30 September 2016, the subsidiary BKS Bank d.d. was retroactively merged with BKS Bank AG (for details, see the chapter "Market Regions" under "Croatia") effective as of 1 January 2016. The management board members of BKS Bank d.d., Goran Rameš and Christian Pettinger, will continue to manage our business in Croatia and were appointed authorized signatories of BKS Bank AG.

NEW AUTHORIZED SIGNATORIES

On the proposal of the Management Board, in 2016 the following persons were appointed as authorized signatories:

– Gerald Auer, Head of Group Proprietary Trading and Risk Controlling,
– Andreas Kritzer, Head of Group Credit Risk Management,
– Anton Seebacher, Head of the Regional Head Office for Vienna-Lower Austria-Burgenland

FIRST-TIME APPOINTMENT OF EXPERTS

While the stages of a career in sales are established at our bank – the account manager for corporates and the private bankers at the top – the only externally visible career step in the central administrative department was the management position. For the first time, 15 key positions were defined to which 14 employees were appointed as experts, including four women, in the fourth quarter. The selection criteria for the expert functions included:

– expertise which is hard-to-find on the labour market
– employee makes a major contribution to creating value
– high level of engagement, project leadership qualifications and networked thinking

DIVERSITY IN THE MANAGEMENT

All employees of BKS Bank have the same career opportunities regardless of age, gender or socio-cultural background. Nonetheless, only 51 women (2015: 50) held management positions throughout the Group. The number of male managers was 108 (2015: 110). The aim is to raise the share of women in management positions to 35% by 2020. The high constancy of the management means that the majority of managers at the BKS Bank Group are over 50 years old (45.9%). 75% are Austrian and 25% have other nationalities. When filling management positions in our international markets, BKS Bank relies primarily on persons from the respective region or who know the region well.

HIGH MANAGEMENT QUALITY

The high level of social and expert competence of the management staff is very important to BKS Bank. Whenever possible, management positions are filled from within the company. There are training and further education options available to all management staff. An annual development conference has been held with the top management for several years now. This event serves to develop participants' management skills, awareness of strategic personal development and organizational development themes as well as to identify potential management staff.

Furthermore, BKS Bank trains its Management Board Members, Supervisory Board, management staff and persons in key positions in a comprehensive fit & proper training course. The Bankwissenschaftliche Gesellschaft has created an e-learning tool for Supervisory Board members that can be attended at any time and from anywhere. Moreover, after the end of Supervisory Board meetings, fit & proper training courses are held for the members of the corporate bodies.

ORGANIZATIONAL STRUCTURE

MANAGEMENT BOARD

Herta Stockbauer, Chairwoman
Dieter Kraßnitzer
Wolfgang Mandl

HEAD OFFICE CENTRAL ADMINISTRATIVE DEPARTMENTS

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

Controlling and Accounting
Hubert Cuder

Personnel Management
Werner Laure

Internal Audit
Robert Raunig

HEAD OFFICE

Corporates and Business Banking
Viktor König

Retail Banking
Gudrun Matitz

Credt Management
Michael Oberwalder

Treasury and International Operations
Josef Morak

Private Banking and Securities Operations
Georg Svetnik

Operations
Klaus Patterer

REGIONAL HEAD OFFICES

Carinthia
Bernd Berger
Sabine Lax
Karl Mertel
Diethmar Wölle

Styria
Nikolaus Juhász
Alfred Kordasch

Vienna - Lower Austria - Burgen-land
Martin Gratzer
Anton Seebacher
Diethmar Wölle

Slovenia
Boštjan Dežman
Alexander Novak

Croatia
Christian Pettinger
Goran Rameša

Slovakia
Harald Brunner
Joachim Reitmeier

SERVICE COMPANIES IN AUSTRIA

BKS Immobilien-Service GmbH
Manfred Isopp

BKS Service GmbH
Georg Köferle
Jaroslav Zvolensky

LEASING IN AUSTRIA

BKS-Leasing GmbH
Heimo Hebein
Karl Schabus

ABROAD

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

Representation Offices
Italy (Padua)
Hungary (Sopron)
Croatia (Zagreb)

As of 31 December 2016

SHAREHOLDERS OF BKS BANK

BSK Bank shares have been listed on the Vienna Stock Exchange since 1986. The nominal value per share was ATS 100, the share capital was ATS 300 million or around EUR 21.8 million. As of 1 July 1986, BKS Bank had the following shareholders: BKS-Beteiligungsverwaltung-GmbH, into which the syndicate partners Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft paid in shares, held 50%, Creditanstalt für Handel und Gewerbe held 30%, and Bayerische Hypotheken- und Wechselbank held 10% of the shares. A share of 10% were placed on the market and were free float. Stock market capitalization on 1 July 1986 was around ATS 1.3 billion, which is around EUR 94.5 million.

The capital increase carried out in 2016 at a ratio of 10:1 raised the share capital by EUR 7,207,200 through the issuance of 3,603,600 ordinary bearer shares. Free float widened from 16.08% to a very satisfactory 19.47%. The Italian UniCredit S.p.A. Holding did not participate in the capital increase through its Group companies UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. – just as in 2014. Their share of voting rights as a major indirect single shareholders decreased from 33.55% to 30.35%. The subscribed capital of BKS Bank AG of EUR 79,279,200 breaks down into 37,839,600 ordinary bearer shares and 1,800,000 preference bearer shares pursuant to the articles of association. As of the registration of the capital increase, the approved capital pursuant to the articles of association was EUR 7,207,200.

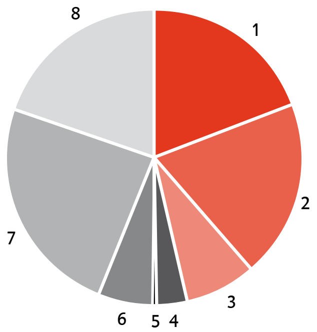
A share of 77.0% of voting rights was held by institutional investors whose positions exceeded the notification threshold of 5%. A share of 38.9% were owned by the two sister banks Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft. The calculation of voting rights was done based on the registrations to the 77th general annual meeting as well as on the information available to us as of year-end 2016. Generali 3Banken Holding AG owned 7.8% of voting shares in the company. These three investors contributed their stakes into a syndicate, which, as of the end of 2016 held 46.7% of voting rights. The purpose of the syndicate agreement is to guarantee the independence of BKS Bank AG through the joint exercise of voting rights at annual general meetings and mutual preemptive rights of the syndicate partners.

KEY INFORMATION ON THE BKS BANK'S SHARES

	2015	2016
Number of ordinary no-par shares (ISIN AT0000624705)	34,236,000	37,839,600
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000
High (ordinary/preference share) in €	17.5/15.7	17.3/15.4
Low (ordinary/preference share) in €	16.5/14.8	15.8/13.9
Close (ordinary/preference share) in €	16.9/15.1	16.8/15.4
Market capitalisation in €m	605.8	662.7
IFRS result per share outstanding in €	1.50	1.26
Dividend per share	0.23	0.23[1)]
PER ordinary/preference share	11.3/10.1	13.3/12.2
Dividend yield ordinary share	1.36	1.37
Dividend yield preference share	1.52	1.49

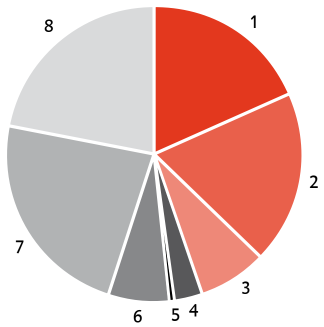
1) Proposal to the 78th annual general meeting on 9 May 2017

SHAREHOLDERS OF BKS BANK BY SHARES WITH VOTING RIGHTS



		in %
1	Oberbank AG	19.36
2	Bank für Tirol und Vorarlberg Aktiengesellschaft	19.50
3	Generali 3Banken Holding AG	7.80
4	Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H. Gen.m.b.H.	3.09
5	BKS-Belegschaftsbeteiligungsprivatstiftung	0.42
6	UniCredit Bank Austria AG	6.10
7	CABO Beteiligungsgesellschaft m.b.H.	24.25
8	Free float	19.47

SHAREHOLDERS OF BKS BANK BY EQUITY INTEREST



		in %
1	Oberbank AG	18.52
2	Bank für Tirol und Vorarlberg Aktiengesellschaft	18.89
3	Generali 3Banken Holding AG	7.44
4	Wüstenrot Wohnungswirtschaft reg.Gen.m.b.H.	2.99
5	BKS-Belegschaftsbeteiligungsprivatstiftung	0.71
6	UniCredit Bank Austria AG	6.63
7	CABO Beteiligungsgesellschaft m.b.H.	23.15
8	Free float	21.67

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

Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H. held 3.1% of voting shares. The free float held by companies, institutional investors and private shareholders, which was raised by 3.4%-points at the last capital increase, included 19.5% of shares with voting rights at year-end 2016. Of this share, a substantial percentage of 0.6% is owned by employees of BKS Bank. BKS-Belegschaftsbeteiligungsprivatstiftung (employee foundation) – serves exclusively to fully transfer income on shares to the employees of BKS Bank – owns 160,470 ordinary shares, which corresponds to a stak of 0.42% of shares with voting rights.

Broken down by shares in the capital, as of 31 December 2016 Oberbank AG held 18.5%, Bank für Tirol und Vorarlberg Aktiengesellschaft 18.9% and Generali 3Banken Holding AG 7.4%. UniCredit Bank Austria AG owned 6.6% of shares in the capital directly, and taking into account the stake of 23.2% owned by CABO Beteiligungsgesellschaft m.b.H., it held a total of 29.8% of the share capital. Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H. holds 3.0% and the free float accounts for 21.7% of ordinary and preference shares.

Apart from this, BKS Bank AG does not know of any constellation of individuals or a group of shareholders who own a majority and/or controlling interest in the company. Therefore, in our view no measures are required to prevent the abuse of a controlling interest.

As of 31 December 2016, the bank held 438,062 ordinary shares and 156,723 preference shares in its own portfolio. This was a share of roughly 1.2% of voting rights or 1.5% of shares. Market capitalizationof BKS Bank amounted to EUR 662.7 million based on the year-end 2016 market quotation.

In 2013, our bank acquired around 100,000 shares on the stock exchange and off-floor through a publicly-announced stock buyback programme. In 2016, during the period from 4 to 15 April, a number of 11,985 shares were transferred to employees at a market price of EUR 17.15 within the scope of the employee participation scheme and paid out as part of the annual bonus under certain conditions. At the end of 2016, the number of ordinary shares attributable to this programme was 40,118 or 0.1% of voting shares compared to 52,103 shares in the preceding year.

MARKETS OF BKS BANK

In 2017, BKS Bank celebrated its 95th anniversary. Since its foundaton in 1922, when the bank operated only in Carinthia, the market regions of the bank have expanded considerably. Today, BKS Bank does business in Austria, Slovenia, Croatia and Slovakia. It operates a total of 60 bank branches and leasing companies in these four countries.

AUSTRIA

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

CARINTHIA

Excellently positioned on the home market

At the beginning of October 2016 when it became known that a large majority of Heta creditors had accepted the repurchase offer of the Province of Carinthia, the relief this gave way to was felt across the home market of BKS Bank. The agreement created legal certainty and released the province from its state of shock and opened the way for structural reform. BKS Bank welcomed the agreement as a positive step for the southernmost province of Austria, because it was an opportunity for a new start.

The economy in Carinthia developed in line with the average in Austria in 2016. Some sectors such as the manufacturing industry even grew at an above-average rate. The construction industry, which is an important sector, however, saw a decline in output in building and civil engineering. The initial forecasts for 2017 of the Carinthian Institute for Advanced Studies (Institut für Höhere Studien) stated that the overall economic pace in Carinthia would lag behind that of Austria. One reason is the high significance of Italy as an export destination for Carinthian businesses. Our southern neighbour is still ailing from a sluggish economy.

For BKS Bank, the home market of Carinthia has the greatest signficance. 642 of our 1,071 employees are employed in Carinthia. The branches for private banking and corporates in Carinthia granted loans in an amount of EUR 2.5 billion at the last count. This corresponds to a share of 40% of total financing volume of BKS Bank. The share on deposit accounts was EUR 2.8 billion at year-end 2016. Many companies in Carinthia have been customers of BKS Bank for generations. They appreciate the expert knowledge and long years of experience of our account managers. This makes BKS Bank the number one source of finance for exports in Carinthia.

STYRIA

Economy still going strong

With the opening of the branch in Graz in 1983, BKS Bank for the first time set up a branch outside the borders of Carinthia. Therefore, our company is well established in Styria. The bank employs 76 employees at 12 branches (FTE).

Styria is one of the economically strongest provinces of Austria. An important stimulus comes from the automotive cluster, currently, for example, Magna. The supplier of major automobile manufacturers hired 3,000 new employees thanks to a large contract with BMW. The main exporting companies fared very well on the market again in 2016 and won the silver medal in Austria as the province with the highest exports. There was a major setback for agriculture though. The late return of winter at the end of April 2016 caused widespread harvest losses and also the low price of milk were the cause of the lower income of farmers.

The government of Styria presented an optimistic outlook for the future in the "Economic and Tourism Strategy 2025 – Growth through Innovation" published in July 2016. The key themes defined in the strategy are mobility, eco-tech and health-tech. Small and medium-sized companies are also identified as a core target group. To better support the innovation capacity, the provincial government plans to develop new financial assistance and financing instruments.

We therefore believe that Styria will be able to expand its strong position among Austrian provinces and continue to assess Styria as one of our growth markets. In 2016, we succeeded in increasing the number of customers in the corporates and retail segments just as in the year before. We had a volume of around EUR 1.0 billion outstanding in loans and lease finance in Styria, while the deposit volume was EUR 0.6 billion. Private banking also developed very gratifyingly. Styrian customers appreciate the enormous know-how and the high advisory quality of our customer relationship managers. This achievement is recognized, among others, by the regional victory in a study conducted by Österreichische Gesellschaft für Verbraucherstudien and 'trend' magazine on advisory services for retirement provisioning.

VIENNA-LOWER AUSTRIA-BURGENLAND

Upswing on growth market

In 2015, the market areas of Vienna, Lower Austria and Burgenland were combined under one head office and this change proved useful already in 2016. BKS Bank achieved gains in all customer groups and expanded its market shares. BKS Bank Head Office Vienna-Lower Austria-Burgenland serves over 25,123 customers at 16 branches. The most recent branch was opened in January 2017 on Wagramer Straße. The new branch will focus on corporate and business customers.

It is not only the Carinthians that live in Vienna that appreciate our products, BKS Bank has also created a solid reputation as an alternative to the large established banks in Vienna. The high quality of our advisory services is also recognized by the good ratings achieved in tests conducted in studies by Österreichische Gesellschaft für Verbraucherstudien and trend magazine. Our branches in Vienna were the winners of the tests for advisory services in the area of investments and real estate finance.

The outstanding advisory competence is also evidenced in the good results of the Head Office. In 2016, we increased our credit volume to over EUR 1.0 billion which is a plus of around 13.0%. Customer deposits rose to EUR 0.6 billion.

BKS Bank plans to continue its expansion in the eastern region of Austria in the coming years as well. Vienna has the steepest population growth in Austria, and the purchasing power and income statistics bode well for the capital as a market region.

INTERNATIONAL MARKETS

BKS Bank has branches and independent leasing companies in Slovenia, Croatia and Slovakia. Support is provided to customers from other countries exclusively cross-border by our Austrian Head Offices.

BKS BANK INTERNATIONAL - OVERVIEW

	Slovenia	Croatia	Slovakia
Population in millions	2.1	4.2	5.4
Capital	Ljubljana	Zagreb	Bratislava
Economic growth 2016*	2.5%	2.8%	3.3%
Economic Growth Forecast*	3.0%	3.1%	2.9%
Currency	EUR	HRK	EUR
Main banking location	Ljubljana	Rijeka	Bratislava
Employees in banking (FTE)	101.6	55.2	23.5
Branches	6	2	3
Leasing company	BKS-leasing d.o.o.	Croatia BKS-leasing Croatia d.o.o.	BKS-Leasing s.r.o.
Registered office of leasing comnpany	Ljubljana	Zagreb	Bratislava
Employees in leasing (FTE)	13.4	11.8	9.3

* Source: European Commission

SLOVENIA

Slovenia is the international market in which BKS Bank has been engaged as a bank since 2004 and where it has been represented by Leasinggesellschaft BKS-leasing d.o.o since 1998. Therefore, our bank is well established as a universal bank in Slovenia. We succeeded in expanding our market position substantially in the past years. The market share of BKS Bank in the Slovene banking market was around 3.6% in November 2016.

Economic growth in 2016 stood at 2.5%, which is higher than the Austrian level of 1.5%, and sentiment and consumer spending among the population corresponded to the robust growth rates. On the back of this uptrend, our branches succeeded in lifting the number of private and corporate customers considerably. Today, BKS Bank serves 17,565 customers in Slovenia, which corresponds to an increase of 14.3% versus 2015.

New branch in Slovenj Gradec

BKS Bank operates six bank branches in Slovenia. The newest subsidiary was opened at the beginning of December 2016 in Slovenj Gradec. Slovenj Gradec is around 45 km west of the city of Maribor and some 65 km to the northeast of the capital of Ljubljana. The city in the northeast of Slovenia has around 7,000 inhabitants. The new branches offer customers the services of daily payment transfers, financing and investment and focus on corporate customers. The retail business will be introduced in Slovenj Gradec at a later time.

The most important business in Slovenia is the finance business. The volume of loans managed by our Slovene branch was around 0.6 billion at year-end 2016.

Flourishing securities business

BKS Bank also serves many customers with savings and deposit accounts in Slovenia. The volume of primary deposits of our Slovenian branches reached a record level of approximately EUR 1.0 billion on 31 December 2016. The securities business also developed very well. This trend was boosted by the acquisition of some 250 securities accounts with a volume of assets of around EUR 100 million. Today, we have a volume of assets under management in Slovenia of EUR 550.0 million.

In total, the business of our branches in Slovenia developed very well resulting in a net profit before tax of EUR 3.9 million.

BKS-leasing d.o.o. on a solid growth path

BKS-leasing d.o.o. has been part of the BKS Bank Group since 1998 and has its registered office in Ljubljana. BKS-leasing d.o.o. employed 13.4 persons (FTE) as of year-end 2016. The leasing business in Slovenia developed excellently in 2016. BKS-leasing d.o.o. attained the highest volume of new business ever and substantially increased the number of leasing contracts. At the end of the reporting year, the leasing volume was EUR 91.1 million which is an gain of 19.3%. The net profit before tax was excellent at EUR 1.1 million and was the best result achieved in its almost 20-year history.

CROATIA

In 2016, BKS Bank wrote banking history in Croatia. Our bank was the first one to open a EU branch in Croatia. The establishment of the branch was preceded by the merger of our subsidiary BKS Bank d.d into BKS Bank AG. This combination was the first cross-border merger of a bank from another EU country with a Croatian bank. The new name of our EU branch is BKS Bank AG, Glavna podružnica Rijeka.

The aim of this move was to simplify administration and to organize a uniform Group structure for our foreign business. The two branches in Rijeka and Zagreb remain open and all Croatian BKS Bank employees continue to work for the BKS Bank Group. Neither were there any direct changes for customers, the range of offers did not change. In Slovenia and Slovakia, BKS Bank has always operated its banking business through an EU branch.

Good business year

The Croatian economy developed slightly better in the reporting year than economic forecasts would have originally led one to expect. Fortunately, our Croatian branches were able to benefit from this economic upswing. At a net profit before tax of EUR 3.9 million, BKS Bank attained the best result since the acquisition of the former Kvarner banka d.d. in 2007. At year-end, BKS Bank AG, Glavna podružnica Rijeka had a volume of deposits of EUR 99.1 million. The lending volume also increased and reached EUR 176.6 million (+12.4%) at year-end 2016. BKS Bank will take the excellent development of business into consideration in 2017. There are plans to open a new branch in Split in the third quarter in addition to the branches in Rijeka and Zagreb.

Leasing company progressing

Apart from the banking business, BKS Bank also has a leasing business in Croatia through BKS-leasing Croatia d.o.o. seated in Zagreb. It employed 11.8 persons (FTE) as of 31 December 2016. In the reporting year, new business developed satisfactorily. At year-end, the leasing volume of our subsidiaries was EUR 41.7 million and a net profit before tax of EUR 0.8 million was earned.

SLOVAKIA

In Slovakia, the banking business of BKS Bank is still being established and concentrates on products that can be settled in cash. The resource-intensive counter business is planned to be launched in several years. The goal is currently to successively expand our market position. Therefore, in the reporting year we opened another branch in February in Žilina where we were already present with a leasing subsidiary. Thus, BKS Bank has three bank subsidiaries in Slovakia. At year-end, the credit volume of our Slovak subsidiaries was EUR 64.3 million and the deposit volume was EUR 21.5 million.

We expect further growth in 2017, as Slovakia has recovered very well economically. Growth rates in Slovakia were substantially higher than the European average. Some industrial branches, for example, the automotive segment developed very positively. Slovakia is the worldwide leader in number of automobiles produced per capita today. For example, Volkswagen, Kia and British Jaguar Land Rover manufacture their autos in Slovakia. The electro-technical industry has also developed very well. The economic expansion also led to a very gratifying reduction in unemployment. Slovakia achieved its goal of an unemployment rate below 10% for the first time in 2016.

Leasing at three locations

Our Slovak Leasing company, BKS-Leasing s.r.o has three business locations. Apart from its registered office in Bratislava, BKS-Leasing s.r.o has sales branches in Banská Bystrica and in Žilina. Our Slovak leasing subsidiary employed 9.3 persons (FTE). The leasing volume was EUR 23.5 million at year-end 2016.

RESOURCES AND SERVICES

PEOPLE AT BKS BANK

At the end of December 2016, BKS Bank employed 1,071 persons in Austria and abroad. There was a slight decrease in the headcount by 20 persons. The job image at BKS Bank staff corresponds to that of a modern international corporation:

- 78.8% of employees work in Austria, 10.7% in Slovenia, 6.3% in Croatia and 3.6% in Slovakia.
- 57.8% of our employees are women.
- 32% of our management staff are women. Our goal is to achieve a share of 35% by 2020.
- At 47.4%, the majority of employees are between 35 and 50 years old, with 32.6% over 50 and 20.0% younger than 35 years.
- 21 employees have physical disabilities.

EMPLOYMENT STRUCTURE

Employees by number of persons	2015	2016
Total number of employees	1,091	1,071
– thereof in Austria	868	844
– thereof in Slovenia	110	115
– thereof in Croatia	72	68
– thereof in Slovakia	37	39
– thereof in Italy	3	4
– thereof in Hungary	1	1
– thereof women	630	619
– thereof men	461	452
Full-time employees	851	822
– thereof women	403	384
– thereof men	448	438
Part-time employees	240	249
– thereof women	227	235
– thereof men	13	14
Employees with physical disabilities	18	21

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

An attractive employer

Open positions were filled only selectively in 2016. In total, we hired 66 persons of which 33 were women. BKS Bank's appeal as an employer is unbroken. Our recruiters processed 2,158 job applications in 2016. An indicator of the positive work climate is the high degree of loyalty of BKS Bank employees. The average duration of employment within the Group is 14.8 years. 58 employees celebrated a service anniversary, and one Austrian employee even celebrated 45 years of work at BKS Bank. An overview of our CSR activities that contribute enormously to our appeal as an employer is available on page 176 of this report.

Enthusiasm for learning

Life-long learning has been more than just a buzzword in the banking industry for many years. The banking sector is one of the most strongly affected by the advance of digitization. Additionally, we are seeing constantly tightening regulatory requirements and often very well-informed – internet – though also unsure customers. Therefore, BKS Bank invested heavily in the training and further education of its employees in 2016, because well-trained employees are a valuable competitive advantage.

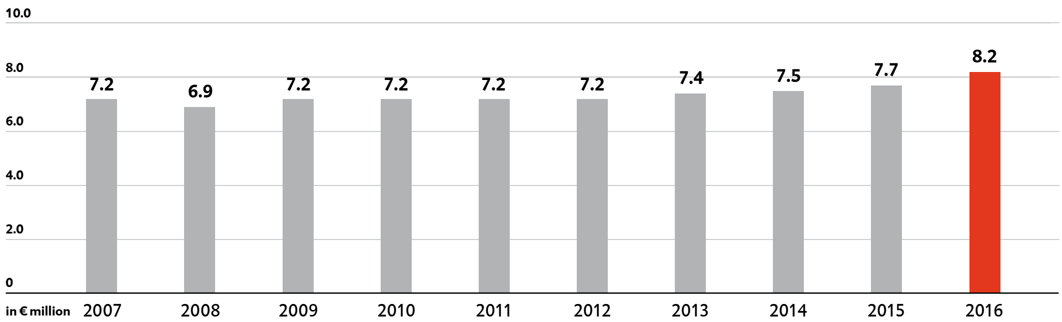
On the annual average, every employee spent 5 days in training; in total 39,008 training hours were completed. Our human resources management organized 234 internal further education courses. Apart from this, many employees attended seminars offered by reputed seminar organizers.

A new addition to the training cycle was the training course in reorganization which 24 employees attended. The training programme for customer relationship managers for corporates was also redesigned. The programme was adjusted to better meet the professional experience of the staff. Each training module is completed with a knowledge test. Also long-year customer relationship managers must complete the recertification every three years.

High productivity

The high degree of enthusiasm for learning and regular projects to improve efficiency substantially contribute to an increase in productivity. In the year 2007, business volume per employee was EUR 7.2 million, while today ten years later it is EUR 8.2 million. This is an increase of 13.9%.

DEVELOPMENT OF BUSINESS VOLUME PER EMPLOYEE



INFORMATION TECHNOLOGY

Digitization and IT play a central role at every bank. Because smooth processes and user-friendly customer applications are indispensable for the banking business today. Therefore, the trend towards digital solutions is a key element of BKS Bank's strategy. Our digitization plans are described in the Segment Report starting on page 115.

Joint IT service provider within the 3-Banken alliance

DREI-BANKEN-EDV Gesellschaft m.b.H (3BEG) is responsible for implementation of IT projects and IT operations.   3BEG is a joint subsidiary of Oberbank AG, Bank für Tirol und Vorarlberg Aktiengesellschaft and BKS Bank. It employs 236 persons on the annual average. The registered office of 3BEG is in Linz, and it also operates competence centres in Klagenfurt and Innsbruck. The interface function to 3BEG is run by our Operations Department. In 2016, 128 projects - some of which ran for several years - were processed. 79% of the projects planned for 2016 were succesfully finalized.

Regulatory requirements make IT adapations necessary

Apart from digitization, supervisory requirements are also a key reason for starting many IT projects. For example, in the reporting year we implemented projects relating to the central accounts register, the reporting of capital inflows and outflows and the “Common Reporting Standard (CRS), new anti-money laundering provisions as well as preparations for the implementation of MiFID II and IFRS 9. One of the main activities abroad was the necessary changeover of the IT systems due to the merger of BKS Bank into BKS Bank AG.

Large investments in IT technology

The great significance of information technology means that BKS Bank invests large amounts every year in the network infrastructure, and in hardware and software. IT costs were EUR 15.9 million in 2016. A further EUR 2.0 million were invested in information technology and not through 3BEG.

Among other things, the outdated self-service devices in our customer lounges were replaced, the network infrastructure was improved, preparations for the voice recording required in future under MiFID II were made, and the capacity of the lines at our branches were upgraded.

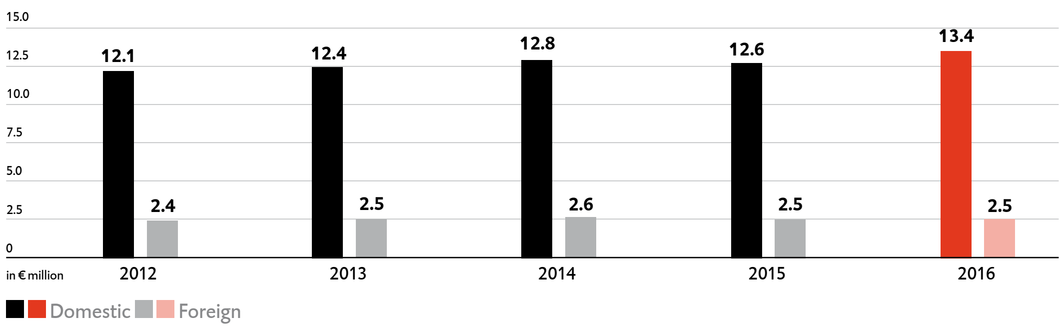
A simplified loan application and a simplified rating procedure for business customers was introduced at the beginning of 2017. With these new systems, standard business routines are more efficient, faster and less expensive starting from the decision-making process to contract creation and activation within the IT system. We expect processing costs to be cut by six employees (FTE) in the future. We also worked on the successive development of our workflow system and the related acceleration of procedures.

The roll-out of the sales cockpit in our international markets, the implementation of electronic loan records for retail customers, the further development of our payment systems and the introduction of a new reminder and collections system are just a few of the internal process innovations achieved in the past year.

With the progress of digitization, IT security is also shifting to the focus of attention. We took measures and made investments to fight cyber-attacks in the past business year, and looked very closely at the issue of cyber-security. The methods of the attackers are becoming increasingly sophisticated and our company was not spared from some of the attacks (e.g. fake president). The continuous development of our security systems and a higher awareness among employees for the issue have made it possible for us to recognize such attacks very early on and successfully ward these off.

Excellent system availability
The quality of the IT infrastructure is measured by the ratio of system availability. The so-called online availability during the prime shift from 8.00 a.m. to 5.00 p.m. was 99.9%. Also impressive is the fact that 99.6% of transactions have a response time of less than one second. And the multiple backup tests conducted yielded satisfactory results.

DEVELOPMENT OF IT COSTS



CONSTRUCTION, SECURITY AND VEHICLE FLEET

BKS Immobilien-Service Gesellschaft m.b.H. is responsible for all activities of the BKS Bank Group with a reference to construction. It is responsible for

- Project development, construction and facility management for our own properties and properties used by others
- Facility management
- Bank and work safety
- Service vehicles and
- Waste management

BKS Immobilien-Service GmbH manages and services 59 properties that belong to the Group with a surface area of more than 63,000 m². The changes in the number of properties and surface area versus the preceding year is due to the sale of two properties in Klagenfurt and the new acquisition of a property in Villach. 32,016 m² are used by BKS Bank itself and the rest is rented out. Rental income from rentals to third parties increased again in 2016 and was EUR 2.2 million (+4.8%).

In total, we invested EUR 4.0 million in construction work which was generally carried out by skilled Austrian tradespersons.

OVERVIEW OF PROPERTIES IN AUSTRIA BELONGING TO THE GROUP

	2015	2016
Number of properties	60	59
Total surface area in ²	61,979	63,159
– thereof used for banking operations in m²	31,864	32,016
– thereof rented to third parties in m²	25,070	26,059
Rental occupancy ratio in %	91.90	91.95
Net rental income from third party rentals in EUR millions	2.1	2.2

Palais Christalnigg: Baroque stucco ceilings masterfully restored
A highlight of skilled artisan work is the restoration of Palais Christalnigg in Klagenfurt. Palais Christnaligg will be used by BKS Bank as a training and educational centre in the future. The core of the city palace in Klagenfurt dates back to the 16th century. In 1724, the family of the Counts of Christalnigg came into possession of the palace. After World War II, the building was purchased by the then Bank für Kärnten, which is BKS Bank AG today. During the renovation work in 2014, a stucco ceiling of 600 m2 was discovered that is attributed to Kilian Pittner and his son, which were among the most important Baroque stucco artists in the Alpe-Adria region.

The restauration of the stucco ceiling was done by applying very fine artwork in traditional techniques. The layers of paint had to be removed layer by layer. Master builder Leopold Steiner and his restorers did this work manually using very small hammers and scalpels. Special attention was paid to preserving the orginal structure as far as possible. In a next step, the existing structure was reinforced using pure limestone mortar. However, parts of the stucco were missing and had to be remodelled by hand. In this case as well, only limestonde mortar was used just as in 1730 to restore the ceiling. The entire restauration work was carried out in close cooperation with the Federal Monuments Office. The images on the overleaf of this report give a brief impression of the carefully restored ceiling.

New branches up to the latest standards
During the reporting year work was not only on preserving the valuable, but on creating the new. BKS Immobilien-Service GmbH furnished the new branches in Žilina, Slovenj Gradec and Wagramer Straße in Vienna. The branches comform to the barrier-free standard defined in the specifications for rooms of BKS Bank.

High degree of customer satisfaction with branch furnishings
The look-and-feel of our branches was developed together with the experienced marketing expert Christian Mikunda. The objective was to create a place where our customers feel comfortable and offer them a brief escape from hectic daily life. Therefore, our branches have customer lounges instead of the usual foyers with self-service devices. They have lounge furniture and living room lighting. Our customer survey conducted in 2016 revealed that this concept has been well accepted by our customers. Nine out of ten persons interviewed stated that they feel comfortable in the BKS Bank branches.

Focus on energy efficiency
A further focus during the reporting year was on improving energy efficiency. Bearing this in mind, air conditioning and ventilation installations at the head offce were upgraded. Moreover, the employees of our facility management subsidiary were trained as energy auditors. Further information on our climate protection measures is given in the chapter Sustainability starting on page 176 of this report.

2017: assisted-living as an answer to demographic change
In 2017, construction work for a large project will start on the parking lot of the headquarters in Klagenfurt. The extensive preparatory work was completed in 2016. A residential park with four buildings with an underground garage will replace the current parking lot. Part of the building will be used for assisted-living facilities; these flats will be serviced by Hilfswerk Kärnten. The rising age of the population is increasing demand for such offers, also in Klagenfurt. With this construction project, BKS Bank contributes to mastering the demographic challenges the lie ahead.

Environmentally-friendly vehicle fleet management
The tasks of BKS Immobilien-Service GmbH include the management of the vehicle fleet. When buying new vehicles special attention is given to energy efficiency. Only new vehicles that comply with emissions standards 5 and 6, electronic automobiles and hybrid vehicles are acquired. In the course of the year, 76 vehicles were in use throughout the Group and 2,294k kilometres were driven for business travel.

Safety is a high priority
The safety of the employees has high priority at BKS Bank. We are happy to report that there were no bank robberies at our branches in 2016, and the number of work-related accidents was very low at four incidents. We invest regularly in modern safety technology and train our employees in workplace safety, which helps to maintain a high standard. Three workplace safety experts and 13 workplace safety officers are available to our employees as contacts for concrete questions. Together with the police department, we organize training courses regularly and webinars are also available on the intranet.

CONSOLIDATED COMPANIES AND EQUITY INTERESTS

At present, the relevant group of consolidated companies of BKS Bank includes 19 credit and financial institutions as well as companies that supply banking services including domestic and foreign leasing companies. The overview below is a visualization of the companies that belong to the BKS Bank Group pursuant to the International Financial Reporting Standards.

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

GROUP OF CONSOLIDATED COMPANIES

Credit institutions and financial institutions

BKS Bank AG, Klagenfurt	BKS-Leasing Gesellschaft m.b.H., Klagenfurt	BKS-leasing d.o.o., Ljubljana
BKS-leasing Croatia d.o.o., Zagreb	BKS-Leasing s.r.o., Bratislava	Drei Banken Versicherungs-agentur GmbH, Linz
Oberbank AG, Linz	Bank für Tirol und Vorarlberg Aktiengesellschaft, Innsbruck	ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H. Linz

Other consolidated companies

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

Full consolidated · Accounted for using the equity method · Accounted for on a proportionate basis

The group of consolidated companies of the BKS Bank Group includes, apart from BKS Bank AG, 14 credit and financial institutions and companies that supply banking-related services in which BKS Bank AG holds controlling interests. These consolidated financial statements are based on the uniformly prepared single-entity financial statements of all fully consolidated companies.

For the three companies recognized by the equity method in accordance with IAS 28, the carrying amounts of the investments are adjusted for the changes in the net assets of the respective entitites. Apart from Drei Banken Versicherungsagentur GmbH, the sister banks Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft are also recognized by the equity method. At year-end 2016, BKS Bank held a share of 14.2%, and 13.6% in these credit institutions, respectively, which is less than 20% of voting rights in each case; however, the voting rights are exercised under a syndicate agreement. This agreement makes it possible to participate in the financial and business policy decisions of these credit institutions of the 3 Banken Group, without exercising a controlling interest.

Die ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H. (ALGAR) is recognized in the consolidated financial statements on a proportionate basis. This investment is classified as a joint operation pursuant to IFRS 11.

The other fully consolidated companies which are mostly real estate companies provide mainly banking-related services. All other consolidated entities are recognized as available-for-sale assets.

There was one major change to the group of consolidated companies in the reporting year. The Croatian subsidiary BKS Bank d.d was merged into BKS Bank AG as of 30 September 2016. The banking operations at the locations Rijeka and Zagreb have been run since 1 October 2016 through an EU branch. The new company name of our EU branch is BKS Bank AG, Glavna podružnica Rijeka. To date, we are the only bank in the European Union to have carried out a cross-border merger of a Croatian bank with an Austrian bank.

CREDIT INSTITUTIONS AND FINANCIAL INSTITUTIONS

BKS Bank AG

BKS Bank AG is the parent company of the BKS Bank Group. Its registered office is in Klagenfurt. Its profit on ordinary business activities was EUR 37.1 million, thus contributing substantially to the Group earnings in 2016. Total assets of EUR 7.2 billion highlight its dominant position.

BKS-Leasing Gesellschaft m.b.H.

BKS-Leasing Gesellschaft m.b.H. is a 99.75% subsidiary of BKS Bank AG with business activities in vehicle, movables and real estate leasing. It is a member of the same taxable group as BKS Bank. At year-end 2016, the share capital was EUR 40.0k and the leasing volume EUR 159.7 million. BKS Bank AG supplies 8.3 person-years and the infrastructure for providing leasing contracts.

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

The two 100% subsidiaries BKS-Leasing Gesellschaft m.b.H. with their registered office in Ljubljana, and BKS-leasing Croatia d.o.o. with its registered office in Zagreb reflect the historical development of the business relations of BKS Bank with the Alpe Adria region. BKS-leasing d.o.o., which was acquired in 1998, reported a share capital of EUR 260.0k and a leasing volume of EUR 91.1 million at year-end 2016. The company had a staff of 13.4 persons (FTE) in financial year 2016. The focus of business is on vehicle, movables and real estate leasing. The foundation of the Croatian leasing subsidiary with its registered office in Zagreb took place in 2002. In 2016, it employed 11.8 persons (FTE). BKS-leasing Croatia d.o.o. managed a leasing volume of EUR 41.7 million in the reporting year.

BKS-Leasing s.r.o.

BKS-Leasing s.r.o. was acquired in 2007 as KOFIS Leasing a.s. and operated as a joint stock company until 30 September 2013. It was transformed into a limited liability company (GmbH) for business policy and administrative reasons.. The capital of the company at year-end 2016 was EUR 15.0 million and the leasing volume EUR 23.5 million. The company has its registered office in Bratislava. Its customers are mostly within the region demarcated by Bratislava, Žilina and Banskà Bystrica. BKS-Leasing s.r.o. employed 9.3 persons (FTE).

Oberbank AG

Oberbank AG was founded in 1869 under the name “Bank für Oberösterreich und Salzburg“. It has its registered office in Linz and is recognized in the consolidated financial statements of BKS Bank by the equity method. It is the leading independent bank for the middle market in its core regions of Upper Austria and Salzburg with a total of 159 branches in Upper Austria, Salzburg, Vienna, Lower Austria, Germany, Czech Republic, Slovakia and Hungary. At the end of 2016, Oberbank employed 2,048 persons.

Bank für Tirol und Vorarlberg Aktiengesellschaft

Bank für Tirol und Vorarlberg Aktiengesellschaft was founded in 1904. In addition to Oberbank AG and BKS Bank AG, it is the third independent credit institution with equal rights in the 3 Banken Group. Under the brand name BTV VIER LÄNDER BANK, it is represented not only in Tyrol, Vorarlberg and Vienna, but also in eastern Switzerland, Southern Tyrol and Germany with 36 branches and employs 1,350 persons in total.

ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H.
Die ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H. (ALGAR), Linz, is a joint subsidiary of 3 Banken Group. The purpose of the company founded in 1983 as a credit institution was to secure large credit risks of the three partner banks by assuming guarantees, sureties and other liabilities for loans, credit lines and lease financing. It is a non-profit company. The share capital of EUR 3.0 million is held 50% by Oberbank AG and 25% each by Bank für Tirol und Vorarlberg Aktiengesellschaft and BKS Bank AG. ALGAR is recognized by proportionate consolidation in the BKS Bank Group financial statements in accordance with IFRS 11.

Drei Banken Versicherungsagentur GmbH
In the second quarter of 2016, Drei-Banken Versicherungs-Aktiengesellschaft was transformed into Drei-Banken Versicherungsagentur GmbH through interim steps. Before this, as of 1 January 2016 all liabilities under the insurance business of Drei-Banken Versicherungs-Aktiengesellschaft were transferred to Generali Versicherung AG in accordance with the shareholders' resolution and after obtaining approval from the Financial Market Authority and the Federal Competition Authority. Since 1 January 2016, Generali Versicherung AG has been handling the insurance business sent to it by BKS Bank. The re-established Drei Banken Versicherungsagentur GmbH manages the remaining assets of the former company. Oberbank AG owns 40% in the company, Bank für Tirol und Vorarlberg Aktiengesellschaft, BKS Bank AG and Generali Holding Vienna AG each hold 20%.

OTHER CONSOLIDATED COMPANIES

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H.
BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H., Klagenfurt, was founded in 1990 and rents out the building of the headquarters of BKS Bank on St. Veiter Ring. There are further rental contracts for the underground parking lot, exterior parking areas and shops. BKS Bank AG owns 100% of BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H. indirectly through BKS-Leasing Gesellschaft m.b.H. and VBG Verwaltungs- und Beteiligungs GmbH. The company has a share capital of EUR 36.4k.

Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG;
IEV Immobilien GmbH
Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG acquires, rents out and leases and also sells plots of land and buildings of all kinds. As a subsidiary of the Group, it deals mainly with the erection and renting out of commercial space within the BKS Bank Group, with the management being assumed by IEV Immobilien GmbH as general partner. BKS Bank AG directly owns 100% in these companies. Both companies have their registered office in Klagenfurt.

BKS Hybrid alpha GmbH;
BKS Hybrid beta GmbH

The main object of business of the company set up in September 2008, BKS Hybrid alpha GmbH, Klagenfurt, and of BKS Hybrid beta GmbH established in April 2009 is the issuance of hybrid bonds and use of the proceeds of such issues to acquire Tier 2 capital bonds of BKS Bank AG. In accordance with the transitional provisions of CRR (Capital Requirements Regulation), it was only possible to partially recognize the proceeds raised in the reporting year from the issuance of hybrid capital, so-called "Additional Common Equity Tier 1 capital" of the group of credit institutions.

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

BKS Bank AG owns 100% of the shares in VBG-CH Verwaltungs- und Beteiligungs GmbH, which in turn holds 100% in LVM Beteiligungs Gesellschaft m.b.H. The object of business of these companies is mainly to assume the financing of the foreign subsidiaries of BKS Bank.

BKS Service GmbH

The 100% subsidiary of BKS Bank has a share capital of EUR 35k; its registered office is in Klagenfurt and it supplies banking-related services. The company is responsible for taking care of routine back office work and servicing the branches of BKS Bank. At year-end 2016, it employed 49.3 employees (FTE), which were seconded by BKS Bank AG to BKS Service GmbH with one employee under a direct employment contract.

BKS Immobilien-Service Gesellschaft m.b.H.

The company founded in 1973 as Liegenschaftsverwaltungs- und Verwertungs GmbH was renamed BKS Immobilien-Service Gesellschaft m.b.H. in 1994; it has a share capital of EUR 40k and serves mainly to rent out, buy and sell real estate. This 100% subsidiary seated in Klagenfurt takes care of all construction projects within the Group and is also the facility manager for all real estate properties of the BKS Bank Group. In the reporting year, the company received contributions from the shareholders of EUR 3.0 million to strengthen its equity for its expansion plans. BKS Bank AG seconded 9.0 persons (FTE) to this company; three persons are directly employed.

BKS 2000 - Beteiligungsverwaltungsgesellschaft mbH

The object of business of the wholly-owned Group company of BKS Bank with its registered office in Klagenfurt and a share capital of EUR 40k is essentially commercial trade, acquisition of properties and investments in other companies. At the end of 2016, the company held a stake of 30% in Beteiligungsverwaltung GmbH, 16.4% in Generali 3Banken Holding AG and 30% in 3-Banken Beteiligung Gesellschaft G.m.b.H.

FURTHER INVESTMENTS

INVESTMENTS IN CREDIT AND FINANCIAL INSTITUTIONS

Share in capital [1]	>50%	20% to 50%	10% to 20%	<10%
3 Banken-Generali Investment-Gesellschaft m.b.H.			15.43	
Oesterreichische Kontrollbank AG				3.06
BWA Beteiligungs- und Verwaltungs AG				0.89
3-Banken Wohnbaubank AG			10.00	
3 Banken Kfz-Leasing GmbH			10.00	

[1] Including direct and indirect stakes

OTHER SHARES IN AFFILIATED COMPANIES

Share in capital [1]	>50%	20% to 50%	10% to 20%	<10%
VBG Verwaltungs- und Beteiligungs GmbH	100.00			
E 2000 Liegenschaftsverwertungs GmbH	99.00			

[1] Including direct and indirect stakes

OTHER INVESTMENTS IN NON-BANKS

Share in the capital	>50%	20% to 50%	10% to 20%	<10%
DREI-BANKEN-EDV Gesellschaft m.b.H.		30.00		
3 Banken Versicherungsmakler Gesellschaft m.b.H.		30.00		
Bank deposit protection organisation (Einlagensicherung der Banken und Bankiers GmbH)				3.10
CEESEG AG				0.38
PSA Payment Services Austria GmbH				1.46

ASSETS AND FINANCIAL POSITION

Total assets of the BKS Bank Group was EUR 7.58 billion on 31 December 2016 which is far above the level of the financial year 2015 (+7.3%). The solid increase was driven mainly by higher loans and advances to customers. On the liabilities side, the volume of primary deposits reached a new record.

ASSETS

Steep increase in demand for loans

The lending business developed very well in the past financial year. At the start of 2016, it was not yet noticeable that the economy was starting to pick up, but by the fourth quarter 2016 demand for loans had risen steeply. Loans and advances to customers increased by 4.2% to EUR 5.33 billion, while the preceding year's figure was EUR 5.1 billion. Apart from the credit volume of the parent company BKS Bank AG, loans and advances to customers also include amounts lent by the domestic and foreign leasing companies. Our Croatian subsidiary BKS Bank d.d. was merged into BKS Bank AG 30 September 2016 with retroactive effect as of the beginning of the year. The credit volume of BKS Bank AG also includes EUR 176.6 million of the former subsidiary. In total, some 25.2% of loans and advances were granted to customers abroad.

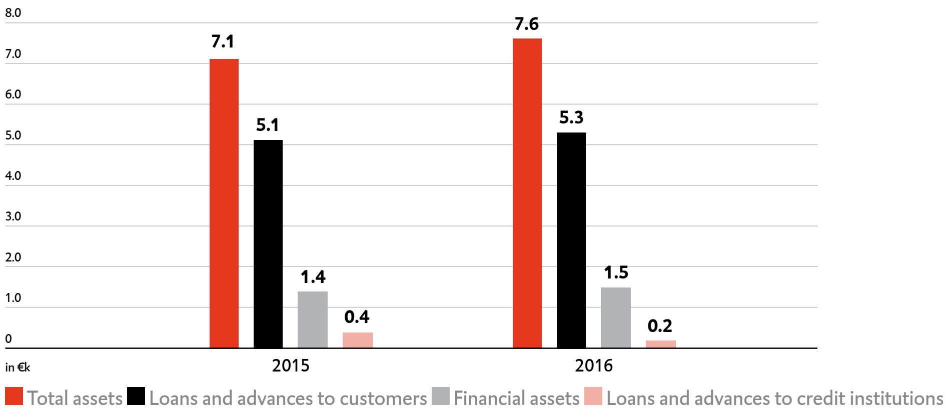
We are especially pleased about the robust increase in lending, because in the course of the year we were repeatedly confronted with substantial loan repayments due to the high level of cash on hand at many companies. As a regional bank with a reputation for trustworthiness, we succeeded in acquiring new retail and corporate customers interested in taking out loans, especially in the eastern part of Austria and in our foreign markets.

Charges for losses on loans and advances also developed very positively. Compared to the preceding year (EUR 193.7 million), the charges for losses on loans and advances decreased by 19.9% and stood at a very pleasing EUR 155.1 million as of 31 December 2016. Our efforts to lastingly improve the quality of our loan portfolio are reflected in these good figures.

Slovenian leasing company achieves best year ever

The leasing business of our domestic and foreign subsidiaries performed satisfactorily overall, with the different companies achieving varying levels. For our Slovenian leasing company, the year 2016 was by far one of the best in the history of the company. The roughly 13 employees acquired 72% more contracts than in the preceding year. The volume of new business increased by a remarkable 65% to EUR 39.8 million. Our Slovene customers appreciate our extensive advisory know-how and the speed and reliability of our services. Also satisfactory was the development of the Croatian leasing company. The leasing volume increased by 9.2% to EUR 41.7 million in 2016. Only the Slovak leasing company did not develop in line with our expectations.

DEVELOPMENT OF ASSETS



In Austria as well, demand for lease finance for cars, trucks and other capital goods is stable. As we have not been able to profit from this trend to a sufficient degree, we started re-positioning our Austrian leasing company on the market in the business year 2016. In 2017, we expect this move to have an impact on earnings. In 2016, the leasing volume of BKS-Leasing GmbH was EUR 159.7 million which is a slight decrease versus the preceding year.

The share in foreign currency in the financing decreased again substantially in the reporting period. The share of foreign currencies (FX ratio) was only 4.5% on 31 December 2016. We expect the risks of foreign currency loans to increase significantly due to economic and political uncertainty. Therefore, we continue to work on reducing the share of FX loans. The low level of EUR interest rates offers a good setting for switching to euro loans. Unfortunately, some customers are very persistent and even if the conditions are attractive for a switch, they cannot be motivated to move out of their foreign currency loans.

Financial assets are an important steering instrument
Investments in fixed interest securities are an important management element for complying with statutory liquidity requirements. In times of negative interest rates though, it is hard to find the right investments. Yields on 10-year German bonds moved into negative territory for the first time in 2016 and at the end of December 2016 the reading was 0.21%. Financial assets increased by 2.7% to EUR 1.48 billion. The decrease in the fair value-through profit or loss portfolio by more than one third resulted from the expired fair value hedges of the year 2016. By contrast, AfS assets increased by EUR 22.6 million or +13.6% from EUR 166.7 million in 2015 to EUR 189.3 million. The increases were driven mainly be new investments. The held-to-maturity portfolio widened marginally by 3.2% to EUR 747.8 million. We have high quality liquid assets in this position. This is how we ensure compliance with minimum liquidity standards.

The shares of companies measured by the equity method increased in the reporting year by 7.4% to EUR 470.9 million year-on-year. This increase was a result, on the one hand, of the successful capital increase carried out by Oberbank AG, and on the other, of the addition of net profits of the companies recognized by the equity method, which are primarily our sister banks Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft. All investments have been analysed for potential impairment. In total, three investments of EUR 1.6 million were impaired.

Cash reserves, which consist of cash and balances with the central banks, increased substantially to EUR 543.5 million as at 31 December 2016. This high level is due to the good liquidity situation of our corporate customers. The other asset positions such as property, plant and equipment, real estate held as financial investments, intangible assets as well as the item other assets did not undergo any changes of mention in the reporting year.

EQUITY AND LIABILITIES

Primary deposits hit new record

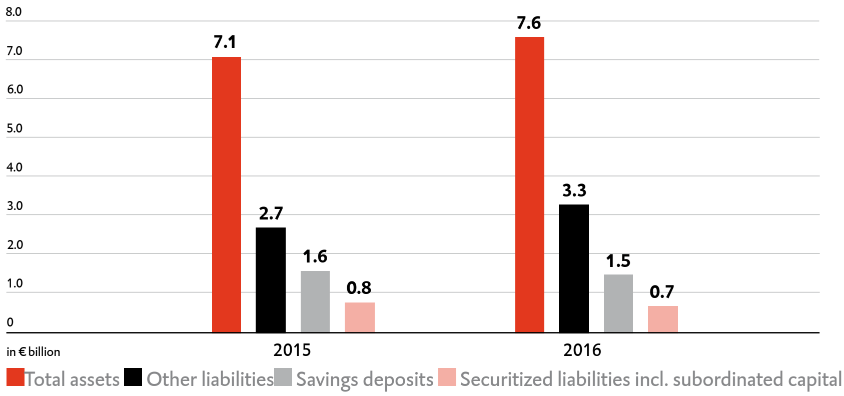
Primary deposits reached the highest level in the history of the company of EUR 5.57 billion on 31 December 2016. This development was a surprise for us considering the persistent low-interest environment. We interpret this as a sign of the high degree of trust people have in our bank. As primary deposit balances are the most important source of refinancing, we are very pleased about this increase. At the same time this development has a slightly bitter aftertaste, because we have to pay negative interest of 0.4% for depositing customer funds with the central banks.

The predominant position in loans and advances to customers was once again sight and term deposits which increased steeply by EUR 573.9 million or 21.1% to a total of EUR 3.30 billion. As already reported, the substantial rise was driven by the good liquidity situation of our corporate customers, especially in Slovenia. We recorded a strong rise in deposits there with EUR 351.9 million. By contrast, savings deposits decreased by 6.2% to EUR 1.53 billion. This is an impressive figure considering that classical savings products are still losing their appeal due to the low level of interest rates.

At EUR 544.7 million (-5.5%) securitized liabilities lagged behind the previous year's level of EUR 576.3 million on account of the difficult interest rate environment. Despite the historically low interest rates, we are making every effort to be able to offer our customers long-term investments. Last year, we issued a step-up bond with an interest bandwidth of 0.75% to 3.0%. In April 2016, we issued a junior capital bond with a life of 8 years and an interest rate of 2.75% to strengthen our subordinated capital. The issue was a success and subordinate capital increased by EUR 16.8 million or +9.3% and amounted to EUR 198.6 million at year-end 2016.

The Group's equity - this includes subscribed capital, capital reserves, profit and other reserves - rose in the reporting year to EUR 958.8 million (+11.5%). As set out in note no. 32, the subscribed capital rose due to the latest capital increase with a ratio of 10:1 by EUR 7.2 million to EUR 79.3 million. We allocated EUR 50.0 million to the capital reserves, while the dividend payout of EUR 8.1 million in May 2016 had the effect of lowering equity.

DEVELOPMENT OF LIABILITIES



RESULT OF OPERATIONS

The financial year 2016 remained challenging due to the sustained low level of interest rates, the stringent regulatory requirements and a highly competitive market. Even though the demanding market situation made it harder for us to attain our strategic goals, the year 2016 was a successful one for BKS Bank. Once again, BKS Bank has proven the value of its business model geared to achieving sustainable growth.

BKS Bank attained a consolidated net profit before tax of EUR 49.8 million as at 31 December 2016. Although at this level we did not achieve the excellent result of the preceding year of EUR 60.7 million, which was characterized by special factors, we are generally satisfied with the development of business in 2016 in the light of the difficult environment. The decrease in profit by around 18.0% is due largely to the charge for the stability tax of EUR 7.8 million.

SUSTAINED PRESSURE ON INTEREST BUSINESS

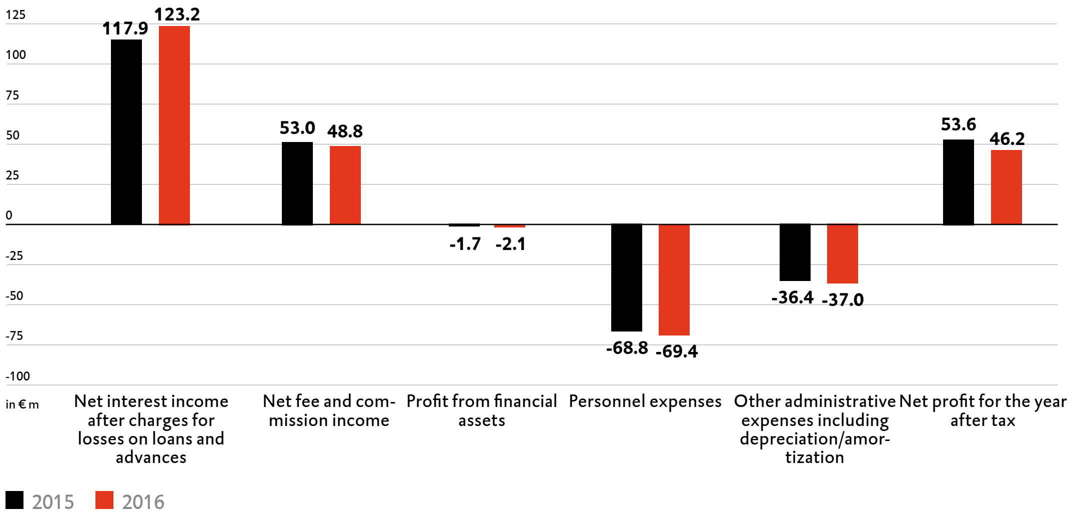
Net interest income before impairment provisions was EUR 154.2 million, which at -7.4% is clearly below the level of 31 December 2015. The continued decline of market interest rates caused interest income to drop by 8.6% to EUR 161.0 million and was only partly offset by the decline in interest expenses. Interest expenses decreased by 23% to EUR 40.5 million and besides savings deposits, these also concerned expenses for sight and term deposits. Pressure on margins continued unabated in our core markets of Carinthia and Slovenia. At a financing margin of 1.86% after 1.90% in the preceding year, we succeeded in defending the level quite well. Margins on deposits were burdened by the level of market interest rates and flattened further year-on-year from 0.01% to -0.05%. In the segment of institutional deposits, negative interest was charged.

The profits of the companies assessed by the equity method - especially Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft - contributed EUR 33.7 million to interest income. The decline of almost one third was caused by the special effects of the equity method measurement of Bank für Tirol und Vorarlberg Aktiengesellschaft. In the preceding year, Bank für Tirol and Vorarlberg Aktiengesellschaft reported substantial hidden reserves due to the restructuring of its securities portfolio.

KEY COMPONENTS OF THE INCOME STATEMENT

in €m	2015	2016	± in %
Net interest income	166.4	154.2	-7.4
Charges for losses on loans and advances	-48.5	-31.0	-36.1
Net fee and commission income	53.0	48.8	-7.8
Net trading income	2.3	1.7	-26.0
Profit from financial assets	-1.7	-2.1	-23.6
General administrative expenses	-105.1	-106.4	1.2
Profit/loss for the year before tax	60.7	49.8	-18.0
Tax on income and earnings	-7.1	-3.6	-49.1
Profit/loss for the year	53.6	46.2	-13.9

COMPONENTS OF THE INCOME STATEMENT



Based on the much improved risk situation, charges on losses and advances decreased to a gratifying EUR 31.0 million versus EUR 48.5 million in the preceding year. This decline was due mainly to the lower allocations for individual impairment losses recognized. Compared to the previous year, we allocated EUR 16.0 million less. This positive development was the result of the improved structure of the credit portfolio. The volume rated as at risk of default 5a to 5c has substantially decreased by EUR 131.0 million. The volume allocated for charges for losses on loans and advances was EUR 42.4 million of which EUR 4.0 million were for commissions paid to ALGAR. The level of credit risk provisions in percentage of the average outstanding liabilities including contingent liabilities was 2.7%.

We allocated EUR 360.6k for the credit risk of our foreign leasing companies. Of this amount, EUR 332.2k and EUR 107.8k, respectively, were allocated for the Slovenian and Slovak leasing companies, while the Croatian BKS-leasing Croatia d.o.o. released provisions of EUR 79.4k on balance.

DEVELOPMENT OF IMPAIRMENT CHARGES

in € m	2015	2016	± in %
Direct write-offs	0.9	1.0	9.4
Impairment allowances	58.4	42.4	-27.4
Impairment reversals	-10.0	-11.3	13.7
Subsequent recoveries	-0.8	-1.0	30.3
Impairment charge on loans and advances	48.5	31.0	-36.1

Net interest income after impairment charges increased by 4.5% to EUR 123.2 million after EUR 117.9 million year on year.

NET FEE AND COMMISSION INCOME LOWER THAN EXPECTED

The net fee and commission income developed disappointingly and remained clearly below our expectations at EUR 48.8 million. The considerable decrease was caused by the slow securities business and by declining commissions on loans.

Net fee and commission income from the securities business shrunk markedly by 7.2% to EUR 13.0 million. Stock markets fluctuated very widely throughout the entire financial year 2016. Therefore, investors acted defensively which was also reflected in declining securities turnover which went down from EUR 4.53 billion to EUR 4.28 billion. The volume on securities accounts increased by 0.7% due to the acquisition of a brokerage firm in Slovenia. On the whole, we have 250 portfolio accounts with a securities volume of around EUR 100 million.

In the area of financing, the challenge was defending our pricing policy. Despite our hard efforts, the result from loan commissions deteriorated to EUR 13.0 million, which is a drop of EUR 1.4 million (-9.8%) year on year. In contrast, commissions on payment transfers remained almost constant. At a profit of EUR 19.4 million after the EUR 19.7 million in 2015, the key business area of payment transfers is again contributing stably to the total earnings.

Foreign exchange commission income continued to flatten as expected. In the preceding year, the conversion of CHF loans boosted net profit to EUR 3.6 million, while it decreased strongly until the close of December 2016 and was only EUR 2.2 million.

DIVERGENT DEVELOPMENT OF FINANCIAL ASSETS

Net income from financial assets remained more or less at last year's level at EUR -2.1 million. The income from financial assets at fair value through profit or loss reversed into negative territory and was EUR -1.9 million. This development is attributable to the improved own credit spreads, which resulted in an increase in expenses on own issues that were secured by a fair value option. The income from financial assets available for sale improved significantly year on year, but was still slightly negative at EUR -0.4 million. Income on assets held to maturity was EUR 0.2 million at year-end.

Net trading income decreased in the reporting period by 26.0% to EUR 1.7 million. Decisive for the decline were the small profits on the foreign exchange business.

GENERAL ADMINISTRATIVE EXPENSES STABLE

General administrative expenses increased year-on-year by only 1.2% to EUR 106.4 million. The increase was only minor due to our strict cost management. A major portion of general administrative expenses is attributable to personnel expenses which posted only a slight rise at EUR 69.4 million (+0.9%). The collective agreements reached to increase wages by an average of 1.2% reflects this development. Generally, we act very defensively when filling vacancies. The average headcount increased versus 2015 by only 3 to 926 employees (FTE).

Other administrative costs amounted to EUR 30.5 million in the reporting period, which is 4.3% higher year on year. The increase results primarily from higher expenses in IT and facilities management. Write-downs decreased by contrast by 8.3% to EUR 6.5 million.

TAX BURDEN DEPRESSES OTHER OPERATING INCOME

The item other operating income shows quite impressively the high burden that banks must bear. The negative result of the year 2015 deteriorated by a further EUR 9.7 million and was EUR 15.4 million as of 31 December 2016. This decrease was due on the one hand, to expenses for the winding up and deposit protection fund amounting to EUR 4.1 million, with the amount paid into the deposit protection fund being due for only half the year, and on the other, due to the one-off payment of EUR 7.8 million for the reformed stability tax. We reached the decision not to opt for the payment distributed over four financial years. We welcome the long-awaited reform of the banking tax, because this supports our international competitiveness. However, the one-off payment was a heavy burden for the domestic economy. We hope that in the future we will not be confronted again with such an unreasonable charge on banks.

NET PROFIT

In 2016, BKS Bank earned a consolidated net profit before tax of EUR 49.8 million following EUR 60.7 million in the preceding year. After deducting taxes of EUR 3.6 million, the net profit after tax for the Group was EUR 46.2 million. Considering the challenging market environment and the increased tax burden, we view this result as quite satisfactory.

PROPOSAL FOR THE DISTRIBUTION OF THE PROFIT

The distributable profit is based on the net profit of the parent company BKS Bank AG. BKS Bank AG earned an net profit of EUR 29.4 million from 1 January to 31 December 2016 after EUR 25.7 million in the preceding year. Reserves of EUR 20.4 million were set aside from the net profit. Taking into account the profit carried forward of EUR 0.3 million from the preceding year, BKS Bank AG reports a net profit of EUR 9,384,972.96. At the 78th annual general meeting on 9 May 2017, the proposal was made to pay out a dividend of EUR 0.23 per share, which is EUR 9,117,108 and to carry the remainder of EUR 0.3 million to the new account.

PERFORMANCE RATIOS

The lower net profit year on year also affects the key performance ratios, of course. Return on equity (RoE) before tax decreased from 7.3% to 5.5% and return on assets (ROA) after tax dropped from 0.8% to 0.6%. The cost/income ratio developed contrary to our expectations at 56.2%. Year on year, the cost/income ratio deteriorated by 7.5%-points There were two factors that were responsible for the disappointing rise.

– lower net interest income and net fee and commission income
– the one-time payment of EUR 7.8 million on the stability tax. Without these special effects, the cost/income ratio would be 54.0%.

In contrast, the risk/earnings ratio developed excellently. At year-end 2016, it was 20.1% compared to 29.2% in the preceding year due to the measures we took to improve the quality of our credit portfolio. Both the equity ratios and also the leverage ratios improved after the successful placement of the capital increase. We provide more details in the chapter on consolidated own funds as of page 130. The LCR ratio reached 155.6% on 31 December 2016 and has been far above the level of 100% that must be reached in stages by 2018 as applicable since October 2015. IFRS earnings per shares was EUR 1.26 as at 31 December 2016.

KEY PERFORMANCE INDICATORS

in %	2015	2016	± in %-points
ROE before tax (net profit/loss / Ø equity)	7.3	5.5	-1.8
ROE after tax	6.5	5.1	-1.4
ROA after tax (net profit/loss / Ø equity)	0.8	0.6	-0.2
Cost/income ratio (cost/income coefficient)	48.7	56.2	7.5
Risk/earnings ratio (credit risk/net interest income)	29.2	20.1	-9.1
LCR ratio	130.7	155.6	24.9
Leverage ratio	7.7	8.5	0.8
Common Equity Tier 1 ratio	11.8	12.6	0.8
Own funds ratio	12.3	13.5	1.2
IFRS earning per share in issue in €	1.50	1.26	-0.24

SEGMENT REPORTS

The segment corporate and business banking is by far BKS Bank's most successful one. A large share of our net profit is earned in the segment corporate and business banking. We have been making steady earnings in the segment financial markets despite the volatile market environment. The retail banking segment is currently our weak spot. The low level of interest rates is causing earnings to shrink. Our goal is to return to profitability in this segment as well by 2020.

CORPORATE AND BUSINESS CUSTOMERS

We served some 18,600 customers in the segment corporate and business banking in 2016. This customer segment includes many firms from the industrial sector, commerce and trade, as well as from the free professions, farming and forestry and also as municipalities and the public sector.

Corporate and business banking has a long tradition at our bank. Already at the time of its founding in 1922, the object of our business was primarily supplying banking services to business customers. Today, this segment is still the most important operational business unit. A large share of the loans we grant go to corporate and business customers.

SOLID SEGMENT EARNINGS

Net interest income developed positively in the reporting year at EUR 85.5 million compared to EUR 82.9 million in the preceding year. The good net income interest is attributable to two success factors: First, we have managed to keep margins at a reasonable level despite historically low interest rates. Second, the higher credit volume and our stricter policy on loan terms have had a positive effect on net interest income. Net fee and commission income by contrast decreased by 6.4% to EUR 26.8 million. The decline is the result of the downtrend in net fee and commission income from foreign payment transactions, while the net fee and commission income from business within the country rose slightly. Our goal is to continuously expand our sales activities in payment transfers, which we did very well in 2016.

CORPORATE AND BUSINESS BANKING

in € m	2015	2016
Net interest income	82.9	85.5
Impairment charge on loans and advances	-44.1	-29.7
Net fee and commission income	28.6	26.8
General administrative expenses	-43.2	-45.9
Other operating income net of other operating expenses	0.1	1.7
Profit/loss for the year before tax	**24.3**	**38.4**
ROE before tax	9.9%	15.4%
Cost/income ratio	38.7%	40.2%
Risk/earnings ratio	53.2%	34.7%

Credit risk developed highly satisfactorily. The improving economy helped keep us from being hit by any major cases of insolvency in 2016. Moreover, the internal measures taken to improve the structure of the portfolio are showing results. Compared to the same period of the preceding year, impairment charges decreased by a pleasing EUR 14.4 million to EUR 29.7 million. By contrast, general administrative expenses increased year on year by 6.3% to EUR 45.9 million. This increase was due to the costs of IT services. Other operating income was EUR 1.7 million on 31 December 2016. In total, in the financial year 2016 we attained a net profit before tax of EUR 38.4 million, which is a gain of EUR 14.1 million.

The excellent development of business is reflected in the improved management benchmarks. Return-on-equity based on the net profit and allocated equity EUR 249.6 million increased from 9.9% to a noteworthy 15.4%. The cost/income ratio was 40.2% as of 31 December 2016, which is slightly worse by 1.5%-points. The excellent risk situation boosted the risk/earnings ratio to a gratifying 34.7%, which is an improvement by 18.5%-points.

Robust increase in demand for loans

Loans to corporate and business customers were up by 4.4% to EUR 4.15 billion as of 31 December 2016. A share of 75% of all loans granted by BKS Bank Group were for corporate and business customers. We are especially pleased about this development, because 95 years after the establishment of our bank we are still following the business philosophy of our founding fathers – to serve and support the economy.

The share of leasing receivables increased by EUR 4.8 million to EUR 290.8 million. We saw an especially dynamic development in Slovenia in this business area in 2016. Many companies use leasing as a useful alternative to loan financing that does not burden liquidity and is neutral on the balance sheet. Also in 2017, leasing will continue to be a focus in corporate and business banking.

The share of foreign currency loans in corporate lending has always been very low at our bank. In the reporting year 2016, the FX ratio flattened further and was only 2.5% on 31 December 2016.

We have established a solid reputation in Slovenia as a finance partner for municipalities. The volume of loans to local governments rose from EUR 43.1 million to EUR 68.6 million.

Primary deposit balances reach all-time high

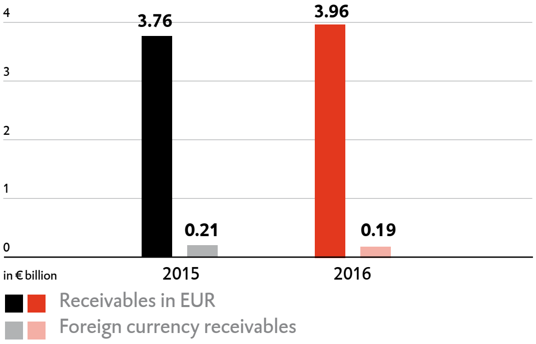
We are a reliable partner for our corporate and business customers not only in finance services, but there is also a growing number of companies that come to us to invest their money. The volume of sight and term deposits increased considerably by 25.3% to EUR 2.41 billion. This increase was driven by the good liquidity situation of our corporate customers. For the first time in the history of the corporate and business segment, we have recorded more deposits than in the traditionally much stronger retail segment. EUR 854.5 million have been deposited by our Slovene corporate customers. We have established a good reputation in Slovenia, during the banking crisis. Many corporate and business customers rely on the high quality of our advisory services and appreciate working with us for our fast and efficient processes.

Customized solutions for our corporate and business customers

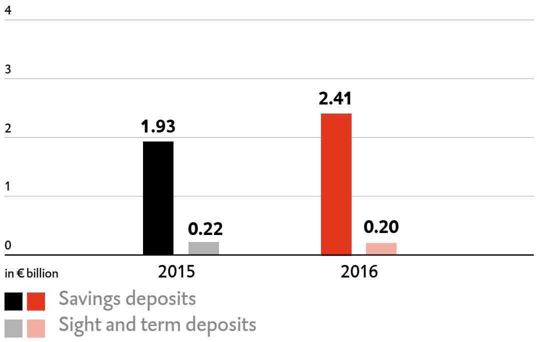
We offer our corporate and business banking customers a broad range of financing products. In personal talks, we arrange working funds and project finance, lease and export finance, guarantees and loans under subsidized finance schemes for our customers that are specifically designed to meet their needs.

An important area of business is export subsidies. Our many years of experience and the excellent expert knowledge of our customer relationship managers are highly appreciated by our corporate and business customers. We also expanded our customer base in the area of finance services for subsidized loan schemes for investments in capital goods. In 2016, the volume of new loans increased by EUR 45.6 million. We create economic benefits for our corporate and business customers by taking into account the right mix of finance, subsidy and security aspects. We have extensive knowledge of the wide range of subsidized loan options available in Austria and in the EU and maintain excellent relationships with the competent bodies.

RECEIVABLES FROM CORPORATE AND BUSINESS BANKING CUSTOMERS



PAYABLES TO CORPORATE AND BUSINESS BANKING CUSTOMERS



For several years, we have been employing the concept of sales specialists in areas requiring extensive advisory services for export finance, subsidized investment finance, payment services and leasing. Apart from providing support to customer relationship managers for advisory talks, the sales specialists also investigate the potential for further business in the respective areas. The aim is to strengthen our market position in business areas with little impact on equity such as payment transfers and the securities business, but boost the cross-selling ratio.

In corporate banking we provide support to large corporates with sales revenues of over EUR 75 million as well as to institutional customers. At year-end 2016, we processed a finance volume of EUR 509.0 million of which EUR 262.0 million were extended within syndicated loans. The success of this unit is based, among other things, on the deployment of sales specialists who work mainly for this business area.

In 2016, advisory services for company retirement schemes was enlarged in the corporates segment with the support of 3 Banken Versicherungs-makler Gesellschaft m.b.H. A special focus was placed on reinsurance coverage for post-employment benefits already committed. This segment expanded strongly in 2016 and accounted for 18% of total revenues from the insurance business generated through our bank.

Quality of advisory services confirmed in customer survey
The high quality of our customer advisory services was confirmed in a survey conducted in the spring of 2016. Eight out of ten corporate customers stated that they were "very satisfied or at least quite satisfied" with BKS Bank in general. In the few years, we have successively been increasing the number of corporate customers being served, and also in 2016. In both Slovenia as well as in Vienna and Styria, we have succeeded in convincing new corporate customers of our range of services and products. We acquired a net balance of 550 new corporate customers. We plan to continue our expansionary policy in the growth regions and open new locations, above all, branches specialized in corporate and business banking.

Payment services gaining significance
The ubiquitous buzzword 'digitization' has been a tradition in corporate and business banking for a long time. Mainly the area of payment services has seen very fast advances in innovation in the past years. Many of these new services offer clear efficiency benefits. With the advance of digitization and its related possibilities, we believe there are great opportunities for making payment services even more efficient for our corporate and business customers.

Therefore, we offer our customers an analysis of their specific payment transfers and advise them on the new payment methods, modern cash register options, near-field contactless payment and payment options for online sales. A further area we are concentrating on is providing advisory services on the use of QR codes for billing purposes. Efficiency can be increased significantly by the automated settlement of incoming payments. We revised our terms and conditions for foreign payment transactions in the past financial year and increased price transparency for our customers enormously.

In the reporting year, we defined the path for the major digitization projects. In this context, we want to further the automation of settlement processes and also provide our customers with customized online products and services. We are working intensely on enlarging our new customer portal BKS Bank Online for our corporate customers. The issue of security is also of great importance in this context. Both our customers and our bank are repeatedly confronted with attempts of fraud and cyberattacks. We informed our customers at an event of the entrepreneurial risks and protection methods in connection with cyber-attacks.

OUTLOOK CORPORATE AND BUSINESS BANKING

Our strength in the corporate and business banking segment is advisory excellence with personal services provided by the assigned customer relationship managers. We intend to continue this policy in the future as well. Geographically, we believe there is a great market potential in Vienna and surroundings, and in our foreign markets. We will successively proceed with our expansion plans in these regions. Our efforts will concentrate on acquiring new corporate customers through a moderate expansion of our branch network. Apart from this, we have planned a series of strategic measures for the year 2017 designed to improve our profitability and productivity in the corporates and business banking segment. For example, we plan to focus on promoting the leasing business. In 2017, we plan to commence with direct lease sales in the regions. The fast and uncomplicated settlement of standardized leasing transactions is a key element of our success. To attain our strategic goals, acquire market shares and new customers, we will concentrate on the expansion of finance for local governments and also on acquiring well-established manufacturing companies as customers this year. In agriculture, we plan to expand our sales activities to target farmers and winegrowers.
And as already mentioned, we will invest substantially in the digitization of our corporate customer processes and products.

Preserving Our Customer Orientation

Wolfgang Mandl
Member of the Management Board

RETAIL CUSTOMERS

In retail banking we provide services to private individuals, members of the healthcare professions and private banking customers. In last financial year, we served around 133,600 customers in this segment.

For banks, the retail customer segment long since stopped being profitable. The extremely flat interest rate curve is having a negative impact on margins on deposits. For classical commercial banks like BKS Bank, this is an enormous challenge, because the commission business is an important source of revenues. Profitability is also depressed by the costs of the branch network. Moreover, the changing behaviour of customers is making it necessary to redesign the concept of our branches. The frequency of visits to branches is steadily decreasing and many daily banking transactions are being done online. This cultural transformation means that the bank has to get closer to customers and proactively address their needs to remain successful.

RETAIL BANKING SEGMENT

in € m	2015	2016
Net interest income	27.2	26.2
Impairment charge on loans and advances	-2.1	-1.3
Net fee and commission income	23.2	21.7
General administrative expenses	-49.6	-51.9
Other operating income net of other operating expenses	-0.2	1.9
Profit/loss for the year before tax	**-1.5**	**-3.5**
ROE before tax	-3.7%	-8.8%
Cost/income ratio	98.7%	104.4%
Risk/earnings ratio	7.8%	5.1%

DEVELOPMENT OF EARNINGS UNSATISFACTORY

Considering the adverse factors described above, the result of the segment for the financial year 2016 decreased again. Even our intensive cross-selling activities failed to stop this trend. Net profit/loss for the year before taxes was EUR -3.5 million on 31 December. Year on year, this is a decline by EUR 2.0 million. Net interest income dropped by 3.8% to EUR 26.2 million. Nonetheless, this is still a stable development considering that interest rates levels have been at zero for years now. Net fee commission income was disappointing. Net fee and commission income decreased by 6.8% to EUR 21.7 million after EUR 23.2 million in the preceding year. This decline was due to the sluggish securities business and also to the low level of earnings on foreign exchange transactions.

The expenses attributable to this segment of EUR 51.9 million increased versus 2015 by 4.6%.
Other operating income improved to EUR 1.9 million thanks to lower provisions requirements.

The key management benchmarks show the negative development of the retail business. The cost/income ratio deteriorated to 104.4%, which is 5.7%-points higher versus 2015.

Return on equity dropped from -3.7% to -8.8% due to the development of earnings. However, remarkable among the indicators is the good risk/earnings ratio with an excellent 5.1%. The risk situation in the retail business is still very relaxed on account of the rigorous lending policy pursued.

Slight increase in private loans

The credit business developed positively in the course of 2016. Demand for loans for residential housing and real estate as well as for consumer spending rose year on year by 3.7% to EUR 1.18 billion. At the start of 2016, we created a new product for senior citizens, the 'BKS Silberkredit', as this customer group has had only limited access to the credit market up to now. In just the first year, we granted a loan volume of EUR 4.8 million. The 'BKS Silberkredit' is the successful enlargement of our range of sustainable finance products. Since 2015, we have also been offering our Slovenian customers a 'Green Loan' oriented on climate protection. This loan for financing energy-saving construction measures or for renovation work is very popular. Year on year, the credit volume increased threefold from EUR 1.5 million to EUR 4.7 million.

The risk situation in private lending continues to be relaxed. Charges for losses on loans and advances decreased markedly by 36.7% to a gratifying EUR 1.3 million.
The reduction in the volume of CHF foreign currency loans progressed briskly also in 2016. The volume of loans in CHF dropped by EUR 30.6 million to EUR 136.6 million. The FX ratio as of 31 December 2016 was 12.4% versus 16.2% in 2015. As already mentioned, we do not understand why our customers are so hesitant about converting these loans into euro loans. In any case, we will continue to provide our customers with extensive information on the risks of loans in foreign currencies.

Solid level of savings deposits

In the retail business we are currently struggling with profitability, but it is nonetheless an indispensable business area for us. A large part of our savings deposits – namely a substantial share of 87% – comes from our loyal savings accounts customers. In the reporting year, outflows from savings deposits were 5.8%, but the level of EUR 1.33 billion is still very good. We recorded a gain of 10.9% in term and sight deposits which stood at EUR 0.9 billion at year-end 2016.

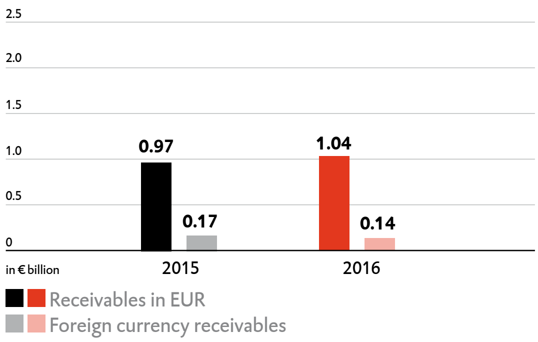
High quality of advisory services confirmed by customer surveys and testing

In the spring of 2016, we conducted a survey of customer satisfaction in the retail segment. Almost 9 out of 10 retail customers are very satisfied or at least quite satisfied with BKS Bank. Customers rated the high quality of our advisory services and the well-written information in the right quantities as very good, assigning grades from 8 to 10. The recommendation rate was excellent at 48%. According to this reading, every other customers would recommend BKS Bank to friends and acquaintances. Apart from this, we were also awarded the 'FMVÖ Recommender Award' for "excellent customer orientation" in the category "regional banks" in May 2016. We also have two achievements to report for 2016: We were named winner in two studies conducted by Gesellschaft für Verbraucherstudien (ÖGVS), namely the study "Beratung bei Immobilien-finanzierungen 2016" (advisory services for real estate finance) and the study "Anlageberatung" (investment advisory services).

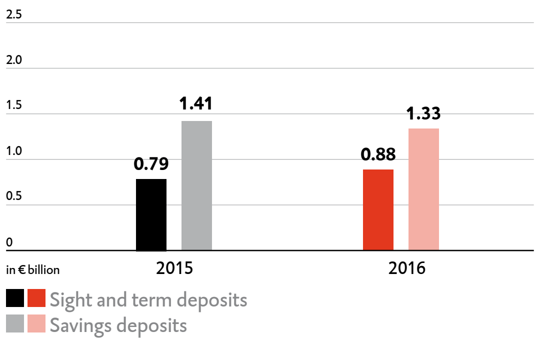
Higher number of customers

The excellent satisfaction ratings are supportive for attaining our strategic goals, acquiring market shares and increasing the number of customers. In the reporting year, we acquired some 1,400 new retail customers. A steady increase in the number of new customers was seen, above all, in our growth regions of Vienna and Slovenia. On the Carinthian market, however, we experienced a slight decrease due mainly to the demographic developments.

RECEIVABLES FROM RETAIL BANKING CUSTOMERS



PAYABLES TO RETAIL BANKING CUSTOMERS



Wider range of digital offers
Since 2016, the new customer portal, BKS Bank Online, has been in operation in all our markets. Since we completed the migration of current online banking users to the new system, we have acquired 4,500 new users, a gain of 13%. The electronic mailbox integrated into the customer portal is especially popular among customers.
The secure communications channel between customers and account managers has been well-received and also the electronic sending of account statements and securities documents highly popular.

Also available on the customer portal from April 2016 is our new investment module. Our customers can use it to conveniently place buy and sell orders at any time or to obtain an overview of their portfolio account. Apart from a clear display of all transactions, it also offers a graphical visualization of the composition of the portfolio and detailed information on each security.

In the year 2016, we were very satisfied with the development of the BKS app, which has been on the market since 2013. In 2016, we recorded an increase in users of 29.1%. More than 20,000 BKS Bank customers already use the BKS app for payment services and information. We are also very pleased that the app's ratings on the diverse app stores are all positive.

Cashless payments on the rise
The Maestro card – also known as the bank card – is by far the most frequently-used means of payment second only to cash. In this context, it is clear that the trend is moving towards cashless payment transactions. While on average every bank card is used for 1.5 withdrawals from ATMs per month, the figure for payments at shops using the bank card is 5 times per month. The NFC function is also a success story. More than 20% of all transactions are done efficiently and securely using the NFC functionality. Before this backdrop, the emotional debates about the introduction of fees on withdrawals from cash dispensers seems even more pointless.

The credit card business also developed very gratifyingly in the past financial year. Both the number of cardholders and also sales using credit cards increased. The advance of digitization is quite apparent here. Of the transactions executed with the BKS MasterCard more than 56% were used for online purchases.

Volatile stock market year depressed investor sentiment
2016 was not the best year for stock markets. The widely fluctuating stock markets in the first quarter that came with dropping prices put a damper on investor sentiment and lasted throughout the year 2016. Political events like the Brexit vote and the US presidential elections reinforced the cautiousness of customers regarding new investments on the stock market. Bonds continued to lose their appeal in the course of the year due to the low level of interest rates which in some cases were even negative. Despite these events, there was some good news from the securities business:

In private banking, we saw an increase in the volume of assets under management by EUR 171 million to EUR 844 million. We also acquired new private banking customers, with a year-on-year increase of 541 to around 1,900. These very pleasing developments prove that we are on the right path with our professional and customer-oriented support combined with exclusive, made-to-measure services.

Our 'brokerage' services, which celebrated its fourth anniversary in December 2016, also did very well in the reporting year. Our brokerage customers benefit, on the one hand, from the analysis and optimization of their securities portfolios, and on the other, from the extensive support provided by our customer relationship managers who are specialized in investing in individual stocks. The volume of assets under management in brokerage widened by 13%.

The volume of sustainably-invested customer assets also increased. At year-end 2016, 358 customers entrusted us with a volume of EUR 18.6 million in our asset management 'AVM nachhaltig'[1)], which won the Austrian award for sustainable financial products (Österreichische Umweltzeichen für nachhaltige Finanzprodukte[2)]. The international trend towards greater demand in the area of sustainable investments is also present in our bank: AVM nachhaltig has meanwhile become the fastest-growing product of all of our asset management products.

[1)] This is a marketing publication. The information contained in this report is non-binding and does not replace in any way advisory services for the purchase or sale of securities. It is neither an offer or a solicitation to buy or sell the investments mentioned, and neither does it constitute a recommendation to buy or sell.

[2)] The Ministry of Agriculture, Forestry, Environment and Water Management awarded the Austrian environmental label "AVM nachhaltig", because ecological and social criteria are considered when selecting investment funds in addition to the economic aspects. This environmental label guarantees that the criteria and their implementation are suitable for selecting the relevant investment funds. This has been audited by an independent body. The Austrian environmental label received does not permit any conclusions to be drawn regarding the future developments in the value of the investment.

Insurance business developed as expected

In the reporting year, we reorganized our insurance business. Our long-standing partner, Generali Versicherung AG, took over the commitments from the insurance policies of Drei-Banken Versicherungs-Aktiengesellschaft as of the beginning of the year. Since then, Generali AG has been handling the insurance business sent by BKS Bank. In this context, we concentrate mainly on the brokerage of endowment insurance policies with ongoing premium payments, and on risk and accident insurance. In 2016, we closed a total of 4,534 new policies, of which 3,272 were risk and accident insurance, and 1,262 were endowment insurance policies. The insurance business in Slovenia also developed positively. We act only as brokers for insurance products on the Slovene market as well.

Insurance products are very complex due to the many different features they may have. Therefore, customers are very appreciative of the professional advice they receive from us. In this respect, they rely not only on the competence of the insurance companies, but also place this trust in the bank. To further improve the advisory quality for insurance and retirement products, we have been relying on a concept of sales specialists for years. The customer relationship managers are supported by our in-house insurance specialists during the advisory sessions with customers. In 2016, we took part in 350 advisory talks and contributed our profound insurance business know-how.

OUTLOOK FOR THE RETAIL SEGMENT

We aim to earn profits in the retail segment again by 2020. Our strategic agenda includes measures to increase profitability while at the same time lowering costs. Our goal is to achieve growth and profits through a combination of outstanding advisory competence and attractive products and smart technology solutions. Moreover, the processes in retail banking will be simplified and streamlined further. In this context, we will also increasingly exploit the benefits from the advance of digitization.

We have already launched three new products to implement our digitization strategy for the retail banking segment. Simpler, faster and always secure – these are the features that characterize our plans in this area. The initiatives we are working on range from offering the option of opening accounts online to granting consumer loans. Furthermore, we are also working on refining our array of products. With the “BKS Komplett – alles aus einer Hand” product, we will launch an innovative new product in just a few weeks that targets new customers. We also plan to continue the sales specialist concept in 2017. In this area, the focus is on reinforcing cross-selling and up-selling.
And finally, we also hope that the ECB will start shifting its bias away from expansive monetary policy in the coming years.

FINANCIAL MARKETS

Apart from income earned on the management of the term structures, the main pillars of the financial markets segment are returns on securities in the own portfolio and the contributions of entities consolidated by the equity method. Proprietary trading is not at the focus of our business activities.

The extremely flat interest rate curve is a severe barrier to the possibility of earning returns on the process of maturity transformation. The renewed interest rate cut by the European Central Bank in March 2016 made proactively managing interest rate structures much harder in the past financial year. Additionally, the low interest rates are depressing the earnings potential on interbank transactions.

MIXED RESULT FOR SEGMENT

Considering the factors mentioned above, the returns on maturity transformation decreased significantly in 2016. The net income from maturity transformation decreased by EUR 4.6 million or 15.8%. This includes the results from interbank transactions, own securities transactions, derivatives in the banking book and the netting of internal reference interest rate. All investments and divestments were examined for the risk/earnings ratios and the expected market scenarios. The low level of returns on maturity transformation had a direct effect on net interest income. Net interest income declined by EUR 14.7 million to EUR 40.3 million, which is a minus of 26.7% and was influenced mainly by the decreasing net profit on equity consolidation. In the preceding year, the profit of the Bank für Tirol und Vorarlberg Aktiengesellschaft was better than average due to the special effect of the sale of the securities portfolio. The profit as of 31 December 2016 was again in line with the normal course of business similar to that of previous years. Therefore, the decline did not come as a surprise for us. As of 31 December 2016, the result of equity consolidation was EUR 33.7 million or a drop by 21.6%.

FINANCIAL MARKETS

in € million	2015	2016
Net interest income	55.0	40.3
– Of which, from entities consolidated by the equity method	43.0	33.7
Impairment charge on loans and advances	-2.3	0.04
Net fee and commission income	0.2	0.2
Net trading income	2.3	1.7
General administrative expenses	-7.4	-6.4
Other operating income net of other operating expenses	-0.1	-0.06
Profit/loss from financial assets	-1.7	-2.1
Profit/loss for the year before tax	**46.0**	**33.7**
ROE before tax	8.6%	5.5%
Cost/income ratio	12.8%	15.2%
Risk/earnings ratio	4.3%	-

The past financial year 2016 developed very well with respect to interbank transactions. Our banking partners all have first-class ratings of AA to A3. In the reporting year, there was no need to recognize impairments on receivables from credit institutions, just as in the previous years. In the financial year 2016 as well, we used the option of procuring liquidity in an amount of EUR 300 million through the long-standing OeNB/ESCB tender.

The general administrative expenses decreased year on year and stood at a very satisfactory EUR 6.4 million, which is a decline by 13.2%. This decline was made possible by the strict cost discipline exercised. Net income from financial assets remained around the same level as in the preceding year at EUR -2.1 million; a detailed comment is given in this report on page 112.

The cost/income ratio increased slightly by 2.4% to 15.2%. Return on equity based on the segment result was down by 3.1%-points to 5.5% as at 31 December 2016.

Long-term refinancing funds were raised through the issuance of own bonds issued in seven tranches. As a reliable issuers of securities, we successfully floated four tranches in the form of private placements in the reporting year, of which three were covered debt securities with a mortgage-backed cover pool.

OUTLOOK FOR THE FINANCIAL MARKETS SEGMENT

In 2017, we also hope to act as a solid and reliable issuer of securities and plan to float own issues in the current year as well. The goal is to offer our customers a good investment option and it is also a means of meeting the net stable funding ratio (NSFR) permanently. Our investment activities in 2017 will continue to be guided by the avoidance of market risks. We will stand by our conservative investment strategy and invest mainly in high quality liquid assets. We will, of course, also continue our collaboration with our strategic partners, Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft, to strengthen our joint capacities.

BKS BANK DEBT SECURITIES FROM 2016

ISIN	Designation	Nominal amount in €
AT0000A1JGA6	1.73% covered BKS Bank Bond 2016-2031/1/PP	10,000,000
AT0000A1LFC0	1.05% covered BKS Bank bond 2016-2026/2/PP	10,000,000
AT0000A1MBZ8	1.25% covered BKS Bank bond 2016-2032/3/PP	10,000,000
AT0000A1PJ71	1% BKS Bank bond 2016-2023/4/PP	5,000,000
AT0000A1HTB1	BKS Bank step-up bond 2016-2025/1	6,600,000
AT0000A1L6K6	2.75% BKS Bank subordinated bond 2016-2024/2	13,027,000
AT0000A1PCP0	1% BKS Bank bond 2016-2024/3	3,144,000

CONSOLIDATED OWN FUNDS

BKS Bank calculates the own funds ratio and assessment basis according to the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). We compute the capital requirements for credit risk based on the standardized approach.

The CRR defines three categories of own funds: Common Equity Tier 1 capital, Art. 26 CRR; Additional Tier 1 capital, Art. 51 CRR; and Tier 2 capital, Art. 62 CRR. The following minimum requirements must be met for each of the capital components including a capital buffer as a percentage of the risk-weighted assets.

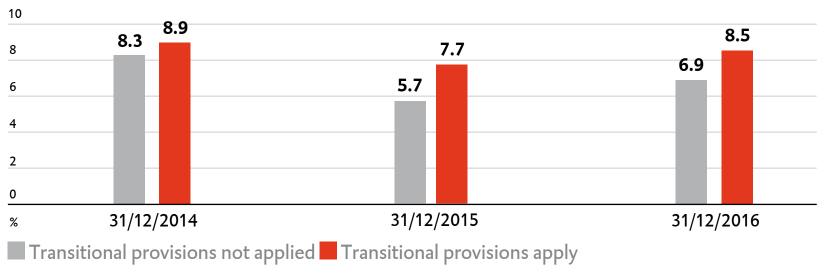
– 5.125% Common Equity Tier 1 capital
– 6.625% Additional Tier 1 capital (CET1 + Additional Tier 1 capital)
– 8.625% total capital (Tier 1 capital + Tier 2 capital)

In addition to the minimum requirements for own funds, a capital buffer must be created as a reserve for times of crisis. The combined buffer requirements include different buffers that must be created exclusively from Common Equity Tier 1 capital. Among other things, a capital conservation buffer must be created in the period from 2016 to 2019, starting at 0.625% up to a level of 2.5% of the risk-weighted assets. Another requirement of relevance under certain circumstances for the banking industry concerns the anti-cyclical buffer pursuant to § 23a Banking Act of a maximum of 2.5% of the risk-weighted assets. This buffer is defined by the FMA in steps depending on the economic situation when lending is excessive.

EXCELLENT LEVERAGE RATIO

In order to avoid excessive levels on bank balance sheets with a heavy bias on debt at low levels of equity at the same time, the supervisory authorities have taken a closer look at the leverage ratio. The leverage ratio is the ratio of Common Equity Tier 1 capital to the unweighted exposure of BKS Bank including off-balance sheet risk positions. At a leverage ratio of 8.5%, our bank reported excellent readings at the end of 2016 as well as during the year. We were thus far above the regulatory minimum ratio of 3% and the internal target of >5%.

LEVERAGE RATIO OF THE BKS BANK GROUP



SOLID CAPITAL BASE DUE TO CAPITAL INCREASE

In the past financial year, we successfully completed a capital increase at a ratio of 10:1. In total, BKS Bank AG issued 3,603,600 new ordinary shares at an issue price of EUR 15.9 per new share. This yielded proceeds of EUR 57.3 million. The Common Equity Tier 1 capital, which is important for the banking tax, increased quite satisfactorily by EUR 50.3 million or 8.7% to EUR 625.9 million. The Common Equity Tier 1 capital ratio improved by 80 basis points to 12.6% following 11.8% in 2015. Taking the Tier 2 capital of EUR 44.1 million into account, our bank's own funds amounted to EUR 670.0 million at year-end 2016. The capital adequacy ratio also rose and was 13.5% on 31 December 2016.
The own funds surplus was EUR 241.0 million.

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

in € million	31/12/2015	31/12/2016
Share capital	71.0	77.8
Reserves net of intangible assets	748.0	831.4
Deductions	-243.4	-283.3
Common Equity Tier 1 capital (CET 1)[1)]	575.6	625.9
Common Equity Tier 1 ratio	11.8%	12.6%
Hybrid capital	28.0	24.0
AT1 note	23.4	23.4
Deductions	-51.4	-47.4
Additional Tier 1 capital	-	-
Tier 1 capital (CET1 + AT1)	575.6	625.9
Tier 1 ratio (incl. Additional Tier 1 capital)	11.8%	12.6%
Tier 2 capital items and instruments	114.7	120.6
Deductions	-90.4	-76.5
Tier 2 capital	24.3	44.1
Total own funds	599.9	670.0
Own funds ratio	12.3%	13.5%
Assessment base	4,883.4	4,974.1
Surplus own funds	209.2	241.0

[1)] Includes profit for the year 2016. Formal adoption is still outstanding.

RISK REPORT

Our business policy motto is to secure autonomy and independence by increasing profits within the scope of a sustainable growth strategy. A key element of our business is to specifically assume risk based on the premise of recognizing all relevant risks early that may result from the banking business and banking operations, and to actively manage and mitigate risk through effective risk management. All individual risks must be permanently and fully identified. The capital available is used as efficiently as possible taking into account the medium to long-term strategic goals with the risk/profit ratio being constantly optimized. As a general principle of our risk strategy, we only assume such risks that we can bear on our own strength in order to avoid risking the autonomy and independence of the bank. The risk strategy of BKS Bank is updated every year and discussed and accorded with the Supervisory Board.

BKS Bank made every effort to proactively meet the new risk management requirements. The focus was on the

- Data transmission and calibration for risk reporting,
- implementation of the draft guidelines of the European Central Bank “Guidance to banks on non-performing loans”
- Amendments derived from the International Financial Reporting Standards, especially from IFRS 9,
- Supervisory Review and Evaluation Process (SREP)
- Review of CRR/CRD IV, referred to as Basel 3.5

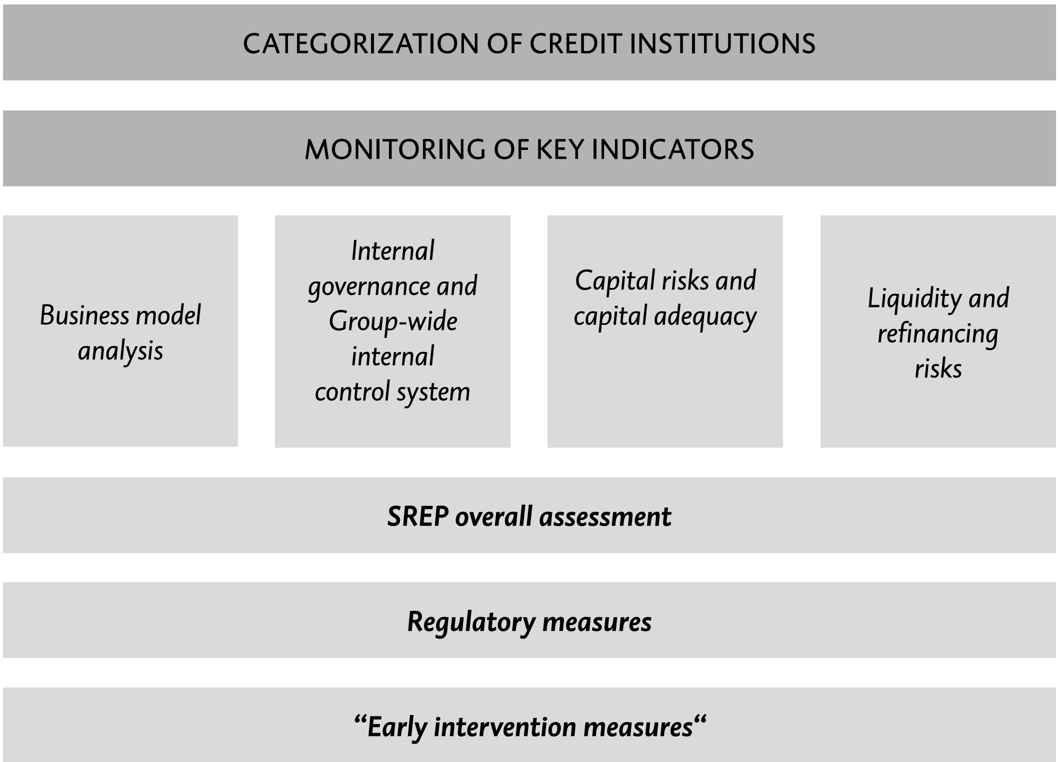
The CRR review package discusses the following issues for further development:

- Introduction of a binding leverage ratio of 3% and a binding NSFR ratio
- Change to the risk weighting for SME exposures that exceed EUR 1.5 million
- Adoption of the new Basel Standards on Market Risk and Large Loans with a new definition of “eligible capital”
- Further development of BRRD by introducing new management ratios in the form of TLAC and MREL as well as new asset classes for bail-in-eligible banking bonds
- Adjustment to the proportionality principle for smaller banks
- Five-year phasing-in period for impairment charges pursuant to IFRS 9

BKS Bank has prepared for the amended supervisory review and evaluation process (SREP) with a separate project. The project was designed based on the Directive of the European Banking Authority EBA/GL/2014/13.
The SREP questionnaire was sent to the supervisory authority in May 2016.

Apart from an analyses of the business model, the internal governance and the internal control system in place throughout the Group (ICS), SREP has a strong focus on the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

OVERVIEW OF THE SREP FRAMEWORK



Source: EBA/GL/2014/13

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

ILAAP is the process that must be established by BKS Bank pursuant to § 39 para. 3 Banking Act (BWG) for the purpose of identifying, measuring, managing and monitoring liquidity. It comprises a description of the systems and methods to be used to measure and manage liquidity and finance risks. BKS Bank measures and monitors compliance with its liquidity goals by producing timely and extensive risk reports. The quantitative information in the reports pursuant to IFRS 7.31 to 7.42 is based on the internal reporting for overall bank risk management.

BKS Bank must prepare a resolution plan for the Group pursuant to § 15 Austrian Bank Recovery and Resolution Act (BaSAG, Bundesgesetz zur Sanierung und Abwicklung von Banken) that must be updated annually. This plan must ensure that BKS Bank will be able to master a crisis on its own strength and also serves as a measure for crisis avoidance by measuring and monitoring early warning signals, which should in turn trigger countermeasures. Our early warning indicators comprise ratios on capital adequacy, the liquidity situation, profitability and the quality of assets. These are monitored in a so-called BaSAG Dashboard and are reported regularly to the Supervisory Board. The resolution plan and advance management measures are an integral part of BKS Bank's risk organisation.

STRUCTURE AND ORGANISATION OF RISK MANAGEMENT

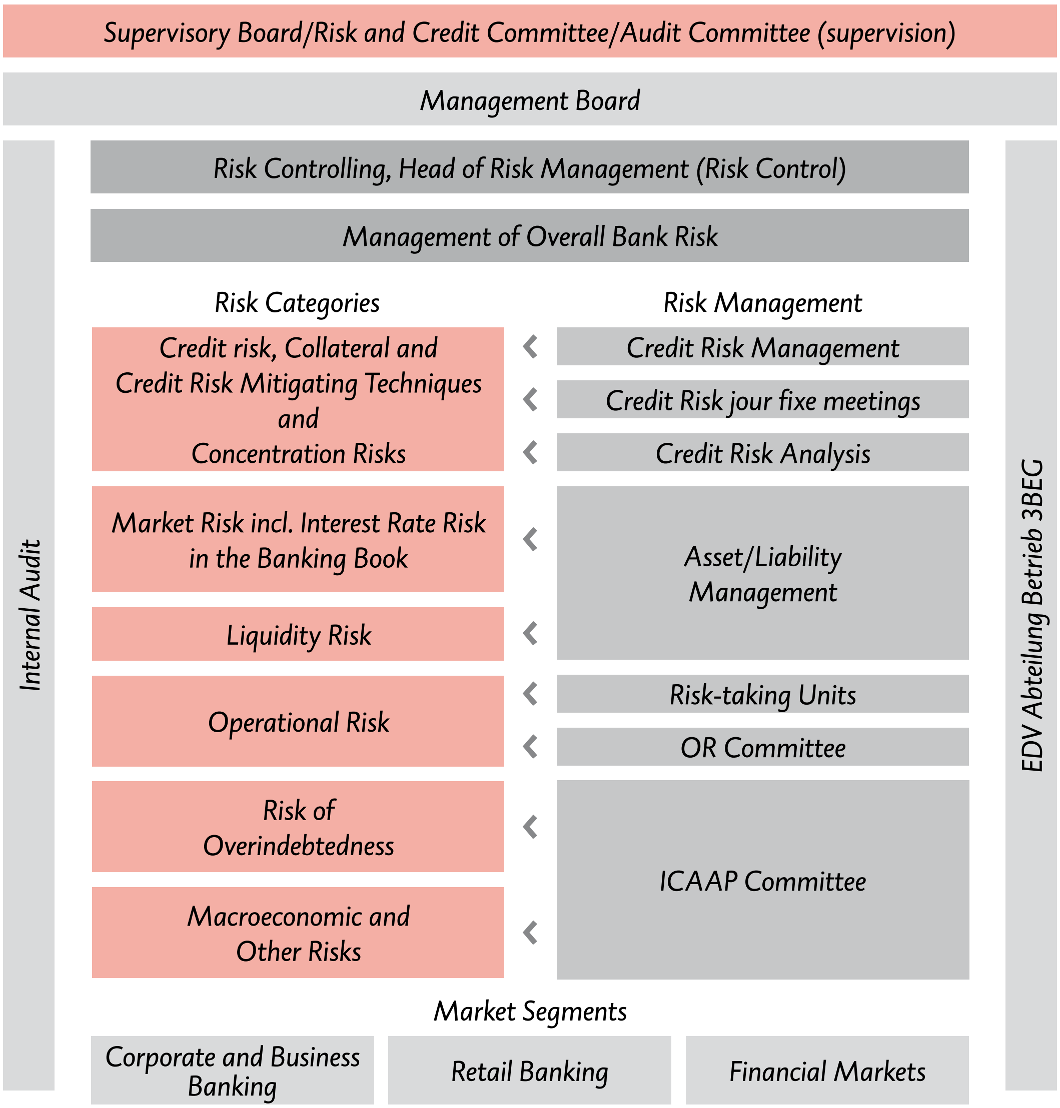
The risk strategy of BKS Bank is characterized by a conservative handling of the risks involved in the banking business and in banking operations. A comprehensive system of risk principles, risk measurement and monitoring procedures as well as an appropriate organizational structure is in place for risk monitoring and management. Our principles include the constant review of the appropriateness and reliability of the monitoring procedures in order to be able to adjust these if necessary to changing market conditions.

A member of the Management Board independent of the market has the central responsibility for risk management. The risk strategy is revised within the scope of the annual budgeting and planning process, approved by the Management Board and discussed and evaluated by the members of the Risk and Credit Committee of the Supervisory Board. Special attention is paid to the issue of risk concentration. The Management Board decides on the risk management principles, the limits for all relevant risks, and the procedures for monitoring and managing risks.

In accordance with § 39 para. 5 Banking Act, risk controlling is a central unit independent of operations at BKS Bank that is responsible for identifying and measuring risks. This unit reports regularly to the Management Board and to the operational units responsible for risk, and evaluates the current risk situation taking into account the corresponding risk limits and risk-bearing capacity. As an independent unit, it measures if the risks remain within the limits defined by the Management Board.

All of the information is sent to the Supervisory Board, the Risk and Credit Committee as well as the Audit Committee so as to enable them to carry out their oversight responsibility. Once a year, a representative of this unit reports to the Risk and Credit Committee of the Supervisory Board on the types of risk and on the risk situation. Additionally, the risk controlling unit is responsible for the development and implementation of the risk measurement methods, for the ongoing development and improvement of the management instruments as well as for the further development and maintenance of the risk strategy and other rules and regulations.

THE ORGANIZATIONAL FOUNDATIONS OF RISK MANAGEMENT



At the annual review of the risk strategy, BKS Bank takes an inventory of all risks. The identification of risks and the assessment of their threat is based on a risk analysis by the risk controlling unit in the form of a risk matrix created by the ICAAP Committee. All of the findings from the risk identification process and assessment of the risk threat are taken into consideration in the annual definition of the risk strategy. The limits and targets defined in the risk strategy are adapted once a year commensurate with the risk assessment and business strategy or, if necessary, amended.

Quality Creates Security

Dieter Kraßnitzer
Member of the Management Board

As an independent internal unit, the internal audit department of BKS Bank reviews all operating and business procedures, the appropriateness and efficacy of the measures taken by the risk management and risk controlling as well as of the internal control systems.

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

ICAAP Committee

The ICAAP Committee meets four times a year and discusses the risk-bearing capacity by analysing the economic capital requirement and the assets available to cover risks. The Committee is made up of the entire Management Board, the Head of Controlling and Accounting as well as the Head of Risk Controlling Group.

The following topics were dealt with in detail and, if necessary, the relevant measures were taken:
- Discussion of the allocation of the risk cover amount and definition of the limits in line with the risk strategy
- Current risk situation and, if applicable, any measures required
- Degree of utilization of the overall bank limit and of the limits for individual risks
- Monitoring of the leverage ratio
- Monitoring of the indicators of the BaSAG Dashboard

The Asset/Liability Management Committee

The Asset/Liability Management Committee meets once a month; its tasks are to analyze and manage the structure of the balance sheet with respect to interest rate risk in the banking book, market risk and liquidity risk, and, in this context, also the important tasks of funding planning, funds transfer pricing and the management of concentration risks.

The members of the Asset/Liability Management Committee include the entire Management Board, the Head of the Proprietary Trading and International Operations, the Head of the Trading Group, the Head of Controlling and Accounting, the Head of the Risk Controlling Group and an expert from securities operations.

The Operational Risk Committee

The Operational Risk Committee also meets four times a year. The Operation Risk Committee does the following:

– Monitors the development of risk and analyzes historic data of past damage incidents
– Supports the RTUs (Risk-Taking-Units) and the Management with the active management of operational risk
– Tracks the measures taken by the RTUs
– Works on the further development of the operational risk management system

The core team of this Committee is made up of the Management Board member responsible for risk, the Head of the Internal Audit Department, the Head of Controlling and Accounting and a staff member from the Risk Controlling Group.

Credit risk jour fix meetings

Credit risk is by far the most important risk category as defined in the risk strategy. Therefore, effective credit risk management is a condition for our bank to lastingly achieve success and must ensure the precise identification the risks, optimization of the bank's risk and earnings profile, and guarantee consistency with BKS Bank's risk-bearing capacity.

The main topics of discussion at the weekly jour fixe meetings on credit risk are issues relating to daily operations in connection with loan approvals and prolongations as well as other current topics relating to the corporate and business banking and to retail banking. The weekly jour fixe meetings are attended by at least one Management Board member responsible for front office operations, the Management Board member responsible for risk, the Head of Risk Analysis and the Head of Credit Risk Management. If needed, additional staff members are invited.

Apart from the weekly meetings, an extended Credit Risk Committee meet on a quarterly basis. This Committee manages credit risk at the portfolio level, engages in the continuous further development of the credit risk management process, and facilitates the swift deployment of steering instruments. The involvement of the responsible decision-makers from various organizational units is important for effective credit risk management apart from a holistic view of credit risk. The key tasks of the regular meetings of the extended Credit Risk Committee include

– Discussing the credit risk strategy
– Assessing the credit risk situation
– Managing the credit portfolio at the Group level
– Managing the sub-portfolios
– Discussion of measures to improve the risk position
– Deciding measures for compliance with credit risk limits and their management

Usually, the entire Management Board takes part in the extended jour fixe meetings, the Head of Credit Management, the Head of the Domestic Risk Analysis, the Head of the International Risk Analysis, the Head of Risk Management, the Head of Monitoring and Services, the Head of the Controlling and Accounting Department and the Head of the Risk Controlling Group. Senior staff from front office units are invited if necessary.

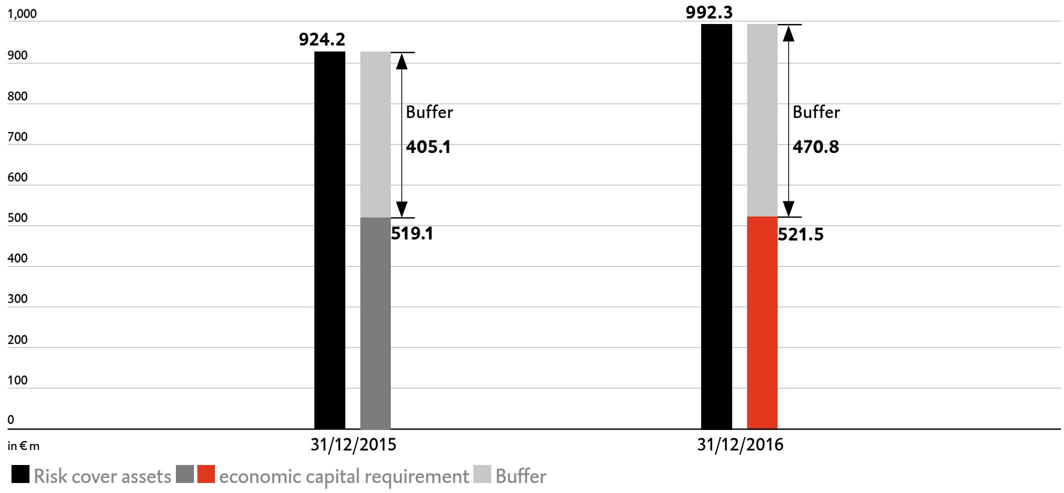
MANAGEMENT OF OVERALL BANK RISK

An analysis of the risk-bearing capacity based on the internal capital adequacy assessment process (ICAAP) is an essential component of the overall bank risk management at BKS Bank. An assessment of the appropriateness of the internal capital adequacy is done quarterly based on the risks identified by the internal models. The aim is to ensure that BKS Bank always has sufficient assets to cover its risks and is able to absorb the risks taken also in the case of unexpected events. All identified and quantified unexpected risks are aggregated to an overall bank risk.

The overall bank risk is the equivalent of our economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit and liquidity risk are accounted for in the prices charged to customers as risk premiums (standard risk costs, liquidity premiums). The aggregated total loss potential is compared with the assets available to cover such potential loss to ascertain whether the bank is in a position to bear unexpected losses without experiencing any severe negative effects on its business activities.

The individual positions of the risk cover assets are ranked according to their realization capacity, taking into account above all, their liquidation capacity and publicity effects. The capital adequacy goal of a going concern balances the risk potential, risk-bearing capacity and the limits derived therefrom in such a way so as to ensure that the bank is in a position to withstand an adverse event and continue orderly business operations.

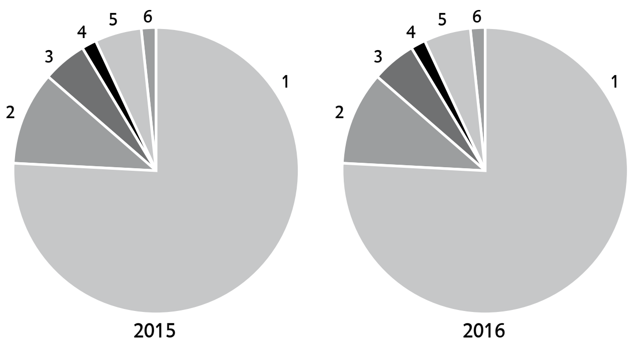
RISK-BEARING CAPACITY BY LIQUIDATION APPROACH



The capital adequacy goal in the liquidation approach reflects the regulatory perspective and serves to protect creditors. The methods to measure and analyze material risks are continuously being developed and refined.

Based on the liquidation approach, the economic capital requirement was determined at EUR 521.5 million, as at 31 December 2016 compared with EUR 519.1 million in the preceding year. The corresponding cover assets were EUR 992.3 million compared with EUR 924.2 million at year-end 2015. The increase in the risk cover assets as of 31 December 2016 was attributable mainly to the capital increase of the past financial year and the solid net profit for the year.

BREAKDOWN OF OVERALL BANK RISK BY CATEGORY (LIQUIDATION APPROACH)



in %	2015	2016
1 Credit risk	76.1	76.8
2 Market and interest rate risk	10.3	10.3
3 Operational risk	5.0	5.0
4 Liquidity risk	1.9	1.5
5 Macroeconomic risk	5.2	4.9
6) Other risks	1.5	1.5

Unexpected losses in the liquidation approach are calculated for a period of observation of one year with a confidence level of 99.9% at BKS Bank. As in the preceding year, the economic capital requirement for credit risk was the largest risk capital requirement within group of credit institutions. Credit risks account for about 76.8% of the total loss potential (2015: 76.1%). Market and interest rate risk account for a share of 10.3% (2015: 10.3%).

STRESS TESTS IN OVERALL BANK RISK MANAGEMENT

We conduct stress tests to evaluate the risk-bearing capacity of the group of credit institutions in the event of potential adverse events. The results are analyzed to determine the quantitative impact on our risk-bearing capacity. Stress tests provide supplementary information to the value-at-risk analysis and reveal additional loss potentials. The results of the various scenarios are reported to the Management Board and the risk management units on a quarterly basis.

Our stress tests used scenarios to capture adverse changes in the macroeconomic environment. In 2016, our risk-bearing capacity was adequate in all scenarios and at all points in time in the analysis. In addition, we conducted an inverse stress test to specifically analyze the bank's risk-sensitive areas. The results of this stress test provide the Management with important information on the maximum losses the bank can bear. This test stresses the risk-sensitive areas until all the assets available as risk cover are exhausted.

Apart from the overall bank risk stress test within the ICAAP process, further specific test are conducted

- in the reorganization plan
- in liquidity management
- in interest rate risk management
- in the management of FX-induced credit risks and repayment vehicle risks.

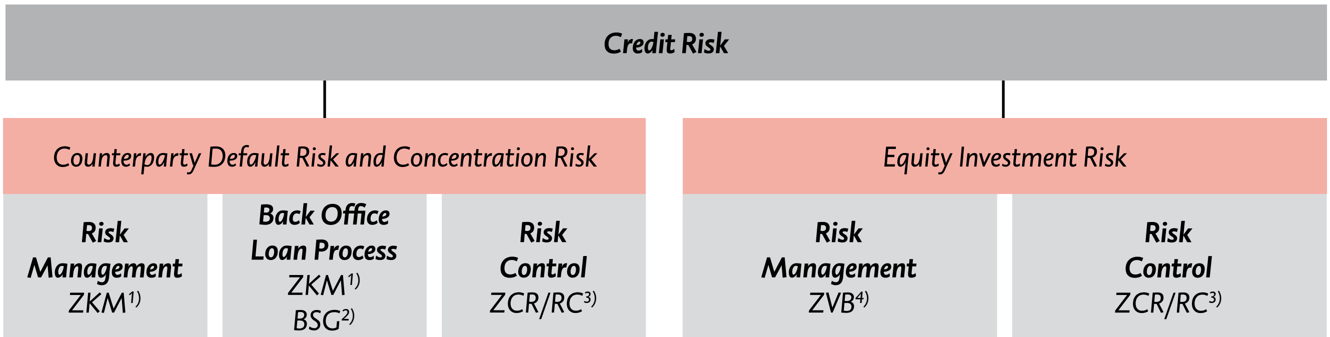
CREDIT RISK

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

Managing credit risk

The management of credit risk is based on the principle of granting loans only on a know-your-customer basis. Thus, loans are granted only after a thorough check of the person and creditworthiness and – if relevant – in compliance with the dual control principle (front office and back office). Collateral requirements are derived from the rating class and the product. The valuations at fair value of the collateral are oriented on the average liquidation proceeds obtained in the past. Lending in markets outside of Austria is governed by special guidelines that are specific to the features of the country concerned, in particular, the economic environment and the higher realization risk of the collateral.

CREDIT RISK MANAGEMENT



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

The Credit Management Department is responsible for risk analysis and risk management for individual customers. Independent risk control at the portfolio level is done by the Controlling and Accounting, Risk Controlling Group. The main goals when assuming new risk positions concern the rating structure, which means that new business is acquired only up to rating class 3a or better and when the collateral provided is commensurate with the debtor's credit standing

CREDIT RISK PURS. TO ICAAP

in € m	Risk position at 31/12/2015	Risk position at 31/12/2016
Receivables from customers	5,711	5,913
Contingent liabilities[1)]	212	236
Receivables from banks	389	263
Securities and funds	772	815
Equity investments	495	529
Credit Risk	**7,579**	**7,756**

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

Pursuant to IFRS 7.31 to 7.42, receivables according to IFRS are reconciled with the credit risk positions pursuant to the internal risk management rules as follows:

RECONCILIATION OF IFRS POSITIONS TO INTERNAL CREDIT RISK POSITIONS

in € m	Receivables as at 31/12/2015	Receivables as at 31/12/2016
Consolidated receivables from customers purs. to note 13	5,114	5,330
+Loans measured at fair value purs. to note 16	74	53
+ Contingent liabilities purs. to note 43	387	391
+ Corporate bonds	94	84
+ Value of risk position from derivative contracts with customers/Other (adjustments)	42	55
Receivables from customers according to internal risk management	**5,711**	**5,913**
Other exposures purs. to note 43	1,058	1,244
Contingent liabilities based on internally calculated withdrawal patterns	**212**	**236**
Receivables from other banks purs. to note 12	364	242
+ Exposure of risk position from derivative contracts entered into with other banks	25	21
Receivables from other banks according to internal risk management	**389**	**263**
Held-to-maturity financial assets purs. to note 18	725	748
+ Bonds and other fixed-interest securities measured to fair value purs. to note 16	41	23
+ Bonds and other and fixed-interest securities classified as available for sale purs. to note 17	67	83
+ Shares and other non-interest bearing securities purs. to note 17	43	48
– Corporate bonds, Other (included in receivables from customers)	-104	-87
Securities and funds according to internal risk management figures	**772**	**815**
Other equity investments purs. to note 17	56	58
+ Investments in entities accounted for by the equity method purs. to note 19	439	471
Investments purs. to ICAAP	**495**	**529**
Credit risk purs. to ICAAP	**7,579**	**7,756**

Credit ratings in credit risk

A major pillar of the risk assessment process is our comprehensive rating system that serves as the basis for decision-making processes and for risk management within the BKS Bank Group. In total, twelve different rating procedures are used. The bank's internal rating models are subject to annual quantitative and qualitative validation reviews in which each rating model is assessed to check whether it accurately identifies the risks measured.

RATING CLASSES

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

BKS Bank uses a rating scale with 13 rating classes. Around 53% (2015: 49%) of the loan portfolio were assigned AA to 2b ratings. The increase in receivables from customers in these rating classes from EUR 2.80 to EUR 3.16 billion is a positive development. Borrowers in these rating classes exhibit a very good to good capacity to repay their loans. The focus of new business was on customers in the rating classes AA to 3a. The volume of loans in the rating classes 4a to 5c was reduced by EUR 173 million.

LOAN QUALITY BY CLASS OF RECEIVABLE

Risk position by rating in €m for **2016**	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating
Receivables from customers	40	1,316	1,799	1,823	538	385	12
Contingent liabilities	2	60	105	57	9	3	-
Receivables from banks	133	94	27	8	-	1	-
Securities and funds	685	76	16	–	–	–	38
Equity investments	512	9	5	1	-	-	2
Total	**1,372**	**1,555**	**1,952**	**1,889**	**547**	**389**	**52**

Risk position by rating in €m for **2015**	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating
Receivables from customers	30	1,117	1,655	1,811	582	514	1
Contingent liabilities	1	77	73	50	7	6	-
Receivables from banks	83	268	33	2	1	-	2
Securities and funds	598	156	7	-	-	-	11
Equity investments	440	48	6	1	-	-	-
Total	**1,152**	**1,666**	**1,775**	**1,864**	**589**	**520**	**14**

BKS Bank's default definition corresponds to the definition given in CRR Article 178. Receivables were therefore deemed to be in default when they were more than 90 days overdue and the overdue amount was at least 2.5% of the agreed credit line and at least EUR 250. Furthermore, BKS Bank also classified receivables as in default if it assumed that the debtor would not be able to repay the full amount of the loan to the bank. This is assumed when one of the following applies:
– A new impairment charge (individual allowance)
– Restructuring of the credit exposure combined with a deterioration in the quality of the receivable
– Initiation of collection procedures because of inability or unwillingness to pay or fraud or for other reasons
– Receivables only collectable at a loss for BKS Bank
– Sale of the receivable at a significant loss for BKS Bank due to credit rating
– Debtor's insolvency
– Exposure irrecoverable for other reasons

Our intense efforts to lastingly improve the quality of the portfolio is seen in the decline in exposures in the rating classes 4a to 4b and in the non-performing classes 5a to 5c.

At year-end 2016, the non-performing loan ratio was 4.8% (2015: 6.6%). The calculation is based on non-performing loans in the rating classes 5a to 5c of the BKS Bank rating system (default classes), which are compared to gross receivables from loans to customers, contingent liabilities, loans to banks and fixed-interest securities. The ratio given is a gross ratio, i.e., before deduction of collateral for defaulted receivables. Adjusted for collateral, it decreased to 2.2% (2015: 3.1%).

The concept of 'forbearance' plays an important role in the management of problematic exposures. This term covers all agreements that must be redrafted, because a borrower has fallen into financial difficulties. Financial difficulties were deemed given if repayment from cash flows could no longer be assured within a realistic period or due to the outcome of an assessment of creditworthiness. Pursuant to CRR, these business cases must be specifically tagged. Such forbearance may, for instance, involve:
– extending the term of the loan
– making concessions compared with the loan instalments that had originally been agreed
– making concessions regarding the terms and conditions of the loan
– completely reconfiguring the loan (restructuring)

EXPOSURES CLASSIFIED AS FORBORNE

in € k for 2016	Corporate and business banking customers	Retail banking customers	Total
Performing exposures	**24,134**	**910**	**25,044**
– Of which with concessions regarding instalments	19,103	710	19,813
– Of which refinancing	5,031	200	5,231
Non-performing exposures	**74,137**	**4,096**	**78,233**
– Of which with concessions regarding instalments	70,950	3,552	74,502
– Of which refinancing	3,187	544	3,731
Total	**98,271**	**5,006**	**103,277**

in €k for 2015	Corporate and business banking customers	Retail banking customers	Total
Performing exposures	**29,798**	**2,322**	**32,120**
– Of which with concessions regarding instalments	24,003	2,230	26,233
– Of which refinancing	5,795	92	5,887
Non-performing exposures	**116,147**	**4,888**	**121,035**
– Of which with concessions regarding instalments	112,293	4,300	116,593
– Of which refinancing	3,854	588	4,442
Total	**145,945**	**7,210**	**153,155**

Assessment of credit risks

The risks identifiable at the time the financial statements were prepared were taken into account by recognizing individual impairment charges, recognizing individual impairment charges applying class-specific criteria, and by recognizing appropriate provisions in accordance with IAS 37. An objective indication of an incidence of impairment on a receivable is given if the Basel III default criteria apply, i. e., a material amount payable by the debtor to the credit institution is more than 90 days overdue or one of the other default criteria apply. Pursuant to the International Financial Reporting Standards, portfolio impairment losses are also recognized based on IAS 39.64 for receivables in the performing rating classes.

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

INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying value/max. default risk per class in EUR m	Financial instruments that were neither past due nor impaired 2015	2016	Past due financial instruments 2015	2016
Receivables from customers	5,189	5,490	514	385
– of which, measured at fair value	83	52	-	-
Contingent liabilities	212	233	6	3
Receivables from banks	389	262	–	1
Securities and funds	772	815	-	-
– of which, measured at fair value	33	23	-	-
Equity investments	495	521	-	-
Total	**7,057**	**7,321**	**520**	**389**

INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying value/max. default risk per class in EUR m	Impaired financial instruments 2015	2016	Past due but not yet impaired financial instruments 2015	2016
Loans and advances to customers	464	318	103	105
– of which, measured at fair value	-	-	-	-
Contingent liabilities	-	-	-	3
Receivables from banks	-	1	-	-
Securities and funds	-	-	-	-
– of which, measured at fair value	-	-	-	-
Equity investments	8	8	-	-
Total	**472**	**327**	**103**	**108**

BKS Bank does not use credit derivatives to hedge default risks.

OVERDUE, NOT YET IMPAIRED LOANS AND ADVANCES TO CUSTOMERS BY DEFAULT DATE

Rating class	<1 month		1 to 6 months		6 months to 1 year		From 1 year to 5 years		>5 years	
in € m	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
5a	7	1	13	16	9	11	32	42	2	3
5b	-	1	7	2	4	2	20	20	9	7
5c	-	-	-	-	-	-	-	-	-	-
Total	**7**	**2**	**20**	**18**	**13**	**13**	**52**	**62**	**11**	**10**

The balance of impairment allowances for receivables is reported on the consolidated balance sheet of BKS Bank. At year-end 2016, the balance was EUR 155.1 million (2015: EUR 193.7 million). The annual addition to the impairment allowance balance recognized in the income statement is the sum of impairment allowances, reversals thereof, subsequent recoveries of written-off receivables, direct write-offs, allowances resulting from the recognition of our portion of the payments to ALGAR – the 3 Banken Group joint operation set up to mitigate large loan risks – and portfolio impairment assessments carried out in accordance with IAS 39.64. In the year under review, direct write-offs came to EUR 1.0 million (2015: EUR 0.9 million). Portfolio impairment for country risks was recognized per exposure outstanding for each country and rating class.

DEVELOPMENT OF IMPAIRMENT ALLOWANCES

in €k	Individual impairment allowances	Country Risks	Portfolio impairment purs. to IAS 39	Impairment allowance balance
As at 1/1/2016	158,056	4,665	31,027	193,748
Additions	40,415	252	2,446	43,113
Reversals	-16,574			-16,574
Exchange rate differences	57			57
Used	-65,208			-65,208
As at 31/12/2016	**116,746**	**4,917**	**33,473**	**155,136**

SPECIFIC IMPAIRMENT ALLOWANCES BY CUSTOMER GROUP

	2015			2016		
in €k	Carrying amount reduction[1)]	Specific impairment allowances	Collateral Fair value	Carrying amount reduction	Specific impairment allowance	Collateral Fair value
Corporate and business customers	438,690	146,325	233,356	297,835	105,651	135,882
Retail customers	26,456	11,731	12,367	19,695	10,584	7,702
Total	**465,146**	**158,056**	**245,723**	**317,530**	**116,235**	**143,584**

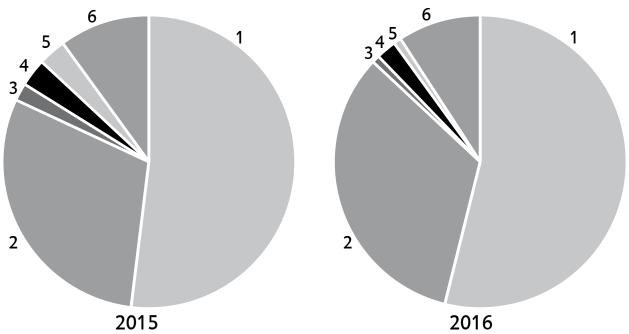
[1)] Carrying amount of impaired receivables

In 2016, impairment allowances totalled EUR 43.1 million (2015: EUR 54.6 million), while impairment reversals were EUR 16.6 million (2015: EUR 12.0 million).

In addition, the BKS Bank Group's Other provisions included unappropriated provisions for ALGAR on a proportionate basis of 25% or EUR 30.2 million (2015: EUR 30.1 million).

The impairment charges for foreign subsidiaries were minor in comparison at EUR 0.4 million (2015: EUR 1.7 million). The corporate and business banking segment accounted for EUR 29.7 million of the newly formed impairment allowances in 2016 (2015: EUR 42.8 million). The allowance for country risk exposure during the 2016 financial year came to EUR 0.3 million, increasing the balance to EUR 4.9 million.

IMPAIRMENT ALLOWANCES FOR COUNTRY RISK



	2015 €k	2015 in %	2016 €k	2016 in %
1 Croatia	2,483	52	2,646	54
2 Slovenia	1,406	30	1,620	33
3 Hungary	91	2	44	1
4 Montenegro	115	3	93	2
5 Serbia	126	3	78	1
6 Other	444	10	436	9
Total	**4,665**	**100**	**4,917**	**100**

This risk/earnings ratio for the financial year 2016 was 20.1% (2015: 29.2%). While the ratio of risk costs to net interest income improved from 7.8% to 5.1%, the ratio in the corporate and business banking segment, where volumes are much larger, improved significantly from 53.3%t to 34.7%.

Loan collateral

A further key component of risk management is collateral management. Eligible collateral and the measurement methods for determining the value are defined in comprehensive internal valuation guidelines. Collateral valuation is defined uniformly for the Group, although it takes local market conditions into account and is generally oriented on past average liquidation proceeds as well as on the expected development of market prices. Real estate collateral is appraised and regularly reviewed by an independent expert from Credit Management.

LOAN COLLATERAL 2016

in € m	Credit exposure /max. default risk	Total collateral	of which Financial collateral	of which Personal collateral	of which Real estate collateral	of which Other	risk position[1]
Receivables from customers	5,913	3,422	165	141	2,443	673	2,491
Contingent liabilities	236	-	-	-	-	-	236
Receivables from banks	263	-	-	-	-	-	263
Securities and funds	815	60		45		152)	755
Equity investments	529	-	-	-	-	-	529
Total	**7,756**	**3,482**	**165**	**186**	**2,443**	**688**	**4,274**

[1] Exposure minus collateral [2] Covered bonds covered by cover pool

LOAN COLLATERAL 2015

in € m	Credit exposure /max. default risk	Total Collateral	of which Financial collateral	of which Personal collateral	of which Real estate collateral	of which Other	Risk position[1]
Receivables from customers	5,711	3,316	169	170	2,351	626	2,395
Contingent liabilities	212	-	-	-	-	-	212
Receivables from banks	389	-	-	-	-	-	389
Securities and funds	772	45	-	25	-	20[2]	727
Equity investments	495	-	-	-	-	-	495
Total	**7,579**	**3,361**	**169**	**195**	**2,351**	**646**	**4,218**

[1] Exposure minus collateral[2] Covered bonds covered by cover pool

Credit risk concentrations

Concentrations of credit risk are managed at the portfolio level. Our aim is to achieve a balanced distribution of credit exposures by size, and limits are set for individual geographical regions, sectors and industries and the foreign currency portion of the loan portfolio. Industry developments are closely monitored and regularly appraised, and a clear strategic focus defined. The large loan risks incurred by BKS Bank were covered by a cover pool in ALGAR. As a subsidiary of the 3 Banken Group, ALGAR serves to provide security for the large loans of the three credit institutions by assuming guarantees, sureties and other liabilities for credit lines, loans and lease receivables.

— Loan size concentrations

Loan size concentration risk is separately quantified in the risk-bearing capacity calculation. Loan size concentration risk measures the granularity of the credit portfolio especially in large loans extended to groups of related borrowers. Such customers are legally or financially interconnected in such a way that if one borrower in the group falls into financial difficulties, the other customers in the group might also have difficulty making repayments.

The risk-bearing capacity calculations make an allowance for the risk and unexpected losses resulting from loan size concentrations by an 'add-on' for the granularity adjustment (GA). The Herfindahl Hirschman Index calculated in this context was 0.0018 at the year-end and showed a well-balanced spread of loan sizes within the customer loan portfolio. Loan size concentration risk is managed by setting limits on distribution for customer receivables at the overall bank level. Adherence to the credit exposure size distribution limits is continuously monitored by the management committees.

SIZE DISTRIBUTION OF RECEIVABLES FROM CUSTOMERS

Receivables from Customers by Size Basis: IFRS values, €m	2015 Exposure	2015 Proportion, %	2016 Exposure	2016 Proportion, %
<EUR 0.15 million	817.9	14.3	839.2	14.2
EUR 0.15 m to EUR 0.5m	772.3	13.5	811.1	13.7
EUR 0.5 m to EUR 1.0 m	303.7	5.3	337.0	5.7
EUR 1.0 m to EUR 3.0 m	681.6	11.9	669.2	11.3
EUR 3.0 m to EUR 14.0 m	1,842.6	32.3	1,852.7	31.3
EUR 14 m to EUR 20 m	384.8	6.7	452.5	7.7
> 20 m	908.2	15.9	951.3	16.1
Total	**5,711.1**	**100.0**	**5,913.1**	**100.0**

— Concentration by industry

BKS Bank presents the distribution of industries in accordance with the ÖNACE list of economic activities. The main areas are the categories of retail customers (18.3%), construction (14.7%), goods manufacturing (12.5%), properties and residences (14.5%) and trade (7.9%). The customer loan portfolio of BKS Bank is broadly diversified with respect to loan size and also with respect to industry diversification. The corporate and business banking segment accounted for over three quarters of the loan portfolio managed.

RECEIVABLES FROM CUSTOMERS BY INDUSTRY

Economic Activity Classification in Conformity with ÖNACE (Statistik Austria)	2015 in € m	in %	2016 in € m	in %
Households	1,044	18.3	1,085	18.3
Construction	824	14.4	869	14.7
Real estate, renting and business activities	799	14.0	857	14.5
Manufacturing	743	13.0	739	12.5
Wholesale and retal trade; repair of motor vehicles and motor cyles	517	9.1	468	7.9
Financial and insurance activities	336	5.9	365	6.2
Professional, scientific and technical activities	260	4.6	260	4.4
Transportation and storage	196	3.4	229	3.9
Accommodation and food sercice activities	172	3.0	185	3.1
Health and social work	169	3.0	158	2.7
Electricity, gas, steam and air conditioning supply	131	2.3	91	1.5
Public administration, defence, mandatory social insurance	120	2.1	132	2.2
Mining and quarring	104	1.8	60	1.0
Administrative and support service activities	78	1.4	169	2.9
Agriculture and forestry, fishing	60	1.1	60	1.0
Other service activities	51	0.9	68	1.1
Water supply, sewerage, waste management and remediation activities	41	0.7	36	0.6
Information and communication	39	0.7	46	0.8
Arts, entertainment and recreation	21	0.4	23	0.4
Education	6	0.1	13	0.2
Other borrowers with no industry classification	–	–	–	0.0
Extraterritorial organizations and bodies	–	–	–	0.0
Total	**5,711**	**100**	**5,913**	**100.0**

— **Foreign exchange-induced credit risk**
Foreign exchange-induced credit risk is another form of credit risk concentration. The classical foreign exchange risk borne by the customer may, if exchange rates change unfavourably, seriously affect the ability of a borrower with a foreign currency loan to repay a debt. FX-induced credit risk was calculated for the foreign currency debts of customers in corporate and business banking and in retail banking. To quantify the potential risk from movements in foreign exchange rates, we calculated the risk for BKS Bank AG's main currencies (CHF/JPY/USD) and for EUR loans extended to customers without a currency congruent income separately, and as a general risk for all other currencies. Using a random walk simulation based on movements in exchange rates in the preceding 1,000 days, we simulated an adverse movement in rates with a confidence interval of 95% and 99.9%.

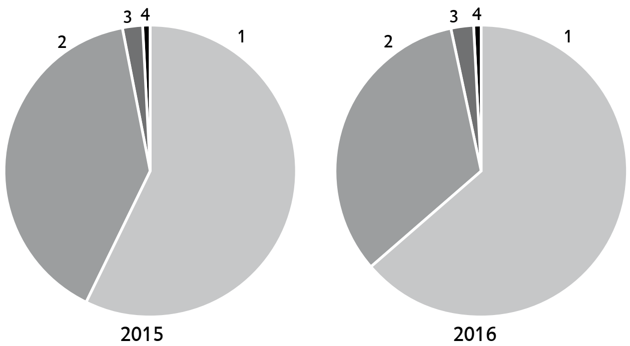
A breakdown by country of the foreign currency loan portfolio shows that the foreign exchange risk was limited primarily to the Austrian and Croatian markets. In Croatia, the foreign currency loan volumes were almost exclusively euro loans granted to borrowers with incomes in a different currency.

RECEIVABLES FROM CUSTOMERS IN FOREIGN CURRENCIES BY COUNTRY AND CURRENCY

	EUR*		CHF		USD		JPY		Total	
in € m	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Austria	-	-	273.5	210.7	16.3	15.6	4.7	4.2	294.5	**230.5**
Slovenia	-	-	10.7	7.9	-	-	-	-	10.7	**7.9**
Croatia	350.0	359.6	0.4	0.4	-	-	-	-	350.3	**360.0**
Hungary	29.8	25.8	-	-	-	-	1.2	1.1	30.9	**26.9**
Switzerland	27.6	30.6	1.5	1.3	-	-	-	-	29.1	**32.0**
Other	13.4	13.0	5.3	3.8	-	-	-	-	18.7	**16.8**
Total	**420.7**	**429.1**	**291.4**	**224.1**	**16.3**	**15.6**	**5.9**	**5.3**	**734.3**	**674.0**

* EUR loans to customers from non-euro states

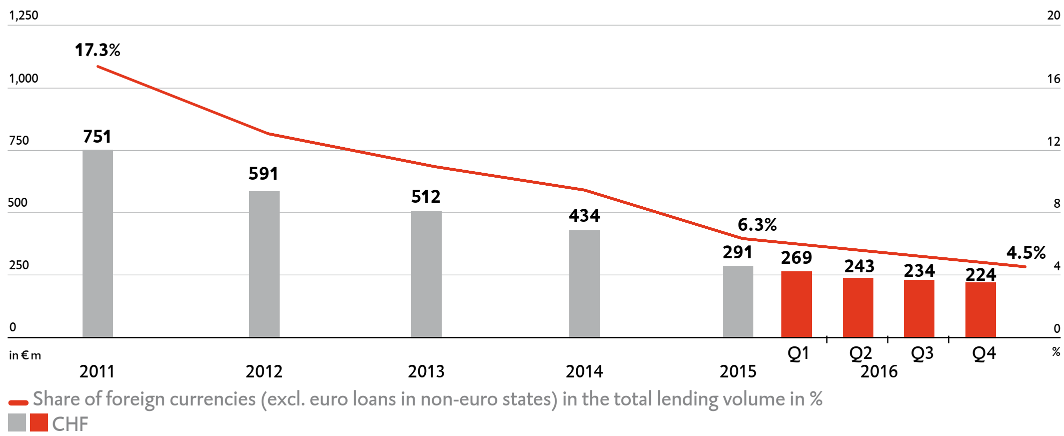
FOREIGN CURRENCY LOANS BY CURRENCY



	2015 in %	2016 in %
1 EUR	57.3	63.7
2 CHF	39.7	33.2
3 USD	2.2	2.3
4 JPY	0.8	0.8

For years, BKS Bank has been pursuing the strategy to steadily reduce the volumes of foreign currency loans and loans with repayment vehicles.
We regularly discuss this with our customers and, if possible, develop customized risk limitation solutions together with them. The portfolio of foreign currency loans in Swiss francs decreased in 2016 by EUR 67.3 million to EUR 224.1 million (2015: EUR 291.4 million). The share of loans in CHF, USD and JPY in the total loan portfolio dropped to 4.5% by year-end (2015: 6.3%).

RECEIVABLES FROM CUSTOMERS IN FOREIGN CURRENCIES

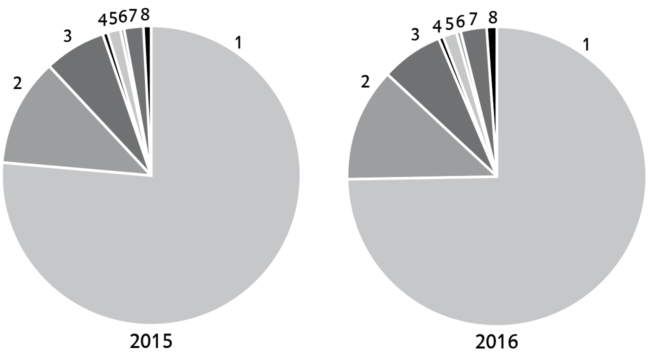


The volume of euro loans granted to borrowers with incomes in a different currency increased slightly due to our activities in Croatia and reached EUR 429.1 million.
On the Croatian market, a large share of the new volume of loans granted are still tied to the euro, with the HRK being considered a currency with close ties to the euro. The foreign exchange-induced credit risk was managed by defining limits at the profit centre and the overall bank levels, and continuously monitoring the risk.

— Country risk
The country or transfer risk is the risk of a counterparty failing to meet its obligations because the central bank of that counterparty's domicile fails to supply the necessary foreign currency. Besides transfer risk, the borrower's creditworthiness may also be directly affected by the economic or political developments in a country. The countries of material significance for BKS Bank with respect to concentration risk are the sales markets of Slovenia, Croatia, Slovakia and Germany.
Country risk exposure is reported in the comprehensive income statement as a collective impairment charge and limited in the risk strategy. The country exposures are monitored on a monthly basis within the scope of the country limit monitoring process. The volume of credit outstanding in BKS Bank's target markets in the reporting year increased significantly, especially in Slovenia. For loans to non-banks abroad, we defined a bank-wide cap of EUR 1.6 billion in 2016 (2015: EUR 1.6 billion). This limit was complied with throughout the entire year.

For risk management and control purposes, we applied different rating measurements to domestic and foreign loans, with a stricter lending policy applying to loans abroad and designed to the specific features of the country.

RECEIVABLES FROM CUSTOMERS BY COUNTRY



	2015		2016	
	in € m	in %	in € m	in %
1 Austria	4,375	76.6	4,425	74.8
2 Slovenia	661	11.6	722	12.2
3 Croatia	384	6.7	407	6.9
4 Hungary	31	0.5	27	0.5
5 Slovakia	84	1.5	92	1.6
6 Italy	14	0.2	14	0.2
7 Germany	110	1.9	171	2.9
8 Other	53	0.9	55	0.9

RECEIVABLES FROM CUSTOMERS BY COUNTRY 2016

in €k	Receivables[1)]	Past due[2)]	Specific impairment allowances	Collateral for past due receivables
Austria	4,424,726	241,021	66,323	121,780
Slovenia	722,141	68,564	18,051	35,126
Croatia	407,188	45,572	19,125	23,193
Hungary	27,004	9,117	4,038	3,589
Slovak Republic	92,147	13,993	4,264	7,404
Italy	14,233	6,273	3,725	2,645
Germany	171,079	337	709	121
Other	54,582	171	0	171
Total 2016	**5,913,100**	**385,048**	**116,235**	**194,028**

[1)] Risk volume purs. to ICAAP
[2)] Past due purs. to the definition of BKS Bank

RECEIVABLES FROM CUSTOMERS BY COUNTRY 2015

in €k	Receivables[1)]	Past due[2)]	Specific impairment allowances	Collateral for past due receivables
Austria	4,374,571	335,346	115,530	172,858
Slovenia	660,801	82,794	27,441	44,552
Croatia	383,576	67,342	36,481	41,224
Hungary	31,110	10,903	4,528	5,230
Slovak Republic	83,970	9,969	3,383	5,253
Italy	14,185	6,084	2,471	3,844
Germany	110,048	1,478	1,364	333
Other	52,786	195	617	192
Total 2016	**5,711,047**	**514,111**	**191,815**	**273,486**

[1)] Risk volume purs. to ICAAP
[2)] Past due purs. to BKS Bank's definition of default

SECURITIES AND FUNDS BY DOMICILE OF ISSUER

in €k	Acquisition costs		Carrying amount purs. to IFRS[1)]	
Regions	2015	2016	2015	2016
Austria	451,443	452,668	456,491	457,657
Germany	50,501	63,203	51,489	63,255
Belgium	19,746	15,718	20,047	15,932
Finland	-	10,196	-	10,233
France	17,246	42,378	17,134	42,411
Ireland	15,890	26,085	16,159	26,427
Italy	20,072	15,087	20,290	15,286
Croatia	-	9,914	-	9,940
Lithuania	-	3,052	-	3,058
Luxembourg	122,090	92,167	126,807	96,420
Netherlands	-	9,992	-	10,015
Poland	4,975	4,975	5,063	5,068
Portugal	5,096	5,096	5,123	5,115
Slovak Republic	19,956	19,956	20,607	20,614
Spain	13,776	13,776	13,902	13,924
U.S.A.	18,253	18,852	18,412	19,028
Total	**759,044**	**803,114**	**771,524**	**814,384**

[1)] Including accrued interest

There were no impairments on positions in the securities and fund portfolio of BKS Bank in 2016.

Macroeconomic risk

Macroeconomic risk describes the risk of adverse negative macroeconomic changes and the resulting risks that may arise for BKS Bank. At BKS Bank, we quantify the effects of adverse macroeconomic developments in the credit risk. The effects on the bank's portfolio are determined on the basis of changes in selected macroeconomic indicators such as GDP growth, the unemployment rate, the inflation rate and the current account deficit. The correlations used, which have an effect on the probability of default (PD), are based on BKS Bank's historic data and are regularly validated. The greatest impact on credit risk comes from inflation, followed by gross domestic product. Macroeconomic risk in ICAAP was quantified in the going concern and liquidation approaches.

Investment risk

Investment risk includes the risk of dividends not being paid out, the risk of impairments and liquidation losses,and the risk of a decline in the value of hidden reserves due to the negative economic development of the companies in which BKS Bank holds stakes. The acquisition of equity investments is not a focus of our strategy and is done only to support our banking operations.

EQUITY INVESTMENTS

Consolidated financial statements, €m	31/12/2015	31/12/2016
Listed banks	434.0	468.3
Unlisted banks	6.8	7.6
Other unlisted equity investments	54.4	53.4
Total	**495.2**	**529.3**

In the case of affiliated companies, our focus is on strategic partners from the banking and financial sector as well as from the banking-related service industries.
We do not acquire investments in countries whose legal, political or economic situations are assessed as risky and neither do we trade on a regular basis in such investments.

BKS Bank has a strategic and an operational equity investment strategy investment management. The strategic orientation of investments is the responsibility of the Management Board, and operational equity investment management is the responsibility of the Office of the Management Board. Risk control is the remit of the Controlling and Accounting Department, Risk Controlling Group.

The carrying amount of BKS Bank's equity investments calculated pursuant to IFRS was EUR 529.3 million at 31 December 2016, compared with EUR 495.2 million at year-end 2015. This total included our interests in Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft with a carrying amount of EUR 468.3 million (2015: EUR 434.0 million)

To manage and control individual financial risks, we prepare annual budgets for subsidiaries as well as budgets and adjusted projections for the returns on the investments forecast. Monthly reports on operating subsidiaries are part of our Group reporting system.

MARKET RISK INCLUDING INTEREST RATE RISK IN THE BANKING BOOK

BKS Bank defines market risk as the potential risk of loss that might arise from movements in market prices or exchange rates (e.g. equity and bond prices, foreign exchange rates, interest rates) or other parameters that influence prices or rates (e.g. volatilities and credit spreads). Market risk affects all interest rate and price-sensitive positions in the banking and trading books of BKS Bank and the individual institutions within the group of credit institutions. Therefore, for the internal risk management, the BKS Bank Group includes the risk of potential changes in interest rates for positions in the banking book in the market risk. BKS groups market risk into the following categories:
– Interest rate risk (including credit spread risk)
– Equity price risk
– Foreign currency risk

Principles of market risk management

Managing interest rate risk in the banking book, which is the important risk category within market risk, is the responsibility of the Asset/Liability Management Committee (ALM Committee). The Management Board and the heads of the relevant banking departments are on this Committee. The ALM Committee analyzes on a monthly basis the results of present value and duration analyses, value-at-risk analyses, and simulations of changes in interest rates.

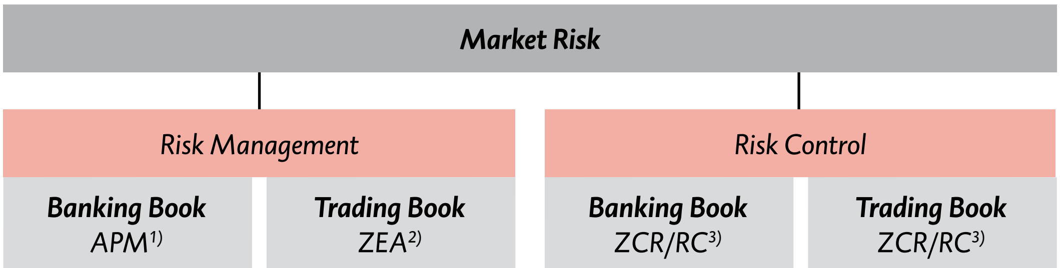
BKS Bank pursues a conservative strategy regarding interest rates risk and as a general rules does not engage in any significant speculative derivative transactions.
BKS Bank engages in derivative transactions almost exclusively to hedge against market risks, using only instruments whose characteristics and related risks are known and for which experience-based data is available.

Interest rate swaps are BKS Bank's key interest rate management instrument. Depending on the interest rate and yield structures, the ALM Committee hedging transactions are decided for individual transactions and also for portfolios. Where applicable in interest rate hedges, the underlying transactions and the corresponding interest rate derivative are recognized using the fair value option pursuant to IAS/IFRS.

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

Foreign currency loans and deposits in foreign currencies are generally refinanced or invested in the same currency. To hedge foreign exchange risks, BKS Bank in some cases entered into derivative transactions such as cross currency swaps, foreign currency forwards and foreign currency swaps.
The management of foreign currency positions is the responsibility of Proprietary Trading and International Operations, Money Market and FX Trade. Foreign exchange positions are monitored by Risk Controlling.

MARKET RISK MANAGEMENT



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

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

Trading book positions and banking book positions are exposed to market risk. The market risks from the trading book are only of secondary importance due to the low volumes. Proprietary trading is done within the defined limits. Monitoring compliance with limits is done on a daily basis by Risk Controlling and any breaches are reported to the Management Board. A separate Treasury Rulebook documents in detail all rules applicable to proprietary trading.

The management of market risks and the setting of the relevant limits is based on a combination of indicators and methods such as value-at-risk (VAR), modified duration, volume analysis and stress tests of the economic capital. The limit for market risk in ICAAP is defined once a year when the risk strategy is reviewed by the Management Board with the involvement of Risk Controlling. Risk Controlling determines the VAR for the interest rate risk, foreign currency risk and stock market price risk. Taing into account the diversification effects, the entire VAR is compared to the defined limit and reported to the ALM Committee.

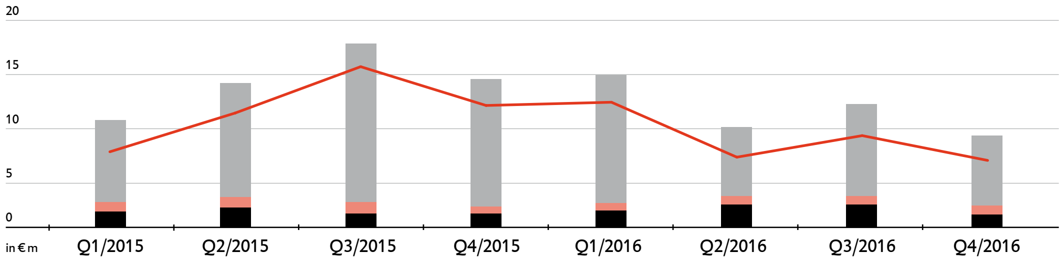
Value-at-risk

The principal measure we use to manage market price risk in the trading book and banking book is value-at-risk (VAR). It indicates the maximum potential loss that may result from market risk within a specified holding period and with a specific probability (confidence interval).

BKS Bank measures VaR based on a historical simulation of the changes in market prices observed in the previous 1,000 days. We apply VAR with a holding period of 180 days and a confidence interval of 95% for ongoing risk management and to calculate the risk-bearing capacity in the going concern approach. The ICAAP liquidation view is based on a holding period of 250 days and a probability of occurrence of 99.9%.

The VAR values are presented below with a confidence interval of 95% and a holding period of 180 days. The table shows that market risks did not undergo any major fluctuations in the past financial year.

DEVELOPMEMNT OF MARKET RISKS BASED ON VALUE AT RISK



VALUE-AT-RISK FIGURES

	Interest rate risk[1]		FX risk		Equity price risk		Total[2]	
in €m	2015	2016	2015	2016	2015	2016	2015	2016
Minimum values	7.9	6.6	0.7	0.7	1.3	1.2	7.9	7.1
Maximum values	15.2	12.3	1.1	0.9	1.9	2.2	15.8	12.5
Average values	11.6	8.6	0.9	0.8	1.5	1.8	11.9	9.1
Values are year-end	12.2	6.7	0.7	0.9	1.3	1.2	12.2	7.1

[1] incl. credit spread risks
[2] incl. diversification effects

Interest rate risk

Interest rate risk refers to the risk of a negative development in positions sensitive to interest rate fluctuations or in net interest income. We differentiate between:
– Basis risk
– Interest rate adjustment risk
– Yield curve risk
– Option risk

Divergent maturities and interest adjustment periods may create the risk of changes to interest rates for both the assets and liabilities sides of the balance sheet. These risks may be generally hedged by a combination of on-balance sheet and off-balance sheet transactions. BKS Bank does not engage excessively in maturity transformation transactions. Therefore, we do not focus on maturity arbitrage with significant volumes of open positions to generate income by applying the"riding the yield curve"method. Additionally, the credit spread risk, which is part of the interest rate risk, is also computed. The credit spread risk shows the effects of changes in market prices induced by credit ratings and/or risk premiums on the portfolio of interest-bearing securities. The quotient, which is reported to OeNB, derived from the interest rate risk and eligible own funds based on an interest rate shift of 200 basis points was 0.71% at year-end versus 3.32% in the preceding year. We point out that the supervisory authorities classify a bank as an 'outlier bank' as of a ratio of 20%. Our bank is not anywhere near this figure.

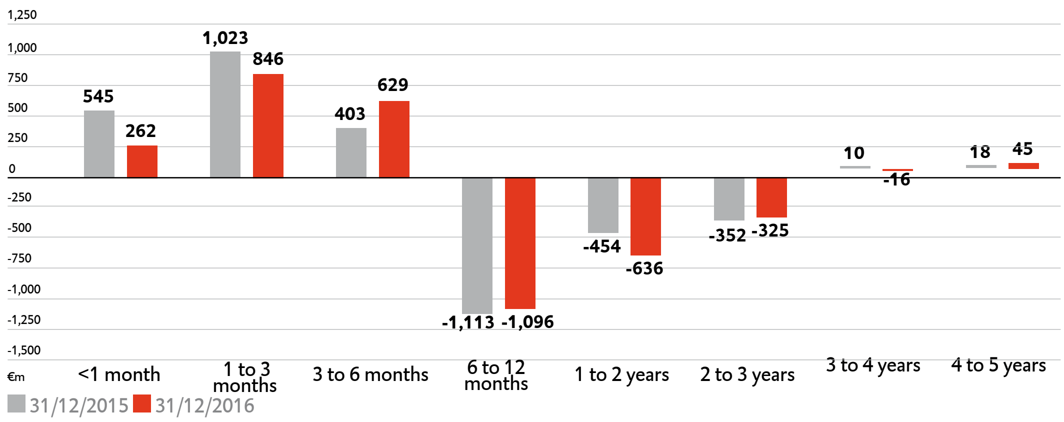
REGULATORY INTEREST RATE RISK IN % OF OWN FUNDS

Currency	31/12/2015	31/12/2016
€	2.79	0.20
CHF	0.11	0.10
USD	0.41	0.39
JPY	0.00	0.00
Other	0.01	0.02
Total	**3.32**	**0.71**

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

Currency, in €k	31/12/2015	31/12/2016
€	15,667	1,314
CHF	620	647
USD	2,312	2,507
JPY	16	6
Other	37	37
Total	**18,652**	**4,511**

INTEREST RATE GAPS (EUR AND FX)



At the end of 2016, BKS Bank reported a very low interest rate risk of EUR 6.7 million as computed by the value-at-risk method and 0.71% as measured by the regulatory interest rate risk ratio.
Especially because in the event of an increase in interest rates the aim is to avoid pressure to recognize impairment losses on securities in the available-for-sale portfolio. The biggest interest rate gaps are in the maturity bands from 1 through 3 months and from 6 through 12 months.

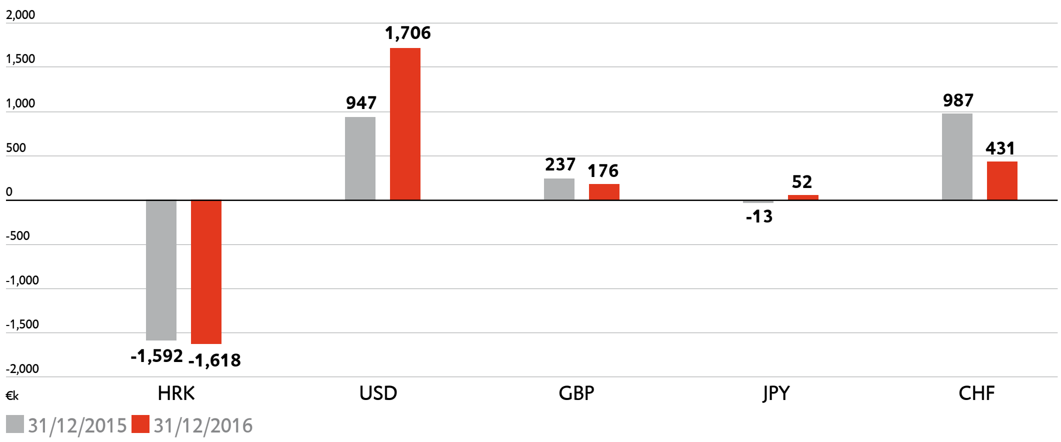
Equity price risk

Equity price risk is the risk of changes in stock market prices that result from the interaction of supply and demand. Investments in equities in our Treasury portfolio are mainly in highly liquid German and Austrian listed securities. The bank complied with all internal limits for shares and funds of shares. Once a month, equity price risk is quantified using a historical simulation as value at risk and reported to the ALM Committee. At 31 December 2016, the value at risk from this risk position based on a holding period of 180 days and a confidence interval of 95% was EUR 1.2 million (2015: EUR 1.3 million).

Risks from foreign currency positions

These risks result from entering into foreign currency positions on the assets and liabilities side that are not closed out by a matching opposite position or a derivatives transaction. Therefore, an adverse movement in exchange rates may result in losses.
To assess the foreign exchange risk, open currency positions are evaluated daily and compared with the corresponding limits.
The value at risk from the foreign exchange position at year-end was EUR 0.9 million (2015: EUR 0.7 million).

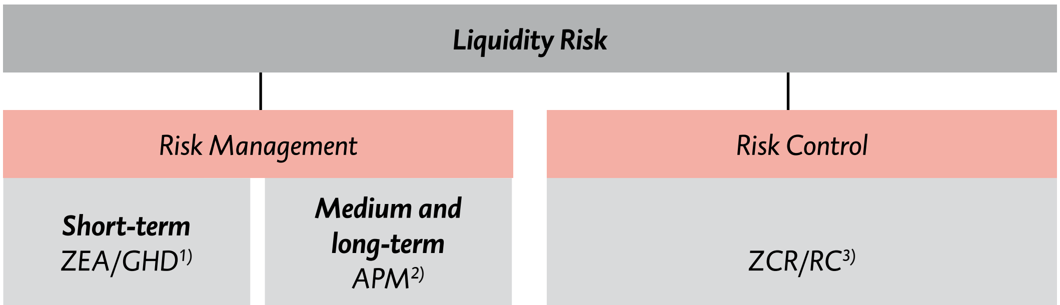
EXCHANGE RATE RISK (OPEN FX POSITIONS)



LIQUIDITY RISK

Liquidity risk is the risk of not being able to meet present or future financial obligations in full or in time. This also includes the risk of only being able to raise funds at higher-than-usual market rates (refinancing risk) or that assets have to be liquidated at lower-than-usual market prices (market liquidity risk).

LIQUIDITY RISK MANAGEMENT



[1] Treasury and International Operations/Money Market and FX Group
[2] Asset/Liability Management Committee
[3] Controlling and Accounting Dept./Risk Controlling Group

Principles of liquidity management/ILAAP

ILAAP is a fundamental component of the supervisory review and evaluation process (SREP) and has the purpose of ensuring adequate liquidity and effective liquidity risk management. Liquidity management is based on procedures to assess, determine, measure, manage and monitor liquidity. BKS Bank has clearly defined principles for the management of liquidity risk that are set out in the risk strategy and in the ILAAP framework.

A key component for long-term liquidity planning is the funding plan of BKS Bank.

Essential for liquidity management is a diversification of the refinancing profile by investor category, product and maturity. The policies guiding the terms and conditions of the lending business is based on the Austrian Regulation on Credit Institution Risk Managementand the EBA Guidelines. The costs of refinancing financial products are determined within the scope of a sophisticated funds transfer pricing model. These costs are allocated in the product and profit centre calculations.

Intraday liquidity management is done by managing daily deposits and withdrawals. This is based on information on transactions with an impact on liquidity. Such transactions include dispositions regarding payment transfers, advance information from Sales on pending customer transactions, information on cash flows resulting from the bank’s own issues supplied by the securities back office, and information on securities and money market transactions from the Treasury department. Possible liquidity peaks are balanced out by borrowing or investing money with the Austrian central bank, OeNB, or on the interbank market. Intraday liquidity management is done within the limits defined and utilization is reported daily to Risk Controlling and the chief risk officer. A report is sent to the entire Management Board and to the members of the ALM Committee on a monthly basis.

Medium-term and longer-term liquidity and the liquidity buffer are managed by the ALM Committee. The internal liquidity buffer was EUR 1,170.9 million at year-end (2015: EUR 862.3m) and was composed of receivables from customers eligible for refinancing with OeNB (credit claims) and fixed-interest securities. The counterbalancing capacity additionally includes shares and funds, and was around EUR 1.4 billion at year-end (2015: EUR 1.0 billion). Thus, the bank had comfortable liquidity buffer for the event of disruptions on the money or capital markets. Furthermore, the Asset/Liability Management Committee monitors BKS Bank's liquidity position on a monthly basis based on predefined early warning indicators. The ALM Committee is required to meet should the early warning indicators surpass the defined thresholds and must take action. Apart from this, BKS Bank's Risk Management Manual contains contingency plans that define responsibilities, measures and procedures in the event of disruptions on the money and capital markets.

COUNTERBALANCING CAPACITY

in € m	31.12.2015	31.12.2016
Securities deposited with OeNB	668.8	584.3
Securities deposited with Clearstream	-	66.1
Credit claims ceded to OeNB	377.4	365.1
Credit claims ceded to the Slovenian National Bank	46.3	24.7
Total collateral eligible with the ECB	1,092.4	1,040.2
Minus OeNB tender block	-264.4	-300.0
Minus EUREX repo	-	-28.3
Total available ESCB-eligible collateral	828.1	711.9
Cash and cash equivalents	34.3	34.1
Free cash OeNB	-	424.9
Liquidity buffer	**862.3**	**1,170.9**
Other securities	167.9	213.7
Counterbalancing capacity	**1,030.2**	**1,384.6**

The Risk Controlling Group is responsible for liquidity risk control in order to ensure compliance with the defined principles, procedures and limits. Reporting is done on a daily, weekly, monthly and quarterly basis. In the event of extraordinary developments or when certain early warning stages or limits are reached, an ad hoc report is sent to the Management Board.

Liquidity gaps and funding

Our daily liquidity flow analysis allocates all assets and liabilities of relevance for our funding profile into maturity bands. These liquidity flow analysis shows a liquidity surplus or shortfall for each maturity band, thus permitting a very timely management of open liquid positions. Moreover, a comprehensive system of limits (limits per maturity band, time-to-wall limits) is in place that gives the Management Board and the responsible risk management units a quick overview of the current situation. The analyses are supplemented by indicative stress tests, which we categorize depending on the nature of the stress trigger, as general macroeconomic scenarios, bank-specific scenarios or combined stress scenarios.

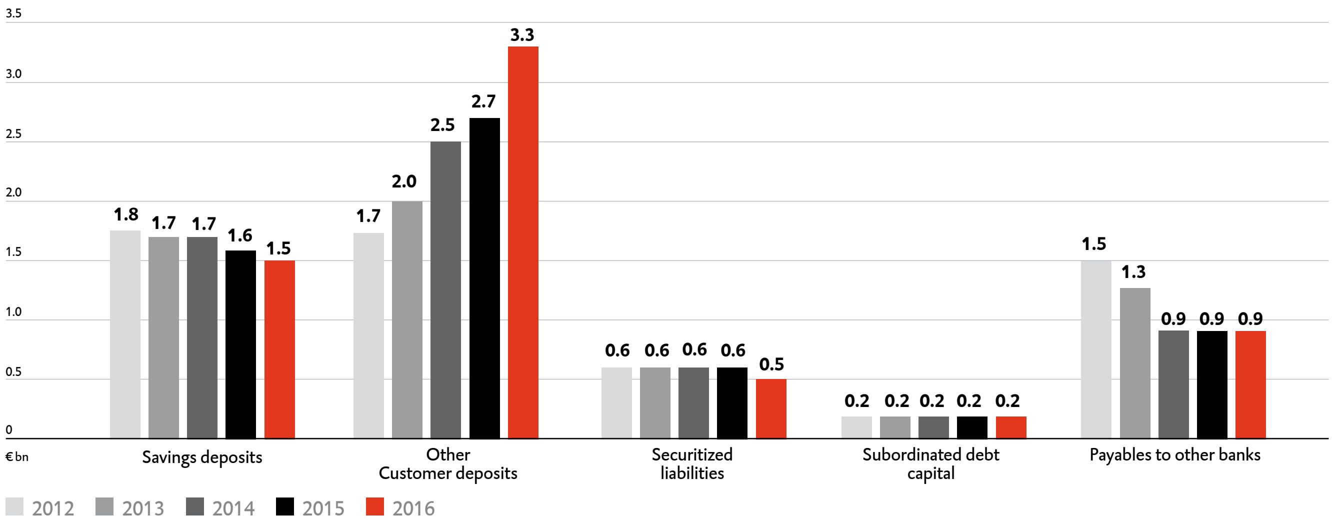
The measurement of liquidity risk in the going concern approach and in the liquidity approach for the risk-bearing capacity calculation is done by the value-at-risk method. The risk is determined on the basis of the net gap in an assumed increase in funding costs after a hypothetical deterioration of the credit rating of the bank. The confidence interval was 95% in the going concern approach and 99.9% in the liquidation approach.

Refinancing is mostly in euro. As regards foreign currencies, our main focus is on securing funding for Swiss franc loans. In this context, euro liabilities are partially converted into CHF through medium- to long-term capital market swaps.

BKS Bank is a member of the General Collateral (GC) Pooling Market of EUREX Clearing AG. In the GC Pooling system, liquid assets can be borrowed or invested in euro, US dollar and Swiss franc with terms ranging from overnight (EUR and USD) to 12 months. BKS Bank is one of many participants in a steadily growing market segment for standardized and collateralized funding transactions using the services of a clearing agent.

The chart below shows BKS Bank's funding structure by product category. The increase in the item Other customer deposits in the year 2016 was mainly the result of newly acquired deposits in Slovenia.

DEVELOPMENT OF FUNDING STRUCTURES



The chart below presents derivative and non-derivative liabilities by contractually-agreed cash flows.

DERIVATIVE AND NON-DERIVATIVE LIABILITIES 2016 (CASH FLOW BASIS)

in € m	Carrying amounts	Contractual cash flows[1]	<1 month	1 month to 1 year	1-5 years	> 5 years
Non-derivative liabilities	**6,436**	**6,986**	**804**	**2,670**	**1,470**	**2,042**
– Deposits from banks	867	1,182	187	369	621	5
– Deposits from customers	4,825	4,944	595	2,146	497	1,706
– Securitized liabilities	545	628	22	96	238	272
– Subordinated liabilities	199	232	-	59	114	59
Derivative liabilities	**31**	**23**	**-**	**1**	**22**	**-**
– Derivatives in the banking book	31	23	-	1	22	-
Total	**6,467**	**7,009**	**804**	**2,671**	**1,492**	**2,042**

[1] Not discounted

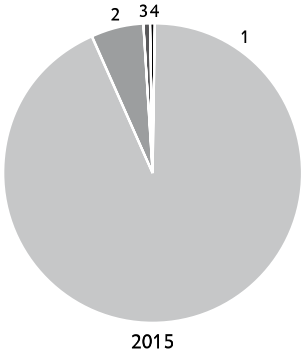
DERIVATIVE AND NON-DERIVATIVE LIABILITIES 2015 (CASH FLOW BASIS)

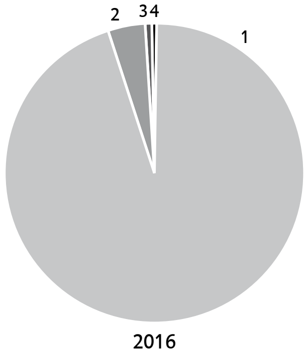
in € m	Carrying amounts	Contractual cash flows[1]	<1 month	1 month to 1 year	1-5 years	> 5 years
Non-derivative liabilities	**6,015**	**6,381**	**544**	**2,657**	**1,617**	**1,563**
– Deposits from banks	905	981	244	670	60	7
– Deposits from customers	4,352	4,497	293	1,868	1,123	1,213
– Securitized liabilities	576	685	7	102	269	307
– Subordinated liabilities	182	218	-	17	165	36
Derivative liabilities	**30**	**23**	**-**	**2**	**21**	**-**
– Derivatives in the banking book	30	23	-	2	21	-
Total	**6,045**	**6,404**	**544**	**2,659**	**1,638**	**1,563**

[1] Not discounted

On account of the decreasing volume of Swiss franc loans, our Swiss franc funding requirement also declined, dropping to EUR 224.1 million (2015: EUR 291.4 million) and is now only 4.2% of our entire refinancing requirement.

FUNDING REQUIREMENTS, BY CURRENCY





in %	2015	2016
1 EUR	93.9	95.4
2 CHF	5.7	4.2
3 USD	0.3	0.3
4 JPY	0.1	0.1

Deposit concentration

The chart on next page shows the deposit concentration, which reached a level of 0.30 in the reporting year. This value is an estimate of the withdrawal risk associated with a run on deposits and indicates, above all, the risk of being dependent on large deposits. All customer deposits are broken down into defined size bands and valuated with their respective share and with a weighting factor from 0 to 1.

Loan/deposit ratio

The loan/deposit ratio is a further key indicator for liquidity management and shows the relation between loans and primary deposits. At a ratio of 91.7%, we are clearly below the benchmark and thus in an excellent position.

We have defined as benchmark a balanced ratio of 100%. We interpret this development as a sign of the trust placed in our bank and the yields of the hard work we invested to acquire primary deposits.

Liquidity coverage ratio

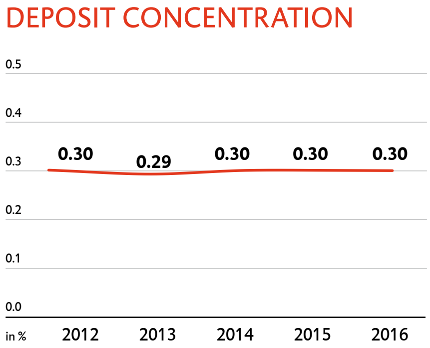
The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain liquid for the next 30 days in the event of simultaneous market and bank-specific stress situations. It compares highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. This regulatory liquidity ratio was 155.6% at 31 December 2016 and was therefore far above the minimum ratio of 100% which is being-phased in from October 2015 until 2018.

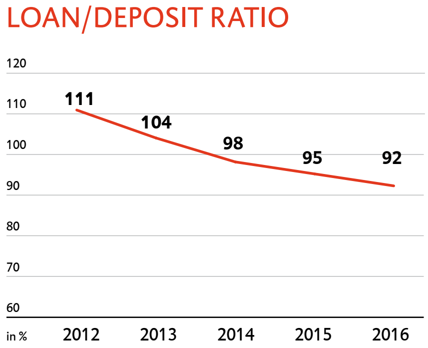
Encumbered assets

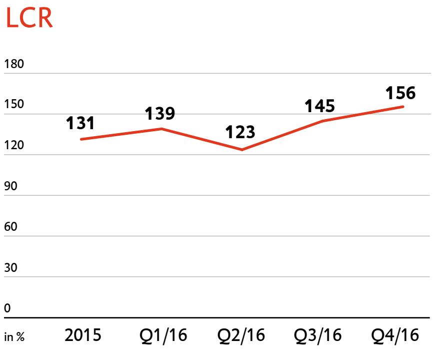
Pursuant to Article 100 CRR in conjunction with the Commission Implementing Regulation (EU) No 2015/79, banks are obliged to report encumbered assets to the regulators on a quarterly basis. In these reports, an asset is deemed encumbered if it has been pledged or used to secure on-balance sheet or off-balance sheet transactions. At 31 December 2016, the share of encumbered assets was 7.8% (2015: 7.2%) with the banking group. This ratio is relatively low and is below the regulatory threshold of 15.0%, which means that we are subject only to the reduced reporting requirements.

Net stable funding ratio

The net stable funding ratio (NSFR) is a structural liquidity ratio that should secure a stable funding profile for a bank for a period of over one year. In this context, available stable funding is compared to the required stable funding. This additional liquidity ratio will become mandatory as of 2018 and will be at least 100%. In the ILAAP report of BKS Bank, we now monitor NSFR on an ongoing basis. As of year-end 2016, NSFR was 110.1%.







OPERATIONAL RISK

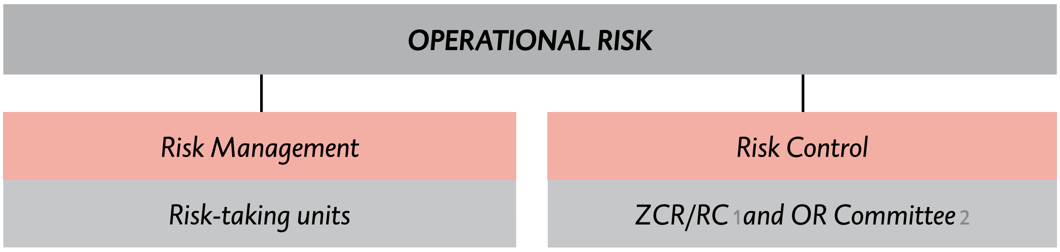
As set out in the CRR, we define operational risk as the risk of losses arising primarily in BKS Bank's operations that might result from inadequate or failed internal processes, people or systems errors or from external factors.

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

We deal with IT risks by means of professional IT security management run by DREI-BANKEN-EDV Gesellschaft m.b.H., a company held jointly with our sister banks, and by extensive data protection and security measures and professional business continuity management. These measures are reviewed regularly by Internal Audit for adequacy. Any weaknesses in the system discovered by Internal Audit are immediately fixed. All enterprise processes are related to IT, and therefore, IT governance is of enormous importance. IT governance is understood to be all principles, procedures and measures in place to ensure that business targets are attained, resources are responsibly used and risks are adequately monitored with the aid of the hardware and software in use at the bank.

An OR Committee has been established for the overall management of operational risk throughout the bank that meets once every quarter. An operational risk report is sent every quarter to the relevant decision-makers.

OPERATIONAL RISK



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

Risk Controlling is responsible for operational risk measurements and for defining the operational risk framework. The implementation of risk mitigating measures is the responsibility of the risk-taking units.

We employ a variety of techniques to ensure the effective management of operational risk, such as
- Carrying out Group-wide self-assessments on a bottom-up basis; these may be used to derive the risk profile specific to each business area
- Documenting operational risk losses in a Group-wide database of loss incidents
- Developing risk-mitigating measures on the basis of the threat analysis carried out within the scope of the self-assessment process and the analysis of actual losses

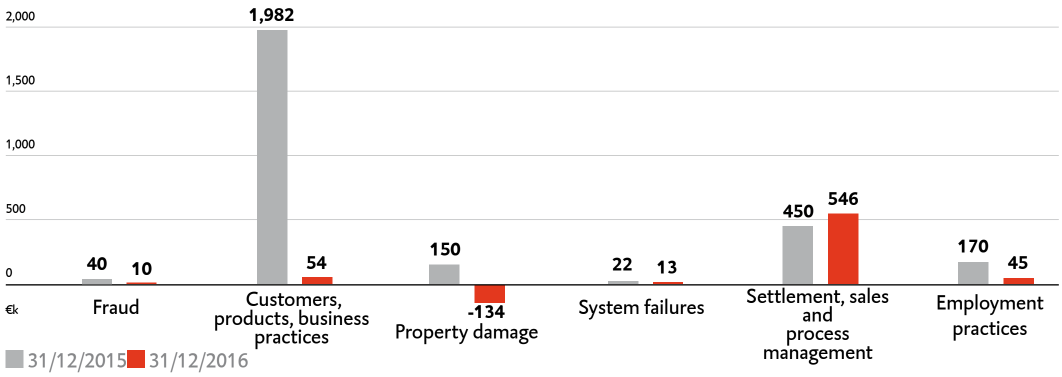
Operational risks were assigned to one of the following categories:
- Fraud
- Customers, products, business practices
- Property damage
- System errors
- Settlement, sales and process management
- Employment practices

In 2016, there were 240 loss events at BKS Bank excluding those resulting from credit operations (2015: 300 loss events). The average loss amount after deducting amounts recovered was EUR 2,224 (2015: EUR 9,380). Most loss events occurred in the category settlement, sales and process management.

As in past years, we applied the standardized approach to measure regulatory capital requirement for operational risk. In the year under review, the regulatory own funds requirement was EUR 26.2 million (2015: EUR 25.7 million). This contrasted with an actual operational risk loss net of amounts recovered of EUR 0.5 (2015: EUR 2.8 million). The total loss was only 2.0% of the regulatory own funds requirement for operational risk.

A self-assessment was conducted in 2016 again. In this process, 103 persons were interviewed about their risk assessment for operational risk. The results of the risk assessment were dealt with in the OR Committee and the themes of relevance for further analysis were defined. The competent departments were then charged with the task of developing and implementing suitable measures to mitigate the risks identified. The measures developed and the ongoing status of implementation is reported at the meetings of the OR Committee.

OPERATIONAL RISKS BY RISK TYPE



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

Reputational risk is understood to mean the negative effects in general public awareness (customers, employees, shareholders, media, business partners, participants of the interbank market, etc.). A key component for the management of reputational risk is complaints management.

Conduct risks are covered by the extensive provisions in the Code of Conduct, the Compliance Code, the Compliance Charter and in the manuals on anti-corruption and anti-money laundering.

Model risks comprise the risks that may arise from the calculation models used at BKS Bank and models for decision-making processes. These models are considered in credit risk and also in market risk with buffers in the risk-bearing capacity calculation.

As regards ICT risk, BKS Bank has a stringent concept for the authorization system as well as clear guidelines for data protection management. Ongoing training and further education of employees raises awareness and regular checks are also conducted within the scope of ICT. Regular backup tests are conducted to ensure the availability of the data in a loss event. The sum of these many measures aim to protect the confidentiality, integrity and availability of the information being processed and its use in compliance with the law.

A risk catalogue is used to identify critical systems that is regularly adapted by the security manager of DREI-BANKEN-EDV Gesellschaft m.b.H.. The catalogue classifies risks by level of threat (criticality) and lists the risks of all systems and applications. The assessment criteria for risk analysis includes maximum downtimes tolerable, possible damage scenarios in the event of downtimes exceeding the tolerance limit and contingency procedures. Furthermore, detailed analysis of protection requirements for existing applications and systems are prepared. The security concept, the contingency plans and the emergency manual are regularly updated.

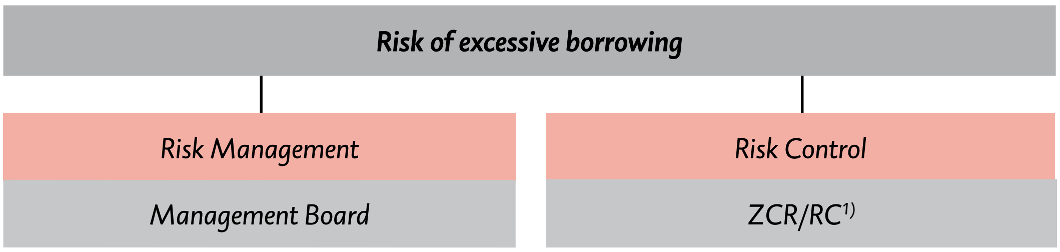
The main focus in the further development of operational risk management is on the internal control system where the documentation of the checks of the main processes in Austria and in Slovenia including degree of maturity of the checks are carried out. An important area is the expansion of measures to protect the systems from cybercrime due to a changed threat situation.

RISK OF EXCESSIVE BORROWING

The risk of excessive borrowing indicates the threat of a high level of indebtedness that could have a negative impact on BKS Bank’s business operations. Apart from any change that may be required to the business plan, refinancing bottlenecks may occur that could make it necessary to sell assets in an emergency situation and, therefore, cause losses or the impairment of the remaining assets.

The risk of excessive borrowing is measured by the leverage ratio. The leverage ratio is the quotient of the unit of capital measured (Tier 1 capital) and overall risk (balance sheet total plus off-balance sheet items); it was 8.5% at year-end (2015: 7.7%). Therefore, the leverage ratio is much better than the minimum ratio of 3% currently being discussed.

RISK OF EXCESSIVE BORROWING



1) Controlling and Accounting/Risk Controlling

OTHER RISKS

Further risk types that BKS Bank does not currently assess as material are subsumed under in the category Other risks. These include:

– Strategic risks
– Risks from new types of business
– Reputational risks
– Earnings and business risks
– Risks relating to residual values in leasing
– Risks of money laundering and terrorism financing
– Risks from the bank's business model
– Systemic risks
– Equity risks

In both the going concern and liquidation approaches, risk buffers have been recognized for other risks for the calculation of the risk-bearing capacity that are evaluated annually and adjusted as necessary. The ICAAP Committee is responsible for the management of these risks.

FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

This section discusses the material disclosures required pursuant to § 243a para. 2 Business Code (UBG) regarding the internal control and risk management system (ICS) in connection with BKS Bank's financial reporting process. The characteristics of the risk management system have been commented on in detail in earlier chapters.

DEVELOPMENT OF THE INTERNAL CONTROL SYSTEM

The internal control system (ICS) is a system monitoring activities that has evolved over the years for the purpose of safeguarding assets and increasing economic efficiency. Moreover, the ICS ensures compliance with the law and the internal rules and regulations as well as the preciseness and reliability of operational documentation. Already in 1980, our bank started working on the systematic development of an internal control system. Ever since, the ICS has been improved and adapted to meet national and international standards. The internationally-recognized framework "COSO Internal Control – Integrated Framework" was used as a reference model.

The internal control system underwent a major further development in one project in the past financial year. The focus was on the creation of an ICS framework and on a new design for the process-based ICS documentation. The newly created ICS framework based on the COSO Model describes the goals, procedures and design principles of the entire ICS. Apart from giving a good overview of all ICS measures, it clearly defines the areas of responsibility within the organization, the new functions of ICS coordinator and ICS manager as well as reporting.

The main improvement is the newly developed risk control matrix. This matrix evaluates and links the existing controls with the risks identified by business process and support process. The process-based risk assessment and detailed description of the controls support efficient and correct modes of work, and significantly improves enterprise management. Furthermore, it also ensures that the bank can respond quickly to changed risk conditions. Additionally, the quality of established controls is assessed based on a maturity level model. The model consists of five progressive maturity grades (from “1 - not very reliable” to “5 - optimized”), with the maturity grade “3 – standardized” being the lower limit for us.

THE CONTROL ENVIRONMENT

Apart from the legal requirements in Austria, Slovenia, Croatia and Slovakia, the focus is also on the Code of Conduct defined by BKS Bank. In addition, we have implemented a compliance management system in line with the “tone of the top” principle and have drafted a Code of Conduct. We also follow the principles of corporate governance and set great store by strict adherence to the internal guidelines.

The regular controls of the ICS mandated by law are carried out by Internal Audit based on an audit plan approved by the Management Board and a risk assessment of all business activities throughout the company.
The Supervisory Board’s Audit Committee is responsible for monitoring the effectiveness of the ICS.

ICS IN THE FINANCIAL REPORTING PROCESS

The ICS ensures the reliability of the company’s reporting, in particular, financial reporting. An important part of the ICS with a reference to the financial reporting process is the documentation of the key financial reporting processes in the form of a Group Manual and internal guidelines on how to recognize impairment allowances.

The Management Board is responsible for setting up and designing a control and risk management system that meets the needs of the Group’s financial reporting process. Accounting, the associated processes and related risk management procedures are the domain of the Controlling and Accounting Department.

There are job descriptions for every position that precisely define the competence required and areas of responsibility. Internal and external seminars are organized to ensure that employees are appropriately trained.

Risk assessment
The risk matrix newly developed in the reporting year defines in more detail the control requirements for financial bookkeeping, asset management and the drafting of the financial statements. The focus was placed on the refinement of the control steps by assigning categories to principal and ancillary controls. Depending on the category assigned in the risk-control matrix, the individual work activities and positions are allocated to specific control activities.

Control procedures
The financial reporting process of BKS Bank uses several different control procedures. Recurring systemic controls were implemented together with IT users and external auditors to monitor the IT systems employed (SAP, GEOS, etc.). Accuracy, completeness and precision of the data were audited. In addition, plausibility checks were conducted, checklists used and the dual-control principle rigorously applied.

In financial accounting, the checks focused on ensuring that outgoing payments had been authorized by the responsible parties and that no authorization boundaries had been overstepped. Payments are authorized for execution only after dual control. Coordination processes are in place for synchronizing the data between the organizational units Accounts (Balance Sheet Accounting) and Controlling.
This ensures data consistency for internal reporting, notifications to authorities and external reporting. An important control procedure concerns the restrictive granting and monitoring of IT authorizations for SAP. Authorizations are documented and their approval is reviewed by Internal Audit within the scope of a separate authorization administration system.

These extensive control procedures are set out in internal manuals, guides, checklists and process descriptions.

Information and communication
The Management Board of BKS Bank is informed regularly and promptly in monthly reports about every aspect of the financial reporting process and the financial results. Each quarter, the Supervisory Board and Audit Committee as well as the shareholders of BKS Bank received an interim report containing notes on budget deviations, material changes and changes over time.

Monitoring procedures

The monitoring of the financial reporting process is done in several stages. First, we conduct a self-assessment every year. Second, a critical review of the ICS relating to the financial reporting process is conducted within the scope of process management. Moreover, an independent review is conducted by the Internal Audit unit of BKS Bank that reports directly to the Management Board. The heads of departments and the responsible group heads performed the primary monitoring and supervisory tasks within the financial reporting process in accordance with their role descriptions. To ensure the reliability and proper execution of the financial reporting process and the relevant reports, additional monitoring procedures were carried out by the statutory auditors of the consolidated financial statements and by the mandatory Audit Committee.

SUSTAINABILITY AND NON-FINANCIAL PERFORMANCE INDICATORS

BANKING ON ACCOUNTABILITY

Sustainability and quality are the foundation of BKS Bank's corporate strategy (see chapter Corporate Strategy, page 61). We believe that accountability is essential to business policy and a competitive advantage. Because

– a bank needs a solid reputation to gain the trust of customers and business partners,
– being regionally well-established with branches and contracting work to local companies keeps added value at home,
– treating employees with respect and appreciation increases appeal as an employer,
– conserving resources helps protect the climate and helps keeps costs low,
– risk awareness in business activities protects earnings capacity over the long term and heightens appeal for our shareholders.

Holistic strategy for sustainability

For many years, BKS Bank has been pursuing a holistic strategy rather than just isolated CSR measures and is constantly developing activities within the clearly defined sustainability strategy. We act responsibly and treat our customers, employees and shareholders with equal respect. Sustainability is a core element of our business and also environmental and climate protection are included in our strategic considerations.

Holistic in our sustainability strategy means that we take guidance from the CSR mission statement of respACT[1)]. We differentiate between the following fields of action

– Management and strategy
– People at BKS Bank
– Customers and products
– Society and social engagement
– Environment and climate protection

When developing our activities, we pay special attention to the Sustainable Development Goals (SDGs), the principles of the UN Global Compact of which BKS Bank is a member, and the findings from dialogue with our stakeholders

BKS Bank joined the VÖNIX Index in June 2016

Our approach to sustainability always take account of the big picture and is periodically reviewed by external experts. After oekom research AG, an institution specialized in sustainability research, awarded BKS Bank a "prime" rating for its sustainability activities in 2015, in 2016 its ordinary shares were added to the sustainability index, VÖNIX, computed by the Vienna stock Exchange. This index tracks the shares of Austrian listed companies with the best sustainability performance. The index members are selected by the company rfu - Reinhard Friesenbichler Unternehmensberatung.

[1)] respACT - Austrian Business Council for Sustainable Development is the leading corporate platform for social responsibility and sustainable development in Austria. For more details, see www.respact.at.

CORPORATE GOVERNANCE AND STRATEGY

The Management Board of BKS Bank is responsible for sustainability management. The two CSR officers coordinate the activities of the various departments and working groups for specific themes. On a quarterly basis, the CSR core team holds CSR jour fix meetings with the chair of the Management Board to coordinate activities. Furthermore, the CSR manager informs the top management of the progress achieved in the implementation of the CSR measures at the quarterly meetings. In 2016, the sustainability aspects were also added to the job descriptions for the top management.

Dialogue with stakeholders

The stakeholders of BKS Bank are persons and groups of persons as well as organisations and institutions which have a

- legal,
- financial,
- commercial or
- social interest

in the decisions and actions of the bank. Important stakeholders for BKS Bank are its customers, business partners and suppliers, its shareholders, employees, the media, authorities as well as NGOs and associations. We regularly communicate with these groups at events, in publications and mailings, on the internet and social media. We also use this dialogue to gain inputs for our further development by conducting surveys and workshops on major issues.

For us, successful stakeholder management means

- Exchange on an equal footing
- Recognizing potential risks and avoiding damage to our image
- Attainment of good image, sympathy and satisfaction ratings with internal and external stakeholder groups
- Basis for innovation through external feedback

In 2016, valuable impulses for further development came, for example, from

- the results of our customer surveys (details are given in Segment Report, page 115)
- the feedback report of the application for the state award for company quality, in which a three-person assessment team analyzed the quality of the BKS Bank based on the EFQM Excellence Model.

Stakeholder workshop in Vienna

The extensive stakeholder survey conducted in 2015 was continued in 2016 by interviews with representatives of selected focus groups and in a stakeholder workshop with sustainability experts. The focus of the interviews and of the workshop was on the enlargement of the range of sustainable products and investments of BKS Bank, and on environmental and climate protection. The findings resulted in an adaption of the materiality matrix. A detailed description is given in our sustainability report, which is available online at www.bks.at.

New Code of Conduct
In the reporting year, the Code of Conduct pursuant to the EBA Guidelines on Internal Governance was reviewed thoroughly and completely revised. The Code of Conduct is available to all employees of the BKS Bank Group in their local language. It serves as a valuable tool for compliance when reaching decisions on critical issues.

In 2016, our procurement rules were also enlarged to include a section on sustainability. Apart from minimum standards on sustainable procurement practices, it now also contains a list of sustainability labels and certificates. This catalogue makes it easier for our procurement staff to decide if a product or service is sustainable.

Award "EFQM Recognised for Excellence 5 Star" confirmed
Quality is given a high priority. We have been rewarded for our efforts to improve the quality of our company by receiving the internationally recognized label "EFQM Recognized for Excellent 5 Star" for the second time. We are pleased to be among the excellent companies in Austria. We are still the only Austrian bank to have been awarded this distinction.

Our application to compete for the state distinction for company excellence is the basis for this award. The application procedure includes a self-description of the organization using a defined questionnaire and a two-day assessment process by assessors from Quality Austria. The team of assessors evaluated the quality of our company based on the documentation submitted and the outcome of the interviews conducted. We are very pleased that the measures we have taken to improve quality have yielded results: Compared to the first application, we significantly increased the number of points obtained.

We are very proud of this award. At the same time, it also places us under the obligation to continue our efforts to improved quality. Therefore, in the reporting year, we also took a number of measures to increase customer and employee satisfaction and reinforce quality awareness.

Our two-year quality management programme comprised 18 measures, 15 of which we completed successfully in the reporting year. One of larger projects was the introduction of new BKS Bank quality standards. Our new quality standards provide users with concrete guidance for typical everyday banking tasks under the motto "Customer Orientation. Professional. Successful."
The principle question was to ascertain the expectations of customers with respect to quality and service, and how to best meet these expectations. Twelve different themes were addressed and communicated to the management and employees covering topics such as dress code, personal communication behaviour and the improvement of data quality.

Moreover, we continued our initiative “Schreibwerkstatt” (writing workshop) in which we developed a new writing style for our company. Our style guide (Der gute Ton) was distributed to all management staff and employees and a follow-up writing workshop was organized in the second half of the year. Participants from the central departments and head office in Carinthia attended and had an opportunity to train the new writing style by writing their own texts. Interest and feedback from participants was positive and we plan to conduct further workshops in 2017.

Several members of the quality management group analyzed internal communications in the year 2016. The analysis was presented at the end of the third quarter 2016 and also comprises an extensive catalogue of measures. The principal area of improvement will be the replacement of our intranet for a more interactive one with better performance and greater visually appeal.

We plan to develop a new quality management programme for 2017 that will be based on the improvement potentials identified in the documentation submitted to obtain the company excellence award.

NON-FINANCIAL PERFORMANCE INDICATORS (MANAGEMENT AND STRATEGY)

	Indicators 2015	Indicators 2016
Sustainability rating by oekom research AG (grading from A+ to D-)	C “Prime”	C “Prime”[1)]
Company quality rating	R4E 5*	R4E 5*[2)]
Number of complaints Group-wide	605	403

[1)] The last rating was assigned in 2015. BKS Bank will be rated again by oekom in 2017.
[2)] EFQM Recognised for Excellence 5 Star

THE PEOPLE WHO WORK AT BKS BANK

The employees of BKS Bank have always held our company in high esteem as a family-friendly and attractive employer. Many of our sustainability activities target the people who work at the bank. The many measures taken to help employees achieve a good balance of career and family life call for special mention.

These include
– a programme to promote workplace health,
– flexible working hour models, and
– a broad further training and education programme.

Successful re-audit for the ‘berufundfamilie’ certificate

In 2016, BKS Bank applied again for a re-audit of the ‘berufundfamilie’ certificate. The bank was awarded the certificate by the Minister for Family Affairs and Youth, Sophie Karmasin, in November. The re-certification was a catalogue of new measures drafted together with a team of employees. The 13 newly developed measures will be implemented in the coming three years by the Audit Team.

The activities at the bank up to now initiated by the audit for the 'berufundfamilie' certificate include the following:

– A free and anonymous advisory session for employees in a difficult life situation by the EAP-Institut für Mitarbeiterberatung
– Support for childcare on holidays and free days
– A swap market on the intranet
– Information brochure on leaves of absence
– Breakfast event for fathers and mothers on childcare leave
– An information meeting for employees with relatives requiring care

Our Slovenian subsidiaries have also had the quality label 'Family-friendly employer – Družini prijazno podjetje" since 2015. In Croatia, the certification process was started in 2017.

Exemplary company for work-life balance
BKS Bank is a role model for other companies to make greater efforts to achieve a work-life balance for their employees. It is a member of the network 'Unternehmen für Familie' and is frequently used as best practice example for presentations and publications. The study conducted on behalf of the Ministry of Family Affairs and Youth by FAS Research names BKS Bank as one of the tope 20 exemplary companies in Austria with respect to work-life balance and the largest hub in the in the network of "network of family-friendly companies".

Banking on health
The promotion of workplace health under the motto "Durch die Bank gesund" (Banking on health) was again awarded the quality label "Gütesiegel für Betriebliche Gesundheitsförderung" (quality label for workplace health promotion) in 2016. The main focus in the reporting year was the prevention of metabolic diseases. The employees were offered webinars, nutrition workshops and a blood test. The programme was very well-received. In total, 211 employees in Austria and 70 in Slovenia took advantage of these offers.

Quick check of employee survey
The employee survey 2014 resulted agreements for 108 improvement measures. All measures were implemented by year-end 2016 except for nine that were discarded.
At the beginning of January 2016, the implementation of the measures was evaluated throughout the company by quick check. The aim was to find out with how much enthusiasm the measures were implemented, and which themes were dealt with well and to identify improvement potential. Happily, a large share of the employees stated that the effects were positive and their organizational unit was well on the way to fully achieving the measures. In the year 2017, another extensive survey of employees is planned.

NON-FINANCIAL PERFORMANCE INDICATORS (EMPLOYEES)

	Indicators 2015	Indicators 2016
Number of employees, Group	1,091	1,071
Share of women on the Management Board (in %)	33.3	33.3
Share of women on the Supervisory Board (in %)	33.3	35.7
Share of women in total management staff (in %)	31.2	32.1
Average days of training per employee	4.4	5.0
Fluctuation rate (in %)	3.9	3.7
Participants in annual workplace health promotion project	328	281
Sick leave (in %)	3.0	2.9
Average parenthood leave in years	1.5	1.8
Share of fathers on parenthood leave (in %)	15	–
Awards for staff-related activities and memberships in staff-related networks:		
– Audit Certificate “berufundfamilie”	✓	✓
– Quality label for workplace health promotion	✓	✓
– Unternehmen für Familien	✓	✓
– Carinthian International Club	✓	✓
– Charta der Vielfalt	✓	✓

CUSTOMERS AND PRODUCTS

In this context, we address the issue of how to anchor sustainability in our core business and the theme of responsible customer relationships management.

‘Silberkredit’ opens the way for loans to seniors

In 2016, we expanded the range of our sustainable products to include the ‘Silberkredit’, a product designed specifically for retirees. The willingness to invest in old age has increased significantly but older people often are refused loans. BKS Bank is now one of the few banks in Austria that offers such loans. This loan type can be applied for by persons over the age of 65 with a good credit standing, as appropriate collateral is a requirement for obtaining the loan. The terms of the loan can be agreed individually. The ‘Silberkredit’ has been very well-received by our customers and associations of retirees. At year-end 2016, the volume of loans was EUR 4.8 million.

First Social Bond[1)]

We enlarged our range of products by a social bond[1)] issued at the beginning of 2017. The extensive preliminary work to prepare the issue was done by our investment experts during the reporting year. The capital invested by investors in the social bond[1)] is used to finance the "MaVida Parks" in Velden. This is a competence centre specialized in dementia diseases. The issue, especially the use of the funds for the social finance project, was audited and certified by the research institution specialized in sustainability, rfu – Reinhard Friesenbichler Unternehmensberatung. The external audit gives investors the reassurance of knowing that they have actually invested in a sustainable product. BKS Bank is the first Austrian bank to issue a social bond[1)].

3 Banken-Generali Investment-Gesellschaft m.b.H, which is the joint investment management company of Generali, BKS Bank, Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft, also expanded its range of products to include sustainable offers in the reporting year. 3 Banken Dividende+Nachhaltigkeit 2022*[2)] is an actively-managed stock fund that invests in companies with high dividend payouts, predictable cash flows and verifiable business models. The fund is international and consists of 33 more or less equally-weighted individual stocks. Additionally, only stocks are acquired that have passed the sustainability filter of the private Swiss bank, J. Safra Sarasin.

We were also satisfied with the development of the sustainable products that had already been in our portfolio for some time, namely, Öko-Kredit, Umwelt-Kredit, Öko-Sparbuch and the actively-managed investment fund AVM nachhaltig. In Slovenia, BKS Bank has a so-called green loan on offer that is very popular among customers.

[1)] This is a marketing publication. The information provided in this text serves only as non-binding information and does not replace in any way advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bond mentioned here, and neither is it a buy or sell recommendation. The offer for the product described is based on the base prospectus published by BKS Bank AG on 1 April 2016 including all documents to which a reference is made and all supplementary information to the base prospectus as well as the final terms published on 5 January 2017. The base prospectus including supplementary information and the final terms are available free of charge on the website of the issuer at http://www.bks.at, under Investor Relations > BKS Bank Anleihenemissionen and also at the offices of BKS Bank AG, 9020 Klagenfurt, St. Veiter Ring 43 during usual office hours.

[2)] This is a marketing publication. The information contained in this text only serves as non-binding information for investors and does not in any way replace advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bond mentioned here, and neither is it a buy or sell recommendation. The exclusive basis for the purchase of investment fund shares is the key information document (KID) and the respective prospectus which is available in its currently valid version in German on the website at www.3bg.at as well as at the Austrian paying agent of the investment fund.

Excellent quality of customer and advisory services
BKS Bank does not want to be a discount or online bank. An essential part of our business strategy is the high quality of advisory services in which we are constantly investing. Our customer relationship managers received extensive training and BKS Bank does not address sensitive target groups or engage in aggressive advertising practices.
These efforts are highly appreciated by our customers and by external experts. BKS Bank was certified to offer "excellent customer satisfaction" by the FMVÖ Recommender Award 2016. This award measures the degree of willingness of customers to recommend a bank. In 2016, Österreichische Gesellschaft für Verbraucherstudien (ÖGVS) and trend magazine named BKS Bank the bank with the best investor advisory services in Austria and the bank with outstanding advice for real estate financing. The two ÖGVS tests stressed the quality of service and transparency of the advice given.

NON-FINANCIAL PERFORMANCE INDICATORS (PRODUCTS)

	Indicators 2015	Indicators 2016
Number of customers	150,000	152,000
Number branches	59	60
Investment volume in AVM nachhaltig in € m	18.1	18.6
Share of assets invested in AVM nachhaltig to AVM total in %	18%	20%
Sustainable assets of 3 Banken KAG in public investment funds in € m	–	191.6
Sustainable assets of 3 Banken KAG in special funds in € m	–	148.0
Deposits on eco-savings accounts in € m	7.5	7.9
Share of suppliers which have agreed to the Code of Conduct for Suppliers	100%	100%

SOCIETY AND ENGAGEMENT FOR SOCIETY

As a regionally established bank, BKS Bank is an important partner for many social and cultural initiatives. The bank financially supports social and cultural projects as well as educational projects or in the form of corporate volunteering. We have long-standing partnerships with many institutions and associations.

EUR 20,000 for the victims in Afritz of the natural disaster
In 2016, BKS Bank supported 445 sponsoring projects, including the highlights of Carinthian culture: Carinthian Summer and German Literature Days. Likewise, the bank also supported the music association Viktring, the exhibition "Farbenrausch – Meisterwerke deutscher Expressionisten" at Stadtgalerie Klagenfurt and Brahms competition for talented young musicians from all over the world. Our employees are warm of heart. After the town of Afritz in Carinthia was devastated by a natural disaster, they donated around EUR 10,000 for the victims. This amount was doubled by BKS Bank to EUR 20,000.

The mayor of Afritz, Max Linder, was presented with the donation by Management Board Member Wolfgang Mandl and Herta Pobaschnig from the Central Works Council. We also continued our partnership with “Kärntner in Not”. Examples for educational sponsoring include the financial support for the series of lectures by Volkswirtschaftliche Gesellschaft, the Junior-Wettbewerb competition and the activity “Kärntner Löwalan” in which around 1,000 primary school children went on an excursion to Klagenfurt and learned about the capital and its history.

348 work hours for NPOs

BKS Bank does not only donate funds for social activities, but also the time of its employees. 112 employees worked 348 hours in corporate volunteering projects. The projects in 2016 included

– Cooking for the homeless at Zweite Gruft in Vienna,
– Building a shady sitting spot in Kinderdorf Pöttsching in Burgenland,
– Organizing a games day with children in a shared flat of the Diakonie de La Tour
– Celebrating a party with the disabled clients of the day care centre Mosaik Seiersberg
– Building a pergola for a Pro-Mente youth project.

Multipliers for CSR

Sustainability can only change things if as many people as possible share this idea. For this reason, BKS Bank is engaged in many CSR networks such as Verantwortung zeigen!, Green Tech Cluster Styria, Charta der Vielfalt and Unternehmen für Familien. BKS Bank is also an active member of respACT and is supported in these activities by the Chairwoman of Management Board, Herta Stockbauer. In cooperation wit the respACT team, a business lunch was organized in the reporting year on the topic of climate protection and an excursion to the company Kärntnermilch, which is exemplary for sustainability.

BKS Bank puts sustainable companies on the centre stage

At the Trigos Kärnten event, BKS Bank together with other TRIGOS organizers presents companies that work sustainably to the public. The CSR award is conferred every two years under the lead of BKS Bank in Carinthia or Styria, and the winners in the category “holistic CSR engagement“ were:

– Hiasl Zirbenhütte Leitgeb KG – small business
– Kärntnermilch reg. Gen.m.b.H. – medium-sized business
– Flex – large company

The special award “CSR Newcomer” was conferred to Terra Möbel Produktions GmbH. The PRIMUS Award in the category “Sustainability” in Styria sponsored by BKS Bank went to the two young innovative entrepreneurs Verena Kassar and Sarah Reindl. They opened a food store in Graz with products sold completely free of packaging materials.

NON-FINANCIAL PERFORMANCE INDICATORS (SOCIETY)

	Indicators 2015	Indicators 2016
Number of sponsored projects	399	445
Sponsoring in EUR k	249	267
Participants in corporate volunteering projects	102	112
Working capacity made available for corporate volunteering projects in person-hours	574	312
Entries for TRIGOS Styria (2015) and Carinthia (2016)	36	25
Memberships in CSR networks:		
– UN Global Compact	✓	✓
– respACT	✓	✓
– Verantwortung zeigen!	✓	✓
– Unternehmen für Familien	✓	✓
– Eco Cluster Styria	✓	✓

ENVIRONMENT AND CLIMATE PROTECTION

At the Climate Change Conference in 2015 in Paris 195 nations agreed on a new climate accord. At the follow-up conference in November 2016 in Marrakech, the details were defined. The common goal is to reduce global warming. The worldwide average temperature is to rise at most 2 °C versus the level of the 20th century. If the temperature rises over 2 °C, climate scientists expect the ice in Greenland to melt completely causing the sea level to rise by around seven metres so that further areas of land throughout the world will be flooded.

BKS Bank also endeavours to contribute to climate protection as far as it can. In the reporting year, BKS Bank adapted its climate protection strategy to the current requirements; the current version is available on the website at www.bks.at.

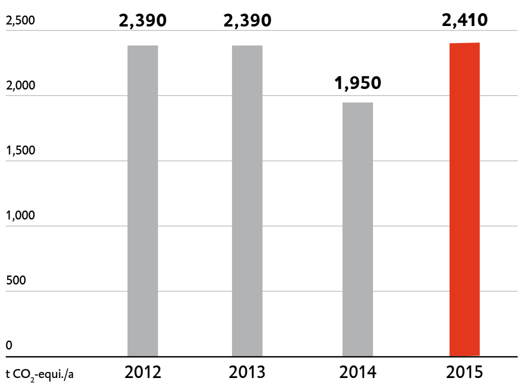
Carbon footprint of the entire Group determined for first time

The carbon footprint provides information on how much greenhouse emissions a product or a service produces during its entire life cycle. The carbon footprint is measured in CO_2equivalents for a defined and functional unit. The annual review of the carbon footprint creates the basis for improving our own processes, comparing ourselves with other companies and reducing our greenhouse emissions. To this end, data such as energy consumption, mobility, use of coolant and paper is surveyed.

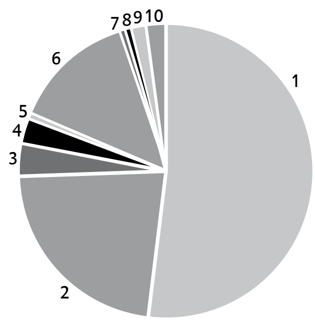
Apart from the locations in Austria, in 2016 we included for the first time our locations in Croatia, Slovakia and Slovenia in our analysis. We compared the results for the reference year 2015 with the reference years 2012 to 2014 (Austria) and 2013 to 2014 (Croatia and Slovakia).

In the survey period 2014, we were able to lower our corporate carbon footprint versus 2012 by 31% and versus 2013 by 21%, the picture is mixed for 2015. In 2015, consumption of heating fuel, coolant and paper dropped versus 2014 in Austria, but in all other categories we recorded increases. Compared to other companies in the services sector, we are within the average range. The carbon footprint throughout the Group was 2,410 t CO_2-equivalents for 2015.

THE CARBON FOOTPRINT OF BKS BANK AUSTRIA AND FOREIGN SUBSIDIARIES 2015



in %	2015
1 Electricity	52.1
2 Distance heating	22.4
3 Natural gas	3.6
4 Heating fuel	3.0
5 Gasoline	0.3
6 Diesel	14.6
7 Rail	0.2
8 Air travel	0.1
9 Coolant	1.7
10 Paper	2.0



Proactively protecting resources

In 2016, we continued our efforts to cut the use of resources. Throughout the entire year, our employees received tips on how to save energy and a number of employees participated again in a training course on how to save fuel. With the introduction of the electronic mailbox in BKS Bank Online, we can now send documents electronically instead of by regular mail. The use of our video conference system was promoted and the control technology for the heating, ventilation and air conditioning systems was upgraded at the Head Office thus contributing considerably to improving our energy efficiency. We also consider it a positive step that we also switched to electricity from renewable sources in Croatia. In Austria, BKS Bank has been using green electricity since 2015.

AfB recycled old BKS banking hardware

The cooperation project with AfB mildtätige und gemeinnützige GmbH was continued in the reporting year. AfB is specialized in the treatment of discarded IT hardware from large corporations and public entities by processing the hardware and conducting a certified deletion of any existing data. The devices are then resold to be used for their original purposes. Defective apparatus is dissembled into their component parts and the raw materials are disposed of by a certified recycling plant. All work steps within the company are barrier-free, and are carried out in solidarity by disabled and non-disabled persons.

The activities presented here are only a small part of our engagement for sustainability. For details see our Sustainability Report available at www.bks.at/nachhaltigkeit.

NON-FINANCIAL PERFORMANCE INDICATORS (ENVIRONMENT AND CLIMATE)

	Indicators 2014[1)]	Indicators 2015[1)]
Carbon Footprint, total in t CO_2-equivalents	1,950	2,410
Electricity consumption in GWh	3.0	3.2
Share of electricity from renewable sources in total consumption	100%[2)]	100%[2)]
Natural gas consumption in GWh	0.16	0.20
Diesel in 1,000 l	80	102

[1)] The calculation of the carbon footprint is based on the respective year-on-year figures. Since 2016, the values are calculated at the Group level. The values for 2014 and 2015 were adjusted accordingly.
[2)] Only in Austria

	Indicators 2015	Indicators 2016
Kilometres of travel saved through video conferences	194,400	256,890
Kilometres travelled by rail	76,869	81,258
Paper consumption in t	45.1	45.1
Paper consumption per employee in kg	50.6	51.1
Units of hardware recycled by AfB	574	205

OUTLOOK

GLOBAL ECONOMIC RECOVERY PICKING UP

Global economic growth is expected to rise again slightly in 2017 to just over 3%. According to estimates by the International Monetary Fund (IMF), the global economy is expected to grow in the current year by 3.4% and in 2018 even by 3.6%. The IMF believes the drivers of global economic growth are the US and China, but also Europe and Japan might help to stimulate the global economy in 2017 more strongly than in the preceding year. The forecast for the US in 2017 was raised to 2.3% by the IMF and for 2018 to 2.5%. One of the reasons named was the Trump effect, that is, a stronger stimulus for the economy from higher government spending, less regulation and lower taxes. Additionally, experts also expect leading interest rates to gradually recover in the US this year.

The IMF estimates that China will attain an economic growth rate of 6.2%. The economic situation has been stabilizing more and more over the past few months. However, the IMF warned that growth driven by higher government spending and lending is not sustainable. China is making only slow progress in fighting high levels of corporate indebtedness.

EUROPEAN ECONOMY ON REBOUND

The economic recovery in the past year arrived in all EU member states and is expected to continue in 2017 and in 2018. The European Commission estimates a rise in GDP of 1.6% and 1.8% in the euro area for 2017 and 2018 respectively. For the entire EU, it expects an increase of 1.8% for the next two years. Therefore, the recently published winter forecast of the European Commission was more optimistic than the one released in the autumn of 2016. The main stimulus for the brighter economic outlook came from the robust development of the economy in the second half of the year 2016 and the good start into the new year. Despite all positive assessments, there is one major risk factor: The perceptible and unusually high insecurity prevailing on the markets may turn out to be a damper for the economy. Private consumption is the driving force for economic recovery. The excellent development of the labour market plays a major role in this context. For 2017, the European Commission expects a decline from 8.5% to 8.1% throughout the European Union. Before the backdrop of rising inflation though, consumption propensity may slow until year-end 2017. Investments in capital goods by companies and the public sector are expected to increase slightly by 2.9% in 2017. An incentive mentioned is the low financing costs and the solid development of the global economy.

AUSTRIA'S ECONOMY SET FOR ROBUST GROWTH ALSO IN 2017

The economic estimates for Austria's economy are still positive. In its recent forecast, WIFO expects economic growth to be 1.5% for 2017. Both sustained strong internal demand and the improved situation of orders on hand in industry will continue to support the upswing. The propensity to spend of private households will weaken over the course of 2017 and higher inflation will also put a damper on domestic demand. However, the prospects for industry are becoming better. The year 2017 started well for Austria's industrial sector, with the increases in new orders and the higher demand for labour being indicators for this trend. Additionally, analysts believe that foreign trade will gain momentum again in 2017. The solid economic development is having a positive effect on employment rates, but the supply of labour is constantly growing due to the strong immigration. The domestic economy will not be able to fully absorb the increase in labour supply. Therefore, WIFO expects the unemployment rate to increase to 9.3% in 2017.

BANKING BUSINESS REMAINS CHALLENGING

We expect the challenges for banks to remain just as demanding as up to now. The historically low levels of interest rates, the heavy regulation and the rapidly developing technologies will accompany us in the current year as well.
The earnings situation of banks will remain tense in the light of the expansive monetary policy of ECB. Even though the economic prospects for Europe are improving, we do not expect an end to the low interest rates this year. With respect to the new regulations, we are optimistic that the regulatory "tsunami" of the past few years has already peaked and that future regulatory changes will drop back to reasonable volumes. We have expended a lot of resources in the past few years for meeting regulatory requirements.
Any easing in this respect would most certainly help to strengthen our profitability.

We have plans for a lot of projects for the next few years. We hope to continue growing in the years to come and to further expand our position among the leading banks in Austria. Therefore, we are making every effort to improve our profitability and productivity further, and to continue our growth strategy oriented on sustainability. In the current year, we have already opened two new branches. In Vienna, we have been operating the ninth branch since January 2017, and in Ljubljana the seventh branch started operations in March 2017. We plan to open a branch in Split in Croatia in the autumn of 2017.
Our plans, however, do not project only the opening of new branches, but also the development of new products. Therefore, in 2017 we will concentrate on substantially expanding payment services and the securities business. As already mentioned, we have launched a number of projects to implement our digitization strategy.

At the same time, we are also pursuing a strict cost management policy to improve our earnings capacity. Therefore, the agenda for 2017 also includes optimization and cost-cutting projects. The objective is to push the cost/income ratio back down below the internal benchmark of 55.0%. We currently are not planning any larger reductions in personnel costs, but we do plan to resize employee deployment, especially in the processing units.

Naturally, we are aware that the implementation of our strategy goals could be disrupted by market turmoil, economic downturns, regulatory changes or heightened competition. Therefore, we are cautiously optimistic and believe that due to our proven business model, stable own funds adequacy and good market position we will be able to continue on the path we have chosen. By standing by our vision "Regionally rooted. Open-minded. Excellent in our work" we will also master the challenges of the financial year 2017. As in the past, we plan to pay out a dividend that adequately reflects our profits and own funds.

At this point we would like point out that in the period from the end of the financial year and the preparation of the financial statements and their approval by the auditor, no material events have occurred of relevance for the report.

Klagenfurt am Wörthersee, 10 March 2017

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

INFORMATION ON THE AUSTRIAN CODE OF CORPORATE GOVERNANCE (ÖCGK) AND BKS BANK ON THE INTERNET

Austrian Code of Corporate Governance (Österreichischer Corporate Governance Kodex)
www.corporate-governance.at

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

Shareholders of BKS Bank AG
www.bks.at/Aktionaersstruktur

Shareholder Events
www.bks.at/Aktionaerstermine

Annual General Meeting
www.bks.at/Hauptversammlung

Conformity Declaration of BKS Bank AG with the Code of Corporate Governance (ÖCGK)
Guidelines on Independence
BKS Bank's Code of Corporate Governance (ÖCGK) Report
Publications pursuant to § 65 Banking Act (BWG) regarding Corporate Governance and Remuneration
Articles of Association of BKS Bank
www.bks.at/Corporate_Governance

Business, Financial and Sustainability Reports of BKS Bank
Disclosure pursuant to CRR
www.bks.at/Berichte

OeKB Issuer Information Center
Central depository for information on Austrian issuers pursuant to Art. 86 Stock Exchange Act (BörseG)
http://issuerinfo.oekb.at/startpage.html

Press releases of BKS Bank
www.bks.at/Pressemitteilungen

COMPLIANCE AND AML INFORMATION ON BKS BANK ON THE INTERNET

AML Declaration
Banking License
USA Patriot Act Certification
Wolfsberg Questionnaire of BKS Bank AG
W-8BEN-E
Directors' Dealings Reports
www.bks.at/Compliance

CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO IFRS

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STATEMENT OF COMPREHENSIVE INCOME OF THE BKS BANK GROUP, FINANCIAL YEAR 2016

INCOME STATEMENT (FULL YEAR)

in €k	Note	2015	2016	± in %
Interest income		176,051	160,967	-8.6
Interest expenses		-52,593	-40,476	-23.0
Profit/loss from equity-method accounted investments		42,986	33,696	-21.6
Net interest income	**(1)**	**166,444**	**154,187**	**-7.4**
Impairment charge on loans and advances	(2)	-48,547	-31,007	-36.1
Net interest income after impairment charge		**117,897**	**123,180**	**4.5**
Fee and commission income		56,154	52,586	-6.4
Fee and commission expenses		-3,172	-3,756	18.4
Net fee and commission income	**(3)**	**52,982**	**48,830**	**-7.8**
Net trading income	(4)	2,320	1,717	-26.0
General administrative expenses	(5)	-105,120	-106,428	1.2
Other operating income	(6)	10,034	6,590	-34.3
Other operating expenses	(6)	-15,708	-22,012	40.1
Profit/loss from financial assets		**-1,679**	**-2,076**	**23.6**
– Profit/loss from financial assets designated as at fair value through profit or loss (FV)	(7)	109	-1,863	>100
– Profit/loss from available-for-sale financial assets (AFS)	(8)	-2,075	-366	-82.4
– Profit/loss from held-to-maturity financial assets (HtM)	(9)	287	153	-46.7
Profit/loss for the year before tax		**60,726**	**49,801**	**-18.0**
Income tax expense	(10)	-7,110	-3,617	-49.1
Profit for the year after tax		**53,616**	**46,184**	**-13.9**
Minority interests in profit for the year		-3	-4	33.3
Profit for the year after minority interests		**53,613**	**46,180**	**-13.9**

INCOME AND EXPENSES TAKEN DIRECTLY TO EQUITY

in €k	2015	2016	± in %
Profit for the year after tax	**53,616**	**46,184**	**-13.9**
Items not reclassified to consolidated profit or loss	**-1,672**	**2,649**	**>100**
± +/(–) Actuarial gains/(losses) in conformity with IAS 19	3,788	815	-78.5
+/(—) Deferred taxes in conformity with IAS 19	-949	-204	-78.5
+/(–) Gains less losses arising from use of the equity method in conformity with IAS 19	-4,511	2,038	>100
Items reclassified to consolidated profit or loss	**-5,536**	**1,030**	**>100**
+/(–) Exchange differences	77	971	>100
+/(–) Available-for-sale reserve	-132	940	>100
+/(–) Deferred taxes taken to AfS reserve items	-40	-238	>100
+/(–) Gains less losses arising from use of the equity method	-5,441	-643	-88.2
Total income and expenses taken directly to equity	**-7,208**	**3,679**	**>100**
Comprehensive income before minority interests	**46,408**	**49,863**	**7.4**
Of which minority interests	-3	-4	33.3
Comprehensive income after minority interests	**46,405**	**49,859**	**7.4**

EARNINGS AND DIVIDEND PER SHARE

	2015	2016
Average number of shares in issue (ordinary and preference shares)	35,410,670	36,667,864
Dividend per share (ordinary and preference share), €	0.23	0.23
Earnings per ordinary and preference share (diluted and undiluted), €	1.50	1.26

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

QUARTERLY REVIEW 2016

in €k	2016 1Q	2016 2Q	2016 3Q	2016 4Q
Interest income	42,319	40,300	40,108	38,240
Interest expenses	-10,644	-10,617	-9,969	-9,246
Profit/loss from investments in equity-method accounted entities	5,726	10,211	9,728	8,031
Net interest income	**37,401**	**39,894**	**39,867**	**37,025**
Impairment charge on loans and advances	-8,793	-3,608	-13,361	-5,245
Net interest income after impairment charge	**28,608**	**36,286**	**26,506**	**31,780**
Fee and commission income	13,864	13,301	12,176	13,245
Fee and commission expenses	-974	-828	-908	-1,046
Net fee and commission income	**12,890**	**12,473**	**11,268**	**12,199**
Net trading income	199	779	-61	800
General administrative expenses	-26,898	-27,400	-26,100	-26,030
Other operating income	1,239	953	1,583	2,816
Other operating expenses	-5,039	-3,424	-1,512	-12,037
Profit/loss from financial assets	**-61**	**-120**	**-1,297**	**-598**
– Profit/loss from financial assets designated as at fair value through profit or loss (FV)	-195	-414	-1,553	299
– Profit/loss from available-for-sale financial assets (AfS)	134	294	103	-897
– Profit/loss from held-to-maturity financial assets (HtM)	–	–	153	–
Profit for the period before tax	**10,938**	**19,547**	**10,387**	**8,929**
Income tax expense	-2,414	-3,362	1,778	381
Profit for the period after tax	**8,524**	**16,185**	**12,165**	**9,310**
Net profit for the year after tax	-1	-1	–	-2
Profit for the period after minority interests	**8,523**	**16,184**	**12,165**	**9,308**

QUARTERLY REVIEW 2015

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

BALANCE SHEET OF THE BKS BANK GROUP AS AT 31 DECEMBER 2016

ASSETS

in €k	Note	31/12/2015	31/12/2016	± in %
Cash and balances with the central bank	(11)	190,310	543,542	>100
Receivables from other banks	(12)	363,862	242,347	-33.4
Receivables from customers	(13)	5,113,867	5,330,395	4.2
– Impairment allowance balance	(14)	-193,748	-155,136	-19.9
Trading assets	(15)	46	10	-78.3
Financial assets		1,445,094	1,483,583	2.7
– Financial assets designated as at fair value through profit or loss	(16)	114,863	75,568	-34.2
– Available-for-sale financial assets	(17)	166,721	189,335	13.6
– Held-to-maturity financial assets	(18)	724,891	747,773	3.2
– Investments in entities accounted for using the equity method	(19)	438,619	470,907	7.4
Intangible assets	(20)	1,868	1,735	-7.1
Property and equipment	(21)	58,437	56,274	-3.7
Investment property	(22)	29,690	30,720	3.5
Deferred tax assets	(23)	25,441	17,288	-32.0
Other assets	(24)	28,566	30,298	6.1
Total assets		**7,063,433**	**7,581,056**	**7.3**

EQUITY AND LIABILITIES

in €k	Note	31/12/2015	31/12/2016	± in %
Payables to other banks	(25)	904,574	867,494	-4.1
Payables to customers	(26)	4,351,716	4,824,760	10.9
– Of which, savings deposit balances		1,629,833	1,528,994	-6.2
– Of which other payables		2,721,883	3,295,766	21.1
Liabilities evidenced by paper	(27)	576,346	544,656	-5.5
Trading liabilities	(28)	46	10	-78.3
Provisions	(29)	125,973	126,902	0.7
Deferred tax liabilities	(23)	9,312	261	-97.2
Other items	(30)	53,472	59,602	11.5
Subordinated debt capital	(31)	181,752	198,585	9.3
Equity	(32)	860,242	958,786	11.5
– Of which total minority interests and equity		860,227	958,767	11.5
– Of which minority interests in equity		15	19	26.7
Total equity and liabilities		**7,063,433**	**7,581,056**	**7.3**

The total return on equity in the 2016 financial year was 0.61% (2015: 0.76%).

STATEMENT OF CHANGES IN EQUITY

TOTAL MINORITY INTERESTS AND EQUITY IN 2016

	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates[1]	Profit/loss for the year	Additional equity instru-ments[2]	Equity in €k
As at 1 January 2016	**72,072**	**143,056**	**-1,030**	**2,388**	**562,416**	**4,312**	**53,613**	**23,400**	**860,227**
Distribution							-8,124		-8,124
Coupon payments on additional equity instruments							-1,462		-1,462
Taken to retained earnings					44,027		-44,027		–
Profit/loss for the year							46,180		46,180
Income and expenses taken directly to equity			971	702	611	1,395			3,679
Increase in share capital	7,207	49,976							57,183
Effect of the equity method					780				780
Change in treasury shares					1,758				1,758
Additional equity instruments[2]									–
Other changes					-1,454				-1,454
As at 31/12/2016	**79,279**	**193,032**	**-59**	**3,090**	**608,138**	**5,707**	**46,180**	**23,400**	**958,767**
Available-for-sale reserve									4,120
Deferred tax reserve									-1,031

[1] This column shows the cumulated pro rata OCI of entities recognized by the equity method.
[2] The Additional Tier 1 note issued in 2015 was classified as equity in conformity with IAS 32.

TOTAL MINORITY INTERESTS AND EQUITY IN 2015

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

[1] This column shows the cumulated pro rata OCI of entities recognized by the equity method.
[2] The Additional Tier 1 note issued in 2015 was classified as equity in conformity with IAS 32.

Minority interests were of secondary importance in the BKS Bank Group's Statement of Changes in Equity (2016: EUR 19.0k; 2015: EUR 15.5k). At the end of 2016, there were 438,062 ordinary shares and 156,723 preference shares (2015: 557,284 ordinary shares and 138,667 preference shares) with a market value of EUR 9.8 million (2015: EUR 11.5 million) in the treasury portfolio.

The capital increase carried out in October 2016 raised the share capital of the company from 72,072,000 to 79,279,200. An offer price of EUR 15.9 per new share was defined for the issue and subscription price. The new shares have full dividend rights for the financial year 2016. The gross proceeds were EUR 57.3 million; the transaction costs of EUR 0.1 million were deducted from equity.

STATEMENT OF CASH FLOWS

CASH FLOWS

in €k	2015	2016
Profit for the year before minority interests	**53,616**	**46,184**
Non-cash positions in profit for the year:		
– Depreciation/amortization and impairment charge on receivables, and property and equipment	49,700	33,076
– Changes in provisions	8,674	10,265
– Gains and losses on disposals	-2,562	-1,222
– Change in other non-cash items	-1,390	-705
– Profit/loss shares in entities accounted for using the equity method	-38,534	-26,931
Subtotal	**72,284**	**60,667**
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	-225,466	-137,069
– Trading assets	-	36
– Other assets	5,639	5,979
– Payables to customers and other banks	171,807	435,964
– Liabilities evidenced by paper	-17,268	-31,690
– Trading liabilities	1	-36
– Provisions and other liabilities	-545	-11,240
Net cash from/(used in) operating activities	**6,452**	**322,611**
Proceeds from sales of:		
– Financial assets and property and equipment	162,556	160,964
Outlay on purchases of:		
– Financial assets and property and equipment	-190,503	-196,898
Net cash from/(used in) investing activities	**-27,947**	**-35,934**
Increases in share capital	-	57,297
Dividend distributions	-8,148	-8,124
Proceeds from issuing additional equity components	23,400	-
Coupon payments on additional capital instruments	–	-1,462
Cash inflow from subordinated liabilities and other financing activities	8,512	26,273
Cash outflow on subordinated liabilities and other financing activities	-27,504	-7,700
Net cash from/(used in) financing activities	**-3,740**	**66,284**
Cash and cash equivalents at end of preceding year	**215,269**	**190,310**
Net cash from/(used in) operating activities	6,452	322,611
Net cash from/(used in) investing activities	-27,947	-35,934
Net cash from/(used in) financing activities	-3,740	66,284
Effect of exchange rate changes on cash and cash equivalents	276	271
Cash and cash equivalents at end of year under review	**190,310**	**543,542**
Taxes, interest and dividends		
– Income tax paid	7,154	9,808
– Interest received	170,098	157,449
– Interest paid	54,866	42,243
– Dividends received	909	1,155

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

The Cash Flow Statement is not of much significance to the BKS Bank Group because it cannot be used as a management or planning instrument in this form.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BKS BANK

MATERIAL ACCOUNTING POLICIES

I. GENERAL INFORMATION

BKS Bank AG is headquartered at St. Veiter Ring 43, 9020 Klagenfurt, Austria. As the parent of the BKS Bank Group, it prepared its consolidated financial statements in accordance with the principles of the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU for the 2016 financial year as exempting consolidated financial statements within the meaning of § 59a Banking Act. In addition, the requirements of § 245a para. 1 Business Code are met.

BKS Bank was founded in Klagenfurt in 1922 as Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co. Years of effort to transform the limited partnership (Kommandite) into a stock corporation (Aktiengesellschaft) led to the establishment of Bank für Kärnten in 1928. It entered the Styrian market in 1983. The ordinary shares of BKS Bank AG have been listed on the Vienna Stock Exchange since 1986 and the preference shares since 1991. Both share classes are traded in the standard market auction segment. BKS Bank has had a presence in Vienna since 1990. 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 together with Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft (BTV AG) constitute the 3 Banken Group. Together, the alliance in the 3 Banken Group gives the banks the strength of a major bank combined with the flexibility and market presence of a regional bank.

The Management Board of BKS Bank AG signed the consolidated financial statements on 10 March 2017 and approved them for submission to the Supervisory Board. The Supervisory Board had the responsibility of examining the consolidated financial statements and stating whether it approves these. Up to the time of signature, there were no reasons to doubt that the entity would continue as a going concern.

II. EFFECTS OF NEW AND AMENDED STANDARDS

With the exception of the revised standards and interpretations effective for the financial year under review, the financial reporting policies applied in the 2015 financial year were retained in 2016.

The comparative figures for the previous year were also based on the same requirements. Standards announced but not yet effective for the financial year under review were not applied.

AMENDMENTS AND INTERPRETATIONS FOR THE FINANCIAL YEAR 2016

Standard or Amendment	Effective in the EU for annual periods beginning on or after this date	Endorsement by the EU
IAS 19 – Employee Benefits	1/2/2015	December 2014
Annual improvement cycle 2010 to 2012	1/2/2015	December 2014
IFRS 11 – Acquisition of shares in joint operations	1/1/2016	November 2015
IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization	1/1/2016	December 2015
IAS 41 and IAS 16: Accounting for Bearer Plants	1/1/2016	November 2015
IAS 27 – Equity method for single-entity financial statements	1/1/2016	December 2015
IFRS 10, IFRS 12 and IAS 28: Investment Entities	1/1/2016	September 2016
IAS 1: Disclosure Initiative	1/1/2016	December 2015
Annual improvement cycle 2012 – 2014	1/1/2016	December 2015

IFRS 11 (Amendment): On 6 May 2014, the IASB issued an amendment to IFRS 11 on the accounting for the acquisition of shares in a joint operation that constitutes a business within the meaning of IFRS 3 Business Combinations. According to the amendment, such cases must be accounted for as business combinations within the meaning of IFRS 3. This amendment may have an effect on BKS Bank in the future.

IAS 1 (Amendment): On 18 December 2015, IASB released amendments to IAS 1.
Under the amendment, information must only be disclosed in the notes if its content is not immaterial. Among other things, it also precisely regulates the aggregation and disaggregation of items on the balance sheet and in the comprehensive income statement.
Furthermore, it explains how an entity's share of the profit or loss of equity-accounted entities should be presented in the comprehensive income statement. This amendment could result in changes for BKS Bank.

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

APPLICABLE STANDARDS/AMENDMENTS FROM 1/1/2017

Standard or Amendment	Effective in the EU for financial years beginning on or after this date	Endorsement by the EU
IAS 7 – Statement of Cash Flows	1/1/2017*	Outstanding
IAS 12 – Income taxes	1/1/2017*	Outstanding

* Assuming the endorsement of the EU

IAS 7: The IASB issued amendments to IAS 7 on 26 January 2016. The purpose of the amendments is to improve disclosures about changes in an entity's debt.
They require more detailed disclosure of inflows and outflows of financial liabilities and cash flows from financing activities. Following endorsement by the EU, the BKS Bank Group will meet this requirement.

IAS 12 (Amendment): The amendment to IAS 12 was issued in January 2016. It clarifies how to account for deferred tax assets for unrealized losses related to debt instruments measured at fair value since different approaches have been used in practice. The amendment does not have any effect on the BKS Bank Group, because there are no unrealized losses.

STANDARDS/AMENDMENTS APPLICABLE FOR FINANCIAL YEARS AS OF 1 JANUARY 2018 OR LATER

Standard or Amendment	Effective in the EU for Annual Periods Beginning on or After this Date	Endorsement by the EU
IFRS 9: Financial Instruments	1/1/2018	November 2016
IFRS 15: Revenue from Contracts with Customers	1/1/2018	September 2016
IFRS 16: Leases	1/1/2019*	Outstanding
IFRS 2 – Share-based payment (Amendment)	1/1/2018*	Outstanding
IFRS 4 – Insurance Contracts (Amendment)	1/1/2018*	Outstanding
Annual improvements to IFRS Standards, 2014-2016 cycle	1/1/2018*	Outstanding
IFRIC Interpretation 22 – Interpretation on Foreign currency transactions and advance consideration	1/1/2018*	Outstanding
IAS 40 – Classification of property under construction (Amendment)	1/1/2018*	Outstanding
IFRS 10 and IAS 28 – Sales or contributions of assets between an investor and its associate/joint venture	Postponed for an indefinite period	

* Provided there is an EU endorsement

IFRS 9: On 24 July 2014, IASB released the final version of IFRS 9, which replaces IAS 39: Financial Instruments: Recognition and Measurement. EU endorsement was given on 22 November 2016. IFRS 9 must be applied for the first time in the first reporting period of a financial year starting on or after 1 January 2018, with early application being permitted. The BKS Bank Group intends to apply IFRS 9 for the first time as of 1 January 2018. The new standard requires the Group to adjust its accounting processes and internal control system relating to the reporting and measurement of financial instruments; these adjustments have not yet been completed. The BKS Bank Group conducted a preliminary assessment of the potential effects of the application of IFRS 9 as at 31 December 2016. The standard can be divided into three main areas, namely classification and measurement, impairment und hedge accounting. At present, the BKS Bank Group does not engage in hedge accounting, therefore, the focus is on project implementation for the two areas of classification and impairment.

Classification and Measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are held as well as the characteristics of its cash flows. The new approach to the classification and measurement of financial instruments provides for two totally new criteria for classification, namely classification driven by business models and classification driven by the 'SPPI' criteria. These only allow instruments with cash flows that consist solely of payments of principal and interest. Based on what we have learned from the project, receivables from other banks and receivables from customers as well as financial assets, which are currently classified as "held-to-maturity" assets pursuant to IAS 39, must now be classified in the business model "hold to collect". Securities and funds, which under IAS 39 are classified as available-for-sale, have to largely be assigned to the business model "hold to sell". Derivatives are assigned to the business model "sell".

With respect to the SPPI criterion, at present we may state that a large share of the loans and advances to customers and to credit institutions meet the SPPI criterion, thus guaranteeing that a large part of portfolio positions of receivables from other banks and receivables from customers can continue to be measured at amortised costs under IFRS 9 . This also applies to the current portfolio of financial assets classified as "held to maturity". The AfS securities in the portfolio at present also largely meets the SPPI criterion and therefore will be recognized under IFRS 9 at fair value through other comprehensive income (FVOCI). Under IFRS 9, investment funds and shares are to be recognized at fair value through profit or loss (FVPL) unless it is designated as at fair value through other comprehensive income (FVOCI). The discussion on this discretionary choice is still under way. Under IAS 39, investments classified as available-for-sale are measured at a carrying value of EUR 20 million.
Pursuant to IFRS 9, an additional mandatory fair value measurement will apply.

As regards the classification of financial liabilities, there are generally no changes compared to IAS 39. In the case of measurement at fair value, only the changes in fair value arising from own credit risk are to be reported in equity.

Impairment

IFRS 9 replaces the model of "incurred losses" of IAS 39 by a forward-looking model or "expected loss impairment". IFRS 9 requires an impairment charge on loans and advances for customers with performing loans rated AA to 4b. The currently applicable provisions for determining impairment charges for the event of default remain more or less unchanged.

There are two stages for determining the impairment charge for customers in the rating classes of performing loans. If the credit risk has not deteriorated to any significant extent since the first recognition, then the 12-month expected-loss (stage 1) must be determined and recognized. However, if there has been a material deterioration in credit risk, then the lifetime expected-loss (stage 2) must be determined. The standard does not specify how to measure the expected loss. The BKS Bank Group will use the formula "default probability (PD) x loss given default (LGD) x expected exposure at default (EAD) for determining the impairment charge.
For determining the multi-year parameters for the lifetime-expected-loss, it is very likely that the Markov chain process will be used. According to IFRS 9, when calculating the expected loss, also forward-looking information must be included and in this context we will use the estimates of recognized institutions. The definition of what constitutes a significant increase is still being discussed and evaluated.

Data

IFRS 9 involves extensive new tasks, especially with respect to hedge accounting transactions, credit risk and expected credit losses. The preliminary assessment by BKS Bank Group contains an analysis to identify if there are gaps in the data versus the current method used and at present changes to the system and control methods are being evaluated and implemented.

Implementing IFRS 9 involves enormous technical resources, time and costs. The systems in use at present do not meet the requirements of IFRS 9 in several aspects, and therefore, it will be necessary to procure new software. The configuration and testing of the software will probably be completed by mid-2017.

No reliable assessment of the quantative effects of IFRS 9 can be assessed currently. What is clear is that the new rules for classification and measurement will partly result in the credit exposure being measured at fair value, provided the benchmark test is failed. Furthermore, equity investments which are currently measured at cost in the available-for-sale portfolio (carrying value around EUR 20 million at present) will have to be recognized at fair value. The Group believes that the impairment charge for assets to which the impairment loss model of IFRS 9 applies will be higher and more volatile. With the initial application of IFRS 9, earlier periods will not be adjusted, because this will not be possible without backward-looking processes, and therefore, the adjustment of the period of comparison pursuant to IFRS 9 will not be permissible. Instead, we will provide all of the required information in the notes on the transition to IFRS 9.

IFRS 15 and clarifying statement on IFRS 15: The IASB and the FASB (Financial Accounting Standards Board) issued IFRS 15 jointly on 28 May 2014. It regulates the accounting for revenues from contracts with customers. The purpose of this standard is to combine into one standard the many regulations on the subject that existed beforehand. This standard replaces IAS 11: Construction Contracts; IAS 18: Revenue; IFRIC 13: Customer Loyalty Programmes; IFRIC 15: Agreements for the Construction of Real Estate; IFRIC 18: Transfer of Assets from Customers; and SIC 31: Revenue-Barter Transactions Involving Advertising Services. We are still studying the impact of this standard on our financial statements. At the present time, do not assume any material changes.

IFRS 16: The IASB published IFRS 16 Leasing on 13 January 2016. IFRS 16 specifies how lessors and lessees must recognize and measure the information given in the notes and fully replaces the currently valid IAS 17. The central idea behind the new IFRS 16 is that lessees must in future account for all leases and the associated rights and obligations on their balance sheets, including those previously classified as operating leases. For lessees in particular, IFRS 16 will result in material changes. The provisions in IAS 17 affecting lessors have largely been retained. As the BKS Bank Group is solely a lessor, we do not, based on an initial assessment, expect any significant changes to accounting, but rather only additional extended information in the notes. We do not plan to apply said standards, amendments and interpretations ahead of time.

IAS 40: This Amendment defines as of what time and for how long a property under construction or under development must be classified as an ‘investment property’. The classification of property under construction had not been clearly defined up to now. This Amendment will have an effect on the financial reporting of the BKS Bank Group, because the subsidiaries of BKS Bank AG are also properties constructed and developed for the purpose being used by third parties. The other amendments mentioned above do not result in any material changes.

III. RECOGNITION AND MEASUREMENT

General notes

The financial statements were prepared in euro (the functional currency). All figures in the following consolidated financial statements are rounded to thousand euro unless otherwise specified. The balance sheet is arranged in descending order of liquidity. A going concern was assumed in the preparation of the financial statements.

Group of consolidated companies

Besides BKS Bank AG, the consolidated financial statements accounted for a total of 18 entities (14 consolidated, three accounted for using the equity method and one accounted for on a proportionate basis). On 30 September 2016, the subsidiary BKS Bank d.d. was retroactively merged with BKS Bank AG effective 1 January 2016. Otherwise there were no changes in the group of consolidated companies compared to the preceding year. The inclusion of subsidiaries was based on the criteria for materiality set out in point 29 and point 30 of the IFRS Framework. Materiality was judged applying common Group-wide criteria on the basis of qualitative and quantitative parameters. The quantitative parameter used in the case of subsidiaries was their total assets. In the case of associates, it was the Group's stake 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. The key criteria in this case were an entity's business activity and future business expectations. At the initial consolidation, an entity's cost was compared with (the Group's share in) its re-measured equity.

Consolidated entities

The following entities all conformed to the control concept for the purposes of IFRS 10. BKS Bank AG as the parent company has the decision-making power to affect the variable returns. Besides BKS Bank AG, the following related entities were consolidated members of the Group:

CONSOLIDATED ENTITIES

Company	Head Office	Direct Equity Interest	Indirect Equity Interest	Date of Financial Statements
BKS-Leasing Gesellschaft m.b.H.	Klagenfurt	99.75%	0.25%	31/12/2016
BKS–leasing d.o.o.	Ljubljana	100.00%	-	31/12/2016
BKS-leasing Croatia d.o.o.	Zagreb	100.00%	-	31/12/2016
BKS-Leasing s.r.o.	Bratislava	100.00%	-	31/12/2016
IEV Immobilien GmbH	Klagenfurt	100.00%	-	31/12/2016
Immobilien Errichtungs- und Vermietungs GmbH & Co KG	Klagenfurt	100.00%	-	31.12.2016
BKS 2000–Beteiligungs– und Verwaltungs GmbH	Klagenfurt	100.00%		31/12/2016
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	-	100.00%	31/12/2016
BKS Hybrid alpha Gmbh	Klagenfurt	100.00%	-	31/12/2016
BKS Hybrid beta GmbH	Klagenfurt	100.00%	-	31/12/2016
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	-	31/12/2016
LVM Beteiligungs Gesellschaft m.b.H.	Klagenfurt	-	100.00%	31/12/2016
BKS Immobilien-Service GmbH	Klagenfurt	100.00%	-	31.12.2016
BKS Service GmbH	Klagenfurt	100.00%	-	31/12/2016

Entities accounted for using the equity method

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

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Company	Head Office	Direct Equity Interest	Date of Financial Statements
Oberbank AG	2,098.5	14.21%	30/09/2016
Bank für Tirol und Vorarlberg AG	Innsbruck	13.59%	30/9/2016
Drei Banken Versicherungsagentur GmbH	Linz	20.00%	31/12/2016

Regarding Oberbank AG and BTV AG, we point out that although BKS Bank had voting interests of less than 20% in those banks, namely of 15.21% and 14.95%, respectively, and equity interests of less than 20%, namely of 14.21% and 13.59%, respectively, the exercise of voting rights was governed by syndicate agreements. These allowed participation in those two banks' financial and business policy decisions within the scope of the 3 Banken Group without having a controlling interest in them.

Because of the circular shareholdings that exist between BKS Bank AG, Oberbank AG and BTV AG and also considering that the consolidated financial statements of the sister banks are prepared simultaneously, the most recently available quarterly financial statements of these credit institutions were used when preparing the consolidated financial statements of BKS Bank.

Entities accounted for on a proportionate basis

Pursuant to the provisions of IFRS 11, the investment in ALPENLÄNDISCHEGARANTIE-GESELLSCHAFT m.b.H. (ALGAR) required classification as a joint operation and was, therefore, accounted for on a proportionate basis.

ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

Company	Head Office	Direct Equity Interest	Date of Financal Statements
ALGAR	Linz	25.00%	31/12/2016

Other entities not included in the consolidation

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

OTHER ENTITIES NOT INCLUDED IN THE CONSOLIDATION

Company	Head Office	Direct Equity Interest	Indirect Equity Interest	Date of Financal Statements
FINANCIAL STATEMENTSDREI-BANKEN-EDV Gesellschaft m.b.H.	Linz	30.00%	-	31/12/2016
VBG Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	-	31/12/2016
E 2000 Liegenschaftsverwaltungs GmbH	Klagenfurt	100.00%	-	31/12/2016
PEKRA Holding GmbH	Pörtschach	100.00%	-	31/12/2016
3 Banken Versicherungsmakler Gesellschaft m.b.H.	6,913.8	30.00%	–	31/12/2016

Like all other equity investments, investments in these entities were classified as available-for-sale financial assets and, if their fair value could not be reliably measured, recognized at cost.

Performance of the foreign subsidiaries and branches

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 DECEMBER 2016

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit/loss before Tax	Income tax expense	Profit/loss after tax
Branches abroad						
Slovenia Branch (banking branch)	10,763	13,129	101.6	3,888	-666	3,221
Croatia Branch (banking branch)	6,808	7,881	55.2	3,915	-526	3,389
Slovakia Branch (banking branch)	1,280	1,536	23.5	-1,646	-	-1,646
Subsidiaries						
BKS Leasing d.o.o., Ljubljana	2,283	2,668	13.4	1,057	-95	962
BKS-leasing Croatia d.o.o., Zagreb	1,521	1,737	11.8	839	-212	627
BKS-Leasing s.r.o., Bratislava	831	1,482	9.3	122	-1	121

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 DECEMBER 2015

in €k	Net interest income	Operating income	Number of employees	Profit/loss before Tax	Income tax expense	Profit/loss after tax
Branches abroad						
Slovenia Branch (banking branch)	12,111	14,516	95.9	1,934	-274	1,660
Slovakia Branch (banking branch)	1,196	1,446	20.0	-86	-	-86
Subsidiaries						
BKS-leasing d.o.o., Ljubljana	2,261	2,750	11.6	946	-477	469
BKS-leasing Croatia d.o.o., Zagreb	1,448	1,534	11.8	714	-149	565
BKS-Leasing s.r.o., Bratislava	1,033	1,509	12.0	90	-8	82
BKS Bank d.d., Rijeka	5,370	6,144	57.2	1,229	-37	1,192

Foreign currency translation

Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates valid at the balance sheet date. The financial statements of subsidiaries that were not prepared in euro were translated using the closing rate method. Within the Group, there is just one Croatian company that did not prepare its financial statements in euro, but in Croatian kuna (HRK).
The assets and liabilities were translated at the exchange rates applicable at their balance sheet dates, while expenses and income were translated applying the average rate of exchange for the respective period. The resulting exchange differences were recognized in Other comprehensive income and currency translation differences were recognized as a component of equity.

NOTES ON INDIVIDUAL ITEMS ON THE BALANCE SHEET

Cash and balances with the central bank

These items consist of cash and balances with the central bank. These were recognized at nominal values.

Financial instruments

A financial instrument is a contract, which for the one contractual partner gives rise to a financial asset, and for the other contractual partner, a financial liability or equity. Financial assets and liabilities are initially measured at their fair value, which is, as a rule, at cost. They were subsequently measured in conformity with the provisions of IAS 39 and according to their category:

- Financial assets 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 (AfS)
- held-to-maturity financial assets (HtM)
- loans and receivables (LAR)
- financial liabilities (other liabilities)

On each reporting date, financial assets are tested to determine whether there is objective evidence of impairment. Such objective evidence includes, for instance, a debtor in financial difficulties, default or delay in interest payments or repayments and concessions made by BKS Bank AG or the consolidated subsidiary for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwiese consider. Subsequent measurement of financial instruments is either at fair value or amortized cost. BKS Bank classified and measured financial instruments in conformity with IAS 39 and IFRS 7 as follows:

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS[1)]

ASSETS	At Fair Value	At amortised cost	Other, Note	IAS 39 Category
Cash and balances with the central bank			Nominal	Not assignable
Receivables from other banks		✓	-	Loan and receivables
Receivables from customers		✓	-	Loan and receivables
Trading assets	✓		-	Held for trading
Financial assets at FV through profit or loss	✓		-	Fair value option
Available-for-sale financial assets	✓	✓	-	Available for sale
Held-to-maturity financial assets		✓	-	Held to maturity
Investments in entities accounted for using the equity method			Equity Method	Not assignable
Investment property		✓	-	Not assignable
Other assets				
– Of which derivatives	✓		-	Held for trading
– Of which other items			Nominal	Not assignable

[1)] As in the preceding year, no reclassifications were carried out pursuant to IFRS 7.12

LIABILITIES	At Fair Value	At Amortized Cost	Other, Note Comment	IAS 39 Category
Payables to other banks		✓	-	Other liabilities
Payables to customers		✓	-	Other liabilities
Liabilities evidenced by paper				
– Of which at fair value through profit or loss	✓		-	Fair value option
– Of which other liabilities evidenced by paper		✓	-	Other liabilities
Trading liabilities	✓		-	Held for trading
Other liabilities				
– Of which derivatives	✓		-	Held for trading
– Of which other items			Nominal	Not assignable
Subordinated debt capital		✓	-	Other liabilities

Financial assets and liabilities designated as at fair value through profit or loss

Selected items are summarized in assets in the position at fair value through profit or loss (FA) by applying the fair value option. The designation is done bythe ALM Committee. These items are taken to profit or loss at their fair value (asset or liability and related derivative). Revaluation gains net of revaluation losses are 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 are generally measured by applying stock exchange prices. If these are not available, interest rate products are measured using the present value method. Market value fluctuations resulting from the measurement are recognized in the AFS reserve and not through profit or loss. When such securities are sold, the corresponding part of the AFS reserve is 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 is recognized in the income statement. If the reason for such a charge no longer exists, a write-back is recognized. In the case of equity capital instruments, it was taken to equity through the AFS reserve and in the case of debt instruments, to income. Investments in entities to which IFRS 10, IFRS 11 and IFRS 28 do not apply were deemed to be part of the AFS portfolio. Where market prices were unavailable, equity investments were valued on a cost basis.

Held-to-maturity financial assets

In this line item, we account for financial instruments that were to be held to maturity (HtM).
Premiums and discounts were spread over their term using the effective interest rate method. Impairment charges are recognized in the income statement.

Investments in entities accounted for using the equity method

Entities in which BKS Bank held a stake of over 20% were accounted for in the consolidated financial statements using the equity method. In addition, Oberbank AG and BTV AG were also accounted for in the consolidated financial statements using the equity method, although our stakes in Oberbank AG and BTV AG are below 20%. Syndicate agreements are in place that allow participation in those banks' financial and business policy decisions within the 3 Banken Group alliance without requiring a controlling interest in these entities. If there was objective evidence (triggering events) 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. The present value (value in use) is calculated on the basis of the equity method/dividend discount model. There were no impairment losses in this category in the year under review.

Receivables and payables

The category receivables and payables includes all non-derivative financial assets with fixed or determinable payments that were not listed in an active market. At BKS Bank, this category corresponds 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. Premiums and discounts are distributed over the life of the asset and recognized in profit or loss. Other liabilities refer to Payables to other banks and Payables to customers. These liabilities are recognized in 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 group-specific criteria and by way of collective impairment assessments carried out in accordance with IAS 39.64. The latter includes incurred but not yet identifiable losses. The calculation of these losses is done using the formula probability of default (PD) x loss given default (LGD) x exposure at default (EAD) x loss identification periods (LIP). Provisions were recognized for risks arising from contingent liabilities in accordance with IAS 37. A collective assessment of impairment for country risks is recognized at the reporting date, with the exposures outstanding in each country being broken down into risk classes. The total impairment allowance balance is disclosed as a deduction on the assets side of the balance sheet (impairment account). The criteria for charging or writing off receivables deemed irrecoverable is when these are completely uncollectible and when all the collateral for the receivables have been finally realized.

Investment property

This line item encompasses property intended for renting to third parties. It was measured at amortized cost (cost method). The fair value of investment property is disclosed in the notes. It was mainly based on estimates (by certified appraisers). Depreciation rates were between 1.5% and 2.5%. Depreciation was linear.

Trading assets/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 are recognized and derecognized at their settlement dates.

Derivatives

Derivative financial instruments were measured at fair value. Changes in value were generally recognized through profit or loss in the income statement.

Property and equipment

The line item Property and equipment consists of land, buildings and other property and equipment comprising primarily office furniture and business equipment. Property and equipment was recognized at the amortized cost of acquisition or conversion. Depreciation was based on an asset's usual useful life and lay within the following bands:

– Immovable goods 1.5% to 2.5% (i.e. 66.7 to 40 years)
– office furniture and business equipment: 10% to 20% (i.e. from 10 to 5 years).

Impairments allowances are recognized in the Income Statement under general administrative expenses to take account of impairment. If an impairment no longer exists, a write-back is made to the asset's amortized cost. No impairments or reversals were recognized during the period under review.

Intangible assets
The Other intangible assets were all purchased and had limited useful lives; they consisted primarily of software. Ordinary amortization was linear based on an asset's usual useful life. The amortization rate for software was 25% (i.e. four years).

Leasing
The leased assets within the Group were recognized as assets leased under finance leases (the risks and rewards being with the lessee for the purposes of IAS 17). Leased assets were recognized as receivables in the amount of the present values of the agreed payments taking into account any residual values.

Other assets and other liabilities
Besides deferred items, the line items Other assets and Other liabilities comprise 'other' assets and liabilities, and the fair values of derivative instruments. They were recognized at amortized cost or measured to fair value.

Liabilities evidenced by paper
The line item Liabilities evidenced by paper comprises bonds in circulation, debt securities and other liabilities evidenced by paper (own issues). As a rule, liabilities evidenced by paper were recognized at amortized cost. In exceptional cases and based on decisions by the ALM Committee, the fair value option is used.

Subordinated debt capital
Subordinated debt capital and subordinated obligations are liabilities that, by contractual arrangement, will, in the event of BKS Bank's liquidation or bankruptcy, only be settled after the claims of other creditors.
As a rule, subordinated debt capital was recognized at amortized cost.

Deferred tax assets and deferred tax liabilities
The reporting and calculation of income tax was done 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 will probably give rise to additional tax burdens or reduce tax burdens in the future.

Provisions
Provisions are recognized 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 an outflow of resources. BKS Bank mainly created provisions for post-employment benefits and similar employee benefit obligations (IAS 19), for taxes and for interest on stepped coupon products. The provision for death benefits was also calculated in accordance with the IFRS principles contained in IAS 19. As of 31 December 2000, the retirement pension entitlements of all active employees were transferred to VBV-Pensionskasse AG as the legal successor to BVP-Pensionskasse AG.

Equity
Equity consisted of paid-in and earned capital (capital reserves, retained earnings, revaluation reserve, foreign exchange differences and profit for the period). BKS Bank strives to strengthen its capital base on a sustainable basis by reinvesting its profits. An Additional Tier 1 note was issued in the reporting period. Under IAS 32, it required classification as equity.

NOTES TO INDIVIDUAL LINE ITEMS IN THE INCOME STATEMENT

Net interest income

The line item Net interest income contains interest income from credit operations, from securities in the treasury portfolio, from equity investments (in the form of dividend payments), from lease receivables and from investment property less interest expenses on deposits from other banks and from customers, liabilities evidenced by paper and investment property. Interest income and interest expenses were accounted for on an accrual basis. Income from investments in entities accounted for using the equity method was disclosed in the line item Net interest income net of financing costs. The historically low interest rates led to negative interest earnings. According to the IFRIC Interpretations Committee (IC), these should not be presented as income within the meaning of IAS 18. Instead, they must be presented in an 'appropriate expense classification'. As a result, negative interest income is presented as interest expense. Likewise, positive interest expenses are presented as interest income.

Impairment charge on loans and advances

This line item recognizes impairment allowances, impairment reversals and provisions. Recoveries on receivables previously written off were also accounted for in this line item.
See also note 2 for details.

Net fee and commission income

The line item Net fee and commission income comprises income from services rendered to third parties net of the expenses attributed to such services. Fees and commission connected with newly granted loans with original maturities 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 item includes fees, charges, damage, damage compensation, proceeds from the sale of properties and similar items and is accounted for on an accrual basis.

IV. DISCRETIONARY DECISIONS AND ESTIMATES

Estimates and assumptions were required to account for some of the items on the balance sheet in conformity with the International Financial Reporting Standards. Such estimates and assumptions were based on historical experience, plans, expectations and forecasts regarding future events that were likely from our current perspective. The assumptions upon which the estimates were based were regularly reviewed. Possible uncertainties in the estimates mean that adjustments to the carrying amounts of assets and liabilities may be necessary in future periods.

BKS Bank operates in the Austrian, Croatian, Slovenian, northern Italian, western Hungarian and Slovakian markets with subsidiaries and representation offices. 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 considered in the decision-making process.

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

Impairment of financial assets: impairment charges
Financial assets 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. The identification of an impairment event and the determination of the individual impairment adjustments have substantial assessment uncertainties and room for discretion resulting from the economic situation and development of the borrower as well as from the valuation of the credit collateral and which may impact the amounts and times of expected future cash flows. The impairment charges for portfolio impairments for loans according to statistical methods for cases in which no impairment has been identified is based on models and statistical parameters such as probability of default and loss ratio, and therefore also contain room for discretion and assessment uncertainties. 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 uses mainly yield curves and foreign exchange rates as input factors.
– Level 3: There are no indirectly or directly observable input factors for financial instruments in this category. Here, generally accepted valuation methods are used depending on the financial instrument.

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

Using the fair value option
The ALM Committee decides 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
Estimates regarding the discount rate, salary growth, the career trend and the retirement age were required to calculate provisions for post-employment, termination, jubilee and death benefits. The discount rate is particularly important because a change to the interest rate materially affects the amount of the provision. See note 29 for further details.

Other provisions
The amounts of other provisions were calculated on the basis of experience and expert assessments.

DETAILS OF THE INCOME STATEMENT

(1) NET INTEREST INCOME

in €k	2015	2016	± in %
Interest income from:			
Lending transactions	130,320	119,778	-8.1
Fixed-income securities designated at fair value through profit or loss	1,516	1,017	-32.9
Fixed-income securities classified as available for sale	1,622	849	-47.7
Fixed-income securities classified as held-to-maturity	20,397	19,068	-6.5
Leasing receivables	8,460	8,219	-2.8
Shares	1,600	1,536	-4.0
Positive interest expenses[1]	4,836	5,720	18.3
Investment property	3,197	3,044	-4.8
Other investments	4,103	1,736	-57.7
Total net interest income	**176,051**	**160,967**	**-8.6**
Interest expenses for:			
Deposits from customers and other banks[2]	24,347	12,842	-47.3
Liabilities evidenced by paper	24,477	22,984	-6.1
Negative interest income[1]	2,852	4,014	40.7
Investment property	917	636	-30.6
Total interest expenses	**52,593**	**40,476**	**-23.0**
Profit from entities accounted for by the equity method			
Income from investments in entities accounted for by the equity method	42,986[3]	33,696[4]	-21.6
Refinancing costs of investments in entities accounted for by the equity method[5]	-	-	-
Profit from entities accounted for by the equity method	**42,986**	**33,696**	**-21.6**
Net interest income	**166,444**	**154,187**	**-7.4**

[1] This consists of interest expenses that are positive or interest income that is negative as a result of the historically low interest rates.
[2] Net of financing costs of investments in entities accounted for using the equity method.
[3] Income from investments in 2015 in entities accounted for using the equity method takes account of a dilution effect of €2.8 million.
[4] Income from investments in 2016 in entities accounted for using the equity method takes account of a dilution effect of €2.4 million.
[5] Based on the average 3-month Euribor.

The line item Interest income includes recoveries on defaulted receivables in the amount of EUR 4.9 million (pr.yr.: EUR 5.5 m) and income from unwinding (i.e. from changes in the present values of cash flows) in the amount of EUR 2.5 million (pr.yr.: EUR 2.3 m).

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

in €k	2015	2016	± in %
Impairment allowances	58,393	42,374	-27.4
Impairment reversals	-9,954	-11,318	13.7
Direct write-offs	908	993	9.4
Recoveries in respect of receivables previously written off	-800	-1,042	30.3
Impairment charge on loans and advances	**48,547**	**31,007**	**-36.1**

This line item contains impairment charges on lease receivables in the amount of EUR -0.7 million (pr.yr: EUR 1.3 million).

(3) NET FEE AND COMMISSION INCOME

in €k	2015	2016	± in %
Net fee and commission income:			
Payment services	21,314	21,138	-0.8
Securities operations	14,858	13,918	-6.3
Credit operations	14,780	13,587	-8.1
Foreign exchange operations	3,835	2,734	-28.7
Other services	1,367	1,209	-11.6
Total net fee and commission income	**56,154**	**52,586**	**-6.4**
Fee and commission expenses			
Payment services	1,635	1,727	5.6
Securities operations	803	870	8.3
Credit operations	368	582	58.2
Foreign exchange operations	240	510	>100
Other services	126	66	-46.8
Total fee and commission expenses	**3,172**	**3,756**	**18.4**
Net fee and commission income	**52,982**	**48,830**	**-7.8**

(4) NET TRADING INCOME

in €k	2015	2016	± in %
Price-based transactions	-10	-10	-
Interest rate and currency contracts	2,330	1,727	-25.9
Net trading income	**2,320**	**1,717**	**-26.0**

5) GENERAL ADMINISTRATIVE EXPENSES

in €k	2015	2016	± in %
Staff costs	68,768	69,401	0.9
— Wages and salaries	50,871	51,310	0.9
— Social security costs	13,212	13,806	4.5
— Costs of retirement benefits	4,685	4,285	-8.5
Other administrative costs	29,282	30,547	4.3
Depreciation/amortization	7,070	6,480	-8.3
General administrative expenses	**105,120**	**106,428**	**1.2**

The expenses for post-retirement benefits are defined contribution plan payments to a pension fund of EUR 1.5 million (2015: EUR 1.5 m).

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

in €k	2015	2016	± in %
Other operating income	10,034	6,590	-34.3
Other operating expenses	-15,708	-22,012	40.1
Other operating income net of other operating expenses	**-5,674**	**-15,422**	**>100**

The most important items in Other operating income were non-interest leasing income of EUR 0.8 million (2015: EUR 0.8 m); commission income from the insurance business of EUR 1.0 million (2015: 0.8 m); reversals of provisions of EUR 1.0 million (2015: EUR 0 m) which were mainly the reversals of provisions for processing fees in consumer loan operations as well as rental income of EUR 0.1 million (2015: EUR 0.2 m).

The most important increase in other operation expenses was the one-time payment of EUR 7.8 million for the stability tax. Further significant expenses were, among others, the regular stability tax of EUR 3.9 million (2015: EUR 4.1 m), the contributions to the resolution fund of EUR 2.2 million (2015: EUR 2.1 m) and the contributions for the deposit protection fund of EUR 1.9 million (2015: EUR 0.8 m).

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

in €k	2015	2016	± in %
Revaluation gains and losses and on disposals of derivatives	1,379	11	-99.2
Gain/(loss) as a result of using the fair value option	-1,270	-1874	47.6
Profit/loss from financial assets designated as at fair value through profit or loss	**109**	**-1,863**	**>100**

Fixed-interest loans to customers in the amount of EUR 52.7 million (2015: EUR 73.6 m), bonds in the asset portfolio of EUR 22.9 million (2015: 41.2 Mio. EUR) and own issues of EUR 85.1 million (2015: EUR 103.5 m) were hedged by interest rate swaps within the fair value option. The result of these hedging transactions was EUR -1.9 million (2015: EUR -1.3 m). The effect of the fair value option essentially reflects the amount that can be attributed to counterparty risk and creditworthiness risk rather than to changes in market risk.

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

in €k	2015	2016	± in %
Revaluation gains and losses	-4,523	-1,752	-61.3
Gains and losses from their realization	2,448	1,386	-43.4
Profit/loss from available-for-sale financial assets	**-2,075**	**-366**	**-82.4**

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

in €k	2015	2016	± in %
Revaluation gains and losses	-	-	
Gains and losses realized on disposal	287	153	-46.7
Profit/(loss from held-to-maturity financial assets	**287**	**153**	**-46.7**

(10) TAXES

in €k	2015	2016	± in %
Current taxes	-9,919	-6,723	-32.2
Deferred taxes	2,809	3,106	10.6
Income tax expense	**-7,110**	**-3,617**	**-49.1**

RECONCILIATION

in €k	2015	2016
Profit for the year before tax	60,726	49,801
Applicable tax rate	25%	25%
Computed tax expense	15,182	12,450
Effect of differing tax rates[1)]	-355	-624
Tax savings		
— Arising from tax-exempt profit from equity investments	-326	-499
— Arising from use of the equity method	-8,769	-8,424
— Arising from other tax-exempt income	-202	-669
— Arising from other valuation adjustments	-95	35
Additional tax incurred		
— As a result of non-allowable expenses	1,004	111
— Arising from other tax effects	560	237
Aperiodic tax expenses/gaines	112	1,000
Income tax expense in period	**7,110**	**3,617**
Effective tax rate	11.7%	7.3%

[1)] This figure also includes the change to the tax rate in Slovenia from 17% to 19% and has an effect in this item of EUR -106k.

DETAILS OF THE BALANCE SHEET

(11) CASH AND BALANCES WITH THE CENTRAL BANK

in €k	31/12/2015	31/12/2016	± in %
Cash in hand	36,700	35,727	-2.7
Credit balances with central banks	153,610	507,815	>100
Cash and balances with the central bank	**190,310**	**543,542**	**>100**

12) RECEIVABLES FROM OTHER BANKS

in €k	31/12/2015	31/12/2016	± in %
Receivables from Austrian banks	153,143	93,766	-38.8
Receivables from foreign banks	210,719	148,581	-29.5
Receivables from other banks	**363,862**	**242,347**	**-33.4**

RECEIVABLES FROM OTHER BANKS, BY REMAINING TIME TO MATURITY

in €k	31/12/2015	31/12/2016	± in %
Due on demand	114,234	81,109	-29.0
Up to 3 months	245,759	160,141	-34.8
From 3 months to 1 year	3,031	414	-86.3
From 1 year to 5 years	522	537	2.9
From 5 years and over	316	146	-53.8
Receivables from other banks, by remaining time to maturity	**363,862**	**242,347**	**-33.4**

(13) RECEIVABLES FROM CUSTOMERS

in €k	31/12/2015	31/12/2016	± in %
Corporate and business banking customers	3,974,127	4,148,430	4.4
Retail banking customers	1,139,740	1,181,965	3.7
Receivables from customers, by customer group	**5,113,867**	**5,330,395**	**4.2**

The position receivables from customers includes receivables from lease transactions of EUR 302.9 million (pr.year: EUR 294.5 million) In the reporting year there were no sale-and-lease-back transactions of material significance.

RECEIVABLES FROM CUSTOMERS, BY REMAINING TIME TO MATURITY

in €k	31/12/2015	31/12/2016	± in %
Due on demand	368,708	252,359	-31.6
Up to 3 months	806,084	842,656	4.5
From 3 months to 1 year	691,439	815,192	17.9
From 1 year to 5 years	1,469,559	1,514,625	3.1
From 5 years and over	1,778,077	1,905,563	7.2
Receivables from customers, by remaining time to maturity	**5,113,867**	**5,330,395**	**4.2**

FINANCE LEASE RECEIVABLES, BY REMAINING TIME TO MATURITY

in €k	2015	<1 year	1-5 years	> 5 years	2016	± in %
Gross investment value	319,013	93,090	169,319	62,894	325,303	2.0
Unrealised financial income	24,556	6,306	11,948	4,108	22,362	-8.9
Net investment value	**294,457**	**86,784**	**157,371**	**58,786**	**302,941**	**2.9**

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

(14) IMPAIRMENT ALLOWANCE BALANCE

in €k	31/12/2015	31/12/2016	± in %
At the start of the reporting year	194,161	193,748	-0.2
+ Additions	54,587	43,113	-21.0
- Reversals	-11,957	-16,574	38.6
- Use	-43,021	-65,208	51.6
+/(-) Exchange differences	-22	57	>100
At the end of the reporting year	**193,748**	**155,136**	**-19.9**

The line item Impairment allowance balance includes provisions for the economic risks arising in connection with leasing operations and impairment charges on lease receivables of EUR 7.2 million (2015: EUR 11.7 million). Further explanations on impairment charges are given in the risk report.

(15) TRADING ASSETS

in €k	31/12/2015	31/12/2016	± in %
Bonds and other fixed-interest securities	-	-	-
Positive fair values of derivative financial instruments	46	10	-78.3
– Currency contracts	-	-	-
– Interest rate contracts	46	10	-78.3
Trading assets	**46**	**10**	**-78.3**

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

in €k	31/12/2015	31/12/2016	± in %
Bonds and other fixed interest securities	41,236	22,893	-44.5
Loans	73,627	52,675	-28.5
Financial assets designated as at fair value through profit or loss	**114,863**	**75,568**	**-34.2**

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

in €k	31/12/2015	31/12/2016	± in %
Up to 3 months	1,431	1,904	33.1
From 3 months to 1 year	39,823	9,224	-76.8
From 1 year to 5 years	17,651	17,168	-2.7
From 5 years and over	55,958	47,272	-15.5
Financial assets at FV through profit or loss by remaining time to maturity	**114,863**	**75,568**	**-34.2**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

in €k	31/12/2015	31/12/2016	Net interest income
Debt securities and other fixed interest securities	67,303	83,093	23.5
Shares and other non-interest bearing securities	42,811	47,882	11.8
Other equity investments	56,607	58,360	3.1
Available-for-sale financial assets	**166,721**	**189,335**	**13.6**

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

in €k	31/12/2015	31/12/2016	± in %
Debt securities and other fixed interest securities			
– Up to 3 months	192	358	86.5
– From 3 months to 1 year	5,135	52,478	>100
– From 1 year to 5 years	59,905	14,869	-75.2
– From 5 years and over	2,071	15,388	>100
Available-for-sale financial assets, by remaining time to maturity	**67,303**	**83,093**	**23.5**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

in €k	31/12/2015	31/12/2016	± in %
Debt securities and other fixed interest securities	724,891	747,773	3.2
Held-to-maturity financial assets	**724,891**	**747,773**	**3.2**

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

in €k	31/12/2015	31/12/2016	± in %
Debt securities and other fixed-income securities			
– Up to 3 months	31,399	55,059	75.4
– From 3 months to 1 year	64,990	29,992	-53.9
– From 1 year to 5 years	206,989	192,134	-7.2
– From 5 years and over	421,513	470,588	11.6
Held-to-maturity financial assets	**724,891**	**747,773**	**3.2**

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

in €k	31/12/2015	31/12/2016	± in %
Oberbank AG	278,308	308,778	10.9
Bank für Tirol und Vorarlberg Aktiengesellschaft	155,671	159,514	2.5
Drei-Banken Versicherungsagentur GmbH	4,640	2,615	-43.6
Investments in entities accounted for using the equity method	**438,619**	**470,907**	**7.4**

(20) INTANGIBLE ASSETS AND GOODWILL

in €k	31/12/2015	31/12/2016	± in %
Other intangible assets	1,868	1,735	-7.1
Intangible assets	**1,868**	**1,735**	**-7.1**

(21) PROPERTY AND EQUIPMENT

in €k	31/12/2015	31/12/2016	± in %
Land	7,870	8,072	2.6
Buildings	42,307	40,238	-4.9
Other	8,260	7,964	-3.6
Property and equipment	**58,437**	**56,274**	**-3.7**

(22) INVESTMENT PROPERTY

in €k	31/12/2015	31/12/2016	± in %
Land	8,667	8,643	-0.3
Buildings	21,023	22,077	5.0
Investment property	**29,690**	**30,720**	**3.5**

At 31 December 2016, the fair values of our investment properties totalled EUR 45.4 million (pr. year: EUR 46.9 million). Rental income during the year under review was EUR 3.0 million (2015: EUR 3.2 m). Expenses associated with achieving this rental income were EUR 0.6 million (2015: EUR 0.9 m).

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY 2016

in €k	Property and equipment	Assets[1]	Property[2]	Total
Cost at 1 January 2016	126,731	11,630	50,817	189,178
Added	3,813	855	4,449	9,117
Disposals	4,113	1,442	1,620	7,175
Exchange differences	2	1	-	3
Reclassified	1,194	-	-1,194	-
Cost of acquisition at 31/12/2016	**127,627**	**11,044**	**52,452**	**191,123**
Accumulated depreciation/amortization	71,353	9,309	21,732	102,394
Carrying amount at 31/12/2016	**56,274**	**1,735**	**30,720**	**88,729**
Carrying amount at 31/12/2015	58,437	1,868	29,690	89,995
Depreciation/amortization in 2016	4,508	975	997	6,480

[1] Other intangible assets
[2] Investment property

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY 2015

in €k	Property and equipment	Assets[1]	Property[2]	Total
Cost at 01/01/2015	124,125	10,931	50,830	185,886
Added	4,081	904	4,771	9,756
Disposals	-2,696	-215	-3,576	-6,487
Exchange differences	12	10	1	23
Reclassified	1,209	-	-1,209	-
Cost of acquisition at 31/12/2015	**126,731**	**11,630**	**50,817**	**189,178**
Accumulated depreciation/amortization	68,294	9,762	21,127	99,183
Carrying amount at 31/12/2015	**58,437**	**1,868**	**29,690**	**89,995**
Carrying amount at 31/12/2014	59,040	1,993	28,985	90,018
Depreciation/amortization in 2015	5,005	1,032	1,033	7,070

[1] Other intangible assets
[2] Investment property

(23) DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES 2016

in €k	01/01/2016	31/12/2016	Deferred tax receivables	Deferred tax liabilities
Receivables from customers	3,857	4,220	4,246	26
Impairment allowance balance	8,057	10,172	10,667	495
Trading assets and trading liabilities	-7	-6	18	24
Available-for-sale financial assets	-4,146	-4,682	206	4,888
Held-to-maturity financial assets	-204	-168	631	799
Financial assets and liabilities designated as at fair value through profit or loss	-2,515	-2,232	-	2,232
Property and equipment	609	-681	639	1,320
Other assets and liabilities	1,027	612	2,589	1,977
Liabilities evidenced by paper	2,410	3,024	3,024	-
Provisions/Social capital	7,040	6,768	6,768	-
Tax assets (debt) before netting	**16,128**	**17,027**	**28,788**	**11,761**
Netting of taxes			-11,500	-11,500
Deferred tax assets/debt net			**17,288**	**261**

DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES 2015

in €k	01/01/2015	31/12/2015	Deferred tax receivables	Deferred tax liabilities
Receivables from customers	3,438	3,857	3,857	-
Impairment allowance balance	5,906	8,057	8,057	-
Trading assets and trading liabilities	-10	-7	15	22
Available-for-sale financial assets	-4,322	-4,146	354	2,515
Held-to-maturity financial assets	-183	-204	390	4,500
Financial assets designated as at fair value through profit or loss	-3,273	-2,515	-	594
Property and equipment	624	609	609	-
Other assets and liabilities	1,750	1,027	2,708	1,681
Liabilities evidenced by paper	2,289	2,410	2,410	-
Provisions/Social capital	8,234	7,040	7,040	-
Deferred tax assets/debt	**14,453**	**16,128**	**25,440**	**9,312**

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

The deferred tax assets were mainly the result of impairment allowances recognized in accordance with IAS 39, derivatives in the banking book with negative fair values, use of the fair value option for debt securities, deferrals of the upfront fees contained in receivables from customers and valuations of 'social capital' in accordance with IAS 19 that differed from the tax base. Deferred taxes taken directly to equity in conformity with IAS 19 came to EUR 0.2 million (pr.year: EUR 0.9 million).

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

The deferred tax liabilities were mainly attributable to the measurement of financial investments to fair value and the derivatives in the banking book whose fair value was positive.

(24) OTHER ASSETS

in €k	31/12/2015	31/12/2016	Net interest income
Positive fair values of derivative financial instruments	10,788	12,950	20.0
Other items	15,405	14,801	-3.9
Deferred items	2,373	2,547	7.3
Other assets	**28,566**	**30,298**	**6.1**

(25) PAYABLES TO OTHER BANKS

in €k	31/12/2015	31/12/2016	Net interest income
Payables to Austrian banks	724,001	733,479	1.3
Payables to foreign banks	180,573	134,015	-25.8
Payables to other banks	**904,574**	**867,494**	**-4.1**

PAYABLES TO OTHER BANKS BY REMAINING TIME TO MATURITY

in €k	31/12/2015	31/12/2016	± in %
Due on demand	21,390	81,879	> 100
Up to 3 months	456,476	347,246	-23.9
From 3 months to 1 year	396,569	356,035	-10.2
From 1 year to 5 years	24,706	73,384	>100
From 5 years and over	5,433	8,950	64.7
Payables to other banks, by remaining time to maturity	**904,574**	**867,494**	**-4.1**

(26) PAYABLES TO CUSTOMERS

in €k	31/12/2015	31/12/2016	± in %
Savings deposit balances	**1,629,833**	**1,528,994**	**-6.2**
Corporate and business banking customers	218,263	199,001	-8.8
Retail banking customers	1,411,570	1,329,993	-5.8
Other payables	**2,721,883**	**3,295,766**	**21.1**
Corporate and business banking customers	1,927,113	2,414,114	25.3
Retail banking customers	794,770	881,652	10.9
Payables to customers	**4,351,716**	**4,824,760**	**10.9**

PAYABLES TO CUSTOMERS BY REMAINING TIME TO MATURITY

in €k	31/12/2015	31/12/2016	± in %
Due on demand	2,443,389	2,936,116	20.2
Up to 3 months	565,906	398,061	-29.7
From 3 months to 1 year	752,670	1,055,196	40.2
From 1 year to 5 years	577,826	430,092	-25.6
From 5 years and over	11,925	5,295	-55.6
Payables to customers, by remaining time to maturity	**4,351,716**	**4,824,760**	**10.9**

(27) LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2015	31/12/2016	Net interest income
Issued bonds	485,071	475,842	-1.9
Other liabilities evidenced by paper	91,275	68,814	-24.6
Liabilities evidenced by paper	**576,346**	**544,656**	**-5.5**

EUR 85.1 million (2015: EUR 103.5 m) of the securitised liabilities were measured at fair value (use of the fair value option).

LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2015	31/12/2016	± in %
Up to 3 months	12,127	44,468	>100
From 3 months to 1 year	76,145	56,737	-25.5
From 1 year to 5 years	215,066	199,085	-7.4
From 5 years and over	273,008	244,366	-10.5
Liabilities evidenced by paper	**576,346**	**544,656**	**-5.5**

(28) TRADING LIABILITIES

in €k	31/12/2015	31/12/2016	Net interest income
Interest rate contracts	46	10	-78.3
Trading liabilities	**46**	**10**	**-78.3**

(29) PROVISIONS

in €k	31/12/2015	31/12/2016	± in %
Provisions for post-employment benefits and similar obligations	74,498	72,480	-2.7
Provisions for taxes (current taxes)	5,739	2,238	-61.0
Other provisions	45,736	52,184	14.1
Provisions	**125,973**	**126,902**	**0.7**

The line item Provisions for post-employment benefits and similar obligations contains provisions for termination benefits in the amount of EUR 22.8 million (2015: EUR 22.0 m), provisions for post-employment benefits in the amount of EUR 44.4 million (2015: EUR 47.2 million) and provisions for jubilee benefits in the amount of EUR 5.3 million (2015: EUR 5.3 m). Other provisions contains provisions of EUR 30.2 million (2015: EUR 29.5 million) resulting from the proportionate consolidation of ALGAR. The other material provisions included provisions for death benefits in the amount of EUR 3.7 million (2015: EUR 3.6 m) and provisions for unused vacation time and remunerations in the amount of EUR 2.4 million (2015: EUR 2.6 m).

Provisions for termination benefits
According to the requirements of the Austrian Salaried Employees Act (Angestelltengesetz) and the Austrian Termination Benefits Act (Abfertigungsgesetz), Austrian employees of BKS Bank whose employment began before 1 January 2003 are entitled to a termination benefit provided applicable grounds for the termination are given. Moreover, the collective agreement for employees of banks and bankers) generally gives people who have been in service for more than 5 years the right to two additional months' salary if the employer gives notice.

Provisions for post-employment benefits

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

ACTUARIAL ASSUMPTIONS

in %	2015	2016
Financial assumptions		
Interest rate	2.40%	1.77%
Salary trend	1.80%	1.24%
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 determined pursuant to IAS 19.83 on the basis of yields for first-ranking fixed interest industrial bonds. As in the preceding year, the table published by Mercer (Austria) GmbH was used .

DEVELOPMENT OF PROVISIONS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

in €k	31.12.2015	31.12.2016	± in %
Provisions as of 01/01	78,917	74,498	-5.6
+ Interest expense	1,685	1,668	-1.0
+ Expense for service time	1,454	1,336	-8.1
- Payments during the reporting year	-3,770	-4,207	11.6
± actuarial profit/loss[1)]	-3,788	-815	-78.5
Provisions as of 31/12	**74,498**	**72,480**	**-2.7**

[1)] based on changed financial assumptions

DEVELOPMENT OF PROVISIONS

in €k	Total 31/12/2015	Provisions for post-employment benefits and similar obliga-tions	Taxes and other	Total 2016	± in %
Provisions as at 01/01	128,519	74,498	51,475	125,973	-2.0
± Currency change	3	–	–	–	> -100
± Transfer	–	–	–	–	–
+ Additions	14,533	1,737	12,737	14,474	-0.4
- Use	-11,651	-824	-7,901	-8,725	-25.1
- Reversal	-5,431	-2,931	-1,889	-4,820	-11.3
Provisions as of 31/12	**125,973**	**72,480**	**54,422**	**126,902**	**0.7**

SENSITIVITY ANALYSIS FOR POST-EMPLOYMENT BENEFITS AND SIMILAR OBLIGATIONS

Sensitivity analysis of DBO/present value of obligations in €k	Termination benefits 31/12/2015	Post-retirement benefits 31/12/2015	Termination benefits 31/12/2016	Post retirement benefits 31/12/2016
Discount rate +1.0%	-2,582	-4,844	-2,575	-4,563
Discount rate -1.0%	1,173	5,948	1,094	5,608
Wage increase +0.5%	133	426	79	401
Wage increase -0.5%	-1,744	-403	-1,754	-382
Pension increase +0.5%		2,169	–	2,022
Pension increase -0.5%		-2,017	–	-1,881
Increase in life expectations by around 1 year		2,162	–	2,041

Since 1 January 2013, a sensitivity analysis pursuant to IAS 19.145a has been mandatory. This sensitivity analysis shows the influence a change in the parameter for the major actuarial assumptions would have on the provisions for termination benefits and post-employment benefits as at 31 December 2016.

MATURITY ANALYSIS

Cash flows in €k	Termination benefits 31/12/2016	(1) 31/12/2016
Expected payments 2017	613	3,203
Expected payments in 2018	1,365	3,001
Expected payments 2019	1,631	2,802
Expected payments in 2020	3,326	2,612
Expected payments 2021	2,677	2,415
Total expected payments 2017 to 2021	**9,612**	**14,033**
Weighted average maturity	8.54	11.90

The maturity analysis shows the expected termination benefit and post-employment benefit payments in the coming five financial years as calculated by an actuary. Payments in the financial year 2016 amounted to EUR 4.2 million (2015: EUR 3.8 million).

(30) OTHER LIABILITIES

in €k	31/12/2015	31/12/2016	± in %
Negative fair values of derivative financial instruments	29,587	30,821	4.2
Other liabilities	18,284	23,566	28.9
Deferred items	5,601	5,215	-6.9
Other liabilities	**53,472**	**59,602**	**11.5**

(31) SUBORDINATED DEBT CAPITAL

in €k	31/12/2015	31/12/2016	± in %
TIER 2 capital	141,752	158,585	11.9
Hybrid capital	40,000	40,000	–
Subordinated debt capital	**181,752**	**198,585**	**9.3**

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 195.0 (2015: EUR 178.2 m).

SUBORDINATED DEBT CAPITAL BY REMAINING TIME TO MATURITY

in €k	31/12/2015	31/12/2016	± in %
Up to 3 months	3,559	23,560	>100
From 3 months to 1 year	7,695	28,598	>100
From 1 year to 5 years	119,595	93,352	-21.9
From 5 years and over	50,903	53,075	4.3
Subordinated debt capital by remaining time to maturity	**181,752**	**198,585**	**9.3**

In the financial year 2017, TIER 2 capital with a nominal value of EUR 48.6 million will mature (2015: EUR 7.7 million). In conformity with CRR Article 484, EUR 40 million of hybrid capital was counted towards consolidated own funds (2015: EUR 40.0 million). It did not constitute a component of consolidated equity.

DETAILS ON SUBORDINATED DEBT CAPITAL (NOMINAL VALUES)

in €k	31/12/2015	31/12/2016	Full Term
Variable Ergänzungskapital-Obligation 2006-2021/PP	2,350	2,350	15 years
5% Ergänzungskapital-Obligation 2007-2017/3	9,100	9,100	10 years
4 ½% Ergänzungskapital-Obligation 2008-2016/2	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% hybrid bond of BKS Hybrid alpha GmbH 2008	20,000	20,000	Unlimited
6% Hybrid bond of BKS Hybrid beta GmbH 2010	20,000	20,000	Unlimited
5% Nachrangige Obligation 2014-2023/2	20,000	20,000	9 years
4% Nachrangige Obligation 2015-2025/2	8,512	20,000	10 years
2 ¾% Nachrangige Obligation 2016-2024/2	–	13,027	8 years
Total subordinated debt capital	**178,162**	**194,977**	

Expenditure on subordinated obligations during the financial year came to EUR 9.7 million (2015: EUR 9.9 m).

(32) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

in €k	31/12/2015	31/12/2016	± in %
Subscribed capital	72,072	79,279	10.0
– **SHARE CAPITAL**	72,072	79,279	10.0
Capital reserves	143,056	193,032	34.9
Retained earnings and other reserves	621,714	663,075	6.7
Additional equity instruments (AT1 note)	23,400	23,400	–
Shareholders' equity before minority interests	**860,242**	**958,786**	**11.5**
Minority interests	-15	-19	26.7
Shareholders' equity after minority interests	**860,227**	**958,767**	**11.5**

The share capital was represented by 37,839,600 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. Each share had a nominal value of EUR 2.0. Capital reserves contain premiums from the issuance of shares. Retained earnings and other reserves consist essentially of reinvested profits. Additional equity instruments consist of the Additional Tier 1 note issued in 2015 which must be classified as equity pursuant to IAS 32. The liability reserve required by § 57 (5) Banking Act (BWG) in the amount of EUR 80.8 million is contained in the item Retained earnings.

(33) CAPITAL MANAGEMENT

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

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

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

The way we calculate our own funds changed significantly when Basel III was implemented by CRD IV and CRR at the beginning of 2014 together with the amended Austrian Banking Act (BWG). In accordance with the transitional provisions of CRR and CRD IV, capital instruments that are no longer eligible are gradually being eliminated while the new rules for the regulatory adjustments are successively being introduced. At the reporting date, the regulatory group of consolidated companies was the same as the IFRS group of consolidated companies.

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

in € m	31/12/2015	31/12/2016
Share capital	71.0	77.8
Reserves net of intangible assets	748.0	831.4
Deductions	-243.4	-283.3
Common Equity Tier 1 capital[1]	**575.6**	**625.9**
Common Equity Tier 1 ratio	11.8%	12.6%
Hybrid capital	28.0	24.0
AT1 note	23.4	23.4
Deductions	-51.4	-47.4
Additional Tier 1 capital	–	–
Tier 1 capital	**575.6**	**625.9**
Tier 1 ratio (including Additional Tier 1 capital)	11.8%	12.6%
Tier 2 capital items and instruments	114.7	120.6
Deductions	-90.4	-76.5
TIER 2 capital	**24.3**	**44.1**
Total own funds	**599.9**	**670.0**
Own funds ratio	12.3%	13.5%
Assessment base	4,883.4	4,974.1
Own funds surplus	**209.2**	**241.0**

[1] Includes profit for the year 2016. Formal adoption is still outstanding.

In the reporting year 2016, the regulatory capital requirements were met at all times; the Common Equity Tier 1 ratio was 5.125% and the own funds ratio 8.625%.

(34) FAIR VALUES

Financial assets and debt measured to fair value

31/12/2016 in €k	LEVEL 1 "Market value"	LEVEL 2 'Based on Market Data'	LEVEL 3 "Internal measurement method"	Total fair value
Assets				
Trading assets	–	10	–	10
FA[1] at fair value through profit or loss	22,893	–	52,675	75,568
Available-for-sale financial assets	169,215	–	20,120[2]	189,335
Other assets (derivatives)	–	12,950	–	12,950
Equity and liabilities				
Liabilities evidenced by paper	–	–	85,130	85,130
Trading liabilities	–	10	–	10
Other liabilities (derivatives)	–	30,821	–	30,821

[1] FA = Financial assets
[2] These are equity investments that are recognized at cost, because it is not possible to determine a reliable fair value. The presentation in Level 3 is given for the sake of completeness.

31/12/2015 in €k	LEVEL 1 "Market value"	LEVEL 2 'BASED ON MARKET DATA'	LEVEL 3 "Internal measurement method"	Total fair value
Assets				
Trading assets		46		46
FA[1]Financial assets designated as at fair value through profit or loss	41,236		73,627	114,863
Available-for-sale financial assets	146,128		20,593[2]	166,721
Other assets (derivatives)		10,788		10,788
Equity and liabilities				
Liabilities evidenced by paper			103,512	103,512
Trading liabilities		46		46
Other liabilities (derivatives)		29,587		29,587

[1] FA = Financial assets
[2] These are equity investments recognized at cost, because it is not possible to reliably determine a fair value. The presentation in Level 3 is done for the sake of completeness.

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

in €k	Financial assets at fair value through profit or loss	Liabilities evidenced by paper of which, at fair value through profit or loss
As at 01/01/2016	73,627	103,512
Reclassified	–	–
Income Statement[1]	-1,047	1,618
Other profit or loss	–	–
Purchased	–	–
Sold/redeemed	-19,905	-20,000
As at 31/12/2016	**52,675**	**85,130**

[1] Changes in valuation through profit/loss; reported in Result of financial assets designated at fair value through profit or loss

LEVEL 3: MOVEMENTS 01/01/ TO 31/12/2015

in €k	Financial assets designated as at fair value through profit or loss	Liabilities evidenced by paper of which, at fair value through profit or loss
At 1 January 2015	87,061	106,316
Reclassified	-	-
Income Statement 1)	-1,307	-2,804
Other profit or loss	–	–
Purchased	–	–
Sold/redeemed	-12,127	–
As at 31/12/2015	**73,627**	**103,512**

[1] Valuation changes in profit/loss; reported in item Profit/loss of FA at fair value through profit or loss

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 the present value method.

In the category Level 3 'Internal Measurment Method', 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 were recognized at their carrying amounts. In general, liabilities evidenced by paper in the category Level 3 were measured on the basis of market data that were observable for the liabilities (e.g. yield curves, foreign exchange rates). The factors affecting the values of positions in the category level 3 that were not observable in the market were adjustments on the basis of internal rating procedures to the credit ratings of customers and of BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in the category Level 3 were measured using the present value method.

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

Changes in the ratings of assets and liabilities measured to fair value
Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of those financial instruments and their remaining term to maturity. The change in the default risk associated with liabilities measured at fair value in the period under review was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining term to maturity. In the 2016 reporting year, the changes in the ratings of the receivables from customers measured at fair value had an effect on their fair value in the amount of EUR 0.0 million (2015: EUR 0.3 million). In the 2016 reporting year, the changes in the ratings of BKS Bank's liabilities evidenced by paper measured at fair value had an effect on their fair value in the amount of EUR 0.7 million (2015: EUR 0.5 m).

Sensitivity analysis
The result of the sensitivity analysis of receivables from customers measured at fair value results in an accumulated change in value of EUR 0.2 million (2015: EUR 0.3 m), assuming an improvement or deterioration in the credit rating of 10 basis points in the credit spread. An analysis assuming an improvement or deterioration in BKS Bank's rating of 10 basis points in the credit spread would result in an accumulated change in the value of the liabilities evidenced by paper designated at fair value of EUR 0.6 million (2015: EUR 0.6 million).

FINANCIAL ASSETS AND DEBT NOT MEASURED AT FAIR VALUE
In the reporting year, receivables from other banks of EUR 242,392k (2015: EUR 363,976k) and receivables from customers of EUR 5,397,186k (2015: EUR 5,175,621k) and payables to other banks of EUR 870,217k (2015: EUR 907,737k) and payables to customers of EUR 4,835,759k (2015: EUR 4,366,180k) were transferred from Level 2 to Level 3, because the input factors for financial assets and debt not designated at fair value cannot always be observed directly or indirectly.

31/12/2016 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	LEVEL 3 'Internal measurement method'	Total fair value	Carrying value 31/12/2016
Assets					
Receivables from other banks			242,392	242,392	242,347
Receivables from customers			5,397,186	5,397,186	5,330,395
FA[1] Held-to-maturity	816,054			816,054	747,773
Equity and liabilities					
Payables to other banks			870,217	870,217	867,494
Payables to customers			4,835,759	4,835,759	4,824,760
Liabilities evidenced by paper	448,488	79,353		527,841	459,526
Subordinated debt capital	200,510	2,355		202,865	198,585

[1] FA = Financial assets

31/12/2015 in €k	LEVEL 1 'Market Value'	LEVEL 2 'Based on Market Data'	LEVEL 3 "Internal measurement method	Total fair value	Carrying value 31/12/2015
Assets					
Receivables from other banks			363,976	363,976	363,862
Receivables from customers			5,175,621	5,175,621	5,113,867
FA[1] Held-to-maturity	791,709			791,709	724,891
Equity and liabilities					
Payables to other banks			907,737	907,737	904,574
Payables to customers			4,366,180	4,366,180	4,351,715
Liabilities evidenced by paper	411,918	80,311		492,229	472,834
Subordinated debt capital	182,339	2,354		184,693	181,752

[1] FA = Financial assets

(35) INCOME STATEMENT BY VALUATION CATEGORY

in €k	31/12/2015	31/12/2016
Net interest income in the held-for-trading portfolio	54	29
Gains/(losses) in the held-for-trading portfolio	2,266	1,688
Net income in the held-for-trading portfolio	**2,320**	**1,717**
Net interest income from FAs designated as at fair value through profit or loss[1]	2,180	2,194
Gains/(losses) on items designated as at fair value through profit or loss	109	-1,862
Net income from FAs designated as at fair value through profit or loss[2]	**2,289**	**332**
Net interest income in the portfolio of available-for-sale FAs	7,325	4,120
Gains/(losses) in the portfolio of available-for-sale FAs	2,447	1,386
Impairment losses in the portfolio of available-for-sale FAs	-4,522	-1,752
Net income in the portfolio of available-for-sale FAs	**5,250**	**3,754**
Net interest income from loans and receivables	140,713	131,405
Impairment losses (impairment charge) on loans and receivables	-48,547	-31,007
Net fee and commission income on loans and receivables	37,687	34,640
Net income from loans and receivables	**129,853**	**135,038**
Net interest income in the portfolio of held-to-maturity FAs	20,397	19,068
Gains/(losses) in the portfolio of held-to-maturity FAs	287	153
Net income in the portfolio of held-to-maturity FAs	**20,684**	**19,221**
Interest expenses on financial liabilities measured at amortized cost	-49,349	-38,720
Net income on financial liabilities measured at amortized cost	**-49,349**	**-38,720**
Other operating income net of other operating expenses[3]	**-50,321**	**-71,541**
Profit/loss for the year before tax	**60,726**	**49,801**

[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 remaining net interest and commission income, general administrative expenses, other operating expenses and income

(36) INFORMATION ON SHARES IN OTHER ENTITIES

Of the entities recognized by the equity method, Oberbank AG and BTV AG are included in the consolidated financial statements for the following reasons, even though they do not reach the 20% threshold: For the investments in Oberbank AG, there is an agreement between BKS Bank, BTV AG and der Wüstenrot Wohnungswirtschaft reg. reg. Genossenschaft mbH and for the investments in BVT AG there is a syndicate agreement between BKS Bank AG, Oberbank AG, Generali 3Banken Holding AG and Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.

Oberbank AG and BTV AG are included in the consolidated financial statements as of 30 September 2016, because the figures in the IFRS consolidated financial statements for year-end are not available due to the short time.
The carrying value of equity investments in Drei-Banken Versicherungsagentur GmbH recognized by the equity method was EUR 2.6 million (2015: EUR 4.6 m) as at 31 December 2016. Profit for the year after tax was EUR 3.8 million (2015: EUR 2.3 million).

ASSOCIATED COMPANIES

Values as at 31/12	Type of relationship with the company	Head Office	138.7		Equity interests in %		Fair value of the share	
			2015	2016	2015	2016	2015	2016
Oberbank AG	Strategic investment to secure autonomy	Linz	16.52	15.21	15.30	14.21	258,898	301,717
BTV AG	Strategic investment to secure autonomy	Innsbruck	14.95	14.95	13.59	13.59	79,973	78,478
3 Banken Versicherungs-agentur GmbH	Strategic investment to sell insurance	Linz	20.00	20.00	20.00	20.00	4,640[1)]	2,615[1)]

[1)] This investment is measured at cost, because it is not possible to reliably measure the fair value.

FINANCIAL INFORMATION ABOUT THE MATERIAL ASSOCIATES

in €m	Oberbank AG		BTV AG	
	31/12/2015	31/12/2016	31/12/2015	31/12/2016
Net interest income	381.2	359.6	161.7	144.8
Net fee and commission income	132.7	130.9	49.2	47.5
Consolidated profit for the year after tax	166.4	181.3	138.7	63.8
Total assets	18,243.3	19,158.5	9,426.3	10,013.8
Receivables from customers by impairment charge	12,351.7	13,328.2	6,359.6	6,754.2
Equity	1,925.7	2,282.8	1,148.7	1,219.4
Primary funds	12,620.0	13,008.9	7,020.7	7,323.4
– Of which, savings deposit balances	2,912.6	2,794.2	1,200.8	1,248.2
– Liabilities evidenced by paper, including subordinated debt	2,098.5	2,064.5	1,377.9	1,392.8
Dividends received (in €k)	2,683	2,713	1,019	1,121

Joint arrangement, joint operation
Under the provisions of IFRS 11, Alpenländische Garantie-GESELLSCHAFT m.b.H. (ALGAR) is classified as a joint operation and was included in the consolidation on a proportionate basis. ALGAR is run jointly by Oberbank AG, BTV AG and BKS Bank AG and serves to provide security for the large loans of the partner banks. Each bank delegates one managing director; two directors together represent the company. The decisions of its general meeting are always unanimous.

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

(37) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

The following tables contain the mandatory disclosures of BKS Bank's relations with related entities and persons required by the Austrian Business Code § 245a and IAS 24. Entities and persons are deemed to be related entities or persons if they are able to exercise a controlling or significant influence over the enterprise.

IAS 24.9 defines key management personnel as those persons having authority and responsibility for planning, directing and supervising the activities of the entity, whether directly or indirectly, and these must be taken to include the members of the Management Board and Supervisory Board

DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

	Outstanding Balances		Guarantees Received		Guarantees Provided	
in €k	At 31/12/2015	At 31/12/2016	At 31/12/2015	At 31/12/2016	At 31/12/2015	At 31/12/2016
Non-consolidated subsidiaries			–	–	–	–
Receivables	5,369	3,213				
Payables	1,108	1,379				
Associates and joint arrangements			–	–	–	–
Receivables	12,869	17,799				
Payables	158,949	67,767				
Key management personnel			–	–	–	–
Receivables	366	458				
Payables	812	859				
Other related persons			**–**	**–**	**109**	**–**
Receivables	14	124				
Payables	451	753				

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

in €k	2015	2016
Average number of staff	**999**	**998**
– Blue-collar workers employed in the BKS Bank Group	49	56
– White-collar staff employed in the BKS Bank Group	950	942
Average number of people employed by entities accounted for on a proportionate basis	**3,407**	**3,400**
Remunerations paid to the Management Board		
– Remunerations paid to active members of the Management Board	1,059	1,213
– Remunerations paid to former members of the Management Board and their surviving dependants	1,037	895
Remunerations paid to the Supervisory Board		
– Remunerations paid to active members of the Supervisory Board	193	183
– Remunerations paid to former members of the Supervisory Board and their surviving dependants	–	–
Management compensation pursuant to IAS 24	**1,263**	**1,407**
– Short-term employee benefits	1,138	1,277
– Post-employment benefits	125	130
– Other long-term benefits	–	–
– Termination benefits	–	–
– Share-based payment benefits	–	–
Loans and advances granted		
– Loans and advances granted to members of the Management Board	92	72
– Loans and advances granted to members of the Supervisory Board	274	386
Expenditure on termination and post-employment benefits		
– Expenditure on termination and post-employment benefits for members of the Management Board	73	113
– Expenditure on termination and post-employment benefits for other employees	6,849	5,721

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.

(38) SEGMENT REPORTING

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

SEGMENT RESULTS

	Retail banking		Corporate and business customers		Financial markets	
in €k	2015	2016	2015	2016	2015	2016
Net interest income	27,218	26,172	82,870	85,499	54,981	40,301
– Of which from investments in entities accounted for by the equity method	–	–	–	–	42,986	33,696
Impairment charge on loans and advances	-2,115	-1,339	-44,095	-29,703	-2,337	35
Net fee and commission income	23,238	21,668	28,603	26,776	218	173
Net trading income	–	–	–	–	2,320	1,717
General administrative expenses	-49,636	-51,893	-43,166	-45,877	-7,363	-6,388
Other operating income net of other operating expenses	-182	1,872	129	1,742	-100	-62
Profit from financial assets	–	–	–	–	-1,679	-2,076
Profit/loss for the year before tax	**-1,477**	**-3,520**	**24,341**	**38,437**	**46,040**	**33,700**
Average risk-weighted assets	499,676	499,294	3,062,491	3,119,765	861,928	898,800
Average allocated equity	39,974	39,944	244,999	249,581	533,557	609,187
Segment liabilities	2,672,175	2,777,915	2,677,441	3,031,078	1,514,932	1,573,821
ROE based on profit for the year	**-3.7%**	**-8.8%**	**9.9%**	**15.4%**	**8.6%**	**5.5%**
Cost/income ratio	**98.7%**	**104.4%**	**38.7%**	**40.2%**	**12.8%**	**15.2%**
Risk/earnings ratio	**7.8%**	**5.1%**	**53.2%**	**34.7%**	**4.3%**	**–**

	Other		Total	
in €k	2015	2016	2015	2016
Net interest income	1,375	2,215	166,444	154,187
– Of which from investments in entities accounted for by the equity method	–	–	42,986	33,696
Impairment charge on loans and advances	–	–	-48,547	-31,007
Net fee and commission income	923	213	52,982	48,830
Net trading income	–	–	2,320	1,717
General administrative expenses	-4,955	-2,270	-105,120	-106,428
Other operating income net of other operating expenses	-5,521	-18,974	-5,674	-15,422
Profit from financial assets	–	–	-1,679	-2,076
Profit/loss for the year before tax	**-8,178**	**-18,816**	**60,726**	**49,801**
Average risk-weighted assets	51,390	54,280	4,475,485	4,572,139
Average allocated equity	9,515	10,802	828,045	909,514
Segment liabilities	198,884	198,241	7,063,433	7,581,055
ROE based on profit for the year			**7.3%**	**5.5%**
Cost/income ratio			**48.7%**	**56.2%**
Risk/earnings ratio			**29.2%**	**20.1%**

Method: Breakdown of net interest income is done using the market interest rate method. The costs incurred are allocated to the business areas in which these costs originate. Returns on maturity transformation are allocated to the Financial Markets segment.

The average allocated equity carries 5% interest and is recognized as return on equity invested in the net interest income. The profit for the respective segment is measured on the profit before tax earned in the segment. Apart from the cost/income ratio, return on equity was one of the principal benchmarks for managing the business segments. Segment reporting is based on our internal management processes. The Management Board as a whole is responsible for the enterprise's management.

In detail, the reports used for internal management purposes comprised the following:
– Monthly reporting of results at the profit centre level
– Quarterly reports for all relevant risk types
– Ad-hoc reports of exceptional events

Corporate and business banking segment
In the segment corporate and business banking some 18,600 corporate and business banking customers were served as of the end of December 2016. BKS Bank having originally been conceived as a corporate and business bank, this business segment is still the enterprise's most important pillar. Corporate and business banking customers still accounts for the larger part of the loan portfolio and made an essential contribution to profit for the period. Besides all the income and expenses of BKS Bank AG that arose from business with corporate and business banking customers, the income and expenses of BKS Bank d.d. in Croatia and of our leasing companies were also assigned to this segment, provided they arose from business done with companies.

Retail banking segment
All income and expense components of BKS Bank AG, BKS Bank d.d., BKS-Leasing Gesellschaft m.b.H., BKS-leasing d.o.o., BKS-leasing Croatia d.o.o. and BKS-Leasing s.r.o. from business with retail customers and wage and salary earners are reported summarized in the retail banking segment. Some 133,600 customers were served in this segment at the end of December 2016.

Financial markets segment
The financial markets segment includes 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 from income from interest-rate term structure management.

The segment 'Other' encompasses everything not directly connected with business segments, items of income and expenses that cannot be allocated to the other segments and those contributions to profit that cannot be attributed to any one segment.

(39) NON-INTEREST ASSETS

in €k	31/12/2015	31/12/2016	± in %
Non-interest asset	**295,899**	**197,273**	**-33.3**

Non-interest receivables from customers adjusted for impairment came to EUR 107.1 million (2015: EUR 187.2 million).

(40) SUBORDINATED ASSETS

in €k	31/12/2015	31/12/2016	± in %
Receivables from customers	3,530	40	-98.9
Debt securities and other fixed-interest securities	–	–	–
Shares and other variable-yieldsecurities	–	–	–

41) FOREIGN CURRENCY BALANCES

in €k	31/12/2015	31/12/2016	± in %
Assets	491,644	387,512	-21.2
Liabilities	172,029	277,824	61.5

(42) ADMINISTRATION AND AGENCY SERVICES

in €k	31/12/2015	31/12/2016	± in %
Administration and agency services	**1,764**	**1,538**	**-12.8**

43) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2015	31/12/2016	± in %
Guarantees	385,094	387,962	0.7
Letters of credit	1,777	2,583	45.4
Contingent liabilities	**386,871**	**390,545**	**0.9**
Other commitments	1,057,680	1,243,552	17.6
Commitments	**1,057,680**	**1,243,552**	**17.6**

Other commitments consists mainly of credit lines already promised but not yet used. The likelihood of these credit lines being is was monitored with the probability of use being analyzed on a regular basis.

(44) EVENTS AFTER THE BALANCE SHEET DATE

No material or reportable business transactions took place between the end of the financial year and the preparation of the financial statements and their certification by the auditor.

(45) ASSETS SERVING AS COLLATERAL FOR LIABILITIES

Liabilities	Assets	31/12/2015	31/12/2016
Money held in trust pursuant to § 230a Austrian Civil Code	Securities	12,987	12,994
Clearing system deposit for stock exchange trading in Vienna	Securities	1,581	1,583
Deposit for trading through EUREX	Securities	550	550
Collateral for trading through Xetra	Securities	1,482	1,484
Euroclear pledge	Securities	15,031	15,019
EUREX Repo (GC Pooling)	Securities	-	21,858
Margin for futures contracts	Receivables from other banks	32,670	25,270
Collateral for OeNB funding	Loans	264,355	300,000
Cover pool of mortgage loans for covered bonds	Loans	168,911	205,072
Cover pool of public sector debt for covered bonds	Loans	13,640	12,485
Pledge for OeKB CCPA clearing fund	Receivables from other banks	25	25

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

(46) FEES PAID TO THE BANK AUDITOR

in €k	2015	2016	± in %
Fees for auditing single-entity and consolidated financial statements	434	427	-1.5
Other auditing services	75	49	-34.7
Other services	189	124	-34.4
Total fees	**698**	**600**	**-13.5**

(47) RISK REPORT

Regarding the Risk Report disclosures required by IFRS 7.31 to 7.42, we have made use of the option provided for in the provisions contained in IFRS 7.B6 under which a separate risk report that is a part of the Management Report is permitted to replace disclosures in the notes. The risk report is published together with the annual report and financial report, and made accessible to the addressees of the financial statements on the same terms and at the same time as the financial statements.

(48) DERIVATIVES TRANSACTION VOLUME (BANKING BOOK)

in €k	Nominal amount, by time to maturity <1 year	1-5 years	> 5 years
Interest rate contracts	**14,250**	**63,000**	**206,892**
OTC products	14,250	63,000	206,892
Interest rate swaps	14,250	63,000	206,892
– Calls	7,125	31,500	103,446
– Puts	7,125	31,500	103,446
Interest rate options	–	–	–
– Calls	–	–	–
– Puts	–	–	–
Currency contracts	**1,321,594**	**350,883**	**–**
OTC products	1,321,594	350,883	–
Currency forwards	714,549	–	–
– Calls	358,513	–	–
– Puts	356,036	–	–
Capital market swaps	–	350,883	–
– Calls	–	164,646	–
– Puts	–	186,237	–
Money market swaps (currency swaps)	607,045	–	–
– Calls	303,314	–	–
– Puts	303,731	–	–
Securities contracts	**–**	**–**	**–**
Exchange-traded products	–	–	–
Stock options	–	–	–
– Calls	–	–	–
– Puts	–	–	–

DERIVATIVES TRANSACTION VOLUME (TRADING BOOK)

in €k	Nominal amount, by time to maturity <1 year	1-5 years	> 5 years
Interest rate contracts	**870**	**15,542**	**1,272**
OTC products	870	15,542	1,272
Interest rate swaps	–	600	–
– Calls	–	300	–
– Puts	–	300	–
Interest rate options	870	14,942	1,272
– Calls	435	7,471	636
– Puts	435	7,471	636
Currency contracts	**–**	**–**	**–**
OTC products	–	–	–
Currency options	–	–	–
– Calls	–	–	–
– Puts	–	–	–

FINANCIAL INSTRUMENTS (TRADING BOOK)

in €k	31/12/2015	31/12/2016
Interest-bearing securities	–	–
Treasury shares	11,512	–

Nominal amount		Fair value (positive)		Fair value (negative)	
31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016
409,902	**284,142**	**6,591**	**7,870**	**7,204**	**6,821**
409,902	284,142	6,591	7,870	7,204	6,821
409,902	284,142	6,591	7,870	7,204	6,821
204,951	142,071	133	–	7,110	6,821
204,951	142,071	6,458	7,870	94	–
–	–	–		–	
–	–	–		–	
–	–	–		–	
1,791,725	**1,672,477**	**3,563**	**4,494**	**21,875**	**23,629**
1,791,725	1,672,477	3,563	4,494	21,875	23,629
824,182	714,549	3,347	2,786	746	858
413,600	358,513	3,250	2,750	695	827
410,582	356,036	97	36	51	31
423,040	350,883	5	–	19,083	21,048
201,536	164,646	–	–	–	–
221,504	186,237	5	–	19,083	21,048
544,503	607,045	211	1,708	2,046	1,723
271,177	303,314	11	886	–	5
273,326	303,731	200	822	2,046	1,718
–	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–

Nominal amount		Fair value (positive)		Fair value (negative)	
31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016
20,732	**17,684**	**47**	**10**	**47**	**10**
20,732	17,684	47	10	47	10
1,080	600	15	5	15	5
540	300	–	–	15	5
540	300	15	5	–	–
19,652	17,084	32	5	32	5
9,826	8,542	32	5	–	–
9,826	8,542	–	–	32	5
–	**–**	**–**	**–**	**–**	**–**
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–

Positions (securities and derivatives) entered into by our Money, Foreign Exchange and Securities Trading unit to make market gains or take advantage of interest rate fluctuations were assigned to the trading book. Market value is the amount that can be obtained on the sale of a financial instrument in an active market or would need to be paid to purchase it. If a market price was available, it was taken to be a position's fair value. Where market prices were unavailable, we used internal valuation models, including the present value method.

THE COMPANY'S BOARDS AND OFFICERS

Management Board
Herta Stockbauer, Chairwoman of the Management Board
Dieter Kraßnitzer, Vice Chairman of the Management Board
Wolfgang Mandl, Vice Chairman of the Management Board

Shareholder Representatives on the Supervisory Board
Gerhard Burtscher, Chairman from 19 May 2016
Peter Gaugg, Chairman until 19 May 2016

Franz Gasselsberger, Vice Chairman
Christina Fromme-Knoch
Peter Hofbauer (until 30 September 2016)
Reinhard Iro
Josef Korak
Heimo Penker
Karl Samstag
Sabine Urnik
Klaus Wallner

Staff Representatives on the Supervisory Board
Maximilian Medwed
Herta Pobaschnig
Hanspeter Traar
Gertrude Wolf
Ulrike Zambelli

Klagenfurt am Wörthersee, 10 March 2017

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

CLOSING REMARKS BY THE MANAGEMENT BOARD

MANAGEMENT BOARD'S STATEMENT PURSUANT TO § 82 PARA. 4 STOCK EXCHANGE ACT (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 including the interpretations by the International Financial Reporting Interpretations Committee (IFRIC) and that they present a true and fair view of the assets, financial position and result of operations of the BKS Bank Group. The Management Board furthermore declares that the management report presents the development of business, profit or loss, and situation of the BKS Bank Group in such a way so as to present a true and fair view of the assets, financial position and result of operations as well as of the material risks and uncertainties to which the Group is exposed.

Klagenfurt am Wörthersee, 10 March 2017

The Management Board

Herta Stockbauer
Chairwoman of the
Management Board

Chairwoman of the Management Board with responsibility for Corporate and Business Banking, Accounts and Sales Controlling, Human Resources, Treasury and Proprietary Trading, Public Relations, Marketing and Investor Relations, Property, Subsidiaries and Equity Investments; she is also responsible for Slovenia, Croatia, Hungary and Slovakia outside of Austria

Dieter Kraßnitzer
Member of the
Management Board

Member of the Management Board with responsibility for Risk Management, Risk Controlling, BKS Bank's Credit Back Office and Service Companies, the Treasury Back Office, Business Organization, IT and Technical Services and DREI-BANKEN-EDV Gesellschaft m.b.H.; he is also responsible for the Back Office, Risk Management and IT outside of Austria

Wolfgang Mandl
Member of the
Management Board

Member of the Management Board with responsibility for Retail Banking, Private Banking and Securities Operations, Custodian Operations and collaboration with sales partners; he is also responsible for Italy.

PROFIT DISTRIBUTION PROPOSAL

The financial year 2016 of BKS Bank AG closed with a net profit of EUR 9,384,972.96. We propose that a dividend of EUR 0.23 per share be distributed out of the reported net profit as at 31 December 2016. The resulting distribution on 39,639,600 shares would be EUR 9,117,108. Subject to § 65 para. 5 Stock Corporation Act (AktG), we propose the remainder to be carried forward to a new account.

Klagenfurt am Wörthersee, 10 March 2017

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

AUDIT OPINION

We have audited the consolidated financial statements of

BKS Bank AG,
Klagenfurt am Wörthersee,

and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements pursuant to Section 245a UGB (Austrian Business Code) and Section 59a BWG (Austrian Banking Act).

BASIS FOR OUR OPINION

We conducted our audit in accordance with the Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the "Auditors' Responsibility" section of our report. We are independent of the audited entity within the meaning of Austrian commercial and banking law as well as professional regulations, and have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

During the course of the audit, the following key audit matters were identified:
– Valuation of loans and advances to customers
– Classification and valuation of companies valued using equity method
– Recognition and valuation of securities and derivatives — level 3 instruments

VALUATION OF LOANS AND ADVANCES TO CUSTOMERS

The description of the accounting and valuation methods is presented in the notes in section "Notes on Individual Items on the Balance Sheet (subsection Impairment Charge on Loans and Advances) as well as in the section "Discretionary Decisions and Estimates (subsection Impairment of Financial Assets: Impairment Charges)".

Risk to the Financial Statements

Loans and advances to customers are presented in the balance sheet with the amount of TEUR 5,330,395. The risk provisions amount to TEUR 155,136.

The identification of an impairment trigger and the calculation of the specific loan loss provision are subject to significant estimation uncertainties and discretion, which arise from the economic situation and development of the customer as well as from the valuation of collaterals and have an impact on the amount and timing of expected future cash flows.

Portfolio provisions that are based on statistical methods for loans without impairment trigger are based on models and statistical parameters such as the probability of default and loss given default and are therefore also subject to discretionary decisions and estimation uncertainties

Our audit approach

– We surveyed the lending approval- and montoring process of BKS Bank AG. Hereby, we interviewed the responsible employees and went through the internal guidelines. We analysed and critically examined whether these guidlines were appropriate to detect the inherent risks and hence to derive adequate provisions in the form of loan loss provisions. On a sample basis, we tested the relevant key controls with regard to design and implementation, as well as to effectiveness.
– Based on a sample from the credit and loan portfolio we examined whether impairment trigger were detected in a timely manner. The sample selection was made mainly risk oriented with focus on rating categories with higher risk of default. When impairment triggers had been detected, we scrutinized whether the bank's assessments regarding the amount and timing of future cash flows from customers and collaterals were adequate.
  Valuation experts supported the core audit team and benchmarkes selected real estate appraisals with market data whether their values are within an acceptable range.
– We scrutinized the underlying calculation model of portfolio loan provisions. Based on the result of the backtesting the applied parameters were analysed whether they are appropriate to determine adequate risk provisions on portfolio level. Moreover, we assessed the underlying database and tested the mathematical accuracy of the risk provision calculation.
– Finally, we evaluated whether the disclosures in the notes are adequate.

CLASSIFICATION AND VALUATION OF COMPANIES VALUED USING EQUITY METHOD

The description of the accounting and valuation methods is presented in the notes in section "Notes on Individual Items on the Balance Sheet (subsection Investments in Entities accounted for using the Equity Method)".

Risk to the Financial Statements

The Group applies equity methods for its shares in associated companies. Overall, the shares in associated companies valued using the equity method amount to a carrying amount of TEUR 470,907. The substantial part relates to Oberbank AG and the Bank für Tirol und Vorarlberg Aktiengesellschaft, on which the management board assumes significant influence due to syndicate agreements.

In case of objective impairment indicators, a value in use is calculated based on a dividend discount model. Future distributable earnings represent the relevant dividend under consideration of relevant regulatory capital requirements; equity cost rate was used for discounting to the valuation date. This valuation is dependent on internal and external factors, such as business planning, the level of the discount rate and the level of sustainable future profits used as basis in the calculation of the perpetual annuity, and is therefore discretionary to a high degree.

Our audit approach

– We examined whether the requirements for classification as an associated company were met by inspecting the syndicate agreements.
– We used valuation specialists who assessed the adequacy of the valuation model and the inherent significant assumptions and discretionary decisions. For this purpose, we assessed the adequacy of assumptions made for determining the discount rate by comparing them with the market and industry specific benchmarks and verified the derivation of the discount rates.

We scrutinized the business plans financials used in the valuation model. Hereby, we also compared and analysed the actual values with the budget values used in the previous year.
– Finally, we assessed whether the disclosures in the notes regarding the companies valued at equity are adequate.

RECOGNITION AND VALUATION OF SECURITIES AND DERIVATIVES — LEVEL 3 INSTRUMENTS

The description of the accounting and valuation methods is presented in the notes in section "Notes on Individual Items on the Balance Sheet (subsection Measuring the Fair Value of Financial Assets and Liabilities)" as well as in note 34.

Risk to the financial statements

At initial recognition, financial instruments have to be assigned to a category. The categorization is essential for the subsequent measurement. The fair valuation of securities and derivatives accounted as assets and liabilities, especially level 3 instruments, is highly discretionary due to the strong dependence on parameter estimates using non-observable input factors and internal valuation models.

Our audit approach

– Regarding the categorization of securities and derivates, we tested on a sample basis whether the underlying categorization criteria were met. We also tested whether the subsequent measurement is consistent with the respective category.
– In the course of our audit, we used a treasury specialist who assessed the valuation models and underlying parameters regarding their adequacy and market conformity.
– We verified on a sample basis the calculation of fair values.
– Finally, we assessed whether the relevant disclosures in the notes to the consolidated financial statements regarding the categorization and presentation of the valuation methods are complete and adequate.

MANAGEMENT'S RESPONSIBILITY AND RESPONSIBILITY OF THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements in Section 245a UGB (Austrian Business Code) and 59a BWG (Austrian Banking Act) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, and, where appropriate, to disclose matters that are relevant to the Group's ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Group or closure of operations is planned or cases in which such measures appear unavoidable.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITY

Our aim is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatements, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered material if they could, individually or in the aggregate, reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit..

Moreover:
– We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation or override of internal control.
– We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
– We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as related disclosures made by management.
– We conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. In case we conclude that there is a material uncertainty about the Group's ability to continue as a going concern, we are required to draw attention to the respective note in the financial statements in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions, however, may result in the Group departing from the going concern assumption.
– We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
– We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
– We communicate with the audit committee regarding, among other matters, the planned scope and timing of our audit as well as significant findings including any significant deficiencies in internal control that we identify in the course of our audit.
– We report to the audit committee that we have complied with the relevant professional requirements in respect of our independence and that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, related measures taken to ensure our independence.
– From the matters communicated with the audit committee we determine those matters that required significant auditor attention in performing the audit and which are therefore key audit matters. We describe these key audit matters in our audit report except in the circumstances where laws or other legal regulations forbid publication of such matter or in very rare cases, we determine that a matter should not be included in our audit report because the negative effects of such communication are reasonably expected to outweigh its benefits for the public interest.

REPORT ON OTHER LEGAL REQUIREMENTS
Group Management Report

In accordance with Austrian Generally Accepted Accounting Principles the group management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether it has been prepared in accordance with legal requirements.

The legal representatives of the Company are responsible for the preparation of the group management report in accordance with Austrian Generally Accepted Accounting Principles.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

Opinion

In our opinion, the group management report has been prepared in accordance with legal requirements, includes appropriate disclosures pursuant to Section 243a UGB (Austrian Business Code) and is consistent with the consolidated financial statements.

Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and the understanding of the Group and its environment, we did not note any material misstatements in the group management report.

OTHER INFORMATION

The legal representatives of the Company are responsible for other information. Other information comprises all information provided in the annual report, with the exception of the consolidated financial statements, the group management report, and the auditor's report thereon.

Our opinion on the consolidated financial statements does not cover other information, and we will not provide any kind of assurance on it.

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, and to assess whether it contains any material inconsistencies with the consolidated financial statements and our knowledge gained during our audit, or any apparent material misstatement of fact. Should we, based on the preformed audit, come to the conclusion that the other information is materially misstated, we would have to report this fact. In this regard, we have nothing to report.

AUDITOR IN CHARGE

The auditor in charge is Mr. MMag. Dr. Peter Fritzer.

Klagenfurt, 10. March 2017

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

MMag. Dr. Peter Fritzer
Wirtschaftsprüfer
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid. The consolidated finanicial statements together with our auditor's opinion may only be published if the consolidated financial statement and the group management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Business Code) applies.

ADDITIONAL NOTES

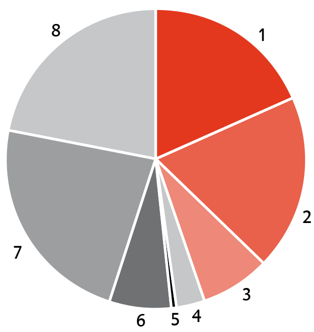
SHAREHOLDERS OF 3 BANKEN GROUP

SHAREHOLDERS OF BKS BANK AG

The red highlighting indicates shareholders who have signed syndicate agreements.

in % €	by voting share	by share
1 Oberbank AG	19.36%	18.52%
2 Bank für Tirol und Vorarlberg Aktiengesellschaft	19.50%	18.89%
3 Generali 3Banken Holding AG	7.80%	7.44%
4 Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	3.09%	2.99%
5 BKS-Belegschaftsbeteiligungsprivatstiftung	0.42%	0.71%
6 UniCredit Bank Austria AG	6.10%	6.63%
7 CABO Beteiligungsgesellschaft m.b.H.	24.25%	23.15%
8 Free float	19.47%	21.67%

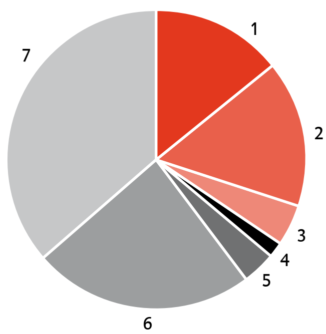
Share capital in EUR	**79,279,200**
Number of ordinary no-par shares	37,839,600
Number of no-par preference shares	1,800,000



SHAREHOLDERS OF OBERBANK AG

in % €	by voting share	by share
1 BKS Bank AG	15.21%	14.21%
2 Bank für Tirol und Vorarlberg Aktiengesellschaft	16.98%	15.88%
3 Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	4.90%	4.50%
4 Generali 3Banken Holding AG	1.93%	1.76%
5 Staff shares	3.72%	3.59%
6 CABO Beteiligungsgesellschaft m.b.H.	25.97%	23.76%
7 Free float	31.29%	36.30%

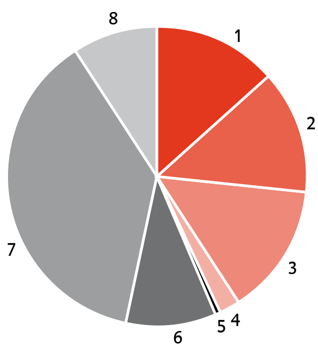
Share capital in EUR	**105,921,900**
Number of ordinary no-par shares	32,307,300
Number of no-par preference shares	3,000,000



SHAREHOLDERS OF BANK FÜR TIROL UND VORARLBERG AG

in % €	by voting shares	by share
1 BKS Bank AG	14.95%	13.59%
2 Oberbank AG	14.54%	13.22%
3 Generali 3Banken Holding AG	15.44%	14.03%
4 Wüstenrot Wohnungswirtschaft reg. Gen. m.b.H.	2.59%	2.35%
5 BTV Privatstiftung	0.40%	0.45%
6 UniCredit Bank Austria AG	5.42%	9.85%
7 CABO Beteiligungsgesellschaft m.b.H.	41.29%	37.53%
8 Free float	5.37%	8.98%

Share capital in EUR	**55,000,000**
Number of ordinary no-par shares	25,000,000
Number of no-par preference shares	2,500,000



HISTORY OF OUR COMPANY

1922
A. v. Ehrfeld enters into a limited partnership with Bayerische Hypotheken- und Wechselbank called Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co. The bank is headquartered in Klagenfurt.

1928
The efforts to transform the limited partnership into a stock corporation result in the establishment of Bank für Kärnten.

1939
The company's name is changed from Bank für Kärnten to Bank für Kärnten Aktiengesellschaft.

1964
Work on the branch network commences.

1983
With the expansion into Styria, the company name is changed to "Bank für Kärnten und Steiermark Aktiengesellschaft" (abbreviation: BKS).

1986
The bank goes public and the BKS ordinary share is listed on the Official Market of the Vienna Stock Exchange.

1990
First branch opens in Vienna.

1998
Start of international expansion with the establishment of a representation office in Croatia and the acquisition of a leasing company in Slovenia.

2000
First joint appearance of BKS Bank with the sister banks as the 3 Banken Group.

2003
Acquisition of a majority stake in Die Burgenländische Anlage & Kredit Bank AG (Die BAnK).

2004
First branch opens in Slovenia and representation office established in Italy.

2005
A representation office is set up in Hungary. The company name is adapted to the expansion of the past few years and is renamed BKS Bank AG.

2007
Acquisition of Kvarner banka d.d. and entry into the Croatian banking market. Acquisition of "KOFIS Leasing" in Slovakia.

2011
Market entry in the Slovak banking market with the opening of a branch in Bratislava.

2014
BKS Bank is awarded the title "EFQM Recognised for Excellence 5*" and included in the "List of Excellent Companies" in Austria.

2015
The renowned rating agency oekom research AG confirmed BKS Bank's "prime" status. The bank is thus one of the industry's global leaders in sustainability.

2016
BKS Bank ordinary shares are added to the sustainability index, VÖNIX, of the Vienna Stock Exchange. The Croatian BKS Bank d.d. is merged with BKS Bank AG.

GLOSSARY

ALM Committee
The Asset/Liability Management Committee is an internal committee of BKS Bank responsible for managing the structure of the balance sheet and liquidity.

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

Available-for-sale (AFS) financial assets
Available-for-sale (AFS) financial assets are the financial assets of an entity that are designated as available for sale.

Banking book
The banking book contains all on-balance sheet and off-balance sheet items recognized in a bank's financial statements that are not assigned to the trading book.

BaSAG
BaSAG(Bundesgesetz zur Sanierung und Abwicklung von Banken: Austrian Bank Recovery and Resolution act) implements the Recovery and Resolution Directive for Banks and Securities Firms (see also BRRD) according to which Europe has jointly agreed new bank resolution rules. As part of the preventive measures, banks are required to prepare preventative recovery plans and disclose what action they intend to take if their financial position deteriorates. These plans must be examined and evaluated by the competent regulatory authority (in Austria, Financial Market Authority, FMA). The resolution plans that are to be prepared by the FMA must state how a bank's orderly resolution or restructuring is to take place. In addition, the regulatory authority has been given extensive powers of intervention. Among other things, it can require the holding of additional equity capital and order the implementation of measures and arrangements in the recovery plan.

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). On 23 November 2016, the European Commission published a draft amendment to CRD IV and CRR I. The main changes of the amendment refer to the rules for determining the net stable funding ratio (NSFR), changes to the method of determining market risk and modifications to the calculation of counterparty default risk (SA-CRR).

Basis of assessment
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 banking regulations.

BRRD
The Bank Recovery and Resolution Directive (2014/59/EU) has created the legal framework for crisis management in the financial sector. The aim is to make it possible to wind up every bank, regardless of its size or complexity, without endangering the stability of the financial market.

Business model pursuant to IFRS 9
Financial instruments must be assigned to a business model pursuant to IFRS 9. The business model defines how the financial instruments are managed and measured. In IFRS 9, a difference is made between the business models “hold to collect”, “hold to collect and sell” and “other”.

Capital Requirements Directive IV
The Capital Requirements Directive IV (CRD IV) prepares the ground for a more solid and secure European financial system. The Member States were required to pass this Directive into national law by 31 December 2013. However, all competing provisions and those that were not consistent with the regulation (CRR) had to be removed from existing national legislation. In Austria, the major the changes to the law were in the Banking Act (BWG) and in the related supervisory regulations which were comprehensively amended.

Capital Requirements Regulation (CRR I)
The Capital Requirements Regulation (CRR 1), which is directly effective in Austria’s legal system, introduced a common minimum set of instruments for national supervisory authorities and, therefore, binding regulations for all Member States, including provisions on own funds components, capital requirements, large loans (large investments), liquidity, debt (leverage) and disclosure regulations.

Common Equity Tier 1 capital (CET1):
Common Equity Tier 1 is divided into Common Equity and Additional Tier 1 capital. Common Equity Tier 1 capital consists of share capital, retained earnings and other reserves. The additional components of Tier 1 capital include liabilities evidenced by paper that meet the requirements of CRR Article 52.

Consolidated entities
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**.**

Corporate Social Responsibility (CSR)
Corporate Social Responsibility is an entrepreneurial practice that combines social justice and ecological responsibility with economic goals: systematic, verifiable, transparent and voluntary.

Corporate Volunteering
Corporate Volunteering refers to the voluntary work of employees in social projects as well as support for the volunteer work employees already engage in.

Cost/income ratio
The cost/income ratio measures the relation between operating expenses and operating income of banks. In this context, the general administrative expenses of a financial year are compared with the operating income of the bank. Operating income results from the sum of net interest income and net fee and commission income, trading result and other operating profit. This indicator states the percentage of operating profit used for general administrative expenses and provides information on cost management and cost efficiency. The lower the ratio, the more economically a company operates.

Counterbalancing capacity (CBC)
Counterbalancing capacity in the name of the liquidity buffer made up of assets that are easily liquidated or eligible for repo transactions.

Credit spread
The credit spread is the risk premium and the difference in yield between an interest-bearing security and a risk-free reference interest rate with the same maturity. The credit spread risk is the risk of changes to the creditworthiness and/or risk premium-induced changes in the market price of the securities portfolio with a reference to the interest rate.

DBO
DBO stands for defined benefit obligation, which is the value of an obligation under a company pension plan based on the projected unit credit method.

Derivatives
Derivatives are financial instruments whose own value changes in response to changes in the market prices or expected prices of other financial instruments. They can therefore be used both to hedge against a drop in value or to speculate on gains in the value of the underlying. Options, futures and swaps are the most common types of derivatives.

Endorsement by the EU
An endorsement is required for new International Financial Reporting Standards to be applicable in Austria. This endorsement refers to a process in which the European Union adopts the International Financial Reporting Standards.

Equity method
Entities accounted for using the equity method are entities in which equity investments are held that are not controlled, but upon whose financial and business policy decisions a significant influence can be exercised. These are recognized in the consolidated financial statements on pro rata basis with the amount of the equity in the company. In the consolidated income statement, the group's interest in their net profit is recognized according to the equity interest held.

Fair value
Fair value is defined as the amount for which an asset could currently be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Insofar as market prices exist on exchanges or other functioning markets, these are taken to be the fair value of an asset or liability.

FATF
FATF (Financial Action Task Force on Money Laundering) is an international anti-money laundering body based at the OECD in Paris. Its task is to analyze money laundering and terrorism financing methods and develop measures to combat them.

Forbearance
Forbearance is the term for concessions made to debtors (e.g. modifications of agreements) if they are in danger of no longer 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.

GDP
GDP is the total value of all goods (i.e. goods and services) produced in an economy in a year less all inputs. In order to view GDP without the effect of changes in prices, one uses 'real' GDP, where all good and services are valued at the prevailing prices in a base year.

FATCA
The United States Congress enacted FATCA (the Foreign Account Tax Compliance Act) on 18 March 2010 to ensure that US subjects with accounts abroad meet their tax obligations. Under the act, all banks are obliged to identify customers with US ties and, if they consent, to report their names to the US tax authorities.

Going-concern principle
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.

Hedging
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.

Held-to-maturity financial assets (HtM)
Held-to-maturity financial assets are financial instruments acquired with a certain maturity and specified interest payments. These are intended to be held until maturity.

Historical simulation
Historical simulation is a statistical method for measuring value at risk using historical time series data.

IFRS earnings per share
IFRS earnings per share are consolidated profit for the year after tax divided by the average number of an entity's shares in issue.

ICAAP (Internal Capital Adequacy Assessment Process)
ICAAP is the name of the extensive process and associated strategy by which banks decide the amount, composition and distribution of their (internal) capital resources. The

distribution of economic capital steers and limits all the material operational and other banking risks.

ILAAP (Internal Liquidity Adequacy Assessment Process)
ILAAP is, apart from ICAAP, a procedure for assessing the adequacy of internal liquidity pursuant to pillar 2 and thus an important risk management instrument for a credit institution.

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

International Standards on Auditing (ISA)
The International Standards on Auditing are internationally accepted standards for carrying out annual audits that must be adhered to in accordance with the International Financial Reporting Standards (IFRS). They are published in the annual manual of the International Federation of Accountants (IFAC).

ISIN
ISIN stands for International Securities Identification Number. The ISIN is used for the unique global identification of securities and replaced the national system of securities identification in 2003. An ISIN is a 12-character alphanumerical code comprising a two-character international country ID (e.g. AT for Austria), a nine-character national code and a one-digit control key. The ISIN of the ordinary BKS Bank AG share is AT0000624705; that of the preference share is AT0000624739.

LAR
LAR stands for loans and receivables.

Leverage ratio
The leverage ratio measures the relationship between Common Equity Tier 1 capital and non-risk weighted assets inclusive of off-balance sheet items. Its purpose is to restrain business models that are based on lending large amounts to prime borrowers while keeping capital charges to a minimum.

Lifetime Expected Loss
Lifetime expected losses are the expected credit losses caused by all possible default events over the expected life of a financial instrument.

Liquidity coverage ratio (LCR)
The Basel Committee implemented the minimum liquidity coverage requirement to ensure that a bank always has short-term liquidity in a stress situation lasting for 30 days. This is to be achieved by making sure that the net cash outflows under stress–know as a bank's liquidity shortfall–are covered by a liquidity buffer consisting of highly liquid quality assets.

Loan-to-deposit ratio

The loan-to-deposit ratio is the relationship between loans to primary deposits. This indicator describes the percentage at which loans can be refinanced by primary deposits.

Market capitalization

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.

Maturity transformation

Maturity transformation is the professional management of differing maturities and the associated differences between the rates of interest receivable and payable on assets and liabilities on a bank's balance sheet while taking account of current and expected market interest rate curves and maturity structures.

MiFID, MiFID II

MiFID and MiFID II (Markets in Financial Instruments Directives) lay down uniform rules for investment services provided within the European Economic Area. The MiFID regulations were adopted in response to the financial crises of the past years and have the primary goal of increasing market transparency and promoting competition among providers of financial services, thereby improving investor protection. MiFID II addresses numerous weaknesses and shortcomings in the existing rules and regulations. It focuses on trade on regulated platforms and on increasing the transparency of high frequency trading. In view of the enormous technical challenges it presents, the MiFID requirements become effective as of 3 January 2018.

Minimum Requirement for Eligible Liabilities (MREL)

Minimum requirement for own funds and eligible liabilities pursuant to Art. 45 BRRD. EU Member States must ensures that credit institutions at all times meet the minimum requirements for own funds and eligible liabilities in the event of winding up.

Modified duration

Modified duration is a measure of the sensitivity of a financial investment to interest rates. It provides a means of approximating future changes in market value.

Net stable funding ratio (NSFR)

This structural ratio gauges the stability of funding over a horizon of more than one year. It is part of the new liquidity requirements. The NSFR is designed to ensure that the amount of longer-term (stable) funding employed is at least sufficient relative to the liquidity profiles of the assets funded. The aim is to reduce banks' dependence on the functioning and liquidity of the inter-bank market.

NFC

NFC is the abbreviation for near field communication. A NFC card enables the contactless payment of small amounts of up to EUR 25. This payment procedure is faster than the conventional one. Data which was read otherwise by entering the card into the terminal is now transmitted by radio wave.

ÖNACE
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
Over the counter derivatives are financial instruments traded off the stock exchange floor directly between market participants.

Payment Services Directive
The Payment Services Directive (PSD, PSD II) provides the legal basis for creating a single market for payments in the EU.

Price/earnings ratio
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.

Primary deposit balances
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.

Projected unit credit method
The projected unit credit method is an actuarial valuation method used to measure obligations under company retirement benefit schemes stipulated in the international financial reporting standard IAS 19 and in many foreign accounting standards. Only the portion of the obligation already earned is assessed on every valuation cutoff date. The present value of the earned part of the obligation is known as the defined benefit obligation.

Random walk simulation
The random walk simulation is a mathematical model for a random movement derived from a historic time-series.

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

Return on equity (ROE)
The return on equity (ROE) before or after tax expresses the relationship between profit before or after tax and average equity. This indicator describes the returns earned on equity by a company. The higher the indicator, the more profit the company has made in relation to its equity.

Risk/earnings ratio (RER)
This ratio states what proportion of net interest income has been used to cover credit risk.

Solvency
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 governed in the CRR.

SPPI criterion
The SPPI criterion is used for the classification and assessment of financial instruments. SPPI stands for "solely payment of principal und interest" and is used to determine the contractually-agreed payment flows of a financial asset. SPPI conformity means that the interest reflects the charge for the time value of money, for the default risk and for other fundamental risks, for the costs of the loan transaction and the profit margin. The details of the SPPI criterion in combination with the business model results in a specific classification and assessment pursuant to IFRS 9.

Supervisory Review and Evaluation Process (SREP)
Under the Pillar 2 framework of the New Basel Capital Accord (bank supervision review process), the Supervisory Review and Evaluation Process is part of the process of reviewing and evaluating a bank's risk management and the adequacy of its ICAAP alongside the internal capital adequacy assessment process itself. In Austria, it is carried out in respect of less significant banks by the FMA as the competent supervisory authority. It also includes reviewing adherence to all the relevant regulations, identifying breaches and imposing regulatory sanctions.

Swap
Parties to a swap exchange financial obligations, fixed-interest obligations being exchanged for variable ones (interest rate swap) or sums in various currencies being exchanged (currency swap). Interest rate swaps make it possible to hedge against interest rate risks, resulting in a fixed interest rate that provides a solid foundation for calculations. Currency swaps make it possible to hedge against foreign exchange risks by swapping amounts denominated in different currencies together with the associated interest payments.

Trading book
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 buy and sell prices or movements in prices or interest rates. Positions not included in the trading book are assigned to the banking book.

Unwinding
Unwinding means capturing the change in the present value of impaired receivables as interest income.

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

12-month expected loss
Expected credit losses that may occur in a financial instrument within 12 months of the date of the transaction.

LIST OF ABBREVIATIONS

ABGB	Allgemeines Bürgerliches Gesetzbuch (Austrian Civil Code)
AfA	Absetzung für Abnutzung (depreciation and amortization)
AfB	“Arbeit für Menschen mit Behinderung”; mildtätige und gemeinnützige GmbH
AFRAC	Austrian Financial Reporting and Auditing Committee
AfS	Available-for-sale financial assets
AktG	Aktiengesetz (Austrian Stock Corporation Act)
ALGAR	ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H.
AML	Anti-money laundering
APA-OTS	APA-OTS Originaltext-Service GmbH
ALM	Asset/liability management
	Austrian Act Amending Audit Regulations of 2016 (APRÄG 2016)
AR	Aufsichtsrat (Supervisory Board)
ATS/öS	Austrian schilling
ATX	Austrian Traded Index (Austrian equity index)
AT1	Additional Tier 1 capital
AVM	Aktives Vermögensmanagement (active asset management)
AVÖ	Aktuarvereinigung Österreichs
BaSAG	Bundesgesetz zur Sanierung und Abwicklung von Banken (Austrian Bank Recovery and Resolution act)
BCBS	Basel Committee on Banking Supervision
BIP	Bruttoinlandsprodukt (gross domestic product)
BörseG	Börsegesetz (Austrian Stock Exchange Act)
BP	Basis point
BRRD	Bank Recovery and Resolution Directive
BSG	BKS Service GmbH
BTV AG	Bank für Tirol und Vorarlberg Aktiengesellschaft
BWG	Bankwesengesetz (Austrian Banking Act)
CBC	Counterbalancing capacity
CET1	Common Equity Tier 1 capital
CFT	Combating the Financing of Terrorism
CHF/SFr	Swiss franc
CIA©	Certified Internal Auditor
CIR	Cost/income ratio
CNY	Chinese renminbi
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRD IV	Capital Requirements Directive IV
C-Rules ‘	Comply or Explain rules of the Code of Corporate Governance (ÖCGK)
CRR	Capital Requirements Regulation
CRS	Common Reporting Standards
CSR	Corporate social responsibility
DAX	Deutscher Aktienindex (German equity index)
DBO	Defined benefit obligation
DCF method	Discounted cash flow method
DJ EUR Stoxx 50	Dow Jones EURO Stoxx 50
DJIA	Dow Jones Industrial Average
EAP	Employee Assistance Programme
EBA	European Banking Authority
ECV	Emittenten-Compliance-Verordnung (issuer compliance regulation of the

FMA	Austrian Financial Marked Authority
EFQM	European Foundation for Quality Management
ELBA	Electronic banking
ESCB	European System of Central Banks
EUREX	European Exchange (derivatives exchange)
EU-RL	EU Richtlinie (EU Directive)
Eurostat	Statistical office of the European Union
EU-VO	EU-Verordnung (EU Regulation)
EWB	Einzelwertberichtigung (individual impairment charge)
ECB	European Central Bank
FASB	Financial Accounting Standards Board
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force on Money Laundering
FBSchVG	Fundierte Bankschuldverschreibunggesetz (Austrian Covered Bonds Act)
FED	Federal Reserve System
FinTechs	Company in the financial technology industry
FMA	Austrian Financial Market Authority
FMVÖ	Finanz-Marketing Verband Österreich
FSC	Forest Stewardship Council
FTE	Full time equivalent
FV	Finanzielle Vermögenswerte (financial assets)
FX-Quote	Fremdwährungsquote (foreign exchange ratio)
GA	Granularity adjustment
GBP/£	Pound sterling
GC	General collateral
GRI	Global Reporting Initiative
GuV-Rechnung	Gewinn- und Verlustrechnung (income statement)
GWh	Gigawatt hour
HQLA	High quality liquid assets
HRK	Croatian kuna
HtM	Held to maturity
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IAS	International Accounting Standard
IC	IFRIC Interpretations Committee
ICAAP	Internal Capital Adequacy Assessment Process
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IKS	Internes Kontrollsystem (internal control system)
ILAAP	Internal Liquidity Adequacy Assessment Process
IR	Investor relations
ISA	International Standards on Auditing
ISIN	International Securities Identification Number
iVV	individuelle Vermögensverwaltung (individual asset management)
JÜ v. St.	Jahresüberschuss vor Steuern (profit for the year before tax)
KAG	Kapitalanlagegesellschaft (asset management company)
KGV	Kurs-Gewinn-Verhältnis (P/E ratio)
KMU	Kleine und mittlere Unternehmen (SMEs: small and medium-sized enterprises)

KR	Kommerzialrat
KStG	Körperschaftsteuergesetz (Austrian Corporation Tax Act)
LAR	Loans and receivables
LCR	Liquidity coverage ratio
LR	Leverage ratio
L-Rules	'Legal Requirement' rules of the Code of Corporate Governance (ÖCGK)
MiFID; MiFiD II	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MOEL-Staaten	mittel- und osteuropäische Staaten (Central and East European countries CEEC)
MSCI World	Equity index published by US American financial service provider Morgan Stanley Capital International Inc.
NSFR	Net stable funding ratio
ÖCGK	Österreichischer Corporate Governance Kodex (Austrian Code of Corporate Governance)
OECD	Organization for Economic Cooperation and Development
OeKB	Oesterreichische Kontrollbank AG
OeNB	Oesterreichische Nationalbank (central bank of the Republic of Austria)
OePR	Österreichische Prüfstelle für Rechnungslegung
ÖGVS	Österreichische Gesellschaft für Verbraucherstudien
ÖNACE	Austrian version of NACE (Nomenclature statistique des activités économiques dans la Communauté européenne)
OPEC	Organization of Petroleum Exporting Countries
OR Committee	Operational Risk Committee
OTC products	Over-the-counter products
PD	Probability of default
PJ	Personaljahre (person-years)
PSD	Payment Services Directive
RÄG	Rechnungslegungs-Änderungsgesetz 2014 (Financial Disclosure Amendment Act 2014)
Repo	Repurchase agreement
RER	Risk/earnings ratio
ROA	Return on assets
ROE	Return on equity
R-Rules	'Recommendations' rules of the Code of Corporate Governance (ÖCGK)
RTU	Risk-taking units
SIC	Standing Interpretations Committee
SPPI criterion	Solely payments of principal and interest
SREP	Supervisory Review and Evaluation Process
UGB	Unternehmensgesetzbuch (Austrian Business Code)
USD	US dollar
USD/bbl	US dollar/barrel
USD/Oz	US dollar/ounce
VAR	Value at risk
VStG	Verwaltungsstrafgesetz (Austrian Administrative Fines Act)
Vst.-Vors.	Vorstandsvorsitzende (Chairwoman of the Management Board)
WAG	Wertpapieraufsichtsgesetz (Austrian Securities Supervision Act)
WIFO	Österreichisches Institut für Wirtschaftsforschung
Xetra	Electronic trading system of Deutsche Börse AG also used in Vienna
ZCR/RC	Controlling Department (Risk Controlling)
ZEA	Proprietary Trading and International Operations Department
ZKM	Credit Management Department
ZVB	Office of the Management Board
3BEG	DREI-BANKEN-EDV Gesellschaft m.b.H.

FORWARD-LOOKING STATEMENTS

This annual report contains statements and forecasts that refer to the future development of the BKS Bank Group. The forecasts are our estimates based on the information at our disposal on the copy deadline date 10 March 2017. Should the assumptions on which the forecasts are based fail to materialize or the risks described in the risk report occur, the actual results may differ from those currently expected. This annual report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

PUBLICATION INFORMATION

Published by:	BKS Bank AG St. Veiter Ring 43, 9020 Klagenfurt am Wörthersee, Austria Phone: +43 (0) 463 5858-0 Fax: +43 (0) 463 5858-329 BIC: BFKKAT2K 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:	gantnerundenzi.at
Photographs:	Gernot Gleiss, Thomas Schrott (only page 46)
Graphic art:	boss grafik, Sigrid Bostjancic
Website references:	The information on the BKS website is available only in German.
Printing and lithography:	Christian Theiss GmbH
Paper:	printed on Munken Lynx, Naturpapier wood-free

MIX
Papier aus verantwortungsvollen Quellen
FSC® C012536

ClimatePartner
klimaneutral
Druck | ID 10944-1703-1001

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