BKS Bank

Sucess in Numbers

Annual Report 2021

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00. *Numbers Tell Stories*

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There is good reason to celebrate at BKS Bank. It is our 100th anniversary! And because 100 is such a beautiful round number, we are using this occasion to document our success in numbers. Numbers tell the truth. Numbers, data and numerical facts are very important in the banking business. They are the ultimate measure of success in positioning, business policy, continuity, crisis management and marketing strategies. We let the numbers speak for themselves. Because numbers tell stories and document history.

1932

1930

1969
ATS 23.4 million Medium-term notes

Volume of the first medium-term notes issued: ATS 23.4 million.

1952
ATS 10 million share capital

The share capital was increased at the end of 1952 from ATS 3 million to ATS 10 million.

1964
200 employees

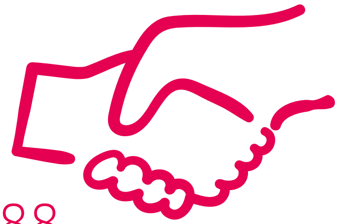
Thanks to the solid business trend, we employed 200 persons for the first time.

1970
ATS 250 million 3 Banken bonds

The first 3 Banken bond issue was a great success. The original issuing volume of ATS 200 million was topped up to ATS 250 million.

1928

1987



1988

ATS 100 million Net fee and comission income

Net fee and comission income exceeds ATS 100 million for the first time.

1978

ATS 5.0 billion in loans

Lending volume increased again in 1978 and exceeded the ATS 5 billion threshold for the first time.

1962

1979

ATS 10 billion in total assets

The new branches in Carinthia were a boost for business. Total assets rose to ATS 100 billion for the first time.

1956

1980

1971

1993

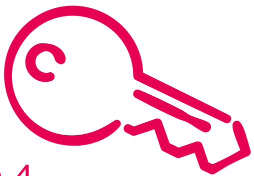
1991
800 employees

The number of employees grew constantly and by the beginning of the 1990s it reached 800.

2000
12,500 Savings cards

This very popular savings form became a practical supplement to the classic savings passbook on the market. By the end of 2000, 12,500 savings cards had been issued.

1992



1994
200 jobs at our Head Office

The new BKS Bank Head Office bundles all central functions and is the workplace for almost 200 employees. A new event hall provides space for up to 230 guests.

199

2005
50 branches

In 2005, we operated 50 branches.

1998

2002

2011

2005

2014

EUR 5 billion Primary deposits

In 2014, we managed customer assets of EUR 5 billion.

2007

EUR 100 million Net interest income

A key contributor to earnings is net interest income. 2007 we surpassed EUR 100 million.

97

2000

2008

100,000 building society savings accounts

In September 2008, we celebrated the 100,000th building society savings account opened.

2018

25,000 new customers

In March 2018, we acquired 25,000 customers from ALTA-Invest. This makes BKS Bank the largest investment services provider in Slovenia.

2024

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Minimal deviations of the values in the tables and charts are due to rounding differences. This Annual Report is an unaudited translation from German into English. In the event of any discrepancies, the German version shall prevail.

Three-year performance comparison

Income Statement in €m	*2019*	*2020*	*2021*
Net interest income	135.8	136.5	138.9
Impairment charges	-18.6	-25.0	-32.4
Net fee and commission income	58.2	64.3	67.1
General administrative expenses	-121.0	-123.2	-125.3
Profit for the period before tax	103.1	84.9	92.9
Profit for the period	92.9	74.8	80.8
Balance sheet in €m			
Total assets	8,857.6	9,856.5	10,578.0
Receivables from customers after impairment charges	6,288.1	6,570.0	6,958.6
Primary deposits	6,668.3	7,399.3	8,116.0
• thereof savings deposits	1,413.5	1,401.7	1,351.2
• thereof securitised liabilities incl. subordinated debt capital	854.4	857.0	973.5
Shareholders' equity	1,301.5	1,362.7	1,459.3
Customer funds under management	18,548.0	18,958.5	21,222.8
• thereof on custody accounts	11,879.7	11,559.2	13,106.9
Own Funds pursuant to CRR in €m			
Total risk exposure amount	5,449.6	5,664.1	5,943.8
Own funds	881.4	916.1	983.8
• thereof common equity tier 1 (CET1) capital	629.6	669.3	709.5
• thereof total tier 1 capital (CET1-AT1)	690.8	725.2	774.7
Tier 1 capital ratio (in %)	12.7	12.8	13.0
Total capital ratio (in %)	16.2	16.2	16.6
Performance Ratios			
Return on equity after tax	7.4	5.6	5.7
Return on assets after tax	1.1	0.8	0.8
Cost/income ratio (expenses/income coefficient)	50.7	53.9	51.1
Risk/earnings ratio (credit risk/net interest income)	10.2	18.3	23.3
Non-performing loan ratio (NPL ratio)	2.4	1.7	2.2
Net stable funding ratio (NSFR)	112.4	117.2	122.9
Liquidity coverage ratio (LCR)	151.8	158.1	208.9
Leverage ratio	7.8	8.0	8.2
Resources			
Average number of staff	962	963	986
Number of branches	63	64	64
BKS Bank's Shares			
Number of no-par ordinary shares (ISIN AT0000624705)	41,142,900	41,142,900	42,942,900
Number of ordinary no-par shares ISIN (AT0000A2HQD1)	-	1,800,000	-
Number of no-par preference shares ISIN (AT0000624739)	1,800,000	-	-
High (ordinary/ordinary-conversion/preference share) in €	17.2/-/17.0	16.0/13.6/15.0	16.7/13.8/-
Low (ordinary/ordinary-conversion/preference share) in €	15.0/-/13.4	11.3/11.8/10.3	11.3/13.5/-
Close (ordinary/ordinary-conversion/preference share) in €	16.0/-/14.3	12.5/13.6/-	15.3/-/-
Market capitalisation in €m	684.0	538.8	657.0
Dividend per share in EUR	0.12	0.12	0.23[1)]
Price/earnings ratio ordinary/preference share	7.4/-/6.7	7.3/7.9/-	8.3/-/-

[1)] Proposal to the 83rd Annual General Meeting of BKS Bank AG on 25 May 2022.

01.
Preface by the Chairwoman of the Management Board

01

Dear Readers,

In February 1922, Kärntner Kredit- und Wechselbank Ehrfeld & Co opened for business and laid the foundation for today's BKS Bank. One hundred years later, after the modest beginnings of the bank, it is now an international credit institution with subsidiaries in five countries and total assets of over EUR 10 billion. Our business philosophy has always been based on the understanding that growth should be healthy and self-sustaining so as to not jeopardize our autonomy and independence. We have never lost sight of this goal, even though we have repeatedly seen setbacks such as most recently the case of fraud by an employee at the Croatia Branch and the outbreak of the Ukraine war.

The 2021 financial year was very successful in operational terms. We saw robust growth in net interest income and in net fee and commission income. The risk situation remained largely stable in the 2021 financial year, with the anticipated surge in insolvencies caused by the pandemic fortunately failing to materialize. As at 31 December 2021, consolidated net profit for the year after tax was EUR 80.8 million, which is an increase of 8.0% compared to the preceding year.

The key indicators were also quite pleasing at the end of 2021. Total assets were EUR 10.6 billion, exceeding the preceding year's figure by 7.3%. Loans and advances to customers were nearly EUR 7.0 billion and primary deposit volumes broke a new record at EUR 8.1 billion.

Furthermore, we worked intensely to implement our strategic programme in the financial year 2021. The main focus was on the two mega trends of digitization and sustainability.

Digital transformation on track

The digital transformation of the entire organization is already far advanced. Our customers can now conduct all important banking transactions online. The number of users of the digital customer portals MyNet and BizzNet have surged, and the digital bank – BKS Bank Connect – offers digitally-inclined customers a point of contact and perfectly complements the branch network. In the reporting year, we enlarged our digital offers to include an account for start-ups. At the same time, we also focused on improving efficiency within the bank. The digital sales assistant Vera makes it easier for our account managers to manage sales tasks and also reduces processing times. In back office operations, software robots take over specific standardized tasks, and this will increase in the coming months.

Sustainable success

Digitization also helps us achieve our sustainability goals. In 2021, for example, we exchanged more than 1.2 million documents – some of them several pages long – with customers via the customer portals. A new energy efficiency management system permits better control of electricity and heat consumption at the head office. The digital communication options and video conferencing also reduce the number of trips to and from the branches. We now generate 80,000 kWh of renewable energy per year with four photovoltaic systems and completed our first two green buildings, the BKS Holzquartier and Urban Living.

Demand for sustainable products continues unabated. We expanded the volume of sustainable products by 32% up to EUR 764.5 million. The two green bonds we issued in the reporting year also contributed to this positive trend.

We have also made progress in other projects that bring us closer to climate neutrality. We are proud, for example, to have aligned our treasury portfolio more closely with the Paris Agreement climate goals. Through portfolio switching, we have reduced carbon emissions from 138 t CO_2/1 million $ turnover to 105 t CO_2/1 $ million turnover. The implementation of the EU Taxonomy Regulation was also a major item on our agenda. The development of software to support the complex audit process is well advanced.

Sustainable excellence

These activities are just a small part of what we do every day to maintain our status as a leader in sustainability. Therefore, I am very pleased about the external recognition we received on several occasions in 2021:

- We received the Sustainability Award conferred by the Vienna Stock Exchange.
- BKS Bank again successfully completed the EMAS certification.
- Our Sustainability Report 2020 won the Austrian Sustainability Reporting Award for excellent reporting.
- We have also once again received the quality label for workplace health promotion.

BKS Bank brand is highly acclaimed

In a customer satisfaction survey conducted in the autumn, our customers gave us an excellent score of 1.5 on a five-tier scale for overall satisfaction. The recommendation rate increased from 29% to 36% and our digital products and services were also given top marks.

War in Ukraine is eroding confidence

We started the jubilee year optimistically looking forward to a good year. However, the positive start of the year was plunged into gloom by the geopolitical developments in Ukraine.

For many years, we were certain that war in Europe had become unthinkable. Russia's attack on the Ukraine has made us painfully aware that the threat of war in Europe has not been averted. Our thoughts are with all those people who are experiencing so much suffering as a result of this senseless war. BKS Bank is not directly affected by the war, because we have no exposures in Russia or Ukraine. However, we expect that the indirect consequences will also affect our bank. For example, Sberbank Europe AG already has a deposit guarantee case that affects all banks in Austria. The impacts on our customers are still difficult to assess. We hope that the peace negotiations will result in an early end to the war.

Our loyalty to our customers, partners and employees means that we must always look ahead. We have often been faced with major challenges, but we have always managed to steer BKS Bank safely and with a steady hand through stormy times. This is what we will focus on in the coming months.

My thanks go to our dedicated employees for their tireless hard work. I would also like to express my appreciation to our customers for their loyalty and the trust placed in the BKS Bank. And our special thanks goes to our esteemed shareholders for their investments and loyalty to BKS Bank.

Cordially,

Herta Stockbauer
Chairwoman of the Management Board

02

02. Corporate Governance Report

Corporate Governance at BKS Bank

At BKS Bank, we are committed to the principles of good and responsible corporate governance as defined in the Austrian Code of Corporate Governance (ÖCGK). We are also committed to social and environmental responsibility towards our shareholders, customers, employees and the general public. Our sustainability strategy defines the principles of our highly responsible business policy.

Austrian Code of Corporate Governance (ÖCGK)

The Austrian Code of Corporate Governance (ÖCGK) provides listed companies with a self-regulatory framework for the governance of their companies, supplementing existing legislation regarding joint-stock companies, stock exchanges and capital markets. The aim of ÖCGK is to establish responsible corporate management and controls guided by the aspiration to create long-term value. The Code is designed to create a high level of transparency for all stakeholders: shareholders, business partners, customers and employees alike.

Principles such as the equal treatment of all shareholders, transparency, independence of supervisory board members, open communication between supervisory board and management board, avoidance of conflicts of interest as well as monitoring by the supervisory board and auditors have the aim of strengthening the confidence of investors and customers in the bank and in Austria as a centre of finance.

The standards for responsible corporate governance are grouped into three categories: The L Rules (Legal Requirements) – these rules are based on mandatory legal requirements. The C Rules (Comply or Explain) permits departures from a rule, but require an explanation for them. The Code also contains R Rules ("Recommendations") that are only recommendations.

Commitment to ÖCGK

The members of the Supervisory Board and of the Management Board of BKS Bank explicitly declare themselves committed to comply with the principles, objectives and purposes of the ÖCGK. The Supervisory Board renewed its commitment to the ÖCGK at the first meeting of the Supervisory Board on 30 March 2021.

In the year under review, BKS Bank complied with all L rules. There was only one deviation from a C rule, specifically from C rule 45: Because of the way our shareholder structure has evolved, representatives of the largest shareholders have been elected to the Supervisory Board. As the major shareholders are also banks, their representatives also hold positions in governing bodies of other banks which are competitors of BKS Bank. These persons have declared their independence in individual statements.

The Code of Corporate Governance, the Guidelines on the Independence of Supervisory Board Members, the BKS Bank Corporate Governance Report and the Articles of Association of BKS Bank are available for downloading at www.bks.at/investor-relations/corporate-governance.

The report was prepared in accordance with § 243c and § 267b Austrian Business Code and meets the requirements of the Sustainability and Diversity Improvement Act (NaDiVeG).

The report takes guidance from the provisions in Annex 2a of ÖCGK. Further topics of relevance for the Code of Corporate Governance such as shareholder structure and the Annual General Meeting, corporate communications and the forwarding of information are described in the Group Management Report, in the chapter Investor Relations as well as in the Notes to the consolidated financial statements.

The Rules of the Code of Corporate Governance apply to all companies of the BKS Bank Group. All Group companies are included in the reporting of the BKS Bank Group. Additionally, the directors of these subsidiaries report regularly to their supervisory boards and to the management board of the parent company. They are integrated in the risk and compliance management systems of the BKS Bank Group. The remuneration principles as adopted by the Supervisory Board of BKS Bank AG also apply to the management staff. Regular reports are given to the Supervisory Board of the parent company on developments at significant subsidiaries with business operations.

The "Guidelines on the assessment of the suitability of members of the management body and key function holders" (ESMA71-99-598 EBA/GL/2017/12) valid in the reporting year were complied with in all areas in accordance with the Statement of Compliance issued by the FMA.

The bank also implemented the Guidelines on Internal Governance (EBA/GL/2021/05) updated by the EBA in the reporting year as required by the Comply Statement issued by the FMA.

External evaluation pursuant to C Rule 62

C Rule 62 of ÖCGK states that compliance with the C Rules must be evaluated externally on a regular basis at least every three years.
In the year 2020, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft audited compliance with the C Rules on the basis of the Corporate Governance Report from financial year 2019 with the exception of Rules 77 to 83. The external audit revealed that BKS Bank fully meets the requirements of ÖCGK.

Information on the internet on ÖCGK and BKS Bank

The current version of the Austrian Corporate Governance Code is available at www.corporate-governance.at. We publish more detailed information on the BKS Bank website at www.bks.at/investor-relations. Press releases of BKS Bank are available at www.bks.at/news-presse.

Management Board and Supervisory Board

Working Procedures of the Management Board

The Management Board runs the business operations of the company in accordance with the law, the Articles of Association and the Internal Rules of Procedure adopted by the Supervisory Board. The Management Board determines the strategic orientation of the bank, sets the corporate goals and coordinates the corporate strategy with the Supervisory Board. It also ensures efficient risk management and risk controlling.

The Management Board member assigned a specific business area is directly responsible for it. However, the other members of the Management Board are always kept fully informed about the enterprise as a whole, and fundamental decisions are submitted to the full Management Board for approval. In their own areas of responsibility, the Management Board members are involved in day-to-day business and are kept informed of the business situation and of major transactions. Events of relevance for the company, strategic issues and measures are discussed at regular meetings for implementation by the Management Board member responsible or by the full Board.

Resolutions of the Board of Management, insofar as they relate to the assumption of business obligations and risks, require a unanimous vote. An extensive internal reporting system accompanied the careful preparation of Management Board decisions.

Members of the Management Board

In the reporting year, there were three jointly responsible members on the Management Board of BKS Bank, and as of 1 July 2021, there were four.

Herta Stockbauer

Chairwoman of the Management Board, born 1960
Date of initial appointment: 1 July 2004
End of the period of office: 30 June 2024

Herta Stockbauer studied commercial science at Vienna's University of Economics and Business Administration and then worked as an assistant professor and lecturer at the Institute of Commercial Science of the Alpen-Adria University in Klagenfurt. In 1992, she joined BKS Bank and worked in the departments corporate and business customers, and securities before she switched to the controlling and accounting department. In 1996, she was appointed head of department; in 2004 she became member of the Management Board and in March 2014 Chairwoman of the Management Board.

Mandates in companies included in the group of consolidated companies:
- Member of the Supervisory Board of Oberbank AG
- Member of the Supervisory Board of Bank für Tirol und Vorarlberg Aktiengesellschaft

Mandates in other Austrian companies not included in the group of consolidated companies:
- Member of the Supervisory Board of Porsche Bank Aktiengesellschaft
- Member of the Supervisory Board of Oesterreichische Kontrollbank Aktiengesellschaft
- Member of the Supervisory Board of Einlagensicherung AUSTRIA Ges.m.b.H

Further positions:
- Member of the Board of Directors of the Austrian Bankers' Association (Verband österreichischer Banken und Bankiers)
- Member of the Management Board of the Federation of Austrian Industries for Carinthia

- Member of the Board of the Austrian Society for Banking Research (Österreichische Bankwissenschaftliche Gesellschaft)
- Spokeswoman of the Banking and Insurance Section of the Chamber of Commerce of Carinthia
- Vice President of respACT – Austrian Business Council for Sustainable Development
- Honorary Consul for Sweden

Dieter Kraßnitzer

Member of the Management Board, born 1959
Date of initial appointment: 1 September 2010
End of the period of office: 31 August 2023

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

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

Further positions:
- President of the Carinthian Economics Society (Volkswirtschaftliche Gesellschaft)
- Member of the Expert Advisory Council of 3 Banken IT GmbH

Alexander Novak

Member of the Management Board, born 1971
Date of initial appointment: 1 September 2018
End of the period of office: 31 August 2026

Alexander Novak was born in 1971 in Bad Eisenkappel. He studied business administration at the University of Economics and Business Administration of Vienna. After his studies, he first worked as a tax advisor and in international commodity trading before he started his career at BKS Bank in 2000 as a team member of accounting and controlling. From 2004 on, he worked to establish the Slovenia Branch. He headed the branch from its establishment until he was appointed to the Management Board in 2018.

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

Nikolaus Juhász

Member of the Management Board, born 1965
Date of initial appointment: 1 July 2021
End of the period of office: 30 June 2024

Nikolaus Juhász was born in Vienna in 1965. He studied business administration at the Karl-Franzens University in Graz. After graduating, he first completed a trainee program at Creditanstalt and began his career in key account management, rising to the position of Head of the Central Credit Department, before continuing his career in 1999 as head of the Villach Branch for corporate and business banking at BKS Bank. In 2007, he was put in charge of the Styria Branch, and in 2021, he was appointed to the Management Board.

Mandates in companies included in the group of consolidated companies: none

The number and nature of all additional mandates held by the members of the Management Board are in conformity with the guidelines of C Rule 26 of the Code of Corporate Governance and the provisions of § 28a Austrian Banking Act.

Looking only at numbers might cause you to lose sight of the big picture. But without the numbers, the big picture makes no sense.

Alexander Novak
Member of the Management Board

Herta Stockbauer
Chairwoman of the Management Board

Nikolaus Juhász
Member of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Management Board Remits as of 1 July 2021

Herta Stockbauer is Chairwoman of the Management Board with responsibility for Corporate Strategy, Sustainability, Corporate Banking, Customer Payments and Funds Transfer Services, Accounting and Sales Controlling, Human Resources, Public Relations and Marketing, Investor Relations, Subsidiaries and Investments in Austria.

Dieter Kraßnitzer, member of the Management Board with responsibility for Risk Management, Risk Controlling, Credit Back Office, BKS Service GmbH, ICT and Business Organisation, 3 Banken IT GmbH, Treasury Back Office, Securities Services, Back Office and Risk Management International.

Alexander Novak, member of the Management Board with responsibility for Sales International, Treasury and Banking Support, BCS Fiduciaria, Leasing and Real Estate Subsidiaries International, ICT International.

Nikolaus Juhász, member of the Management Board with responsibility for Sales at Austrian Branches, Private banking, Customer Lending and Investing as well as Investments and Retirement Planning.

The areas of joint responsibility are
- Due diligence and risk management as defined in the internal business rules, ÖCGK, internal governance and supervisory law,
- Internal audit,
- Compliance and the prevention of money laundering, and terrorism financing
- Dieter Kraßnitzer is the management member responsible for disciplinary matters within the meaning of RZ 60 of FMA Circular purs. to the Securities Supervision Act 2018
- Nikolaus Juhász is the competent member of the governing body pursuant to § 23 (4) FM-GWG (Financial Markets – Anti-money Laundering Act)

Working Procedures of the Supervisory Board

The Supervisory Board monitors the management in accordance with the requirements of the law, the articles of association and the internal business rules and reaches decisions in the matters assigned to it. The Supervisory Board and the Management Board coordinate the strategic orientation of the BKS Bank Group. The Supervisory Board receives regular reports from the Management Board on the situation of the company, including the risk situation, and on the implementation of the corporate strategy.

The Supervisory Board deals with the audit of the financial statements of BKS Bank AG and of the BKS Bank Group and is also indirectly involved in decisions on the proposal of dividend distributions to the annual general meeting.

In addition, the Supervisory Board may request reports from the Management Board on matters concerning the BKS Bank Group at any time and may conduct its own audit activities. If necessary, it may call in experts such as lawyers or auditors for advice.

The Supervisory Board is also responsible for appointing members of the Management Board and determining the chair of the Management Board. The appointments are prepared by long-term succession planning with the aim of having qualified candidates when positions on the Management Board become vacant.

The Chairwoman of the Supervisory Board chairs the Annual General Meeting of BKS Bank and the meetings of the Supervisory Board.

The work takes place in both the plenary meetings and in the Committees.

All members of the Supervisory Board are under the obligation to meet the statutory and regulatory requirements, must comply with them on their own responsibility, and must stay up to date with current applicable laws.

If a member of the Supervisory Board recognizes a potential personal conflict of interest, he or she must disclose this to the Chairwoman of the Supervisory Board without delay. The Supervisory Board then determines how such a conflict of interest is to be resolved and what accompanying measures are required.

In the reporting year, no member of the Supervisory Board had a conflict of interests in the meaning the C Rule 46 of ÖCGK.

Members of the Supervisory Board of BKS Bank AG

The Supervisory Board of BKS Bank consists of ten shareholder representatives and four members delegated by the Works Council.

Honorary President

Hermann Bell
Austrian citizen
Hermann Bell was elected honorary president of the Supervisory Board for life at the meeting of the Supervisory Board of 15 May 2014.

Shareholder Representatives

Hannes Bogner
Independent*, born 1959
Austrian citizen
Initially elected: 29 May 2020
appointed until the 87th Annual General Meeting (2026)

Supervisory board mandates and similar functions at domestic and international listed companies:

- Member of the Supervisory Board of Bank für Tirol und Vorarlberg Aktiengesellschaft
- Member of the Supervisory Board of Oberbank AG
- Member of the Supervisory Board of PALFINGER AG

Gerhard Burtscher
Chairman until 17 May 2021
Independent*, born 1967
Austrian citizen
Initially elected: 19 May 2016
appointed until the 87th Annual General Meeting (2026)

Supervisory board mandates and similar functions at domestic and international listed companies:

- Member of the Supervisory Board of Oberbank AG

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

Franz Gasselsberger
Independent*, born 1959
Austrian citizen
Initially elected: 19 April 2002
appointed until the 85th Annual General Meeting (2024)

Supervisory board mandates and similar functions at domestic and international listed companies:
- Member of the Supervisory Board of Bank für Tirol und Vorarlberg Aktiengesellschaft

- Member of the Supervisory Board of Lenzing Aktiengesellschaft
- Member of the Supervisory Board of voestalpine AG

Reinhard Iro
Independent*, born 1949
Austrian citizen
Initially elected: 26 April 2000; appointed until the 84th Annual General Meeting (2023).

Supervisory board mandates and similar functions at domestic and international listed companies:

- Chairman of the Supervisory Board of SW-Umwelttechnik Stoiser & Wolschner AG

Susanne Kalss
Independent*, born 1966
Austrian citizen
Initially elected: 29 May 2020
appointed until the 86th
Annual General Meeting (2025)

Stefanie Lindstaedt
Independent*, born 1968
German citizen
Initially elected: 9 May 2018
appointed until the 84th
Annual General Meeting (2023)

Heimo Penker
Independent*, born 1947
Austrian citizen
Initially elected: 15 May 2014
appointed until the 85th
Annual General Meeting (2024)

Sabine Urnik
Chairwoman from 17 May 2021,
previously Vice Chairwoman
Independent*, born 1967
Austrian citizen
Initially elected: 15 May 2014
appointed until the 83rd
Annual General Meeting (2022)

Klaus Wallner
Vice Chairman from 17 May 1921,
independent*, born 1966
Austrian citizen
Initially elected: 20 May 2015
appointed until the 86th
Annual General Meeting (2025)

Representatives delegated by the Works Council

Sandro Colazzo, born 1979
Austrian citizen
Initially delegated: 13 May 2020

Maximilian Medwed, born 1963
Austrian citizen,
Initially delegated: 1 December 2012

Herta Pobaschnig, born 1960
Austrian citizen
Initially delegated: 1 June 2007

Ulrike Zambelli, born 1972
Austrian citizen
Initially delegated: 15 June 2015

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

Representatives of the Supervisory Authority

Wolfgang Eder, born 1964
Austrian citizen
Date of initial appointment:
1 September 2017

Dietmar Klanatsky, born 1971
Austrian citizen,
Date of initial appointment:
1 January 2018

*Guidelines of the Supervisory Board of BKS Bank on independence

Independence of the Supervisory Board

The majority of the members of the Supervisory Board must be independent as specified in C Rule 53 of the Code of Corporate Governance. A member of the Supervisory Board shall be deemed independent if the 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 suitable for influencing the behaviour of the member.

Each of the members of the Supervisory Board elected at the Annual General Meeting have declared their independence in accordance with the guidelines below in an individual declaration.

Moreover, with the exception of Gerhard Burtscher and Franz Gasselsberger, there were no members of governing bodies of shareholders with an interest of more than 10% represented on the Supervisory Board in the financial year 2021.

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

The Supervisory Board defined the criteria below for assessing the independence of the members of the Supervisory Board:

Guidelines of the Supervisory Board of BKS Bank on Independence
A Supervisory Board member is not permitted to have been a member of the Management Board or have held a management position at the company or a subsidiary of BKS Bank in the preceding three years. A previous position on a management board does not disqualify a member on the grounds of lacking independence, especially when there is no doubt that the mandate will be exercised independently based on all relevant circumstances as defined in § 87 (2) Stock Corporation Act.
The Supervisory Board member is not permitted to have, or to have had, a business relationship with BKS Bank or one of its subsidiaries to an extent of relevance for the Supervisory Board member in the past year. This also applies to business relationships with companies in which the Supervisory Board member has a significant business interest. The approval of individual business transactions by the Supervisory Board in accordance with L Rule 48 does not automatically mean qualification as lacking independence. The conclusion or existence of agreements with the company that are customary in the banking business shall not be deemed to prejudice 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.

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

Committees of the Supervisory Board, their decision-making powers, meetings and focus of activities

The Supervisory Board takes care of its business as a rule at its plenary meetings, but delegates individual matters to seven qualified committees. These serve to increase the efficiency of the Supervisory Board's work and to deal with complex issues. The Supervisory Board thus follows the C Rule 39 ÖCGK. The establishment of these committees and their decision-making powers are defined in the internal business rules for the Supervisory Board or are defined separately by the Supervisory Board. The nomination of members to the committees from the Works Council is done in accordance with the provisions of the Austrian Labour Act (*Arbeitsverfassungsgesetz*). The chairperson of a committee reports regularly to the plenary meeting of the Supervisory Board on the work of the respective committee. In line with the objectives of the ÖCGK, the Supervisory Board appoints the committees in such a way that the professional qualifications of the committee members serve to increase the efficiency of the committee and thus of the Supervisory Board itself. The specified number of committee members is based on the minimum regulatory requirements. When determining the number of committee members, the Supervisory Board also takes into account the need to deal with significant issues in a larger governing body and, if necessary, also determines a number of committee members that exceeds the minimum requirement.

Audit Committee

The Audit Committee met three times during the reporting year and in accordance with statutory requirements dealt with the audit of the single-entity financial statements and the preparation of their approval, the audit of the consolidated financial statements and the Group management report, the audit of the proposal for the distribution of profits, the management report and the corporate governance report. Moreover, the Audit Committee monitored the financial reporting processes, audited the effectiveness of the internal control system (ICS), the internal auditing system and the risk management system. Furthermore, the Audit Committee monitored the audits of the single-entity financial statements and consolidated financial statements. Considerable work was devoted to the procedure for selecting the auditor, and after completion, a proposal was prepared for the selection of the auditor by resolution at the Annual General Meeting. The Committees monitored the independence of the auditor, in particular, as to whether the independence criteria pursuant to § 63a (4) Banking Act are met.

Working Committee

The Working Committee reaches decisions usually by circular vote on matters of urgency requested by the Management Board, but which exceed the competence of the Management Board. The Internal Rules of Procedure of the Supervisory Board specify other matters in which the Management Board is subject to the approval of the Supervisory Board and which are decided by the Working Committee. The proposals made and the outcomes of the vote are reported afterwards to the full Supervisory Board.

During the fiscal year, one resolution was passed by the Working Committee.

Risk Committee
The main tasks of the Risk Committee pursuant to § 39d Banking Act include advising the management on the bank's current and future risk appetite and risk strategy, and in respect of monitoring implementation of the risk strategy. Furthermore, the Risk Committee reviews the pricing policy to determine if it is appropriate for the business model and the risk strategy of the credit institution. At the meeting of 1 December 2021, the Committee discussed these topics in detail and ascertained that the risk management procedures applied by the bank are effective and appropriate, and risk monitoring is conducted in an orderly manner. Furthermore, the Risk Committee ascertained that the remuneration system of BKS Bank does not create any incentives that would negatively influence the risk, capital, liquidity or profit situation of BKS Bank. The independence criteria of § 39d (3) Banking Act are complied with.

Credit Committee
The Credit Committee decides on the granting of new loans and loan prolongations, and on leasing and guarantee transactions as of a certain volume of debt. 67 resolutions were passed by circular resolution. These were reported in detail at the plenary meeting of the Supervisory Board.

Nominations Committee
The tasks of the Nominations Committee is to present proposals to the Supervisory Board for filling vacant mandates on the Management Board and Supervisory Board, and to deal with succession planning. Furthermore, the Nominations Committee is responsible for issues relating to diversity and also reviews the fit and proper status of the members of the Management Board and Supervisory Board. It also evaluates the management's policies for the selection and appointment of persons to top management positions.

The Nominations Committee gave its approval by circular resolution to the Chairwoman of the Supervisory Board assuming a supervisory board mandate at Porsche Bank AG. At its meeting of 29 March 2021, the Nominations Committee conducted the fit & proper evaluation of all members of the Management Board and of the Supervisory Board as well as of the respective governing body in its entirety and also dealt with the evaluation of any conflicts of interest. The Committee resolved to extend the term of office of Alexander Novak on the Management Board and to propose to the Annual General Meeting that Gerhard Burtscher and Hannes Bogner be elected again to the Supervisory Board. The law does not define any standardized independence criteria for the members of this Committee.

Remuneration Committee
The Compensation Committee held one meeting in the financial year 2021. The Remuneration Committee's defined tasks are reviewing the content of the employment contracts of Management Board members, and also monitoring remuneration policy, the practices applied and the remuneration-linked incentives pursuant to § 39b Banking Act and the related annexes. It discusses and suggests changes to, among other things, the remuneration policy guidelines of BKS Bank and of the Group, and presents these to the Supervisory Board for approval. The committee also dealt with the annual remuneration report that must prepared by the Management Board and the Supervisory Board. The measurement of the amount of variable remuneration for the members of the Management Board for the financial year 2020 was also discussed at the meeting, as well as the performance criteria applicable from 2021. The members of the Remuneration Committee meet the independence criteria of § 39c (4) Banking Act.

Committees established by the Supervisory Board

Name	Audit Committee	Working Committee	Risk Committee	Nomi-nations Committee	Remuner-ation Committee	Credit Committee	Legal Committee
Gerhard Burtscher				✓	✓	✓	✓
Hannes Bogner			✓				
Susanne Kalss	✓						
Christina Fromme-Knoch				✓			✓
Franz Gasselsberger	✓	✓	✓			✓	
Reinhard Iro		✓			✓		✓
Heimo Penker		✓		✓	✓	✓	
Sabine Urnik	✓		✓	✓	✓		✓
Klaus Wallner	✓		✓				
Maximilian Medwed	✓	✓	✓			✓	
Ulrike Zambelli		✓	✓			✓	✓
Herta Pobaschnig					✓		
Sandro Colazzo	✓						✓

Legal Committee

Due to the dispute with the two minority shareholders UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H., which has been ongoing since mid-March of 2019 and is now before a court of law, the Supervisory Board established a dedicated committee for this matter. The tasks of the Legal Committee are defined as follows: “Dealing with the legal dispute with the UniCredit Group and the Generali 3Banken Holding AG including all related proceedings” and also covers the related tasks of the Supervisory Board. These powers include the commissioning of external service providers, in particular lawyers, with the representation of the company by the Supervisory Board externally, making any required statements of the Supervisory Board in court proceedings or proceedings before authorities as well as taking decisions in these matters (decision-making power) unless it is mandatory for the full Supervisory Board itself to reach a decision. The chairperson of the Legal Committee reports regularly to the plenary meeting of the Supervisory Board on the work of this Committee.

In the three meetings held during the financial year, the Legal Committee was concerned in particular with the proceedings to challenge resolutions of the Annual General Meetings in 2019 and 2020, the special audit proceedings requested in June 2019, and the legal action newly filed in 2021 for a declaratory judgement and injunction order by the aforementioned minority shareholders. The review proceedings pending before the Takeover Commission were also discussed in detail.

Meetings and Main Activities of the Supervisory Board

Four meetings of the Supervisory Board were held in the financial year 2021. 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 subsidiaries. Furthermore, current regulatory requirements and their impact on BKS Bank were discussed at every meeting. Management Board discussed in detail the business strategy and presented all matters requiring its approval to the Supervisory Board in timely manner.

Other important topics discussed at the meetings included:

- The current coronavirus situation and its impact on the business activities of BKS Bank
- Result of the auditor selection process
- Re-establishment of the Committees
- The developments and the awards received for sustainability

Other priorities of its work are summarized in the Supervisory Board's report to the Annual General Meeting.

Most meetings were held in the form of video conferences due to the still ongoing coronavirus pandemic. The meetings conformed with the regulatory framework created specifically for the coronavirus pandemic, namely the Coronavirus Companies Act (COVID-19 GesG) and the corresponding implementing decrees. The FMA also approved this mode of procedure from a regulatory standpoint.

Self-evaluation pursuant to C Rule 36

In the reporting year, the Supervisory Board conducted a self-evaluation of its activities in accordance with C Rule 36 ÖCGK. At the meeting of 30 March 2021, it examined the efficiency of its activities, including, in particular, its organisation and work procedures. The resolution was passed to retain the current organisation and the work procedures as these were assessed as efficient and effective.

Remuneration of the Bank Auditor

At the 81st Annual General Meeting of 29 May 2020, KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt, was charged with the audit of the financial statements and conduct of business of BKS Bank AG and the Group for the financial year 2021. The bank auditor also presented a list to the Supervisory Board of all income received in the preceding financial year broken down by category of service. KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt, also informed the Supervisory Board of its participation in a quality assurance system and plausibly declared its impartiality also confirming that there were no grounds that could give rise to reasons for its exclusion.

The 2016 Amendment to the Audit of Financial Statements Act (APRÄG 2016) provides for a strict separation of audit and non-audit services that are permitted to be provided by an auditor. The Audit Committee approved the budget for permissible non-audit services and checked compliance with the budget limit.

Information on fees paid to the bank auditor

	2020	2021
Fees for mandatory audits of the single-entity and consolidated financial statements	538	548
Fees for other auditing services	44	26
Fees for advisory services, including tax advice	97	106
Total	**679**	**680**

Diversity Concept

"Not an end in itself, but a matter of course" is the guiding principle at BKS Bank when it comes to diversity. We give all employees the same opportunities and rights, but also demand the same obligations from all. In this way, we ensure that discrimination is avoided as best possible. When appointing members to the Management Board and also when filling management positions and making proposals for the election of members to the Supervisory Board, we give due consideration to the expert knowledge and personal qualifications of the candidates and to the aspects of diversity.

Equal opportunity from the very start

We take firm action to prevent any form of disadvantage or discrimination for employees. When selecting personnel, we always give preference to the person who best meets the requirements irrespective of sex, age or socio-cultural background. When filling management positions, all employees have equal career opportunities. We invite all employees to apply for management positions that match their qualifications.

Our goal is to fill top-level and second-level management positions primarily with staff from our own ranks which we achieved in the reporting year. To attain the target ratio defined for this purpose, a number of promotion and development programmes have been developed. Any employee with an interest may apply to participate in the promotion and development programmes; it is not necessary to be nominated by a superior. In this manner, we ensure equal opportunity.

Furthermore, we committed ourselves to a Code of Conduct years ago which we updated at the beginning of 2022. In the Code of Conduct we also describe our position on equal opportunity, equal treatment and diversity, but also what we demand of all employees in return – openness and impartiality.

Our diversity officer ensures the development of diversity management in accordance with international standards and makes sure that diversity is not just a buzzword but a matter of course for all employees in their daily work.

Diversity for success

In the 2020 financial year, we conducted a "Diversity Check" to ask our employees what they think is necessary to make BKS Bank an even more open company. Based on the numerous feedback reports received, the following measures, among others, were successfully implemented:

- The topics of diversity and diversity management are on the agenda of all key training programmes, such as the BKS Bank College, the branch manager course, management training and the excellence programme.
- We have optimized our recruiting processes: We explicitly invite people with disabilities to apply.
- In recruiting training sessions, we sensitize our managers to promote more diversity when filling new positions.
- We actively promote respectful interaction in the workplace and are part of the #positivarbeiten initiative.

Criteria for the Selection of Management Board and Supervisory Board Members

When making proposals to the Annual General Meeting regarding appointments for mandates becoming vacant, the full Supervisory Board and the Nominations Committee must give due consideration to adequate representation of both genders, internationality, age structure, and the educational and professional background of potential applicants. The criteria for the selection of Management Board and Supervisory Board members are defined in the fit and proper policy of BKS Bank, which was updated at the beginning of 2022. The criteria also specify the requirement to strengthen diversity by ensuring adequate representation of all genders on the Supervisory Board, Management Board, in senior management and staff. Supportive measures for reintegration after parental leave are also explicitly set out.

The criteria for the selection of Management Board and Supervisory Board members include a relevant education in the theory of management, practical knowledge, and several years of experience in management positions. Furthermore, the suitability for a mandate on the management or supervisory board requires personal qualifications such as integrity and impartiality, personal reliability, a good reputation and the fulfilment of governance criteria.

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

Three female members of the Supervisory Board, including the Chairwoman, are also university professors and teach in the fields of law and computer science. Staff representatives on the supervisory board are long-year employees with a profound knowledge of BKS Bank.

The management board members and the shareholder representatives on the supervisory board have a broad range of experience at national and international companies and research institutions. They are very familiar with the special situations that result from different cultural practices or other legal systems. Management board and supervisory board members have good foreign language skills.

Age plays a role when assessing the suitability of potential candidates, as a balanced age distribution is of relevance when assessing the facts of a matter and for reasons of succession.

We do not want to discriminate against anyone due to a specific age, however, we take care to ensure an age mix that also corresponds to the distribution in the working population and in the respective professions. Therefore, the age range of the shareholder representatives on the Supervisory Board is between 52 and 75 years, and on the Management Board between 50 and 63 years.

Employees by country

Persons	2020	2021
Austria	807	797
Slovenia	159	165
Croatia	92	100
Slovakia	46	46
Germany	11	12
Italy	7	7
Hungary	3	3
Bosnia-Herzegovina	5	7
Canada	1	1
Bulgaria	1	1
Georgia	1	1
Turkey	-	2
Ukraine	-	1
Armenia	-	1
Syria	-	1

Measures to Promote Women

We are pleased that the numerous measures taken to offer women the same career opportunities as men are bearing fruit.

There is great potential in all employees, and all should have the same opportunities to realize their potential. We encourage our female employees to achieve their professional goals and, at the same time, to choose to have a family. BKS Bank aims to proactively contribute to help master this double challenge.

BKS Bank supports its female employees with numerous offers that help them balance work and family life. Flexible working hour models, numerous further education and training opportunities, care services for small children, support for childcare during holiday periods and the proactive encouragement of men to take childcare leave are measures for which funding is also made available. These initiatives have been recognized by the certificate ‘berufundfamilie’ conferred under the audit programme of the Federal Ministry for Economy, Family and Youth. We were awarded the certificate in 2010, 2013, 2016 and 2019. In Slovenia, BKS Bank has held the local certificate since 2015. In Croatia, we have been certified since 2017 under the “MAMFORCE© Standard” certification programme for family-friendly companies.

An important contribution to increasing the proportion of female managers is made by our women's career programme “Frauen. Perspektiven.Zukunft“. The programme was initiated in 2012 and since then 72 participants have completed a total of five courses. The programme includes an analysis of typical women's roles and women's communication as well as behavioral forms and the dynamics of teams.

Additionally, mentors accompany mentees throughout the entire course. In the reporting year, 16 women participated. In 2022, this programme will be organized for the first time for our international female employees.

In Croatia, two female employees attended a women's career programme organized by MAMFORCE©. The talent programme is designed to train high potentials for management positions. In the reporting year, eight of the twelve participants were women.

Target ratio attained and exceeded

185 persons were employed in management positions at BKS Bank at year-end 2021. The majority of the persons, namely 57.2%, were between 30 and 50 years old. The aim of our sustainability strategy is to raise the share of women in management positions to 35% by 2025. We are pleased to report that at year-end 2021, the share of women in management was 36.5% for the first time (in 2020 the ratio at BKS Bank Group was 33.2% and at BKS Bank AG it was 31.3%, excluding the management board in both cases).

Narrowing the gender pay gap

In accordance with the principle of “equal pay for equal work”, we make every effort to continue to reduce the gender wage gap. In all countries of the European Union, there are still income differences between men and women, some of which are considerable. An analysis by Statistik Austria revealed that the most important factors contributing to the pay gap are the sector, the extent of employment and the length of employment at a company).[1] If salaries were based purely on formal education, the study found, women would already now be earning more than men.

[1] Gender Pay Gap, Analyses of the Gender Pay Gap, Statistische Nachrichten 6/2021

It is important to BKS Bank to reduce the gender pay gap at its organization to 12% by 2025. Good news is that the gender pay gap has narrowed in Austria since 2016 from 19.23% to 16.2%.

In 2021, we consulted an outside consulting institution under the title "100 percent equality pays off." The advisors analyzed the causes of the pay gap and, among other things, developed measures to close the gender pay gap. For example, we offer remote work options to women who work part-time for family reasons, depending on the specific job and their private situation. This measure combined with the willingness to assume a management or expert position in the next three years will also contribute to increasing the number of hours worked.

We also work to encourage older female employees to engage in professional development so as to take advantage of opportunities to improve their income situation. Therefore, we specifically present career path opportunities and inform them about the negative financial effects of long part-time employment.

The Nominations Committee defined the target ratio for the underrepresented gender on the management and supervisory boards at 30% in 2014. The members of the Nominations Committee monitor compliance with the target ratio and review the effectiveness of the measures decided to promote women.

At the year-end 2021, the proportion of women on the Management Board was 25% and on the Supervisory Board 42.9%. In the reporting year, Sabine Urnik was the first woman to be appointed Chairwoman of the Supervisory Board.

Women in management positions (BKS Bank Group)

As at 31 December 2021	Number female	Ratio	Number male	Ratio
Management Board	1	25%	3	75%
Supervisory Board (shareholder representatives)	4	40%	6	60%
Supervisory Board (staff representatives)	2	50%	2	50%
Other management positions	68	37%	117	63%

Compliance Management System

Apart from risk management and the internal control system, compliance is the third pillar of company monitoring at the bank. The primary goal is to prevent any violations of the law or regulations, and to protect the BKS Bank Group, its employees, the management and the governing bodies as well as the owners from compliance risks.

Our focus in this context is on capital market and securities compliance, prevention of money laundering and terrorist financing, compliance with financial sanctions, anti-corruption measures and the professional handling of potential conflicts of interest.

There are extensive sets of rules for all areas, which must be strictly followed by our employees and managers. Training courses are held at which these rules and regulations are communicated to all BKS Bank employees using practical examples. Regular refresher courses are organized to deepen and update knowledge. The Anti-money Laundering Officer and the Compliance Officer ensure that the mechanisms to prevent violations of the rules are continuously developed. Together with their teams, they are also the point of contact for all employees and managers.

In order not to lose track of the constantly changing legal framework applicable to BKS Bank AG, the Compliance Officer (purs. to Banking Act) ensures that the responsible managers are informed in a timely manner about upcoming changes to standards so that any necessary adjustments to processes and rules can be made in time.

The Compliance Officer (purs. to Banking Act) reports directly to the full Board of Management, which also applies to all compliance positions.

At the beginning of 2022, we had to acknowledge that despite all precautionary measures it was not possible to completely avoid acts of fraud. A case of fraud at our EU branch in Croatia caused a financial loss and entailed a lot of work to clear up the matter. At the same time, however, this incident was also an opportunity to tighten current prevention measures.

Directors´ Dealings

BKS Bank is under the obligation to disclose directors' dealings reports. On the last day of exchange trading in 2021, the members of the Management Board held a total of 7,272 ordinary shares on their securities accounts with BKS Bank; Supervisory Board members held 5,899 ordinary shares. In total, this is a percentage of around 0.03% of shares issued. Purchases and sales by members of the Management Board and the Supervisory Board as well by related parties are reported to the Financial Market Authority (FMA) in accordance with the EU Market Abuse Regulation and are published throughout Europe by news agencies and disclosed on the website of BKS Bank. This notification is sent when the value of the respective transactions for own account reaches or exceeds a total of EUR 5,000 in a calendar year. In the past financial year, there were no Directors' Dealings to report.

Independent Assessment of the Functionality of Risk Management

KPMG Austria GmbH conducted an assessment of the functionality of risk management at BKS Bank pursuant to C Rule 83 of 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 organisation of risk management. The mode of procedure for identifying, analysing and measuring risks was investigated as well as the measures to manage risk. Furthermore, risk monitoring and reporting on risk management was analysed in detail. The auditor presented its report on the functionality of risk management to the Chairman of the Supervisory Board.

At the meeting of 15 September 2021 of the Audit Committee, the findings of the audit pursuant to C Rule 83 ÖCGK were discussed, and in accordance with the provisions of § 63a (4) Banking Act, the risk management and its current further development were discussed in detail. The Chairman of the Supervisory Board reported to the full Supervisory Board that the audit pursuant to C Rule 83 did not result in any objections and that BKS Bank has a functioning risk management system in place.

The objectives and implementation of the measures of the risk strategy were discussed at the meeting of the Risk Committee on 1 December 2021. Risk management at BKS Bank is described in detail in the Annual Report 2021 starting on page 107.

In its risk governance, BKS Bank follows the "three lines of defense model":

Employees in the operational areas – first line of defense – identify and manage the risks they encounter in their activities within the defined risk framework. The Management Board attaches great importance to ensuring that risk positions in the first line of defense are actively managed, risk limits are complied with and risk targets and benchmarks are attained.

Risk management functions independent of operations as the second line of defense identify, measure, monitor, and report on the risks for all business units. In this context, risk management includes risk controlling as well as credit risk analysis and management and ICT security responsibility. Compliance functions are also part of the second line of defense.

BKS Bank has an internal audit system in accordance with C Rule 18 of the Austrian Code of Corporate Governance and pursuant to § 42 Banking Act as the third line of defense. The audit is conducted in accordance with an audit plan approved by the Management Board and agreed with the Audit Committee and full Supervisory Board. The internal audit unit assesses the risks of all company activities and operational processes, it identifies the potential for improving efficiency and monitors compliance with statutory provisions and internal guidelines.

A further key element of the monitoring system at our bank is the internal control system (ICS) that is embedded in all three lines of defense. The ICS is risk-based and comprises a large number of control measures that ensure efficient and correct working procedures. The main element is the risk-control matrix in which the controls are linked to the identified and measured risks per business process and support process.

Additionally, the quality of the controls is assessed regularly based on a maturity level model. The organisational structure and responsibilities in ICS are clearly regulated. The ICS coordinators continuously develop the internal control system and report to the Management Board in regular intervals. In this manner, we constantly improve monitoring at the company and ensure the protection of assets and also greater efficiency.

Accounting and Disclosure

As a listed company, BKS Bank AG prepares the consolidated financial statements and condensed interim financial statements, which are part of the mid-year financial report pursuant to International Financial Reporting Standards (IFRS) as adopted by the EU. We publish the annual financial statements at the latest four months after the end of the reporting period, the mid-year financial statements and the interim reports at the latest three months after the end of the reporting period. The reports are available to the public for at least ten years. We use the services of the Issuer Information Center of Oesterreichische Kontrollbank AG (OeKB), which is the officially appointed system for the central storage of mandatory disclosures.
The financial reports are published on the website of BKS Bank in German and in English. In accordance with the ESEF standard, BKS Bank publishes its financial reports in XHTML format. The IFRS consolidated financial statements are tagged in accordance with the ESEF taxonomy.

The financial reporting of the BKS Bank Group presents a true and fair view of the assets, financial position and result of operations of the company.

In the Group management report, the bank presents a relevant analysis of the development of business and describes the key financial and non-financial risks and uncertainties it is exposed to.

The key features of the internal control system are described as well as the risk management system with respect to the financial reporting process. The Notes contain information on how the company deals responsibly with the various types of risks. We publish a separate sustainability report that meets the requirements for non-financial disclosures.

The single-entity financial statements of BKS Bank AG were prepared in accordance with the provisions of the Austrian Business Code . The consolidated financial statements and single-entity financial statements are prepared by the company and audited by the auditor elected at the Annual General Meeting, and are approved and confirmed by the Supervisory Board.

A financial calendar is published in the financial reports and on the website for the current year and for the subsequent year. We publish inside information immediately on our website and leave this information online for five years.

Klagenfurt am Wörthersee, 11 March 2022

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the
Management Board

Alexander Novak
Member of the
Management Board

Nikolaus Juhász,
Member of the
Management Board

Report of the Chairwoman of the Supervisory Board

Dear Readers,
It is gratifying when you can say "everything is firmly in women's hands". Dear customers, employees, business partners and shareholders, I am very pleased to be able to address you for the first time as Chairwoman of the Supervisory Board. Today, three key governing bodies of BKS Bank are headed by women: The Management Board with Herta Stockbauer, the Works Council with Herta Pobaschnig, and since May 2021, I have taken over as Chairwoman of the Supervisory Board. I would like to express my sincere appreciation to Gerhard Burtscher, my predecessor. As Chairman of the Supervisory Board for five years, he demonstrated how to use economic expertise, experience in the banking business, foresight and knowledge of human nature to successfully lead a governing body as important as the Supervisory Board. We had many opportunities to share his experiences and insights from his time as chairman. My heartfelt thanks also for this opportunity. Gerhard Burtscher was re-elected as a member of the Supervisory Board for a further five years at the Annual General Meeting in May 2021 and was a member of several committees in the reporting year. I am particularly pleased that Nikolaus Juhász joined the Management Board team in July 2021. His many years of experience as an employee and manager of BKS Bank as well as his profound knowledge of the market and his skill in recognizing essential contexts will greatly benefit BKS Bank.

Together with all employees and managers, the Management Board mastered the challenges of the financial year 2021. A fraud case discovered in the first few weeks of 2022 at the Croatia branch unfortunately meant that the 2021 financial year ultimately did not turn out as well as we all would have liked. This case has shown us how important internal control systems are, and how significant it is that all employees and managers look out for each other and, despite all collegiality, also ask critical questions. Because this is also an expression of one of our core brand values "accountability".

100 years of BKS Bank – 25 February 2022 marked the hundredth anniversary of the foundation of BKS Bank. What the visions of the founders of "Kärntner Kredit- und Wechselbank Ehrfeld & Co" at the time were, we can only surmise today. However, it is our duty to develop our own vision for BKS Bank for the next 100 years. Being "a warm-hearted bank for a livable future" is our vision and at the same time reality for our bank. All of us – shareholders, customers, employees, managers and, of course, all members of the Supervisory Board – are full of enthusiasm about our vision of tomorrow for our bank – and I look forward very much to working together.

Close Coordination between Supervisory Board and Management Board

The Supervisory Board monitored the work of the Management Board and provided support to the management of BKS Bank and its Group companies. At the four regular meetings held in the reporting year, the Supervisory Board and the Management Board 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. These meetings were held mostly as virtual meetings in accordance with the statutory and regulatory requirements imposed due to the coronavirus pandemic.

The Supervisory Board received extensive written and oral reports from the Management Board in a timely manner. I communicated regularly with the Chairwoman of the Management Board, and discussed and analysed the development of business, the risk management and the strategy jointly with her. The Supervisory Board was therefore involved all in key decisions taken by BKS Bank. The Supervisory Board met all of its responsibilities stipulated by law, the articles of association and the rules of the Austrian Code of Corporate Governance. The Supervisory Board confirmed the correctness, expediency and proper conduct of the company's management.

The Supervisory Board pools its areas of expertise in seven committees. This report provides a description of the main areas of work of these committees starting on page 26. The composition and independence of the Supervisory Board, the criteria for its independence, its working procedures and decision-making powers are explained in detail from page 22. I fully agree with the information presented.

Changes to the Supervisory Board

Ulrike Zambelli, delegated by the Works Council, resigned from the Supervisory Board at the end of the reporting year. The Works Council has not yet sent a new representative.

At the 82nd Annual General Meeting, Gerhard Burtscher and Hannes Bogner were re-elected as members of the Supervisory Board. The re-elected members have declared their independence in individual statements. The relevant statements were made in accordance with § 87 (2) Stock Corporation Act. In accordance with the statutory requirements, the Nominations Committee reviewed the qualifications of the candidates.

At the plenary meeting of the Supervisory Board held immediately after the 82nd Annual General Meeting, I was confirmed as Chairwoman and Klaus Wallner was elected Vice Chairman. The members of the seven committees were also appointed at this meeting.

Diversity

In the past financial year, 40% of the shareholder representatives and half of the staff representatives were women, which corresponds to a total ratio of 43%. The ratio of 30% for women and men on the Supervisory Board defined in the Stock Corporation Act is complied with by the shareholder representatives as well as by the staff representatives delegated pursuant to § 110 Austrian Labour Act (Arbeitsverfassungsgesetz, ArbVG). I would like to stress that the Nominations Committee makes every effort to take into account all aspects of diversity, such as age, gender, educational and professional background as well as internationality when making proposals for the composition of the Supervisory Board. The shareholder representatives on the Supervisory Board are all experienced leaders from the financial sector, IT sector, industry and universities. They help steer the course of BKS Bank with prudence and entrepreneurial foresight. No member of the Supervisory Board failed to take part in more than half of the meetings. The attendance rate of all members of the Supervisory Board at the four Supervisory Board meetings was 90%.

Audit of the Financial Statements

The accounting records, the financial statements and management report of

BKS Bank AG for 2021 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. Due to the fraud case at the Croatian Branch, the auditor exercised the duty to speak in accordance with § 63 (3) Banking Act.

The following topics were identified as key audit matters in the audit of the financial statements for 2021, and the audit opinion presented the resultant risk as well as the relevant audit approach in detail:

- Recoverability of receivables from customers
- Recoverability from entities accounted for using the equity method
- Legal disputes of 3 Banken Group with UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H.

BKS Bank will propose to the Annual General Meeting to pay out a dividend of EUR 0.23 per share on the net profit for 2021, and to carry the rest forward to new account.

The IFRS consolidated financial statements for the year ended on 31 December 2021 and the Group management report were prepared in accordance with Austrian company law and were audited by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Klagenfurt branch. All statutory requirements were met, and this audit did not give rise to any objections. 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 2021 as well as of the result of operations and cash flows for the period from 1 January to 31 December 2021.

The auditors confirmed that the Group management report is consistent with the consolidated financial statements and that the prerequisites for exemption from the obligation to prepare consolidated financial statements in accordance with Austrian law have been satisfied. All materials relating to the audit of the financial statements, the proposal for profit distribution and the audit reports of the auditor were discussed in detail by the Audit Committee and presented to the Supervisory Board.

The Supervisory Board concurred with the findings of the audit and declared its agreement with the financial statements including the management report presented by the Management Board, thereby approving the financial statements 2021 of the company in accordance with § 96 (4) Stock Corporation Act. The consolidated financial statements, the Group management report, the annual risk report, the non-financial information report and the corporate governance report were also reviewed and approved by the Supervisory Board.

On behalf of the Supervisory Board, I would like to thank the Management Board, the management staff and all employees for their immeasurable personal commitment and hard work. I would particularly like to express my great appreciation to our customers and shareholders that place their trust in BKS Bank. May the jubilee year 2022 be a special and successful one despite any obstacles that may arise.

Klagenfurt am Wörthersee, March 2022

Sabine Urnik, Chairwoman of the Supervisory Board

03

03.
Investor Relations

Investor Relations

Excellent year for business

BKS Bank looks back at a very pleasing year for investor relations in 2021.

In January 2021, we paid out a dividend on ordinary shares for the financial year 2019 to our shareholders after having complied with the pandemic-related requirements defined at the 2020 Annual General Meeting.

We reported very satisfactory earnings growth to our shareholders on several occasions in the course of 2021. This was due mainly to the excellent development of business, the significant increase in income from equity investments, and the higher income from financial assets. Additionally, impairment charges for losses on loans and advances were lower. A completely unexpected loss was incurred in the fourth quarter due to embezzlement committed by an employee in Croatia.

In May, we welcomed Sabine Urnik as Chairwoman of the Supervisory Board, the first woman to hold this position. She replaced Gerhard Burtscher whose period of office as a member of the Supervisory Board ended and was no longer available for the position. Gerhard Burtscher was re-elected as a member of the Supervisory Board at the Annual General Meeting and remains a member. We would like to extend our sincerest thanks to Gerhard Burtscher for his work as Chairman of the Supervisory Board, above all, for his prudence and foresight.

Conversion of preferred shares completed

On 31 October 2020, the conversion of the remaining preferred shares into ordinary shares was registered in the commercial register.

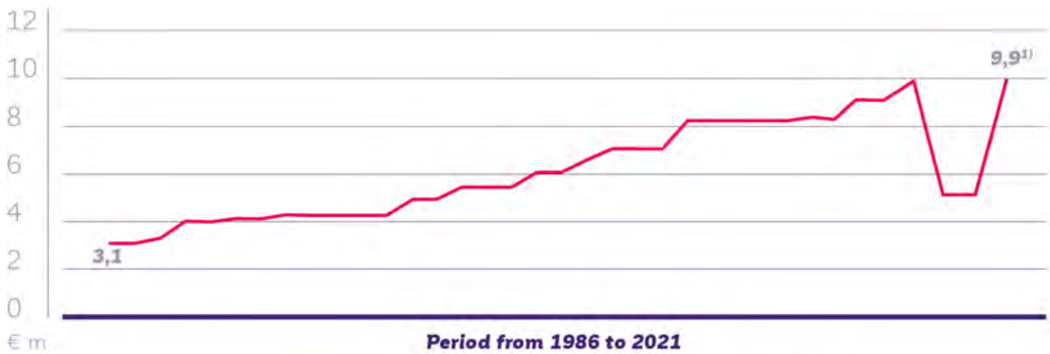
The converted preferred shares were listed under a separate ISIN AT0000A2HQD1 as "BKS Bank ordinary shares from conversion" until 19 January of the reporting year. Since 19 January 2021, all shares have been listed under ISIN AT0000624705, which had already been assigned to the ordinary shares.

The closing price of BKS Bank's ordinary shares on 30 December 2021 was EUR 15.3.

Dividends

While we still had pandemic-related restrictions on dividend payouts in the 2020 financial year – the ECB and FMA published requirements – in July 2021 the FMA lifted the restrictions in accordance with the ECB's recommendations. Nonetheless, the FMA and OeNB continued to require Austrian banks to conduct their "capital planning prudently and with foresight".

Development of dividends of BKS Bank's Shares



[1)] Proposal to the 82nd Annual General Meeting

Market capitalization of BKS Bank

The Supervisory Board and Management Board took guidance from this recommendation when defining the dividend proposal for the financial year 2021, but also bearing in mind the satisfactory development of operations in the reporting year. At the 83rd Annual General Meeting, the proposal was made to distribute a dividend of EUR 9,876,967.00. This corresponds to a dividend payout of EUR 0.23 per share and based of the year-end share price, a return of 1.5% on ordinary shares.

Information on the shareholder structure of BKS Bank is available in the Group management report starting on page 71 et seq as well as on the website www.bks.at » Investor Relations » Aktionärsstruktur.

Annual General Meeting 2021

In the financial year 2021, the Annual General Meeting was held on 17 May. To protect participants, it was held as a virtual annual general meeting in accordance with the rules of the Covid-19 Act and the related implementing regulation. The entire annual general meeting was broadcast as a livestream on the internet. The livestream was available to the general public for viewing. Shareholders' rights at the shareholders' meetings were exercised by persons holding special proxies. These were four persons independent of BKS Bank that had been named by BKS Bank. The costs incurred by the persons holding the special proxies were paid by BKS Bank.

The FMA approved the virtual annual shareholders' meetings on the basis of the aforementioned statutory provisions.

Ongoing legal proceedings

The minority shareholders UniCredit Bank Austria AG und CABO Beteiligungsgesellschaft m.b.H. had filed an action in June 2019 with the Klagenfurt Regional Court to challenge resolutions adopted at the Annual General Meeting of 8 May 2019, among them a resolution to reject a special audit. The plaintiffs withdrew this action in May 2021, and the proceedings were therefore terminated with legally binding effect. The plaintiffs had to reimburse BKS Bank for the statutory costs of the proceedings.

The same minority shareholders filed an action in June 2020 with the Klagenfurt Regional Court to challenge the resolutions adopted at the Annual General Meeting of 29 May 2020. The resolutions contested include the discharge from liability of the members of the Management Board and the (non-) discharge of individual members of the

Supervisory Board as well as the refusal to conduct various special audits. Furthermore, the plaintiffs are seeking a declaratory judgment by the court in respect of the challenged resolutions stating that the actions of the members of the Management Board and individual members of the Supervisory Board were not approved (no discharge granted), that the actions of one member of the Supervisory Board were approved (discharge granted) and that the abovementioned special audits are to be carried out. The proceedings remain interrupted, and the file has been forwarded to the Takeover Commission.

Furthermore, in March 2020, at the request of the aforementioned minority shareholders, the Takeover Commission initiated proceedings pursuant to § 33 Takeover Act. The subject of the investigation in these review proceedings was to clarify the preliminary issue underlying the aforementioned action for annulment, namely, to ascertain if the obligation to make a mandatory bid had been breached, in particular, pursuant to § 22a no 3 or § 22 para 4 Takeover Act by BKS Bank and its affiliated entities. Likewise on the request of the aforementioned minority shareholders, the Takeover Commission initiated review proceedings pursuant to § 33 Takeover Act regarding Oberbank AG and Bank für Tirol und Vorarlberg. The Takeover Commission combined these proceedings and held oral hearings. A decision is still pending. Given the relationships between the members of 3 Banken Group, a breach of the obligation to make a mandatory bid by one of the three banks may also affect the other two banks.

In July 2021, BKS Bank was served with a legal action for an injunction ruling and declaratory judgment by the aforementioned minority shareholders. The plaintiffs petitioned that the Bank für Tirol und Vorarlberg Aktiengesellschaft, Oberbank AG and Generali 3Banken Holding AG be prohibited from participating in future capital increases of BKS Bank or from allocating fewer shares to these shareholders in the event of capital increases and the plaintiffs based their petition on the applicability of the "excessive allocation theory". Furthermore, they are seeking a ruling rejecting the validity of the resolutions of the Board of Management and Supervisory Board in connection with the capital increases of 2009, 2014, 2016 and 2018.

After a careful review of the matter jointly with external experts, the Management Board is of the opinion that the allegations made by the abovementioned minority shareholders are unfounded. The course of the proceedings to date and several decisions and procedural rulings in favour of BKS Bank confirm our view.

Proceedings conducted by the FMA against BKS Bank on suspicion of market manipulation were brought to a legally binding end in the reporting year under the "accelerated termination of proceedings" procedure.[1]

[1] FMA publications: https://www.fma.gv.at/bekanntmachung-fma-verhaengt-sanktion-gegen-bks-bank-ag-wegen-verstoss-gegen-das-verbot-der-marktmanipulation/

Investor Relations Communications

We have a strong commitment to best practices for press conferences and in financial reporting, and aim to ensure transparency and the fair dissemination of information to all market participants.

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

We have been publishing an annual sustainability report since 2012 in accordance with the requirements of the Global Reporting Initiative (GRI) and the provisions of the Sustainability and Diversity Improvement Act (NaDiVeG).

In this report, we explain our sustainability strategy in detail and also discuss the numerous activities in the areas of strategy and governance, personnel, products and innovation, society and social engagement as well as environment and climate protection.

We will publish the sustainability report 2021 and the report on non-financial performance indicators in the Group management report at the same time as this Annual Report on our website at www.bks.at under »Investor Relations»/ Berichte und Veröffentlichungen. The sustainability report has been enlarged in order to comply with the requirements of the EU taxonomy, where applicable.

Financial Calendar 2022

Date	Content
04/04/2022	Press conference on 2021 financial statements
04/04/2022	Publication of the single-entity financial statements and the consolidated financial statements 2021 on the website and in the Official Gazette of the Republic of Austria “Wiener Zeitung” (published on 5 April 2022)
25/05/2022	83rd Annual General Meeting
31/05/2022	Ex dividend day
01/06/2022	Record date
02/06/2022	Dividend payout day
27/05/2022	Interim report for the period ended 31 March 2022
26/08/2022	Half-year financial report 2022
25/11/2022	Interim report for the period ended 30 September 2022

Investor Relations Contact

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04

04. Corporate Strategy

About us

BKS Bank's success story began 100 years ago on 25 February 1922. Kärntner Kredit- und Wechselbank Ehrfeld & Co was founded at the time to meet demand for the growing financial and credit needs of the Carinthian timber and sawmill industry. In the first decades, business activity concentrated in Carinthia. At the beginning of 1980s, the foundation was laid for the successful expansion into other markets. Today, we have operations in Austria, Slovenia, Croatia, Slovakia and Italy with 64 bank branches and four leasing companies. We employ 1,154 persons throughout the Group.

BKS Bank's business has been growing constantly since its foundation. In the initial phase of operation, business focused on corporate customers, while retail customers were acquired as a new segment in the mid-1960s. With the acquisition of new markets in Austria and abroad, the number of customers increased steeply. Today, our customer base includes some 194,500 retail and corporate customers. BKS Bank's ordinary shares have been listed on the Vienna Stock Exchange since 1986.

Our customers

In the segment of business and corporate banking, we focus mainly on industrial, commercial and trade customers as well as on non-profit housing construction companies, property developers, municipalities and self-employed professionals. Our advisory services and products include traditional banking products such as working capital loans, investment and export finance as well as advisory services for government lending schemes. We also offer payment services including e-commerce solutions as well as account and card services. We are continuously expanding our range of digital solutions. Recently, we successfully launched a new digital corporate account application including digital onboarding.

We also offer different types of deposit accounts as well as products for investing surplus liquidity and wealth accumulation. We serve some 26,400 corporate and business customers.

In the retail banking segment, our customer groups include private sector and public sector employees and members of the healthcare professions. We have been transforming our range of products and services for retail customers continuously over the past few years, and today, all routine banking transactions are conducted digitally. The excellent quality of our advisory services for retail customers remains a core area of competence. We always offer the option of personally consulting advisors both at branches and online. We serve around 168,100 retail customers throughout the Group.

Our markets

Austria is our principal market and includes the regions of Carinthia, Styria, Vienna, Lower Austria and Burgenland. Apart from Austria, we are also present in Slovenia, Croatia and Slovakia with bank branches and leasing companies. In Italy, we operate a BKS Bank representative office and the company BCS Fiduciaria Srl.

Our partners

We hold mutual shares in Oberbank AG and Bank für Tirol und Vorarlberg AG. These cross-holdings secure our independence and the jointly-held subsidiaries create synergy effects. Our many years of partnership with the building society Wüstenrot and Generali Versicherung completes our range of offers.

What we stand for

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

Our mission

Our strong regional roots give us stability and permit us to grow in our regions.

We see ourselves as a commercial bank, independent and autonomous in its decisions.

Being part of the 3 Banken Group and the equal standing within the alliance gives us the strength of a major bank.

We pursue a self-determined path. We are progressing one step at a time towards the goal of becoming one of the ten most important banks in Austria.

We take risks only when we are able to master them on our own strength. This helps us retain our independence and autonomy.

We understand the individual needs of our customers. We are the first choice for discerning customers and combine advisory excellence with modern digital solutions.

Living sustainably means assuming responsibility for our region and our future.

Our employees act responsibly and strive to provide high quality. We offer our employees an attractive workplace and career prospects. We invest in their further training and promote a good work-life balance.

We offer shareholders long-term value appreciation and reasonable annual returns. This makes us appealing to investors and strengthens our capital adequacy.

Our values

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

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

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

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

Excellent We only do what we are really good at, but better than our competitors and exceed the expectations of our partners and customers.

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

What we are proud of

Our corporate strategy of sustainable growth was proven sound in 2021. Our earnings are stable, our capital adequacy ratio is good, and we are constantly acquiring new customers. We are one of the best in the industry in sustainability. We are very proud of this.

Liquidity Coverage Ratio

208.9%
We exceed the regulatory minimum ratio of 100%.

Brand excellence
We do only what we are really good at, but we do it better than our competitors and surpass expectations

Target groups
Corporate and business customers, industry, commerce, non-profit housing developers, developers, municipalities, public institutions, free professions, healthcare professtionals

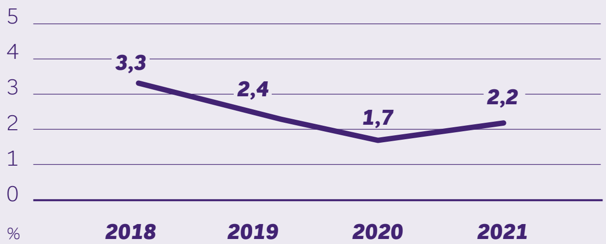
Markets
Austria, Slovenia, Croatia, Slovakia, Italy

Awards

Vision und Mission

Risk

Development of NPL Ratio



IT Systems Availability

99%

Digital Transformation

7,200
BizzNet users

59,900
MyNet users

BKS App rating

Android users: **4.8** of 5

IOS users: **4.7** of 5

Performance

EUR 80.8 million
Net profit for the year

194,500
Customers

5.9%
Credit volume growth

51.1%
Cost/income ratio

Shareholders´equity

EUR 1,459.3 million
Shareholders' equity

Solid capital cover
13.0% CET1 ratio
16.6% total capital ratio

8.2%
Leverage ratio

Quality and sustainability

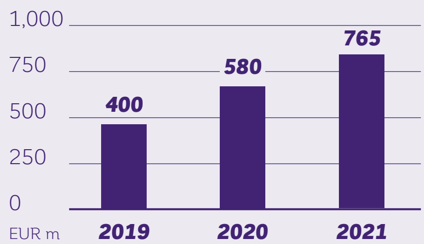
Customer satisfaction

92% of retail customers and **86%** of corporate and business customers gave us the top grades **1 and 2.**

Employee satisfaction

Overall satisfaction is **2** on a six-tier scale.

Volume of sustainable products



Our strategy

The future of BKS Bank

Before looking forward, let us take a look at the past – to the year 1922. Kärntner Kredit- und Wechselbank Ehrfeld & Co was founded at the time, which marks the birth of today's BKS Bank. The 1920s were hard times. Carinthia's economy was devastated by years of war. Despite this, several prominent citizens and entrepreneurs in Carinthia decided to found their own bank. The clear objective behind this move was to provide Carinthia's industrial sector with loans to stimulate the economy.

100 years have passed since the founding days. Today, the same as a century ago, we are living in challenging times, although the nature of the challenges is quite different now. Nonetheless, there are similarities. Mastering today's challenges requires foresight and courage. These two characteristics were strong points of BKS Bank in the early days, and they still are when it comes to actively managing change. The Bank's management in past decades and today's management have one thing in common: they believe change is an opportunity. And the Bank's original philosophy of being a reliable partner for the business sector has not changed to this very day.

Although the banking business has undergone fundamental changes several times and overcome quite a few crises, one thing never changed: lasting success. Long-term success instead of short-term profits – this is the guiding principle that has made it possible for the bank to develop from a regional bank in Carinthia into an international banking group.

The story of BKS Bank is far from over. The success story continues, and we are again confronted with major tasks. Climate change and the transition to a low-carbon economy will bring about major changes for our customers and for us. The digital transformation is revolutionizing the banking business and creating a host of new opportunities. The environment for the banking business remains difficult. Low interest rate policies, pressure from competitors, new market players, geopolitical disruptions such as the war in Ukraine, and many more factors are depressing the profitability of banks.

We are nonetheless confident about the future. At BKS Bank, we have a well-thought-out strategy process, which helps the management team reach the right decisions based on in-depth analyses. Once a year, the management meets at a retreat for several days to evaluate the Bank's strategy, discuss forecasts, and define joint fields of action to keep BKS Bank on its path to success.

We pursue a growth strategy oriented on sustainability. This strategic focus has not changed, although we have made adjustments from time to time, most recently in the year under review. We modified our goals and added objectives from our sustainability strategy to the general corporate strategy. Our goal is to make our corporate strategy work well with our sustainability strategy, because securing a livable future means we have to focus on the big picture.

Our key strategic goals

We are **profitable, productive,** and continuously achieve **solid earnings.**

We adequately **limit (credit) risks.**

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

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

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

We are profitable in the **retail segment.**

We **focus** our growth in **non-lending business** areas.

We are **transforming** our organisation for the **digital age**.

Quality is an **integral part** of our daily work.

We **value and respect** our **employees**.

We are **Austria‘s most sustainable bank**.

We aim for **climate neutrality**.

We have **management staff** that assumes **responsibility** - **autonomously** and **professtionally**.

We believe sustainability is a driver of **innovation for sustainable banking products**.

How we aim to achieve our goals

To achieve the defined corporate goals, we have modelled our corporate strategy on a Greek temple. We have been using this image for several years in communications with our stakeholders. The image of a building has been selected intentionally to illustrate the interdependence of the individual components. The stronger the foundation, the more stable the structure and the greater the resilience to changes in market conditions. The stronger the columns, the better they can carry the load on the roof. The long-term vision of BKS Bank’s future is depicted above the image of the building.

Each of the elements represents a strategic field of action on which we plan to focus in the coming years. In the reporting year, we revised the structure of our strategy and defined in more detail the mainstays on which our future success rests:

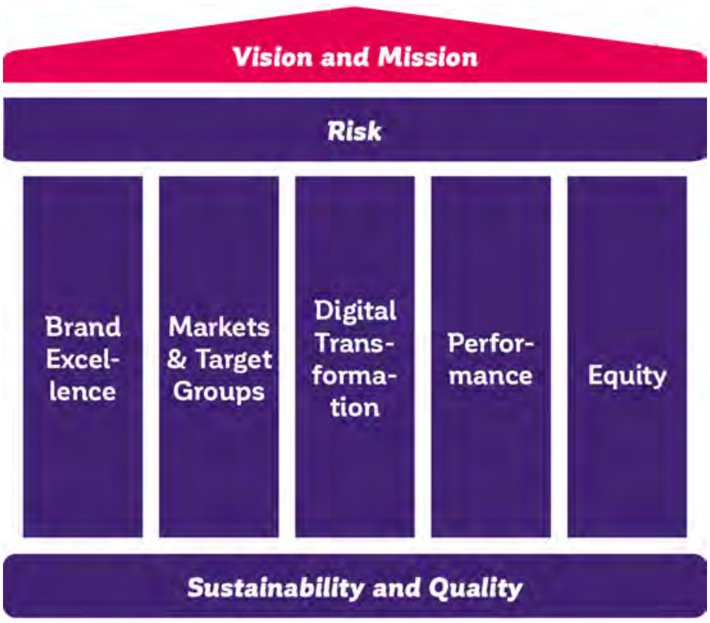
Brand excellence: turning customers and employees into fans

We live in a society of overabundance in which the range of goods and services is so vast that we lose track of them and they become interchangeable in many respects. This makes it harder for customers to reach purchasing decisions. Brands can be an important element to help people recognize products and services. Brands make it easier to choose and offer orientation and help to build trust.

Successful brands communicate their meaning with every contact, and create a positive and uniform image in the minds of customers Employees and customers become attached to brands and may subsequently develop into loyal fans.

BKS Bank is a strong brand and has been highly successful for 100 years. Surveys of employees and customers repeatedly confirm their high degree of satisfaction with our work and the high level of trust in the BKS Bank brand. This positive feedback motivates us to continue on the path selected, guided by our core brand values: warm-heartedness, regionally-committed, strong in relationships, responsible, future-oriented and excellent.

Successful brand management is like a marathon, which we will achieve with the necessary discipline and sufficient support based on the 100-year history of our company. We will continue to work with enthusiasm and engagement to remain a reliable banking partner for our customers, business partners and shareholders.



Markets and target groups: organic growth

We want to grow one step at a time on our own strength. To achieve this goal, we are making every effort to win new customers in all regions. We do not hesitate to open branches in places where we see good market opportunities.

In addition to stationary sales, we believe there is enormous growth potential in digital sales. With the market launch of the BKS Bank Connect app, we created a digital bank within BKS Bank specifically for customers that prefer to do their banking online.

Several major projects are planned for the coming months under the heading "Markets & Target Groups", including the changeover to the euro in Croatia and defending our top position as a securities service provider in Slovenia. We aim to improve cross-selling and up-selling in all markets and acquire new customers. On our foreign markets, we also want to accelerate the digitization of customer processes and develop the digital range of products and services. However, we will also review our risk strategy on our foreign markets considering the recent case of embezzlement.

Digital transformation: increasing innovative strength

Technological change has been part of life for many years. The potential of digitization is still enormous. Therefore, digitization remains the biggest driver of innovation apart from sustainability.

We have created an impressive portfolio of digital products and services in recent years. In the retail segment, for example, all routine banking transactions can be done entirely online.

In our view though, being online does not mean being anonymous and we accompany our customers throughout their digital journey. We aim to offer support through all channels. The large number of digital applications can also create uncertainty, which we hope to offset by providing specific information.

To ensure the swift digital transformation throughout the Group, we have developed numerous new digitization projects that are ready to start. As already mentioned, one of the areas of focus are foreign markets. In the past, we have completed important preliminary work in our foreign markets, but the range of digital products and services still has potential.

Within the country, we are concentrating on making further products and services available online such as leasing contracts for movables. We are working on new features for our customer portals MyNet and BizzNet, and are also continuously enhancing and improving the BKS app to retain the excellent user ratings.

We have high expectations for a newly launched project that will completely change the way we communicate with customers and their experience. Intense work is also under way on the digitization of the highly complex lending process for corporate and business customers. We expect major achievements in this area in the coming twelve months. At the branches, workplace modernization will be completely shortly. Sales staff will soon be equipped with modern tablets to make it easier to conduct talks with customers digitally and also to enable the electronic signature for contract documents.

Performance: ready for the future

Despite the hype surrounding the opportunities of digitization, it is necessary to keep track of costs. Technological change requires investments in the millions. The earnings situation of banks has been under pressure for years due to several factors – low interest rates, competitive pressure, excessive regulation. This means that increasing efficiency and cutting costs must be on the strategic agenda permanently.

Our management staff and employees are well aware of the importance of keeping costs low. Investment decisions are reached on the basis of detailed cost-benefit analyses and investments are only made when it is actually necessary.

One investment that has yielded returns many times over was the acquisition of workflow systems. We have been using these systems since 2016 and the efficiency gains are impressive. We plan to enormously increase the use of workflows in the coming years. Very promising are also the potential uses of robotics software, mainly for repetitive process steps. We plan to increase the use of these applications in order to reduce monotonous work and increase speed and efficiency.

These technological innovations are a great support, and therefore, it is necessary to review organisational structures from time to time to identify savings potential. In the coming years, the processes in back-office workflows will be analyzed.

One of the key cost drivers is maintenance and repair work for the diverse IT systems. We plan to integrate the core banking systems of our foreign markets into the Austrian systems in the coming years. This is expected to help lower costs immensely. We will start with the market in Slovenia where preparations are already under way.

Equity: securing independence

A strong equity base guarantees future growth and increases resilience. The capital ratio and own funds ratio of BKS Bank are at very good levels and clearly exceed the regulatory requirements. Measures to strengthen capital ratios, especially the common equity tier 1 capital ratio is one of our key strategic goals. Essentially, we pursue the following priority strands: First, we will continue to work on being profitable to allow us to reinvest profits.

Second, we will promote our issuing business and raise the number of issues attributable to own funds, and third, we will further optimize the measurement base for calculating regulatory own funds. Moreover, further capital increases are part of our spectrum of measures to strengthen equity.

Sustainability and quality: the foundation of our success story

Our strategy is based on two key topics: sustainability and quality.

We are one of the best in the banking industry with respect to sustainability, and there are good reasons for this. For many years already, we have been dedicated to sustainability and have established the topic as a core part of our corporate strategy. Long before sustainability became a pressing issue in politics, we were looking closely into the issues of environmental and climate protection, and working on the development of "green" investment and finance products.

The Green Deal of the European Union and the EU Action Plan for Financing Sustainable Growth are important developments, which we welcome and confirm that we are on the right course. Banks with their financing and investment business play a key role in the struggle to prevent climate change. We have vast experience in this field and will continue to consolidate our leading role in the coming years.

We have had our own sustainability strategy, which we regularly update, for a long time and this highlights the enormous importance of corporate social responsibility at our bank.

Our Sustainability Report is published at the same time as the Annual Report (4 April 2022) on our website. We cordially invite you to read our Sustainability Report 2021.

Quality has always enjoyed high priority at our bank. Our activities to increase quality are evaluated regularly by Quality Austria. We are proud to have been awarded the international distinction “EFQM Recognised for Excellence 5 Star”. In 2019, we were very pleased to receive the State Award for Business Excellence 2019. This award makes us especially proud and means that we have the obligation to continue our quality strategy.

Effective risk management: guarantee for strategic success

A key element of our business is knowingly assuming risks. Important in this respect is the early recognition of all relevant banking and operational risks as well as their active management and mitigation by taking effective risk management measures. We have established a solid risk culture. Our solid risk culture is the framework for our daily work and our top priority is to only take risks that we can master on our own strength.

The risk strategy is evaluated once a year. The priorities that we plan to focus on in the coming years are ESG risks and the risks of real estate finance. In the case of ESG risks, we are concentrating efforts to create a solid database to establish valid measurement methods for assessing, limiting and managing sustainability risks. The effects of the coronavirus pandemic will also play a role in risk management for some time to come. Further details on risk management are available in the Risk Report starting on page 171.

Financial year 2021: on a stable course

In the past financial year, we worked systematically to implement our corporate strategy. Below is an overview of our achievements:

Branding style established at branches

In the reporting year, we continued the rebranding started in 2019 and adapted the design style at some branches to the match the new branding. The modernized branches also implemented the concept of “bank branch of the future”. We believe the bank branch of the future is an open space with a service desk, modern self-service areas featuring the latest technological innovations such as the white card for cash transactions. Customer feedback on the new branding style has been widely positive.

Shortly before the summer, the MyNet and BizzNet customer portals were also adapted to match the new branding. The new design has enormously changed the look and feel, and customers have responded very positively to the new appearance.

Broad approval of the BKS Bank brand

Market studies and customer surveys have yielded very pleasing results in the last year.
In a banking survey conducted by the Linz-based market research institute, we were named the most likeable and innovative bank in Carinthia in a comparison of all Austrian regions. We were the credit institution with the highest recommendation ratio in all of Austria. The results of our latest customer satisfaction survey are just as pleasing.

Our customers gave us an overall rating of 1.5 for general satisfaction. We conduct this customer satisfaction survey every two years. To obtain more timely feedback, we have also started online surveys during the year. Customers who visited one of our branches or contacted us through other channels were invited to rate their experience. Our customers also gave top ratings in this survey as well.

These excellent results are highly motiving for us. We will continue to do everything in our power to strengthen the BKS Bank brand.

New customers acquired

In the year 2021, customer acquisition activities focused primarily on retail customers. Following the principle "from sales for sales", selected branches developed acquisition measures and shared their experience with the staff of other branches. This exchange resulted in the new concept for the requirements of modern branches.

Intensive work on two major projects was conducted in foreign markets: first, preparations for setting up a leasing company in Serbia; second, a preliminary study for the introduction of investment advisory services in Slovenia. The two projects will be completed in the financial year 2022.

Digital transformation progressing swiftly

The move towards digitization received an enormous boost from the coronavirus pandemic. As we correctly assessed this trend many years ago, we were well prepared for the transition of work to online mode.

There are numerous projects in the portfolio for implementing our digital transformation strategy every year, and in the past year we again finalized a number of major projects.

The option to activate push messages in the BKS app went live in summer. This means that customers are informed of movements on their bank accounts at all times. We have also released other useful features in the BKS app, such as the option of making changes to recurring funds transfers and improved account display.

The MyNet and BizzNet customer portals have featured the new design for several months now. Other functions were also launched, including the possibility of prolonging the validity of the investor profile and the option of updating the know-your-customer statement in the customer portal.

We achieved a major milestone in the corporate customer segment with the introduction of new products. Since September, businesses can become customers of our bank through a fully digital process. At the same time, we also launched the first digital corporate customer account. The business account "Smart & Simple" is designed for new businesses and can be set up entirely online.

We also make use of the opportunities of digitization for internal processes. Our sales staff has been working with VERA, the digital sales assistant, since spring. This system gives employees better access and an overview of all sales-related tasks and bank applications. We plan to add features to VERA with further helpful functions in the coming years.

Implementation of EU Action Plan under way

The EU Action Plan for Financing Sustainable Growth affects almost our entire core business. The objectives include:

- A definition of a uniform taxonomy of what may be considered environmentally sustainable
- More transparency in sustainable investments through new disclosure requirements
- The integration of sustainability risks into banks' risk management

Already in 2019, we launched a far-reaching implementation project to meet all the requirements.

Extensive preparatory work is necessary in order to be able to publish the green asset ratio (GAR) in future. GAR indicates the ratio of taxonomy-compliant transactions. The review process for determining whether a loan can be classified as taxonomy-compliant is extremely complex. Therefore, we cooperate with other banks and Dydon. Dydon is one of the leading providers of artificial intelligence applications. The objective is to develop taxonomy testing software that takes advantage of artificial intelligence and engineering process models to generate data. In the reporting year, we achieved good progress. However, checking taxonomy-compliance of SMEs remains a challenge, considering that this is an important customer segment.

A look at the value chain of banks shows that the majority of emissions caused by banks are not related to direct business activities, but rather to lending and investment, so-called "financed emissions". Considering the objective of climate neutrality, we believe it is particularly important to identify and reduce such financed emissions. We are pleased to report that the Sustainability Report 2021 will include the first emissions calculation in accordance with the standards of the Partnership for Carbon Accounting Financials for corporate loans, vehicle loans and lease financing as well as for our asset management and for our own portfolio. In 2022, we also plan to complete the emissions calculations for the other PCAF asset classes.

At the same time, we have started aligning our own portfolio to the Paris Climate Agreement. After reallocations, we are now well on track to meet the timetable of the Paris Climate Agreement.

As already mentioned, we have taken account of the increasing importance of ESG risks by revising our risk strategy. Since June, we have been collecting soft facts on potential ESG risks in lending. We will supplement this data with an ESG score calculated by CLIMAID. The calculation of the CLIMAID ESG score is based on queries of several external databases and enables an analysis of the entire credit portfolio for any deviations from the standard that may arise from ESG risks.

Green Building – living sustainability in construction

According to EU calculations, real estate is one of the largest consumers of energy. Therefore, energy-efficient construction plays an important role in climate protection. BKS Immobiliengesellschaft successfully completed two green building projects in 2021: BKS Holzquartier and the residential complex Urban Living. Both residential complexes are located in Klagenfurt's city center. Green buildings consider ecology, economy and socio-cultural aspects throughout the entire life-cycle and are certified under ÖGNI. Another green building is currently under construction in Eisenstadt and will be completed in the spring of 2022.

Numerous awards

We are pleased to report that in the financial year 2021 we again received major industry awards. We were conferred two noteworthy awards for sustainability in the reporting year. These awards are important to us and confirm that we are on the right path.

In June, we received the **Sustainability Award of the Vienna Stock Exchange** in the "Financial Services" category. The next award followed in November. At the ASRA awards ceremony, the BKS Sustainability Report 2020 was named the best sustainability report in the "Large Companies" category and we received the coveted **ASRA trophy**. BKS Bank ordinary shares were again included in the VÖNIX sustainability index of the Vienna Stock Exchange – for the sixth time in a row.

We have been certified under the EMAS environmental management system for several years. Every year there is an **EMAS Recertification,** and we successfully completed the last one shortly before Christmas.

Our green range of products was also very popular and widely recognized in the past financial year. For the third time, the product "**BKS Bank Portfolio Strategie nachhaltig"**[3] was awarded the **Austrian Ecolabel**.

[3] Disclaimer This marketing communication serves exclusively as non-binding information and does not constitute a recommendation or an offer to buy or sell securities products. *The Austrian Eco-label was awarded by the Federal Ministry for Climate Protection, Environment, Energy, Mobility, Infrastructure and Technology (BMK) for BKS Portfolio-Strategie nachhaltig because, in addition to economic criteria, ecological and social criteria are also taken into account when selecting shares/bonds/share certificates/real estate or projects financed by means of current/savings deposits or green bonds. The Ecolabel guarantees that the criteria and their implementation are suitable for selecting appropriate stocks/bonds/share certificates or real estate, projects or forms of investment. This has been independently verified. The Ecolabel award does not represent an economic evaluation and does not allow any conclusions to be drawn about the future performance of the financial product.

As regards investments, we received more good news just before the end of the year: The investment funds “BKS Investment Mix Konservativ” and “BKS Investment Mix Dynamic” were conferred the **Austrian Fund of Funds Award**, which is presented once a year by the magazine GELD.

Strong relationships, excellence and regional roots are important elements of the high quality of our consulting services. It is gratifying that these principles, which are very important to us, are also confirmed by external studies. For the second time, we received the **ÖGVS Service Award** for excellent consulting services. Additionally, we were also selected by ÖGVS as the **winner** in a test of investment advisory services.

A special highlight was the quality seal we received "**Innovative Company Austria**". This award is recognition of our strong position in innovations. Based on a study by Milestones in Communication and IMWF Institut für Management- und Wirtschaftsforschung, the Kurier media group designates the most innovative companies in Austria. BKS Bank was among the winners.

The next award we received was at the beginning of 2022: the **quality label for workplace health promotion** again which is valid for three years.

05

05. Group Management Report

Economic Environment

Inflation clouds positive economic development

The predominant trend in the year 2021 was one of economic recovery. In some regions, primarily China and the US, the upswing was particularly strong. At 5.7%, the **US economy** expanded in 2021 at a pace not seen since 1984. The main drivers behind this impressive expansion were consumer spending, capital expenditure as well as exports and investment in inventories.

The **Chinese economy** likewise reported strong growth rates again. In spite of temporary difficulties experienced in the real-estate sector, China's GDP grew by 8.1%.

Growth in Europe was still quite strong, although the pace was slightly slower. For the full year 2021, the **euro area** reported an average growth of 4.6%. In some countries, however, the last quarter saw growth slowing somewhat. While countries such as Spain and Portugal grew by 2.0% and 1.6%, respectively, in the fourth quarter of 2021, countries such as Austria and Germany reported significantly lower growth rates. The German economy contracted by 0.7% compared to the previous quarter, while France and Italy performed in the mid-range at growth rates of 0.7% and 0.6% respectively.

Austria fared even worse than Germany. The fourth lockdown put a massive damper on economic recovery, with shortfalls in added value in the billions of euros. Austria's GDP declined by 2.2% in the fourth quarter, the worst economic performance by far among the euro area countries. According to Wifo calculations, Austria's GDP would have grown by 0.7% compared to the previous quarter had no lockdown restrictions been imposed.

The recovery as well as persistent supply chain problems, especially with semiconductors, led to a marked increase in **inflation rates**. In the US, inflation hit 7% at year-end 2021, a level last seen in 1982. Inflation also rose in the euro area to 5% by December. High inflation rates cause worry among currency watchdogs in the major industrialized countries as well as among policymakers. Fears of a more restrictive monetary policy and lower fiscal spending could significantly cloud the economic outlook.

Central banks shift policy bias

After the most recent meeting of the US Federal Reserve Bank (Fed), it has become a certainty: the US will raise key lending rates the first time in March. Neither does Jerome Powell, chair of the Fed, exclude further interest rates at any one of the remaining six Fed meetings scheduled for 2022. At the same time, the bond buying programme will be scaled back by USD 30 billion each month, before finally being discontinued in March. The Fed also reserves the decision to remove liquidity from the market starting in the summer of 2022. The Fed's "new" policy aims to bring down inflation through a combination of tapering and a less expansionary fiscal policy.

The European Central Bank (ECB) is also expected to embrace this stance, albeit not to the same extent. While the ECB is going to continue cutting back on bond buying, a hike in interest rates is not expected for the time being, an assumption which was confirmed by the ECB in December. ECB president Christina Lagarde was quoted as saying: "It is very unlikely that we will raise interest rates in the year 2022".

2021 was excellent year on capital markets

In the year 2021, the global economy recovered significantly and capital markets also performed very well. The fourth quarter of 2021 was no exception, which was good news for investors. Commodity markets saw another strong growth spurt. Both European Brent and US WTI crude posted a rise of roughly 4.3% in EUR. Price hikes for industrial metals such as zinc (some 21.2%) and tin (some 18.9%) were even more pronounced. Following its previously weak performance, gold also regained some ground, ending the final quarter at a plus of 5.7%.

All in all, global equity markets performed excellently well. European equities rose by some 7.8% from the end of September to the end of December. The prices of German and Austrian equities increased by 4.1% and 6.5% respectively. US stocks rose by around 13.8% in EUR. Japanese equities did not perform as well, dropping by around 3.2%. The performance of bond markets was rather weak.

In Q4 2021, euro government bonds lost on average 0.6%, and corporate bonds about 0.7%. Emerging market bonds in hard currencies benefited from the appreciation of the US dollar, posting slightly higher prices by around 1.9%. Convertible bonds were unable to follow up on their highly positive performance of 2020 and declined on average by 2.1%.

Weaker euro

EUR vs. USD depreciated from 1.158 to 1.137 EUR per USD dollar, which is a minus of 1.8%. Versus the Swiss franc, the exchange rate went from 1.079 to 1.038, which is a decrease of 3.8%. The EUR/JPY exchange rate rose from 128.88 to 130.90, which is a rise of about 1.6% for the EUR. Compared to the British pound, the euro lost 2.1% (EUR 0.859 to 0,841 per GBP). The Croatian kuna, which is an important currency for us as a bank, appreciated slightly versus the euro by 0.3% and was quoted at HRK 7.516 per EUR at year-end.

Performance of European stock indices

Effects of the Coronavirus Pandemic

The pandemic kept a firm grip on the global economy in 2021. Declining infection rates in the summer and the availability of vaccines had us looking ahead to the cold season with some degree of optimism. However, rising infection rates in November resulted in a renewed lockdown in Austria. The development of omicron, the most recent virus variant, is giving cause for concern and requires forward planning for critical infrastructure, which also includes banking.

The BKS Bank crisis team had its plate full again in 2021, with ongoing decision-making needed to steer both staff and customers through the crisis with their health intact.

Protective measures introduced already in 2020 remained in place, among them backup locations, protective screens at the branches, and the increased use of video conferencing. For a whole year, we also operated an antigen testing station at our head office, which constituted an invaluable contribution towards containing the pandemic at our bank. We completed some 5,650 antigen tests. The testing station was shut down in November 2021, once antigen tests had become less relevant for certifying infection-free status. While we recorded more positive coronavirus tests in 2021 than in 2020, we are pleased to note that all 149 employees affected recovered fully.

Digital solutions for customer business

All BKS Bank branches remained open for business throughout the pandemic. The use of digital solutions was boosted enormously by the pandemic, also in the banking sector. Our range of digital services enables our customers to complete their daily banking transactions without having to visit a branch in person. Like cashless and smart payments, these services are being used much more often now by our customers than they were in the past.

To assess how much our corporate customers might have been affected economically by the pandemic, we carried out regular analyses. We introduced various measures in our risk strategy such as monitoring severely affected customers more closely. Fortunately, the onset of economic recovery in the second quarter, as well as government support measures, helped prevent a surge in insolvencies as had initially been feared. Throughout the reporting year, we kept a close eye on the development of credit risk. As a precautionary measure and in accordance with IFRS 9B5.5.1 et seq., we carried out a collective stage transfer for regions and sectors heavily affected by the pandemic, thus creating additional security buffers.

Another key focus point for us was of course providing support to our customers. Once again, our customer relationship managers and lending experts had numerous talks with customers and assisted with applications for bridge financing and loan deferrals. However, these were less in demand than in the preceding year. In total, bridge financing at year-end amounted to EUR 99.7 million (pr. yr.: EUR 80.9 million). As at 31 December 2021, the lending volume subject to deferment because of COVID-19 came to only EUR 1.7 million (pr. yr.: EUR 282.5 million).

We mastered the second year of the pandemic with flying colours. We are very thankful and proud that our management and our employees never lost sight of our common goals, in spite of challenging circumstances. Key projects were rigorously pursued or successfully completed, enabling us to keep BKS Bank steadily on the path to success.

Management and Organisational Structure

The development of responsible management staff is important to secure the future of our bank. We also pursue active succession planning to fill open management and key positions from within the bank's own ranks. We offer our employees comprehensive support and development programmes regardless of age, gender or socio-cultural background.

Share of women in management positions exceeds target

By year-end 2021, we had 185 persons working in management positions. One aim of our sustainability strategy is to raise the share of women in management positions to 35% by 2025. We are pleased to report that we surpassed this mark, for the first time ever, reaching a 36.5% share of women at the end of 2021. Our special promotion programmes for women have contributed significantly to this positive development. So far, 72 employees have graduated the women's career programme in Austria, and 2022 will see the programme rolled out for the first time also to our international staff.

Our management staff are very loyal to our company. Some of them have been part of the management team for a long time, a fact also reflected in the relevant age structure. 42% (pr. yr.: 45%) of our management team are over 50 years old, and 57% (pr. yr.: 54%) are between 30 and 49 years old. The share of younger executives is steadily increasing, with the changeover between the generations being completed smoothly.

Changes in the Management and Organisational Structure

Nikolaus Juhász joined the Management Board on 1 July 2021. He is responsible for key areas of sales in Austria as well as for the thematically related areas of "Financing and Investing" and "Investing and Retirement Provisioning", as well as for private banking.

The Treasury and International Operations department was split into two departments, "Sales International" and "Treasury and Financial Institutions" with effect from 1 January 2021. "International Sales" will be in charge of sales on our foreign markets, while "Treasury and Financial Institutions" will handle treasury matters, customer trading and the collaboration with our correspondent banks.

Tihomir Zadražil was removed from his position as head of the Croatian Branch. His position has been filled by Bahrudin Kovačević, who is now responsible for the "Market" section at the Croatian Branch.

New power of attorney

On the proposal of the Management Board and with the consent of the Supervisory Board, Manfred Isopp was conferred the power of attorney in the financial year 2021.

Fit & Proper Qualification

BKS Bank organizes regular further education and training courses to ensure the suitability of members of the Supervisory Board, Management Board, management staff and key employees. Specialized training courses for Supervisory Board members are usually held immediately after the meetings of the Supervisory Board. In the reporting year, these were held mostly online.

As at 31 December 2021

Management Board
Herta Stockbauer, Chairwoman
Dieter Kraßnitzer
Alexander Novak
Nikolaus Juhász

Head Office - Central Staff Units

Office of the Management Board and Investees
Dieter Kohl

Securities Supervision Act and Banking Act - Compliance
Christoph Pinter

AML
Fabia Orlandini

Accounts and Controlling
Hubert Cuder
Gerald Auer
(Risikocontrolling)

Personnel Management
Werner Laure

Internal Audit
Robert Raunig

Service Companies in Austria

BKS Immobilien-Service GmbH
Manfred Isopp
Hubert Cuder

BKS Service GmbH
Jaroslav Zvolensky
Klaus Patterer

Head Office

Investments and Savings
Georg Svetnik

Payment Services
Günther Offner

Finance and Investment
Ronald Hassler

Sales
Viktor König

Digital Sales
Gudrun Matitz

Sales International
Renata Maurer-Nikolic

Risk Analysis and Services
Sigrid Zoff

Credit Risk
Andreas Kritzer

Treasury and International Operations
Ferdinand Pinkelnig

Operations
Klaus Patterer

Leasing in Austria

BKS-Leasing GmbH
Michael Meschnark
Silvia Gaber

International

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

Representation Offices
Italy (Padova)

Regional Head Offices

Carinthia
Bernd Berger
Sabine Lax
Diethmar Wölle

Styria
Manfred Geiger

Vienna-Lower Austria-Burgenland
Martin Gratzer
Anton Seebacher

Slovenia
Damjan Hempt
Dimitrij Pregelj

Croatia
Bahrudin Kovačević
Juraj Pezelj

Slovakia
Ladislav Fülöp
Peter Chovanec

Shareholders

BKS Bank's shares are listed on the Standard Market Auction segment of the Vienna Stock Exchange.

On 31 October 2020, the conversion of the remaining preferred shares into ordinary shares was registered in the commercial register, and since that day, the nominal share capital has been unchanged at 42,942,900 no-par value ordinary shares.

The converted preferred shares were listed under a separate ISIN AT0000A2HQD1 as "BKS Bank ordinary shares from conversion" until 19 January of the reporting year. Since 19 January, all shares have been listed under ISIN AT0000624705, which had already been assigned to the ordinary shares.

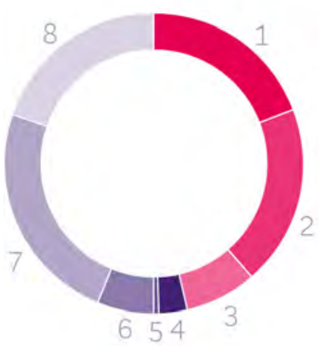
Authorised capital

The Management Board was authorised pursuant to § 4 of the Articles of Association of BKS Bank to increase - within five years of the corresponding amendment to the Articles of Association being registered in the Companies Register pursuant to § 169 Stock Corporation Act and subject to approval by the Supervisory Board - the share capital by up to EUR 16,000,000 by issuing up to 8,000,000 ordinary no-par bearer shares and to determine the offer price and the terms of issue in consultation with the Supervisory Board. After the resolution passed at the 79th Annual General Meeting, the amendments to the Articles of Association were registered in the Companies Register on 12 June 2018.

Composition of the capital

On 31 December 2021, Oberbank AG, including the sub-syndicate with Beteiligungsverwaltung Gesellschaft m.b.H., held 19.2% of the voting rights. On 31 December 2021, Bank für Tirol und Vorarlberg Aktiengesellschaft held 18.9% of the voting rights. On 31 December 2021, Generali 3Banken Holding AG held 7.4% of the voting rights. These investors have mutual cross-holdings and form a syndicate. 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 pre-emptive rights and rights of first refusal of the syndicate partners. The share of voting rights held by all syndicate partners, including the sub-syndicate of Oberbank AG with Beteiligungsverwaltung Gesellschaft m.b.H., was 45.5% at year-end. The portfolio of own shares was 749,659 ordinary shares on 31 December 2021, which corresponds to a ratio of around 1.75%.

Shareholders of BKS Bank Bank AG as at 31 December 2021



		in %
1	Oberbank AG (incl. sub-syndicate with Beteiligungsverwaltung GmbH)	19,2
2	Bank für Tirol und Vorarlberg Aktiengesellschaft	18,9
3	Generali 3Banken Holding AG	7,4
4	Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	3,0
5	BKS-Belegschaftsbeteiligungsprivatstiftung	1,6
6	UniCredit Bank Austria AG	6,6
7	CABO Beteiligungsgesellschaft m.b.H.	23,2
8	Free float	20,1

Key facts on BKS Bank's shares

	2020	2021
Number of ordinary no-par shares ISIN (AT0000624705)	41,142,900	42,942,900
Number of ordinary no-par shares ISIN (AT0000A2HQD1)	1,800,000	-
High (ordinary/ordinary-conversion/preference share) in €	16.0/13.6/15.0	16.7/13.8/-
Low (ordinary/ordinary-conversion/preference share) in €	11.3/11.8/10.3	11.3/13.5/-
Close (ordinary/ordinary-conversion/preference share) in €	12.5/13.6/-	15.3/-/-
Market capitalisation in €m	538.8	657.0
IFRS result per share outstanding in €	1.72	1.85
Dividend per ordinary share	0.12	0.23[1)]
PER ordinary/ordinary-conversion/preference share	7.3/7.9/-	8.3/-/-
Dividend yield ordinary share	0.96	1.5

[1)] Proposal to the 83rd Annual General Meeting on 25 May 2022

Share buybacks

In the year 2019, a share buyback programme was successfully carried out. In addition to the 14,000 shares from the share buyback programme of 2013, we repurchased some 100,000 ordinary shares on the stock exchange and over the counter through a publicly announced stock buyback programme at a price of EUR 17.1 per share. The buyback was carried out within the framework of the authorisation granted at the 79th Annual General Meeting in accordance with § 65 (1) nos 4 and 8 Stock Corporation Act. As 17,989 and 25,343 of these shares had been used for an employee participation scheme in 2019 and 2020 respectively, a new employee participation scheme was started in 2021: In the period from 1 April to 16 April 2021, 27,956 shares from the share buyback programme 2019 were used for this employee participation scheme at a price of EUR 11.5. The shares were paid out to employees under specific conditions as part of the annual bonus.

At the end of 2021, the number of ordinary shares attributable to the employee participation scheme was 42,712.

Ongoing legal proceedings

The minority shareholders UniCredit Bank Austria AG und CABO Beteiligungsgesellschaft m.b.H. had filed an action in June 2019 with the Klagenfurt Regional Court to challenge resolutions adopted at the Annual General Meeting of 8 May 2019, among them a resolution to reject a special audit. The plaintiffs withdrew this action in May 2021, and the proceedings were therefore terminated with legally binding effect. The plaintiffs had to reimburse BKS Bank for the statutory costs of the proceedings.

The same minority shareholders filed an action in June 2020 with the Klagenfurt Regional Court to challenge the resolutions adopted at the Annual General Meeting of 29 May 2020. The resolutions contested include the discharge from liability of the members of the Management Board and the (non-) discharge of individual members of the Supervisory Board as well as the refusal to conduct various special audits. Furthermore, the plaintiffs are seeking a declaratory judgment by the court in respect of the challenged resolutions stating that the actions of the members of the Management Board and individual members of the Supervisory Board were not approved (no discharge granted), that the actions of one member of the Supervisory Board were approved (discharge granted) and that the abovementioned special audits are to be carried out.

The proceedings continue to be interrupted and the file has been forwarded to the Takeover Commission.

Furthermore, in March 2020, at the request of the aforementioned minority shareholders, the Takeover Commission initiated proceedings pursuant to § 33 Takeover Act. The subject of the investigation in these review proceedings was to clarify the original matter of the aforementioned action for annulment to ascertain if the obligation to make a mandatory bid has been breached, in particular, pursuant to § 22a no 3 or § 22 para 4 Takeover Act by BKS Bank and its affiliated entities. Likewise on the request of the aforementioned minority shareholders, the Takeover Commission initiated review proceedings pursuant to § 33 Takeover Act regarding Oberbank AG and Bank für Tirol und Vorarlberg. The Takeover Commission combined these proceedings and held oral hearings. A decision is still pending. Given the relationships between the members of 3 Banken Group, a breach of the obligation to make a mandatory bid by one of the three banks may also affect the other two banks.

In July 2021, BKS Bank was served with a legal action for an injunction ruling and declaratory judgment by the aforementioned minority shareholders.

The plaintiffs petitioned that the Bank für Tirol und Vorarlberg Aktiengesellschaft, Oberbank AG and Generali 3Banken Holding AG be prohibited from participating in future capital increases of BKS Bank or from allocating fewer shares to these shareholders in the event of capital increases and the plaintiffs based the petition on the “excessive allocation theory” being applicable. Furthermore, they are seeking a ruling rejecting the validity of the resolutions of the Board of Management and Supervisory Board in connection with the capital increases of 2009, 2014, 2016 and 2018.

After a careful review of the matter jointly with external experts, the Management Board is of the opinion that the allegations made by the abovementioned minority shareholders are unfounded. The course of the proceedings to date and several decisions and procedural rulings in favour of BKS Bank confirm our view.

Proceedings conducted by the FMA against BKS Bank on suspicion of market manipulation were brought to a legally binding end in the reporting year under the "accelerated termination of proceedings” procedure.[4)]

[4)] FMA publications: https://www.fma.gv.at/en/announcement-fma-imposes-a-sanction-against-bks-bank-ag-due-to-breach-of-the-ban-on-market-manipulation/

Markets and Target Groups

BKS Bank was founded in Klagenfurt in 1922 as Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co. Our market has been constantly expanding since the foundation. Today, the BKS Bank Group has 64 branches and four leasing companies in Austria, Slovenia, Croatia and Slovakia as well as one representation office in Italy.

Our core regions

Bank	Number of branches	Number of employees
Austria	49	720.0
Carinthia incl. Corporate Banking	20	572.6
Styria	12	62.8
Vienna-Lower Austria-Burgenland	17	84.6
Foreign markets	15	223.7
Slovenia	8	129.7
Croatia	4	65.2
Slovakia	3	28.8

Leasing entities	Leasing volume	Number of employees
BKS Leasing GmbH	278,546	10.6
BKS-leasing d.o.o., Ljubljana	166,396	19.5
BKS-leasing Croatia d.o.o., Zagreb	88,814	14.6
BKS-Leasing s.r.o., Bratislava	43,435	13.8

Austria
The roots of BKS Bank are in Carinthia. For many decades, we operated exclusively on the Carinthian market. The bank's first expansion within Austria was in 1983 when it opened a branch in Graz. The South-East axis was completed in 2003 with the acquisition of "Die Burgenländische Anlage & Kreditbank AG". As we set up branches primarily in local district towns boasting solid economic activity, our network of branches today has a reasonable size.

Slovenia
We started our international expansion in neighbouring Slovenia in the 1990s. Since then, Main Branch Slovenia has become the most important foreign market of the BKS Bank Group. In the past years, we have grown strongly through successful acquisitions. We have attained a leading market position in the securities business. In addition, we have been successfully operating our own leasing company.

Croatia
BKS Bank entered the market in Croatia in 1998 with the establishment of a representative office. This was later followed by the founding of the Croatian leasing company, BKS-leasing Croatia d.o.o., which has been expanding steadily ever since. We entered the Croatian banking market in 2007 with the acquisition of Kvarner banka d.d. located in Rijeka and have been expanding our network of branches ever since. Currently we have operations in four locations in Croatia.

Slovakia
We have been doing business in Slovakia since 2007 after taking over a Slovakian leasing company. We established the first bank branch in 2011. Both the bank and the leasing company have their head offices in Bratislava.

We have two further branches and leasing operations in Banská Bystrica and Žilina.

Other Markets
Our customers also include persons who live outside our defined foreign markets, amongst them Italy and Germany. These customers are served exclusively cross-border by our Austrian branches. We operate one representative office in Italy.

Our target groups
Our diverse range of products and services is appealing to both retail and corporate customers. We have had a strong presence in corporate and business banking since the founding days, especially in industry and commerce. Additionally, we also serve a large number of non-profit residential construction companies and property developers. In recent years, we have also been working more frequently with municipalities and public institutions. We are a reliable banking partner also for customers from the liberal professions.

In the retail segment, we concentrate on wealthy individuals and members of the healthcare professions. Addressing a younger and digitally savvy audience has become a key priority. We launched BKS Bank Connect, the digital bank, in a move to come up with an attractive product range specifically for this target group. Unlike banks that offer only online services, BKS Bank Connect customers have access to advice from excellently trained customer relationship managers at any time. Irrespective of whether customers prefer to contact us online or come to one of our branches, we show that we care and value our customers on all communication channels.

Consolidated Companies and Equity Investments

The relevant group of consolidated companies of BKS Bank includes 15 credit and financial institutions as well as companies that supply banking services, including domestic and foreign leasing companies. The overview below presents the companies that belong to the BKS Bank Group pursuant to International Financial Reporting Standards.

The inclusion of affiliated companies and associates in the consolidated financial statements is based on the application of uniform materiality principles for the entire Group as well as quantitative and qualitative parameters. Materiality criteria include, above all, the total assets and the proportionate equity of the respective company.

Group of consolidated companies

Credit and financial institutions	Consolidation	Accounted for using the equity method	Proportionate consolidation
BKS Bank AG, Klagenfurt	✓		
BKS-Leasing Gesellschaft m.b.H., Klagenfurt	✓		
BKS-leasing d.o.o., Ljubljana	✓		
BKS-leasing Croatia d.o.o., Zagreb	✓		
BKS-Leasing s.r.o., Bratislava	✓		
Oberbank AG, Linz		✓	
Bank für Tirol und Vorarlberg Aktiengesellschaft, Innsbruck		✓	
ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H., Linz			✓
Other consolidated companies			
BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft m.b.H., Klagenfurt	✓		
Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG, Klagenfurt	✓		
IEV Immobilien GmbH, Klagenfurt	✓		
BKS Service GmbH, Klagenfurt	✓		
BKS Immobilien-Service Gesellschaft m.b.H., Klagenfurt	✓		
E 2000 Liegenschaftsverwertung GmbH	✓		
BKS 2000 - Beteiligungsverwaltungsgesellschaft mbH, Klagenfurt	✓		

The group of consolidated companies of the BKS Bank Group includes – apart from BKS Bank AG – 11 credit and financial institutions and companies supplying 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.

Compared to the financial year 2020, there were two changes in the group of consolidated companies: E 2000 Beteiligungsgesellschaft m.b.H. was included in the group of consolidated companies for the first time as at 31 December 2021. This company is in charge of building, renting out and managing the “BKS-Lebenswert” property in Eisenstadt (Austria). BKS Hybrid beta GmbH was liquidated and therefore deconsolidated. Its purpose had been the handling of a hybrid bond which was repaid in the reporting year.

Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft are accounted for using the equity method in accordance with IAS 28. For these companies, the carrying amounts of the investments are adjusted for the changes in the net assets of the respective entities. On 31 December 2021, BKS Bank held 14.2% of the voting shares in Oberbank AG directly, and 14.79% including the sub-syndicate with Beteiligungsverwaltungs Gesellschaft m.b.H., as well as 14.0% of the voting shares in Bank für Tirol und Vorarlberg Aktiengesellschaft directly, and 17.23% including the sub-syndicate with BTV Privatstiftung, Doppelmayr Seilbahnen GmbH und VORARLBERGER LANDES-VERSICHERUNG V.a.G, which is less than 20% of the 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 jointly controlled operation pursuant to IFRS 11.

Credit and financial institutions

BKS Bank AG

Object of business	Credit institution
Head office	Klagenfurt
Year of foundation	1922
Total asset	EUR 9.9 billion
Number of branches	64
Number of employees in FTE	925.1

BKS-Leasing Gesellschaft m.b.H.

Object of business	Sale and management of vehicles, movables and real estate leasing
Share in the capital	direct 99.75%, indirect 0.25%
Head office	Klagenfurt
Share capital	€k 40.0
Year of foundation	1989
Leasing volume	EUR 278.5 million
Number of employees in FTE	10.6

BKS-leasing d.o.o. Ljubljana

Object of business	Sale and management of vehicles, movables and real estate leasing
Share in the capital	100%
Head office	Ljubljana
Share capital	€k 260
Year of acquisition	1998
Lending volume	EUR 169.3 million
Number of employees in FTE	19.5

BKS-leasing Croatia d.o.o.

Object of business	Sale and management of vehicles, movables and real estate leasing
Share in the capital	100%
Head office	Zagreb
Share capital	EUR 1.2 million
Year of foundation	2002
Leasing volume	EUR 88.8 million
Number of employees in FTE	14.6

BKS-Leasing s.r.o.

Object of business	Sale and management of vehicles, movables and real estate leasing
Share in the capital	100%
Head office	Bratislava
Share capital	EUR 15 million
Year of foundation	2007
Leasing volume	EUR 62.1 million
Number of employees in FTE	13.8

Oberbank AG

Object of business	Credit institution
Share in the capital	14.21%
Head office	Linz
Year of foundation	1869
Total assets by 30/09/2021	EUR 25.6 billion
Number of branches by 30/09/2021	177
Average number of staff by 30/09/2021	2,075

Bank für Tirol und Vorarlberg AG

Object of business	Credit institution
Share in the capital	14.0%
Head office	Innsbruck
Year of foundation	1904
Total assets by 30/09/2021	EUR 13.2 billion
Number of branches by 30/09/2021	35
Average number of staff by 30/09/2021	784

ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H.

Object of business	Hedging of large credit risks
Share in the capital	25%
Share capital	EUR 8.0 million
Head office	Linz
Year of foundation	1984

Other consolidated companies

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

Object of business	Real estate construction and management
Share in the capital	indirect 100%
Head office	Klagenfurt
Share capital	€k 36.4
Year of foundation	1990

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

Object of business	Acquisition, construction, rental and leasing of real estate
Share in the capital	100% limited partner[1)]
Head office	Klagenfurt
Capital contribution	€k 750
Year of foundation	1988

[1)] IEV Immobilien GmbH is the general partner, a 100% subsidiary of BKS Bank AG.

IEV Immobilien GmbH

Object of business	General partner of IEV GmbH & Co KG
Share in the capital	100%
Head office	Klagenfurt
Share capital	€k 35
Year of foundation	2007

BKS Service GmbH

Object of business	Service company for banking-related activities
Share in the capital	100%
Head office	Klagenfurt
Share capital	€k 35
Year of foundation	2011
Number of employees in FTE	56.4

BKS Immobilien-Service Gesellschaft m.b.H.

Object of business	Acquisition, construction, rental and leasing of real estate
Share in the capital	100%
Head office	Klagenfurt
Share capital	€k 40.0
Year of foundation	1973
Number of employees in FTE	14.4

BKS 2000 - Beteiligungsverwaltungsgesellschaft mbH

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

E 2000 LIEGENSCHAFTSVERWERTUNGS GMBH

Object of business	Realization of real estate
Share in the capital	direct 99%, indirect 1%
Head office	Klagenfurt
Share capital	€k 37
Year of foundation	2001

Further material investments

Investments in credit and financial institutions

	Share in the capital in %
3 Banken-Generali Investment-Gesellschaft m.b.H.	15.43
Oesterreichische Kontrollbank Aktiengesellschaft	3.06
BWA Beteiligungs- und Verwaltungs-Aktiengesellschaft	0.89
3-Banken Wohnbaubank AG	10.00
3 Banken Kfz-Leasing GmbH	10.00

Other shares in affiliated companies

	Share in the capital in %
VBG Verwaltungs- und Beteiligungs GmbH	100.00
Pekra Holding GmbH	100.00

Other investments in non-banks

	Share in the capital in %
3 Banken IT GmbH	30.00
3 Banken Versicherungsmakler Gesellschaft m.b.H.	30.00
Einlagensicherung AUSTRIA Ges.m.b.H.	0.19
Wiener Börse AG	0.38
PSA Payment Services Austria GmbH	1.46

Assets and Financial Position

In terms of balance sheet data, we attained a few important thresholds in the reporting year: Total assets surpassed the EUR 10 billion mark for the first time in our 100-year history. Primary deposit balances hit EUR 8 billion last summer, while receivables from customers nearly reached EUR 7 billion by year-end 2021. Given this solid performance, we are well prepared for all challenges ahead of us.

Assets

Recovery boosts demand for loans

The lending business performed very well in the past financial year. The economic recovery in the wake of the pandemic was widespread, and many companies amply made up for postponed investments. The picture presented by the retail customer segment was similar, as the labour market situation improved along with the recovery. The improved incomes fuelled private household consumer spending, with demand for loans also rising quite robustly as well. From January to December 2021, we granted EUR 2.2 billion in new loans throughout the Group. The greater part of the lending volume went to small and medium enterprises, a key customer segment of BKS Bank. Broken down by region, most loans were granted in Austria.

Foreign markets accounted for some 16% and foreign leasing companies for roughly 7%. Overall, lending within the Group came to a total of almost EUR 7.0 billion, which translates into an increase in lending of 5.9% compared to year-end 2020.

The item Receivables from customers includes lending by the parent company BKS Bank AG as well as lending by the Austrian and foreign leasing companies.

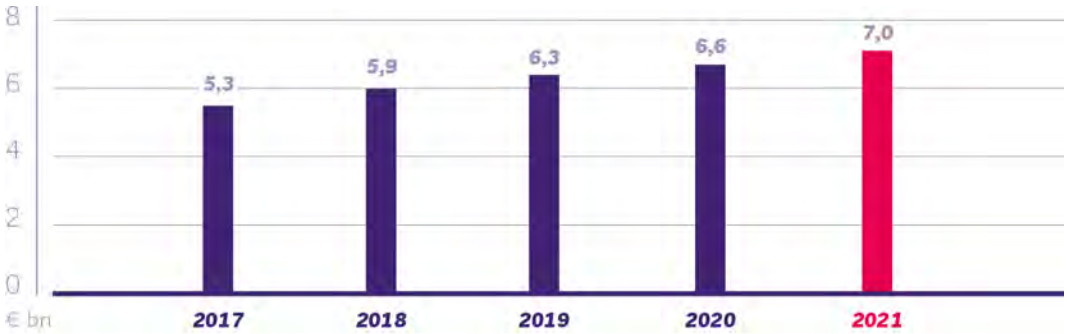
The reporting year saw a change in the presentation of impairment charges. Up to now, impairment charges had been shown as a separate asset item with a negative value, while from now on impairment charges will be shown as offset against receivables from customers.

Receivables from credit institutions decreased by two thirds, and were EUR 94.6 million as at 31 December 2021. This decline is due to interest rates still being negative, which makes short-term investments with credit institutions unattractive.

The non-performing loans (NPL) ratio rose to 2.2%. The NPL ratio is a key indicator for assessing the quality of a loan portfolio. Compared to the rest of the sector, our NPL ratio is at an excellent level. All NPL ratios reported on the EBA Risk Dashboard lower than 3% are assigned to the green “bucket” and considered a good value.

The share of receivables denominated in Swiss francs continued to decrease again in the reporting year. At year-end, the foreign exchange ratio stood at a mere 1.3%. The foreign exchange ratio does not include loans in euro to customers of the Croatia Branch. At EUR 89.5 million, the volume of loans in Swiss francs has meanwhile become quite low.

Development of loans and advances to customers



Steep growth in leasing transactions

Lease financing is an attractive alternative to traditional loans. Both in Austria and on our foreign markets, lease financing is in high demand when it comes to acquiring motor vehicles, real estate or machinery.

In 2021, the Austrian leasing company granted EUR 117.5 million in new lease financing, up 21.6% from 2020. One of the reasons for this noticeable increase are the advisory services we provided to our customers on how to best use the government investment bonus scheme introduced to mitigate the effects of the pandemic. The leasing companies in Slovenia, Croatia and Slovakia also achieved satisfactory growth rates. In total, the receivables of the leasing companies in Austria and abroad amounted to EUR 577.2 million, which is 8.6% up from the value recorded at year-end 2020.

We increased our portfolio of debt securities and other fixed-income securities by 8.9% to EUR 1.0 billion by making investments in order to strengthen our liquidity reserves. In the reporting year, we made investments of EUR 154.7 million, as compared to redemptions of EUR 69.1 million.

As at 31 December 2021, the shares of companies accounted for using the equity method increased from EUR 661.5 million to EUR 709.3 million.

The increase was due to the allocation of net profits on a proportionate basis for the period from our partner banks Oberbank AG and Bank für Tirol and Vorarlberg.

Green buildings actively contribute to climate change mitigation

BKS Bank owns 69 properties with a total surface area of almost 104 thousand m^2, of which 42 thousand m2 are used for banking operations, and 51 thousand m^2 are rented out to third parties.

According to European Union calculations, real estate properties are among the largest consumers of energy. Therefore, energy-efficient construction can play an important role in climate protection. As a responsible company, it is especially important to us to advance “green” initiatives also in the real estate sector. For this reason, we will focus on sustainability in at least five construction projects every year and have new construction projects certified as green buildings by ÖGNI – Österreichische Gesellschaft für Nachhaltige Immobilienwirtschaft (Austrian Sustainable Building Council).

In the reporting year, we applied for green building certification for three real estate projects. One of them – BKS Holzquartier in the city centre of Klagenfurt – has already been awarded the ÖGNI gold standard. For the second project, which is a residential complex located in Klagenfurt called "Urban Living", the certification process has not been completed yet.

"BKS Lebenswert" is the third environmentally sustainable project currently under construction. Located in Eisenstadt, it comprises 26 rental flats, some 1,600 m^2 of retail space and a BKS Bank branch. Construction work is scheduled to be completed by spring 2022.

Overview of real estate in Austria

	2019	2020	2021
Number of properties	59	60	58
Total surface area of properties managed (in m^2)	68,689	69,464	69,884
– thereof for banking operations (in m^2)	37,908	37,122	37,452
– thereof rented to third parties	23,093	24,700	26,955
Rental occupancy ratio (in %)	88.8	89.0	92.2
Net rental income from third party rentals (in EUR m)	2.5	2.7	3.0

Overview of real estate abroad 2021[1)]

	Slovenia 2020	Slovenia 2021	Croatia 2020	Croatia 2021
Number of properties	8	9	2	2
Total surface area of properties managed (in m^2)	28,707	32,790	1,724	1,685
– thereof for banking operations (in m^2)	3,182	3,182	1,499	1,429
– thereof rented to third parties	24,252	24,264	91	91
Rental occupancy ratio (in %)	95.6	83.7	92.0	92.2
Net rental income from third party rentals in EUR m	2.5	2.1	-	-
1) In Slovakia, BKS Bank does not manage any properties.				

1) BKS Bank does not own any real estate in Slovakia .

The cash reserve, which comprises cash on hand and balances at central banks, recorded another all-time high at year-end 2021, expanding to EUR 1.5 billion – or by more than a third year-on year. This high level is an indicator for high liquidity surplus in our core markets. This balance sheet item is a key component of our counterbalancing capacity, which also reached a record level of EUR 2.4 billion as at 31 December 2021. In the reporting year, we participated in two targeted longer-term refinancing operations within the framework of the TLTRO III series in an amount of EUR 200 million. Overall, EUR 550 million in funds were raised under these operations.

Shareholders' equity and liabilities

Primary deposits hit new all-time high

The inflows of primary deposits keep expanding, with new records being broken every year, and the financial year 2021 was no exception: As of 31 December 2021, the volume of primary deposits came to EUR 8.1 billion, an increase of 9.7%. By way of comparison, we first attained the EUR 6 billion mark for primary deposits in the financial year 2018. Now, not even three years later, the same item is higher by almost EUR 2 billion. This is quite impressive, and we are very pleased about the trust our customers place in us. Nonetheless, a high volume of deposits is also a burden. The European Central Bank charges 0.5% in negative interest on its short-term customer deposit facility. In 2021, sovereign bonds with excellent ratings returned only -0.25% to +0.1% on 10-year bonds. It goes without saying that this has had an adverse effect on earnings. As a measure to counter the exceptional interest rate situation, we charge negative interest in line with money markets on larger sight deposits held by corporate customers. To some extent, the high level of primary deposits is also attributable to the pandemic. According to data from Austria's central bank, the savings ratio in the country was 13.6% in the third quarter of 2021, compared to around 8.0% before the pandemic. This goes to show once again that, in times of crisis, people feel the need to create additional financial "safety buffers".

This trend is clearly seen in the rise in payables to customers. Compared to 2020, this item increased again steeply, reaching a new all-time high of EUR 7.1 billion, which corresponds to 9.2% growth. Payables to customers comprise several items, with Other liabilities accounting for the major portion. Term and sight deposits, which also come under this heading, amounted to EUR 5.8 billion as at 31 December 2021. A volume of EUR 4.0 billion is attributable to sight deposits due on demand. The majority of sight deposits – EUR 3.1 billion – were made by corporate customers depositing their short-term liquidity surplus. In the retail segment we are seeing sight deposit volumes growing steadily as well. Year-on-year, the volume of sight deposits increased by EUR 140.9 million to EUR 1.3 billion, up by 11.9%.

Development of primary deposits

The aggregate volume of sight and term deposits have long since surpassed funds held on traditional savings passbooks. As at 31 December 2021, we had EUR 1.4 billion under management in savings deposits, which is roughly the same as in the preceding year. Retail customers also prefer savings instruments they can access at any time and from anywhere as well as online. The *Mein-Geld* account was designed specifically to satisfy these customer demands. In the reporting year, this product accounted for more than EUR 500 million in deposits, recording a substantial increase of 21.3%.

Lively investor interest in BKS Bank issues

The issuance business performed very well in 2021. Our goal is to strengthen our reputation among institutional investors as a reliable and competent issuer, which we were very successful at in the past financial year. The volume of private placements made to institutional investors is a good indicator. In the reporting period, we placed EUR 154.5 million in this customer segment, with EUR 20 million being subordinated capital. The AT1 notes issued in December 2020 with an issuing volume of EUR 10.0 million was completed successfully in the first quarter of 2021.

Green investment is booming

Sustainable investment is one of the key megatrends in the securities business. We recognised this early on and are very proud to have been the first bank in Austria to issue a social bond which we did already back in 2017.

Since then, many competitors have followed suit, and more and more green and social bonds are being offered on the market. We welcome this development and are pleased that investors embrace this trend and are increasingly seeking environmental and/or social investment opportunities.

In the reporting period, we opened the subscription period for two further green bonds issues. The first green bond with a volume of EUR 5.0 million was issued to fund BKS Bank's first green building, the BKS Holzquartier. Shortly before the end of the year, we launched a cooperation project with the local public utility company Stadtwerke Klagenfurt. Plans include the erection of 59 photovoltaic systems by 2025 to make an active contribution to the energy transition. The proceeds from BKS Bank green bond will be used in part to fund the investment. The volume amounted to EUR 5 million, with an option to top it up to EUR 10 million, a move that has meanwhile taken place.

As at 31 December 2021, own issues including subordinate capital amounted to EUR 973.5 million, a welcome rise of 13.6%.

Increase in shareholders' equity

As at 31 December 2021, consolidated equity recorded a very satisfactory increase by 7.1% to EUR 1.5 billion. The increase in equity is documented in detail in the Notes under Consolidated Statement of Changes in Equity (page 130). Subscribed capital remained unchanged EUR 85.9 million

BKS Bank debt securities issued in 2021

ISIN	Designation	Nominal amount in €
AT0000A2NPT7	0.75% BKS Bank Obligation 2021-2030/1	20,000,000
AT0000A2SGK4	0.45% BKS Bank Green Bond 2021-2026/2	5,000,000
AT0000A2U2E6	0.40% BKS Bank Obligation 2021-2026/3	5,000,000
AT0000A2UWN1	0.75% BKS Bank Green Bond 2021-2028/4	2,219,000
AT0000A2NPQ3	1.16% BKS Bank Obligation 2021-2031/1/PP	5,000,000
AT0000A2NPU5	0.02% BKS Bank Obligation 2021-2024/2/PP	30,000,000
AT0000A2NW00	1.16% BKS Bank Obligation 2021-2031/3/PP	7,000,000
AT0000A2QBH5	3.25% BKS Bank Nachrangige Obligation 2021-2031/4/PP	20,000,000
AT0000A2QKB9	1.50% BKS Bank Obligation 2021-2032/5/PP	20,000,000
AT0000A2QS37	Variable BKS Bank Obligation 2021-2028/6/PP	7,500,000
AT0000A2QSD8	Variable BKS Bank Obligation 2021-2028/7/PP	5,000,000
AT0000A2R8M1	0.84% BKS Bank Obligation Senior Non-Preferred 2021-2026/8/PP	10,000,000
AT0000A2R8T6	0.875% BKS Bank Obligation Senior Non-Preferred 2021-2026/9/PP	10,000,000
AT0000A2RY12	0.98% BKS Bank Obligation Senior Non-Preferred 2021-2027/10/PP	5,000,000
AT0000A2RZE9	0.885% BKS Bank Obligation Senior Non-Preferred 2021-2026/11/PP	8,000,000
AT0000A2TLQ9	0.875% BKS Bank Obligation 2021-2030/12/PP	2,000,000
AT0000A2UNH2	0.90% BKS Bank Obligation Senior Non-Preferred 2021-2027/13/PP	15,000,000
AT0000A2UTU2	0.60% BKS Bank Obligation 2021-2025/14/PP	4,000,000
AT0000A2UTV0	0.75% BKS Bank Obligation 2021-2026/16/PP	6,000,000

Result of Operations

The financial year 2021 started with a strict lockdown, which lasted until early February. However, after it was lifted, a massive economic recovery set in very soon, even though the situation did not return to the normalcy as widely as everybody had hoped for. Thanks to the excellent performance of our sales team and the constant work to meet our strategic goals, we can look back at a very successful business year. Only the unpleasant incident of fraud at one of our Croatian branches prevented us from achieving record results.

Consolidated net profit after taxes was EUR 80.8 million as at 31 December 2020, up 8.0% or EUR 6.0 million from the preceding year's level of EUR 74.8 million. Several factors contributed to the increase in earnings deserves special mention. It was above all net fee and commission income that contributed significantly to the good results.

The lending business has been under pressure from persistently low interest rates for many years now. Negative interest rates affect not only our earnings power, but also impact our customers and the purchasing power of their savings. On the one hand, inflation has risen dramatically, but on the other hand, we are forced to charge negative interest on larger sight deposits. Given that fear of inflation is being rigorously counteracted, it is not very likely that current interest rate policies will change fast, but pressure on the European Central Bank is growing.

In the reporting year, we participated in two targeted longer-term refinancing operations within the framework of the TLTRO III series with a total amount of EUR 200 million. We generated positive interest expenses of EUR 6.0 million in the process. In total, interest income including other interest income amounted to EUR 166.9 million, while interest expenses came to EUR 28.0 million, resulting in net interest income before impairment provisions of EUR 138.9 million as at 31 December 2021 (+1.8%).

The risk situation remained largely positive in 2021. Fortunately, the surge in insolvencies that had been expected by many failed to materialize. Still, we kept a close watch on how our customer portfolio developed and took precautionary measures.

In accordance with the provisions of IFRS 9B5.5.1 et seq, we carried out a collective stage transfer for regions and sectors heavily affected by the coronavirus pandemic. In addition to corporate and business customers from the sectors of hospitality, arts and entertainment as well as other services, the entire Croatian corporate customer portfolio was transferred from stage 1 to stage 2. All loans in the corporate and business banking segment that were subject to a government-mandated or voluntary moratorium were migrated to stage 2. We reassessed the situation in regular intervals and, as a result, removed customers with rating stages of up to 2a in the affected sectors from the collective stage transfer in the autumn of 2021.

In February 2022, we discovered that an employee at the Croatia Main Branch had committed fraud. The receivables items concerned were measured based on the discounted cashflow (DCF) method, and an impairment allowance was determined of EUR 12.7 million. This non-recurring incident caused impairment charges to rise by 29.4% to EUR 32.4 million.

The rise in risk costs brought net interest income after impairment charges down from EUR 111.4 million to EUR 106.5 million, a decrease by 4.4%.

Successful expansion of fee and commission business

The second major factor in our operating business is fees and commissions. Expanding this area of business remains a key strategic goal, not least because we want to offset the limited scope for earnings in the lending business. We are pleased that net fee and commission income amounted to EUR 67.1 million, up 4.3% or EUR 2.8 million from the preceding year. Growth rates were satisfactory in nearly all of our services segments.

Payment services has become a stable and important source of support for earnings, posting robust annual growth. In 2021, net fees and commissions on payment services stood at EUR 23.3 million, which is a gain of 8.6% compared to 2020, a year that was deeply affected by the pandemic. Back then, travel restrictions caused a decline in transactions, which have fortunately returned to normal again in the past year.

Payment services is a very interesting, but also highly competitive area of business in a very dynamic environment. The growing trend of digitisation has been especially noticeable in this field. Many of our digitisation projects are designed to create new or improved solutions for payment services. Contactless and smart payment options have seen a massive boost due to the Covid-19 pandemic. While we had been offering digital payment methods before, we considerably expanded the respective range during the pandemic. The further development of our MyNet and BizzNet customer portals is another important focus area. The pandemic also helped raise acceptance levels for the use of customer portals – more and more customers are getting to know, and love, the advantages of digital applications. The number of portal and app users has grown quite impressively.

Key items of the income statement

in € m	2020	2021	± in %
Net interest income	136.5	138.9	1.8
Impairment charges	-25.0	-32.4	29.4
Net fee and commission income	64.3	67.1	4.3
Profit/loss from investments accounted for using the equity method	30.9	45.0	45.5
Net trading income	2.2	0.8	-64.8
Profit/loss from financial assets/liabilities	3.6	5.5	51.2
General administrative expenses	-123.2	-125.3	1.8
Profit/loss for the year before tax	84.9	92.9	9.5
Income tax expense	-10.2	-12.2	20.1
Profit/loss for the year	74.8	80.8	8.0

Last year, the BKS app, which is available to customers in Austria, had some 26,100 users, which is 18.6% higher year-on-year. The number of portal users increased by more than 12.7%. In addition, we substantially modified and added new types of accounts for both retail and corporate customers in the past year. More details and further information is provided in the segment report starting on page 94.

Our **securities business** also performed very well. Compared to the preceding year, we achieved a substantial increase of 13%, with net income from securities commissions amounting to EUR 21.0 million. The attractive stock markets influenced investor behaviour positively, thereby driving up securities transactions. At the same time, customer assets under management increased from EUR 19.0 billion to EUR 21.2 billion. This is a sign that more and more investors want to take advantage of the higher returns offered by stock markets as compared to savings passbooks.

Commissions on loans also make an important contribution to net fee and commission income. In the reporting period, net income from commissions on loans came to EUR 18.4 million, down 11.6% from the preceding year.

Profit/loss from investments accounted for using the equity method

The economic recovery also boosted business at Oberbank and BTV. Accordingly, profit from investments accounted for using the equity method showed a positive development, and, at EUR 45.0 million, returned to pre-pandemic levels.

Marked increase in profit from financial assets/liabilities

The international stock markets ignored the sustained pandemic and performed strongly throughout the year. Although there were spikes in volatility during the year, the capital markets performed very well overall. This strong performance helped to significantly improve the profit from financial assets/liabilities.

In the reporting year, net profit from financial assets/liabilities was EUR 5.5 million, a highly welcome gain of 51.2%.

The specific items developed as follows: At EUR 0.2 million, Profit/loss from financial instruments designated at fair value fell below the preceding year's figure of EUR 0.5 million. By contrast, the item Profit/loss from financial assets measured at fair value through profit or loss (mandatory) showed a highly satisfactory development, rising to EUR 4.2 million. This increase in an amount of EUR 2.3 million is attributable to the positive development on stock markets. Profit/loss from the derecognition of financial assets measured at amortized cost was EUR 1.4 million, which is a gain of 5.9%. Other profit/loss from financial assets/liabilities changed from EUR -40,000 to EUR -287,900.

Slight rise in general administrative expenses

Strict cost discipline, along with prudent investment policies, help us keep our costs under control. In the past financial year, this approach once again made it possible for us to keep administrative expenses within narrow limits, at EUR 125.3 million (+1.8%).

Components of the income statement

As a service company, personnel costs traditionally account for the largest share of general administrative expenses. As at 31 December 2021, these costs stood at EUR 74.7 million, which is an increase by 0.3%. The rise was due primarily to the hike in wages and salaries by an average of 1.4% under the collective agreement. The number of employees – in full-time equivalents – increased to 986 persons on average. Although 2021 was still heavily influenced by the pandemic, we did not resort to any personnel measures, such as short-time work, but instead offered our employees an attractive and safe work environment also in these difficult times.

Digitisation strategy requires more resources

In 2021, we continued our efforts to advance the digital transformation, systematically pursuing our digitisation strategy. Keeping a constant eye on the whole picture in this area, we created attractive digital solutions for both in-house processes and for our customers.

Sustainability has become a highly topical issue in the banking sector apart from digitalisation. There is no denying the fact that digitisation requires considerable investments.

Other administrative expenses increased 3.7% to EUR 38.6 million compared to 2020. This item includes mainly expenses for information and communications technology (ICT) and for our IT service company 3 Banken IT GmbH and increased from EUR 18.0 million to EUR 19.3 million.

3 Banken IT GmbH is responsible for the implementation of the digitisation projects and for routine ICT operations.

3 Banken IT GmbH is a joint subsidiary of Oberbank AG, Bank für Tirol und Vorarlberg Aktiengesellschaft and BKS Bank, and has its head office in Linz. It operates competence centres in Klagenfurt and Innsbruck.

Other operating income weighed down by regulatory costs

Other operating income is an indicator of the substantial strain on banks. Other operating income was a disappointing EUR -6.5 million on 31 December 2021. Compared to the level of the preceding year (EUR -4.5 million), this is a further deterioration of EUR 2.0 million. This is attributable primarily to the requirement to allocate higher amounts to the Austrian deposit guarantee scheme managed by Einlagensicherung Austria GmbH, which was caused by the bankruptcy of Commerzialbank Mattersburg, the resolution of Autobank, and the Raiffeisen banking conglomerate leaving the deposit guarantee scheme. Annual contributions to the resolution mechanism and deposit guarantee scheme were EUR 10.4 million in 2021, and EUR 1.2 million were due for the stability charge.

Shortly before the end of the year, the Austrian Supreme Court handed down a ruling on deferments for consumers and the charging of debit interest. Our loan agreements include clauses that allow the charging of interest, which is why we are not affected by the Supreme Court ruling.

Higher net profit for the year

In the past financial year, BKS Bank earned a consolidated net profit before tax of EUR 92.9 million, after EUR 84.9 million in the preceding year. After deducting taxes of EUR 12.2 million, consolidated net profit came to EUR 80.8 million, which is an increase of 8.0%.

Profit distribution proposal

Distributable profit is based on the net profit of the parent company, BKS Bank AG, as stated in the annual financial statements. From 1 January to 31 December 2021, BKS Bank AG earned a net profit of EUR 27.3 million. An amount of EUR 16.9 million from the net profit was allocated to reserves. Taking into account the profit carried forward of EUR 0.1 million, BKS Bank AG reported a net profit of EUR 10.6 million. At the 83rd Annual General Meeting of 25 May 2022, we will propose the payout of a dividend of EUR 0.23 per share, which is EUR 9,876,867 in total, and to carry the remainder of EUR 0.7 million to new account.

Key performance indicators

Taking into account the net profit for the year, the key performance indicators developed as follows at year-end: Return on equity (RoE) after tax rose marginally, from 5.6% to 5.7%, while return on assets (RoA) after tax remained at the preceding year's level of 0.8%.

At 51.1%, the cost/income ratio remained at a solid level. The risk/earnings ratio rose to 23.3% due to rising risk costs. The NPL ratio stood at 2.2% at the end of 2021.

Key performance indicators

in %	2020	2021	± in %-points
RoE after tax (net profit/loss/Ø equity)	5.6	5.7	0.1
RoA after tax (net profit/loss/Ø equity)	0.8	0.8	0.0
Cost/income ratio (cost/income coefficient)	53.9	51.1	-2.8
Risk/earnings ratio (credit risk/net interest income)	18.5	23.3	4.9
NPL ratio	1.7	2.2	0.5
Leverage ratio	8.0	8.2	0.2
Liquidity coverage ratio (LCR ratio)	158.1	208.9	50.8
Net stable funding ratio (NSFR)	117.2	122.9	5.7
Tier 1 capital ratio	12.8	13.0	0.2
Total capital ratio	16.2	16.6	0.4
			in %
IFRS result per share outstanding in €	1.7	1.9	0.2

The leverage ratio rose slightly from 8.0% in the preceding year to 8.2% as at 31 December 2021, while the liquidity coverage ratio (LCR ratio) improved significantly, climbing to 208.9%.

Both the leverage ratio and the LCR ratio were well above the regulatory requirements of 3% and 100% respectively.

To be well prepared for the coming years, we need a strong equity base. In spite of the strong growth of business, we slightly increased equity ratios as at 31 December 2021 by reinvesting profits. The tier 1 capital ratio was 13.0%, and the total capital ratio rose to 16.6%. IFRS earnings per share was EUR 1.9 for 2021.

Segment Report

The segment report has four parts: Corporate and Business Banking, Retail Banking, Financial Markets and Other. Within the BKS Bank Group, Corporate and Business Banking is the most successful segment. Financial Markets contributed significantly to earnings, and Retail Banking showed a satisfactory performance as well.

Corporate and Business Banking

In the financial year 2021, we increased the number of customers in Corporate and Business Banking by 5.1% and served some 26,400 customers throughout the Group. Our customers include many small and medium-sized companies from the industrial sector, commerce and trade, the free professions, farming and forestry, non-profit property developers, institutional clients and the public sector.

Banking services for corporate and business customers have a long tradition at BKS Bank. Since the foundation of the bank in 1922, its scope of business was primarily to supply banking services to business customers. Today, this segment still remains our most important operating unit. A large share of the loans we grant go to corporate and business customers.

Segment result improves considerably

The Corporate and Business Banking segment posted an excellent result in 2021. At EUR 76.1 million, profit for the year before tax was 16.1% higher year on year.

A look at our operating business shows clearly that the start of economic recovery provided a strong stimulus. Our customers order books filled up again over the course of the year, and many businesses started to invest again. Demand for loans rose steeply. As a result, the segment posted excellent profits from lending, at EUR 110.1 million which was 3.0% higher than in the preceding year. Net fee and commission income shows a similar positive result. Net income on fees and commissions was EUR 36.6 million in 2021, which is higher by 4.6% or EUR 1.6 million. We are particularly pleased with this increase as we want to reduce our dependence on the lending business and aim to expand in the non-lending business fields instead.

General administrative expenses attributable to this segment amounted to EUR 53.5 million by year-end, as expected.

Corporate and Business Banking

in € m	2020	2021
Net interest income	106.9	110.1
Impairment charges	-24.3	-19.2
Net fee and commission income	35.0	36.6
General administrative expenses	-51.8	-53.5
Other operating income/expenses	0.9	0.9
Profit from financial assets	-1.0	1.2
Profit/loss for the year before tax	65.6	76.1
RoE before tax	15.6%	17.4%
Cost/income ratio	36.3%	36.2%
Risk/earnings ratio	22.8%	17.4%

The segment-specific management benchmark indicators developed as follows: Return on equity improved significantly to 17.4%. The cost/income ratio was 36.2%, which is also excellent. The risk/earnings ratio dropped from 22.8% to 17.4%.

Survey confirms high level of customer satisfaction

We regularly invite our customers to participate in customer surveys, most recently in the autumn of 2021. Customers' willingness to participate in such surveys has increased over the years, and we are very pleased that more and more corporate and business banking customers take part. 86% of our corporate and business banking customers are very satisfied or satisfied with our services. At 30%, the recommendation rate in this customer segment is at a very pleasing level. The know-how of our customer relationship managers, and prompt decision-making and services were also awarded top scores. We are very pleased with the good results and will continue to work to improve customer satisfaction.

Highly sought-after expertise in lending

Finance and investing are the most important services we provide to corporate and business customers. We can rely on excellent advisory skills as well as long-standing experience in this field. Apart from working capital loans, investment loans and export loans, our products also include vehicle, movables and real estate leasing as well as advisory services for government loan subsidy schemes. The lending business performed very well in 2021. While economic activity was still restricted in several areas due to the coronavirus pandemic, there were signs of growing optimism which fuelled demand for funding. From January to December 2021, we granted EUR 1.8 billion in new credit lines to corporate customers throughout the Group. Demand for lease finance remained high, with strong growth in all areas. Aggregate receivables due from customers including lease finance reached a volume of EUR 5.5 billion, which is an increase of 7.1%.

Digitalisation has also made inroads into the traditional corporate customer business, with more and more corporate customers demanding smart and user-friendly solutions also for managing loans and credit lines. While we usually opt for developing many digital products and services in-house, we sometimes rely on competent partners as well. In the reporting year, we started a cooperation project with the Munich-based company DVS (Digital Vault Services). We now offer our large corporate customers the option to digitally create, manage and store guarantees. We believe this is a useful add-on to our in-house guarantee module, which is available on our BizzNet customer portal.

Investment finance and advisory services for government lending schemes

Export finance and related advisory services for government lending schemes is an area of business that has seen a highly satisfactory development in the past few years. In 2021, corporate customers were once again able to rely on our extensive expertise in this field.

We were also happy with the development of our export business. In the financial year 2021, we supported 17 new export projects, and provided a total of EUR 25.8 million in new funding. All in all, we had an export finance volume of EUR 239.5 million under management at year-end. Finance services for subsidized loan schemes for investments in capital goods also increased. We funded 673 investment projects with approximately EUR 133,8 million. As at 31 December 2021, the total volume of transactions in this segment stood at EUR 355.9 million, which is an increase of 21.8% year on year. On the other hand, documentary transactions, which depend strongly on global supply chains, declined. Business in letters of credit and export guarantees decreased markedly, given the scarcity of containers and soaring transport costs in some areas. Supply chain disruptions, such as the one seen in the Suez Canal, also had severe adverse impacts on international trade.

Corporate Banking is another key business segment. It targets large corporates with sales revenues of over EUR 75.0 million as well as institutional customers and larger municipalities. In total, we managed a finance volume of some EUR 689.9 million in the reporting year.

Given the endeavour to transition to a low-carbon economy, sustainable finance is rapidly gaining ground. Fortunately, we started focusing on sustainability already several years ago, striving to integrate sustainable products into our core portfolio. We expanded the share of corporate and business loans with an environmental or social purpose in Corporate and Business Banking from EUR 413.3 million to EUR 556.2 million in the reporting year.

Other liabilities increase steeply again

We have an excellent reputation on the market as a reliable bank and our services as an investment partner are also in high demand thanks to our excellent creditworthiness. In the reporting year, the volume of other liabilities in Corporate and Business Banking rose considerably by 10.9% to EUR 4.1 billion.

Commission business on track

Strengthening the services business is one of our key strategic aims to counteract the tight earnings situation in the lending business. We are pleased to report growth in the double-digit range especially in payment services (+13.1%) and in securities transactions (+17.2%). Compared to the preceding year, net fee and commission income rose by EUR 1.6 million to EUR 36.6 million.

The payment services segment saw transactions largely stabilize again, after the massive decline at the start of the coronavirus pandemic. Fortunately, this did not repeat itself in the second year of the pandemic, enabling us to once again achieve double-digit growth rates in net fee and commission income. The payment services segment is highly dynamic and strongly influenced by the new technologies. To be able to keep up with the fast pace of innovation, we have numerous digitalisation projects ongoing in this field. In the reporting year, we successfully completed several prestigious projects, among them the launch of the new Smart & Simple Business account. This account, which customers can open online, is designed for new entrepreneurs and start-ups. At the same time, we digitized the onboarding process for corporates, a major milestone in the implementation of our digitalisation strategy.

Higher earnings in the securities business

Traditionally, the lending business is stronger than the securities business in Corporate and Business Banking. Nonetheless, in 2021 earnings from the securities business rose by 17.2% to EUR 6.3 million.

We are very pleased with this result, which is partly attributable to the exceptional interest rate situation. The willingness to invest in alternative forms is also on the rise in Corporate and Business Banking. Demand is lively, above all, for our own issues and asset management services. In our insurance business, company retirement schemes are a mainstay of our advisory services. In 2021, total premiums for retirement products amounted to EUR 6.8 million, a rise of 11.0%.

Innovative Austrian company quality seal

In the reporting year, we were honoured to receive the Innovative Company quality seal in the category Financial Services Provider, which is conferred by Kurier, an Austrian media group. The selection process included a survey of how innovative companies are perceived by the public. Artificial intelligence was used to evaluate 84,000 responses concerning some 1,200 of the largest production and service companies in Austria which took part in the programme.

Another innovative solution was the green bond we issued in 2021 in cooperation with the public utility company Stadtwerke Klagenfurt to install 59 photovoltaic plants for the city of Klagenfurt.

Outlook – Corporate and Business Banking

Our prime assets in Corporate and Business Banking are personal services and reliability. We are a bank that provides not only valuable advisory services, but also offers customers a broad range of innovative digital products and services. This combination of a highly personalised approach and excellent digital services has proven a sound policy.

We have gained experience in implementing digitisation projects, which has helped us improve and improve the efficiency of many customer and in-house processes. Our next major goal for the coming months will be to redesign the lending process for corporate and business banking customers, which is by far one of the most complex processes we have in place. We plan to digitize the application process, substantially reducing processing times and improving customer experience. We have great expectations in our process ramp-up plans and expect to complete the project by the end of the year. The second major topic to which we dedicate a lot of effort and commitment is providing support to our corporate customers as they face the challenge of transitioning to a low-carbon economy.

Retail Banking

As at 31 December 2021, our Group provided services to 168,100 retail customers including members of the healthcare professions. The pressure on earnings is high in the retail banking segment, especially given the persistently low interest rates, the competitive market situation and the costs of operating branches and investing in digitalisation. In spite of all of this, retail banking is a vital segment of our business. We put significant effort into offering our valued retail customers an attractive range of products and services, especially online.

Satisfactory segment results

At year-end 2021, we earned a net profit for the year before tax of EUR 4.2 million in the Retail Banking segment. This was almost EUR 0.8 million less than in the preceding year (EUR 5.0 million), as we experienced a further decline in earnings in the lending business due to the low interest rates. Net interest income decreased by EUR 0.6 million to EUR 28.2 million. Performance of the fee and commission business was better. Earnings rose substantially both in the securities business and in payment services, with total net income from fees and commissions reaching EUR 29.6 million.

As risk was low throughout the year, the amount allocated for impairment charges was only EUR 0.6 million. General administrative expenses were EUR 54.7 million, with the rise of EUR 0.8 million remaining within the estimated range (EUR +0.8 million). Other operating income came to EUR 1.5 million.

The segment-specific indicators as at 31 December 2021 changed as follows: Return on equity was 3.4%, the cost/income ratio was 92.3%, and the risk/earnings ratio was very low at 2.0%.

Top ratings in customer surveys and mystery shopping

We have established a solid reputation as a bank providing excellent advisory services. Our goal is to provide high-quality advisory services, products and banking services throughout our organisation. In the autumn of 2021, we asked our customers once again to rate our performance. We are especially proud of the results: the overall satisfaction of customers as well as the recommendation rate rose again compared to the last survey of 2019.

Retail Banking

in € m	2020	2021
Net interest income	28.8	28.2
Impairment charges	-0.4	-0.6
Net fee and commission income	28.9	29.6
General administrative expenses	-53.9	-54.7
Other operating income/expenses	1.4	1.5
Profit from financial assets	0.2	0.2
Profit/loss for the year before tax	5.0	4.2
RoE before tax	4.3%	3.4%
Cost/income ratio	91.2%	92.3%
Risk/earnings ratio	1.4%	2.0%

In general, 90% of our retail customers are very satisfied or satisfied with our services. In overall satisfaction, we scored 1.5 on a five-grade scale, with 1 being the highest score. The advisory competence of our sales teams is regularly put to the test by independent third parties. In the reporting year, Österreichische Gesellschaft für Verbraucherstudien (ÖGVS) went on a mystery shopping tour at our branches. For a third time in a row we won in the category of investment advisory services. Additionally, we received the ÖGVS service award in the "On-site Advisory" category.

We are very happy about the positive feedback from our customers and the many awards we received. We perceive the feedback as a valuable input that supports us in our firm intention to continue our quality strategy.

Rising demand for housing loans

Lending is one of the cornerstones of our business, also in retail banking. The year 2021 once again saw brisk demand for home loans. As these types of loans are sometimes very complex, many customers are happy to use our advisory services. For several years now, we have been offering options to apply for home loans entirely online. However, customers do not have to cope with the application process on their own, they can opt to consult with one of our advisors at any time. Total receivables from retail customers amounted to EUR 1.5 billion, which corresponds to an increase of 1.8%.

Sustainable finance products have been part and parcel of our product range for many years. In the reporting year, we increased the share of loans used for environmental and social purposes. In total, we issued EUR 219.7 million in sustainable loans in the retail segment. In Slovenia and Croatia, demand for green loans for investments supportive of climate change mitigation was also very satisfactory. The volume of loans granted in the reporting year rose by 7.8% to EUR 37.4 million.

Investors trust conservative investments

Low interest rates have been with us for many years now. In spite of this fact, we saw a steep rise in Other liabilities. As at 31 December 2021, the volume was up by 17.0% to EUR 1.7 billion in the retail segment. Retail customers still tend to prefer conservative forms of investment, such as savings, term and sight deposits. Traditional savings passbooks are becoming less and less popular, as their number has decreased by about 4,900 compared to the preceding year. While the decline was also attributable to changes in legislation, we think the tide has turned and the trend will not reverse. At year-end, we had a total of EUR 1.2 billion on savings accounts of retail customers, which is a decline by 2.5%. Retail customers increasingly want to have access to their savings regardless of when or where they are, especially online. The *Mein Geld* account meets all of these requirements. The year 2021 saw the volume on these deposit accounts expand by 21.3% to EUR 0.6 million.

Building society savings schemes are still popular where housing, education or care needs are concerned despite the decline in new contracts. In the reporting year, we sold 2,795 building society savings contracts (pr.yr. 3,023) through Wüstenrot, our sales partner of many years.

Securities operations and digitisation go hand in hand

The year 2021 was a very successful one for investors despite the still ongoing pandemic. Trends on stock markets were quite lively and enticed many private investors to invest on the capital market. Income from the securities business increased by 10.8% versus 2020, up from EUR 13.3 million to EUR 14.7 million. We are working on the expansion our digital services also for the securities business. Since September, customers have been able to prolong the validity of their investor profiles using the MyNet customer portal. The trend towards online banking is being seen in the buying and selling of stocks on securities accounts. A share of 44% of our customers are already using the MyNet customer portal to place securities orders. The number of fund-based savings plans opened online likewise increased in the reporting year.

BKS asset management had a very special anniversary to celebrate in 2021: the bank has been offering this type of investment for 25 years. Key success factors include a stable and experienced asset management team, in-depth know-how as well as a high degree of flexibility when it comes to putting strategic goals into practice.

Volumes increased in the three investment variants: in the investment fund products "BKS Portfoliostrategie" and "BKS Anlagenmix" as well as in individual asset management mandates. The BKS Anlagemix product was expanded to include a fund with a focus on sustainability in April 2021. This proved to be very popular with customers, as green investments are clearly a growth segment. We were especially pleased that our "BKS Bank Portfolio Strategie nachhaltig"[)] was awarded the Austrian Ecolabel for the third time.[5)] In 2013, this successful asset management product was the first and only one in Austria to be awarded an ecolabel. This distinction is a key benchmark for investors in terms of quality and verified sustainability.

At three locations in Vienna, Carinthia and Styria, specially trained account managers provide personalized services for wealthy individuals. Our core products and services in Private Banking include our own issues and a broad range of investment funds, as well as asset management and brokerage services.

Demand for sustainable investments

Sustainable investments have become a megatrend in the securities business. Growth rates in Austria are around 29% on average. We expected this development and started adding sustainable investment products to our portfolio early on. We were the first bank in Austria to issue a social bond and have extensive experience in issuing social and green bonds. The proceeds of such issues are used exclusively to finance projects that meet the general exclusion criteria of BKS Bank as well as the environmental and social finance categories of the international Green and Social Bond Principles.

[5)] The Austrian Ecolabel was awarded by the Federal Ministry for Climate Protection, Environment, Energy, Mobility, Infrastructure and Technology (BMK) for the product "BKS Portfolio-Strategie nachhaltig", because, in addition to economic criteria, ecological and social criteria are also taken into account when selecting shares, bonds, share certificates, real estate and when selecting projects financed by giro and savings deposits or by green bonds. The ecolabel guarantees that the criteria and their implementation are suitable for selecting the appropriate stocks, bonds, share certificates, real estate, projects and investment forms. This has been verified by an independent third party. The ecolabel award is not an economic assessment and does not allow any conclusions to be drawn about the future performance of the financial product.

In the reporting period, we issued two more green bonds in addition to the five green and social bonds issued previously. Buildings account for 40% of total energy consumption in the EU. Therefore, energy-efficient construction plays an important role in climate protection. We used the proceeds of one of our green bonds to fund a green building, the BKS Holzquartier, whose outstanding design met the gold standard under the ÖGNI sustainability certification scheme. The proceeds of the second green bond, which we issued shortly before Christmas, will go largely to funding a major investment in photovoltaic installations.

New account landscape

Payment services performed very well again in the retail customer segment in the financial year 2021. Net fee and commission income was EUR 10.6 million, which is a robust increase of 6.8% year on year.

Accounts and cards are the key components of traditional payment services. In the retail segment, our account landscape has undergone a general overhaul to better align it with customer needs. We significantly reduced the number of account models to make the products and services more easily comparable. We offer customers the state-of-the-art and user-friendly customer portal MyNet to supplement their accounts. We redesigned the portal in the reporting year to match our new branding style. Customer feedback on the new design has been widely positive. MyNet has a number of useful features that customers can set to suit their preferences. A good example is the overdraft facility, which can be customised within a range from EUR 100 to EUR 7,000 with just a few clicks – provided that the customer's credit rating meets the required criteria.

MyNet has been very well received, and the number of customers actively using it has been growing steadily. As at 31 December 2021, some 59,900 customers were using the MyNet customer portal. Internet banking via smartphone is easiest done via our BKS app, to which a new functionality was added in 2021. Since last summer, push messages reliably inform customers of account movements and available balances. The BKS app has excellent ratings – it scored 4.8 out of 5 points with Android users and 4.7 with IOS users. Overall, there are some 26,100 BKS app users in Austria.

Digitisation options have also changed the pace of the transformation in the credit and debit card business. Contactless and smart payment methods are seeing a rapid increase, a trend heightened by the pandemic. The range of smart payment methods is expanding continuously. In the reporting year, we added Swatchpay as a new feature to our existing range of apps such as Apple Pay, BKS Wallet or Garmin Pay. On the other hand, we have long been observing a trend of purchases being made online, along with the corresponding rise in card transactions. At the same time, demand for cash is declining. In our "Bank branch of the future" concept, we have already taken account of the decline in demand for cashier services and simplified cash transaction handling by introducing the white card.

BKS Bank Connect well established

The trend towards online banking continues unabated. We have responded by creating BKS Bank Connect – the digital bank within the bank. BKS Bank Connect is a milestone of our digitisation strategy. Our digital bank is crucial for keeping retail banking profitable and even more so when it comes to addressing new customer groups.

Whenever customers need advice, a team of specially trained account managers are available to our digital bank customers. We think it is important to show customers - also on our digital channels - that we care and that they always have a competent staff member to turn to.

Solid development in insurance business

As a responsible bank, we also offer our retail customers a broad range of products from the insurance sector. We act as point of sale for our long-standing insurance partner, Generali Versicherung AG. We broker mainly endowment insurance policies with regular premium payments and also with one-off payments as well as risk and accident insurance.

We were pleased with the development of the insurance business in the reporting year, with growth in all segments, unlike in the preceding year. Endowment insurance policies measured by premium volumes increased by 5.2%. Sales of accident insurance policies also gained 10.8%. Digital services will also become part of our offer in the insurance business. A few months ago, we linked up the MyNet customer portal to Generali's customer portal.

Outlook for Retail Banking

Lastingly raising earnings power in Retail Banking will remain high on the agenda also in the coming months. We use a mix of measures to help us achieve our earnings targets.

On the one hand, we will improve our digital competence to boost sales of digital products and services. On the other, we will continue our efforts to optimise branch and sales processes.

Online options for opening a securities account will soon be implemented, and we will add a number of additional e-services to the customer portal for our customers in Slovakia in the coming months.

In Slovenia, we are working on introducing investment advisory to strengthen our position as the largest provider of securities services.

Initiatives to win new customers and to improve up-selling and cross-selling are also on our strategic agenda. In the coming months, we plan to focus on increasing sales by offering a combination of personalized offers and improving contact management across all digital channels.

Financial Markets

Apart from income from the management of term structures, the main sources of revenues in the Financial Markets segment are returns on the treasury portfolio and contributions from entities recognised using the equity method. Proprietary trading is not a focus of our business activities.

In the past financial year, the Financial Markets segment posted strong earnings and is now back on a stable course. In the Financial Markets segment, we earned a net profit for the year before tax of EUR 35.2 million as at 31 December 2021, which is a considerable rise of 50%.

This strong increase was due to the development of net interest income, which includes income from investments accounted for using the equity method. It was EUR 40.6 million at year-end. Net interest income also includes income from equity investments. The risk in our investment portfolio is low, and we have only few investments outside the financial sector.

Our portfolio of investments includes Oesterreichische Kontrollbank (OeKB), 3 Banken KFZ-Leasing, 3 Banken Generali Investment GmbH and Wiener Börse AG, to mention the most important ones.

In the financial year 2021, we earned a total of EUR 2.0 million in income from investments, of which EUR 1.0 million were attributable to dividends from OeKB. The 10% investment in 3 Banken KFZ-Leasing yielded income of EUR 0.7 million. This investment allows us to participate in the whole of Austria's motor vehicle leasing market.

Our exposure on the interbank market decreased, as the low interest rates have made interbank transaction less attractive. Total volume was EUR 94.6 million. We cooperate primarily with banking partners that have excellent credit ratings (AA to A3). We defined regular monitoring including clear reporting lines for this business area several years ago.

Financial Markets

in € m	***2020***	***2021***
Net interest income incl. profit/loss from investments accounted for using the equity method	27.7	40.6
Impairment charges	-0.3	0.1
Net fee and commission income	-0.2	-0.2
Net trading income	2.2	0.8
General administrative expenses	-10.5	-10.1
Other operating income/liabilities	-0.1	0.0
Profit from financial assets	4.5	4.0
Profit/loss for the year before tax	23.4	35.2
RoE before tax	3.1%	4.4%
Cost/income ratio	36.3%	24.5%
Risk/earnings ratio	1.1%	-

Therefore, the allocations to impairment charges were accordingly low. In the reporting year, we reversed allocations in the amount of EUR 0.1 million.

At EUR 10.1 million, administrative expenses were slightly lower year on year.

The ALM Committee manages long-term liquidity and structural liquidity. The net stable funding ratio (NSFR) is a mandatory regulatory ratio effective as of 28 June 2021 that tracks long-term liquidity. In the reporting year, we issued EUR 154.7 million in long-term bonds to strengthen the net stable funding ratio (NSFR). Furthermore, we carried out what is referred to as targeted longer-term refinancing operations within the framework of the TLTRO III series in an amount of EUR 550.0 million. This also helped raise the net stable funding ratio (NSFR) to 122.9%.

The management indicators for Financial Markets developed as follows: Return on equity improved from 3.1% to 4.4% due to the good segment results. The cost/income ratio decreased from 36.3% to a very satisfactory 24.5%.

Outlook for Financial Markets

Our goal is to continue to serve as a solid and reliable issuer of securities. Therefore, we plan to issue own bonds again also in the current year to offer our customers attractive investment opportunities.

Our investment activities in 2022 will continue to be guided by the avoidance of market risks. We will not change our conservative investment strategy and continue to invest primarily in high quality liquid assets.

Furthermore, we will also continue our cooperation with our strategic partners, Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft.

Other Segment

The Other segment includes items of income and expenses that cannot be clearly allocated to other segments and those contributions to profit that cannot be attributed to any other operation.

In our calculations for the segments, we set great store by allocating only those income and expense items to the business segments in which these have been earned or incurred.

Net profit/loss for the year before tax in the Other segment was EUR -22.7 million compared to EUR -9.1 million in the preceding year. The decline is attributable above all to the fraud case in the Croatia Branch, for which we recognised impairment charges of EUR 12.7 million. We allocated the economic effects of this incident to the Other segment as it was not related to the development of our business.

High regulatory costs also put a strain on the segment result. Contributions to the deposit guarantee scheme (EUR 6.6 million) and to the resolution mechanism (EUR 3.8 million) also weighed on the segment. Administrative expenses remained nearly unchanged year on year at EUR 7.0 million.

Consolidated Own Funds

BKS Bank calculates the own funds ratio and total risk exposure according to the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). The calculation of own funds requirements for credit risk, for market risk and for operational risk is done using the standardised approach.

The Supervisory Review and Evaluation Process (SREP) by the Austrian Financial Market Authority (FMA) specified that BKS Bank had to meet the following minimum requirements excluding a capital conservation buffer as a percentage of total risk exposure with effect from 31 December 2021:

- 5.5% for common equity tier 1 capital (CET1)
- 7.3% for tier 1 capital, and
- 9.7% for the total capital ratio

Solid equity base

Common equity tier 1 capital (CET1) increased by EUR 40.2 million to EUR 709.5 million, which is a rise of 6.0%. The common equity tier 1 capital ratio rose slightly from 11.8% to 11.9%. Additional tier 1 capital increased due to the issuance of subordinated debt capital by EUR 9.3 million to EUR 65.2 million. Including supplementary capital of EUR 209.1 million, the bank's own funds came to EUR 983.8 million, which is a gratifying increase of 7.4%. The total capital ratio was 16.6% as at 31 December 2021.

BKS Bank group of credit institutions: own funds pursuant to CRR

in € m	31/12/2020	31/12/2021
Share capital	85.9	85.9
Reserves net of intangible assets	1,193.6	1,279.0
Deductions	-610.2	-655.3
Common equity tier 1 capital (CET1)	669.3	709.5[1]
Common equity tier 1 ratio	11.8%	11.9%
AT1 note	55.9	65.2
Additional tier 1 capital	55.9	65.2
Tier 1 capital (CET1 + AT1)	725.2	774.7
Tier 1 capital ratio	12.8%	13.0%
Supplementary capital (tier 2)	190.9	209.1
Total own funds	916.1	983.8
Total capital ratio	16.2%	16.6%
Total risk exposure amount	5,664.1	5,943.8

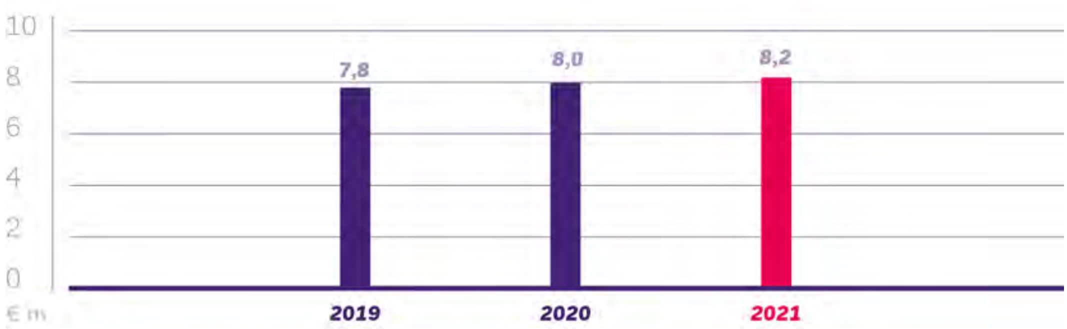
[1] Includes profit for the year 2021. Formal adoption is still pending.

Positive development of leverage ratio

The leverage ratio is the ratio of tier 1 capital to the unweighted exposure of BKS Bank including off-balance sheet risk positions. The leverage ratio was 8.2% as at 31 December 2021. Therefore, we were well above the regulatory minimum ratio of 3.0%.

In 2020, there was a material change to the method of calculation of the leverage ratio. Receivables from central banks may be temporarily excluded from the leverage ratio. In the reporting year, we made use of this option.

Leverage ratio



BKS Bank meets MREL ratio requirements

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

For BKS Bank, the Financial Market Authority (FMA) defined the minimum amount of own funds and eligible liabilities at 14.99% of total liabilities and own funds (total liabilities and own funds, TLOF) on a consolidated basis. The MREL ratio was 19.4% at year-end on a TLOF basis. As of January 2022, the MREL ratio must be recalculated on the basis of the Total Risk Exposure Amounts (TREA). The regulatory minimum ratio required is 22.3%, which we already met at year-end 2021 with 32.3%.

Risk Management

The description of the risk management objectives and methods as well as explanations on material risks are contained in the Notes as of page 171 under Risk Report.

Financial reporting and the internal control system

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

The ICS ensures that the corporate reporting processes, in particular, financial reporting is carried out correctly, reliably and is complete. We meet these requirements through a documented and transparent organisational structure, a suitable risk orientation and risk analysis, and control activities. To support professional corporate reporting, we use the reporting software firesys. The software permits changes and adjustments to figures in a secure and audit-compliant manner. The software also supports the European Single Electronic Format (ESEF).

All ICS measures relating to financial reporting processes are covered in a Group Accounting Manual as well as in the Internal Guidelines on Risk Provisions. Financial reporting is an important element of the internal control system in place throughout the Group and is evaluated annually.

The Management Board is responsible for setting up and designing a control and risk management system that meets the needs of the Group's financial reporting process.

Accounting and the related processes, consolidation and risk management are the remit of the Controlling and Accounting department. There are job descriptions for every position that precisely define the skills required and areas of responsibility. All areas of responsibility are defined in a task matrix.

The foreign branches and subsidiaries transmit their data on a daily basis via interfaces to the General Ledger, which is maintained in SAP. Centrally responsible employees are on site on a quarterly basis to check the data and information needed for the consolidated reporting. Internal and external seminars are organized to ensure that employees are appropriately trained.

Control activities

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

The quality of the main controls is classified according to the maturity grade model. Depending on the category assigned in the risk-control matrix, the individual work activities and positions are allocated to specific mandatory control activities. In this context, several different control procedures are applied. Recurring systemic controls were implemented together with IT users and external auditors to monitor the IT systems employed (SAP, GEOS, etc.). Accuracy, completeness and precision of the data were audited. In addition, plausibility checks were carried out, checklists were employed and the dual-control principle was consistently applied.

In financial accounting, checks were carried out to ensure that outgoing payments had also been authorised by the responsible parties and that no boundaries of authority had been overstepped. Payments are authorised for execution only after dual control. Coordination processes are in place for synchronizing the data between the organisational units Accounts/Financial Reporting and Controlling. This ensures data consistency for internal reporting, notifications to authorities and external reporting. An important control procedure concerns the restrictive granting and monitoring of IT authorisations for SAP. Authorisations are documented and their approval is reviewed by Internal Audit within the scope of a separate authorisation administration system.

These extensive control procedures were regulated by internal manuals, guidelines, checklists and process descriptions.

Information and communication

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

Shareholders receive quarterly interim reports that are published on the website www.bks.at under » Investor Relations » Berichte und Veröffentlichungen.

Monitoring effectiveness of the measures

The monitoring of the financial reporting process is done in several stages. On the one hand, we conduct a self-assessment every year, and on the other, a critical review of ICS is conducted within the scope of process management with respect to financial reporting. Moreover, independent reviews are conducted by the Internal Audit department of BKS Bank that reports directly to the Management Board. The department heads and the responsible heads of groups perform the primary monitoring and supervisory tasks in the financial reporting process in accordance with their role descriptions.

To ensure the reliability and orderliness of the financial reporting process and the relevant reports, additional monitoring procedures are carried out by the statutory auditors of the consolidated financial statements and by the statutory Audit Committee.

Sustainability and Non-financial Performance Indicators

BKS Bank published non-financial information pursuant to § 243b Business Code and § 267a Business Code (Sustainability Report and Diversity Improvement Act (NaDiVeG)) together in a separate Sustainability Report 2021. This report is made available on our website at www.bks.at/Nachhaltigkeit. The information on the following pages presents selected developments of our non-financial performance indicators. A report on the disclosure information required as of 2021 pursuant to Art 8 of Regulation (EU) 2020/852 is also published in the Sustainability Report 2021.

Governance

BKS Bank has been pursuing a holistic sustainability strategy for many years. Our sustainability strategy breaks down into the following five fields of action under the motto “With accountability into a livable future”.

- Strategy and governance
- Employees
- Products and innovation
- Environment and climate change mitigation
- Society and social engagement

We have defined strategic sustainability goals until 2025 that permit us to measure performance. For example, we want to maintain our status as an industry leader in sustainability and keep the prime rating status assigned to us by ISS ESG. We are also aiming for long-term climate neutrality and want to increase the share of sustainable investment modules in asset management to 30% and reduce the gender pay gap to 12%.

Sustainability management

Sustainability is the remit of the Chairwoman of the Management Board on account of its importance, and she regularly reports to the Supervisory Board on the progress made in implementing the sustainability strategy.

Two CSR officers develop and coordinate the CSR programme jointly with our domestic and international CSR teams. At regular quarterly CSR meetings, the progress achieved in implementing the sustainability strategy is discussed with the Chairwoman of the Management Board and the next steps are defined.

Management of ESG risks

At BKS Bank we define sustainability and ESG risks as events or conditions from the areas of environment (E), social matters (S) or governance (G) which may – in fact or potentially – have negative effects on the assets, financial position and result of operations or on the reputation of our company. When we analyse this type of risk, we apply the dual materiality principle and look carefully at the mutual effects of ESG risks and financial risk in the ESG risk management process described on the following pages.

The Management Board has overall responsibility for ESG risk management and discusses in detail and evaluates sustainability risks and opportunities with several governing bodies and committees including regular credit risk meetings, the ALM Management Committee and the OR Committee. The management of sustainability risks resembles a tight mesh within the individual risk types. Therefore, the risk policy principles for managing ESG and especially climate risks refer to the diverse management levels and risk categories.

ESG Risk Management Process

Risk identification and analysis	Risk management ex ante	Risk management ex post	Risk control
• Quantify ESG risks • Perform ESG risk assessment • Create vulnerability analysis of customers • Analyze impact of ESG risks on bank-specific risks • Assess probability of occurrence and level of damage of ESG risks • Integrate ESG risks into ICAAP	• Define risk appetite for ESG risks • Define risk policy principles for managing ESG risks • Agree target values and risk limits in affected risk types • Perform ESG stress testing and impact analysis • Create technical database • Establish controls • Train employees	• Evaluate risk hedging • Create buffer • Evaluate impact of ESG risk event / back-testing • Create and analyze heatmap/scoring for current portfolio	• Monitor risk appetite for ESG risks • Analyze target attain-ment and deviations from limits • Standardize assessments • Establish reviews by internal audit • Perform standardized monitoring cycles

We rely on manifold due diligence processes to identify, evaluate and manage ESG risks and opportunities. A few examples are

- the annual risk assessment,
- the analysis of the vulnerability of our customer portfolio to climate risks,
- deriving ESG risk scores using the CLIMAID Tool,
- the documentation of soft facts to analyse the resilience of customers to ESG risks,
- regular employee and customer surveys as well as
- our compliance, anti-corruption and AML management.

In the reporting year, we conducted several risk assessments of individual customers and of portfolios. The outcome revealed that only a very small share of our customers is exposed to higher ESG risks.

The groups of customers with the highest exposure to risk are from farming, water utilities, waste disposal and tourism.

Based on the findings of the due diligence processes, we derive mitigation measures to minimize risk. These include

- the exclusion and positive criteria for agent and proprietary transactions that define with whom we do business;
- the further education and training of our employees on ESG topics;
- the expansion of our sustainable product range;
- the Office of the Ombudsperson;
- the use of management systems pursuant to EFQM and EMAS;
- and the governance, anti-corruption and AML measures presented in the Corporate Governance Report.

Regular talks with stakeholders
Communicating with our stakeholders is an important source for the further development of our sustainability strategy. In 2021, we discussed the Green Deal with our sustainability experts and conducted employee and customer surveys.

Social activities
94% of our staff are proud to work at BKS Bank. The overall satisfaction rating is 2.0 on a six-tier scale. These gratifying values are two of the principal findings of the employee survey of 2021. In times of fierce competition on the labour market for the best employees, we view this assessment as a distinction.

The BKS Bank Group employs 1,145 persons from 15 countries. To better meet demands for greater diversity, we appointed a person responsible for diversity in 2020 and also added new topics to the training programme in the reporting year.

We surpassed the target ratio for women in management positions
In our efforts to eliminate inequality we focus on increasing the share of women in management positions and on reducing the gender pay gap. We are pleased that at 36.5% we have surpassed our target of 35% for the share of women in management positions for the first time. We have come one step closer to attaining the goal with respect to the gender pay gap, which is to be reduced to 12% in Austria. At the end of the year, the pay gap was 16.2%.

Most family-friendly company in Carinthia
Raising the number of women in management positions plays a key role and the work-life balance is important for employer branding. We have obtained the national certification as a family-friendly enterprise in Austria, Slovenia and Croatia. In Carinthia, we were recently designated the "most family-friendly large company 2021".

Excellent qualifications
In 2021, our employees spent more than 36,600 hours in training. One of the priorities of the training programme was on the topic of sustainability. In this context, all investment advisors certified as European Investment Practitioners completed a multi-stage training course on sustainable investments. The excellence programme offered to experienced management staff for the first time was also very popular.

Overview of employees

Employees by number of persons	*2019*	*2020*	***2021***
Total	1,128	1,133	1,145
• thereof in Austria	851	851	856
• thereof in Slovenia	150	154	158
• thereof in Croatia	76	79	82
• thereof in Slovakia	46	45	45
• thereof in Italy	4	4	4
• thereof in Hungary	1	0	0
• thereof women	637	641	663
• thereof men	491	492	482
• thereof employees with disabilities	27	25	24

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

Banking on health
We gave high priority to the health of our employees in the reporting year. Information on the coronavirus prevention measures taken is given on page 68 of this report. Additionally, we offered our activities to promote workplace health again in 2021. The focus of the annual programme "Durch die Bank gesund" was on liver health. 255 employees took part in the programme. A piece of good news: our bank was once again awarded the “Quality label for workplace health promotion”.

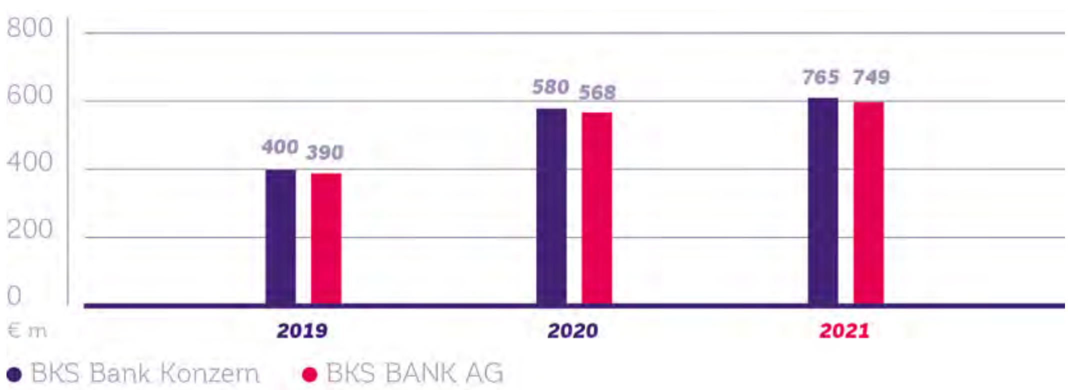
Reliable partner for society
Our activities for society are a contribution to the Sustainable Development Goal 1 “No Poverty” and Goal 4 “Quality Education”. Important instruments for this purpose are our products to help persons build wealth and secure their standard of living in retirement, such as the Silberkredit loan which gives older people access to financing, and sponsorships, contributions in kind, and donations to numerous institutions.

In 2021, we supported 105 initiatives with EUR 216,000 including the German Literature Days and the event “Carinthischer Sommer”, the Brahms competition, Kärntner in Not and SOS Kinderdorf. Our employees were also very generous in their support for the victims of the earthquake disaster in Croatia. They donated about EUR 10,000, which was handed over to the NGO Solidarna. BKS Bank itself provided a mobile home, which was handed over to a family via the Croatian Red Cross.

Environment
In the area of environmental and climate protection, our goals to expand our sustainable product range, decarbonization and the construction of green buildings go hand in hand. All measures initiated for this purpose contribute to achieving climate neutrality at our company.

Environmentally sustainable products
In the reporting year, BKS Bank increased the volume of sustainable products from EUR 580 million to EUR 765 million. Of this amount, EUR 556.2 million are loans for sustainable purposes such as the financing of plants for the generation of renewable energy,

Volume of sustainable products*



* The chart shows volumes for “BKS Portfoliostrategie nachhaltig”, for the green and social bonds issued, for the sustainable investment components in variants of the product “BKS Portfoliostrategie”, as well as for the products “Öko-Sparbuch”, “Grüne Sparbuch”, sustainable loans, green loans and green leasing, and since 2021, also for green loans in Croatia.

investing in the circular economy, increasing biodiversity and sustainable mobility – up to now, this classification has been based on a catalogue of criteria drawn up by BKS Bank.

In 2021, we worked intensely to develop software that checks if a loan is taxonomy-compliant and we achieved good progress. This work was done jointly with several banks, the Association of German Public Sector Banks (VÖB) and Dydon. The software is user-friendly and guides our staff through the review process to ensure that all criteria required for the assessment are correctly recorded. Additionally, artificial intelligence is used to carry out procedural calculations to determine the relevant data. This should make data collection easier for loans to SMEs.

Two green bonds issued

In 2021, BKS Bank issued two green bonds. The proceeds from the issue of the BKS 0.45% Green Bond 21-26/2 were used to finance the construction of the residential project BKS Holzquartier. This is a green housing complex in the centre of Klagenfurt. Just before Christmas, we set an example for climate protection together with the public utility company, Stadtwerke Klagenfurt. Stadtwerke Klagenfurt is investing EUR 20 million in 59 photovoltaic plants. Part of the investment will be financed by the green bond issued by BKS Bank. The photovoltaic plants will save around 13,500 t in CO_2 equivalents annually in future.

Enormous impact

In 2021, we also investigated the impact on the environment and society of the green and social bonds issued from 2017 to 2020. We are pleased with the contributions of our sustainable bonds to climate change mitigation: avoidance of over 10,000 t CO_{22} equivalents per year; 39 GWh of electricity produced annually from renewable energy; funding for home places for 106 dementia patients, and an energy-efficient, modern school building for 290 students.

We also offer our customers sustainable alternatives for asset management mandates, the most popular being the BKS Portfolio-Strategie nachhaltig. This product again received the Austrian Ecolabel for Sustainable Financial Products in 2021.[6)] In total, the share of sustainable investment modules in asset management was 28.5% at year-end 2021. We are therefore close to achieving our target value of 30% defined in the sustainability strategy much earlier than the year 2025 set out in our plan.

Decarbonization of the treasury portfolio

We also aim to steadily increase the ratio of sustainable funds in our own portfolio to achieve the goals of the Paris Agreement. In 2021, we reduced the carbon footprint of our own investment fund portfolio from 138 t CO_2/1 million $ turnover to 105 t CO_2/1 million $ turnover, and thus improved the weighted ESG risk core value pursuant to MSCI ESG from A to AA.

[6)] The Austrian Ecolabel was awarded by the Federal Ministry for Climate Protection, Environment, Energy, Mobility, Infrastructure and Technology (BMK) for the product “BKS Portfolio-Strategie nachhaltig”, because, in addition to economic criteria, ecological and social criteria are considered when selecting shares/bonds/share certificates/real estate or projects financed by means of current/savings deposits or green bonds. The Ecolabel guarantees that the criteria and their implementation are suitable for selecting appropriate stocks/bonds/share certificates or real estate, projects or forms of investment. This has been verified by an independent authority. The Ecolabel does not represent an economic evaluation and does not permit any conclusions to be drawn about the future performance of the financial product.

Total value of financed issues

Asset class	Sum of loans and investments recognized in €k	Scope 1 and 2 emissions in t CO2-equiv.	Emissions intensity in t CO2-equiv./EUR million
Scope 3.15			
Loans	4,090,361	1,005,262	245.8
Vehicle loans	15,910	2,301	144.6
Asset management	204,584	13,498	66.0
Treasury portfolio	224,444	12,426	55.4
Subtotal	**4,535,300**	**1,033,487**	**227.9**
Scope 3.13			
Vehicle lease finance[2]		146,580	
Total		**1,180,067**	

1) The emissions intensity of 227.9 t CO_2-equ./EUR million is not obtained by adding up the values above, but is calculated using the following formula: Scope 1 and 2 emissions / sum of loans recognized 1,000,000

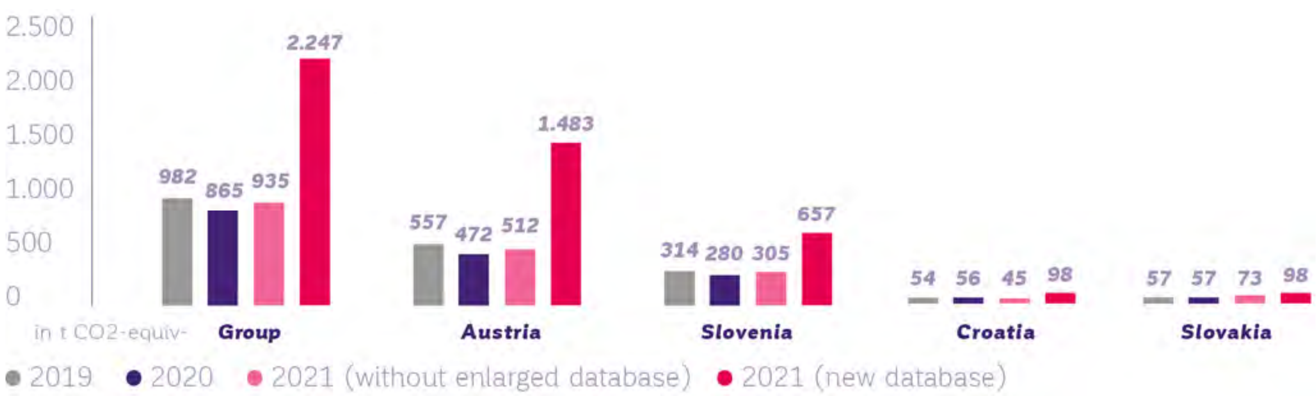
2) For the leasing portfolio, the calculation was made in accordance with the GHG Protocol on downstream leased assets, as these are not included in the PCAF methodology.

Carbon footprint

BKS Bank has been calculating its carbon footprint for Scope 1, Scope 2 and smaller parts of Scope 3 since 2012. The larger share of our emissions is generated indirectly through loans and investment products. In 2021, we made initial progress in calculating these financed emissions in accordance with the Partnership for Carbon Accounting Financials (PCAF), and calculated emissions data for our corporate loans and vehicle finance, our asset management products and our treasury portfolio.

In total, these asset classes were found to generate indirect emissions of approximately 1.2 million t CO_2 equivalents. When determining emissions from direct business operations, we significantly enlarged the database used for the calculations in the reporting year.

Carbon Footprint of BKS Bank



For the first time, we took into account data for employee travel to and from work, for IT equipment, the Oscar restaurant, and BKS Wohnpark (residential complex). Of the Group-wide 2,247 t CO_2 equivalents, 1,134 t (51%) were attributable to employee travel to and from work. The second largest source of emissions was electricity consumption with 277 t CO_2 equivalents, followed by district heating with 209 t CO_2 equivalents.

In terms of total energy consumption, we saw an increase from 7.18 GWh to 7.92 GWh in the reporting year. Of this total, around 97 MWh were attributable to the first-time inclusion of the Oscar restaurant and BKS Wohnpark.

Non-financial performance indicators

Strategic CSR goal	Indicator[1]	Starting value 31/12/2019	As at 31/12/2020	As at 31/12/2021
We are Austria's most sustainable bank	Best in Class in Sustainability:			
	ISS ESG Prime	✓	✓	✓
	VÖNIX index member	✓	✓	✓
	EMAS certified	✓	✓	✓
	Green brand	✓	✓	✓
We use digital solutions to achieve sustainable business operations and sustainable work routines	We reduced 6000 km p.a. in business travel by using video conferences[2]	3930 km	2030 km	4860 km
We value our employees and are proud of the results of the employee survey:	Overall satisfaction is at least 1.9	2.0 (last survey 2017)	2.0 (last survey 2017)	2.0
	Share of women in management positions rose to 35%	31.6%	33.2%	36.5%
	At least 25% of employees participate annually in the company health promotion program	27.7%	16.2%	22.4%
	The gender pay gap has been reduced to 12%	16.5%	16.4%	16.2%

[1] The indicator refers in each case to 2025. When an annual target is defined, this is added as a note to the indicator.
[2] Up to 2019, we included only online meetings held in our own video conference rooms. Since 2020, we have been using other video conferencing systems at our company. Determining the number of km saved would be very time-consuming and expensive. Therefore, only those meetings that took place in the video conference room were included in 2020. For 2021, we calculated the savings based on data projections for all video conferencing systems in use. Therefore, the value only serves as guidance.

Strategic CSR goal	Indicator[1]	Starting value 31/12/2019	As at 31/12/2020	As at 31/12/2021
Our employees are multipliers for sustainability and social responsibility	At least 10% of all employees participate in corporate volunteering p.a.	10.4%	3.9%	3.5%
We perceive sustainability as an innovation driver for sustainable banking products	The volume of new loans for sustainable finance is EUR 200 million per year	131.5	116.8	143.0
	The share of ESG investment modules in asset management increased to 30%.[3]	n.a.	13.2%	28.5%
We inspire our customers with excellent advisory services	EFQM – Recognized for Excellence 7 Star[2]	EFQM – Recognized for Excellence 5 Star[2]	EFQM – Recognized for Excellence 5 Star[2]	EFQM – Recognized for Excellence 5 Star[2]
	Overall satisfaction rating of 1.5 in our customer survey	1.5	1.5	1.5
We aim to achieve climate neutrality	Reduce carbon footprint per employee to 0.85 t CO_2 equivalents	1.0 t CO_2 equivalents	0.9 t CO_2 equivalents	0.9 t or 2.3 t CO_2 equivalents
	Lower total energy consumption to 7.2 GWh by 2025	7.59 GWh	7.18 GWh	7.92 GWh
We develop our properties into green buildings	At least five green structural measures at buildings p.a.	✓	✓	✓
We are members of ESG networks	UN Global Compact	✓	✓	✓
	respACT – austrian business council for sustainable development	✓	✓	✓
	Verantwortung zeigen!	✓	✓	✓
	WWF CLIMATE GROUP	✓	✓	✓
We contribute to increasing equal opportunities in society	At least five financial literacy measures per year	✓	✓	✓

[1] The indicator refers in each case to 2025. When an annual target is defined, this is added as a note to the indicator.
[2] The EFQM assessment system was redefined as of 2020, and supplemented by additional excellence levels; the assessment of BKS Bank was based on the previous model.
[3] In the reporting of previous years, the sustainable investment modules of the Austrian asset management variants were compared to the total volume of asset management in Austria. In this reporting year, we changed the calculation to comprise Group-wide data and also adjusted the historical values.
[4] In the reporting year, the data base for the calculation was significantly enlarged. The carbon footprint per employee of 0.9 t in CO_2 equivalents is what we would have achieved without this enlargement of the database. 2.3 t CO_2 equivalents is the new total value. A target aligned with the improved database will be defined in 2022.

Outlook

Russian-Ukrainian conflict and inflation pose a risk to economic recovery

At the end of February, Russia attacked Ukraine. The Russian attack sent shock waves throughout the globe and severely affected stock markets and economies. Although Russia plays a smaller role as an economic partner for the EU, and also for Austria, dependence on gas imports is high. Prices for energy have already risen since the outbreak of the conflict. International stock markets saw stocks plunge and many investors fled into investments such as gold and bonds, which are considered safe havens in times of crisis. The effects of the Russian invasion on global economic developments are difficult to assess at the time of this writing. Experts agree that the economic and financial impact will be severe worldwide, especially in Europe, and will constrain the economic recovery.

High inflation is also putting a damper on economic forecasts, as a recently published economic report by the International Monetary Fund (IMF) shows. Inflation in 2022 is expected to be significantly higher than had been expected just a few months ago. The high inflation rates and fear of second-round effects, coupled with higher commodity prices and prospects of more restrictive monetary policy will slow the fundamentally solid economic development in the current year. According to IMF, the global economy is now expected to grow at a rate of 4.4% in 2022, which is 0.5% below the forecast published in the autumn. For the USA, which is the world's largest economy, the IMF's growth forecast was lowered by 1.2% to 4.0%.

The current forecast for the euro area is a growth rate of 3.9%, not including any setbacks caused by the war in Ukraine. IMF lowered the growth forecast for the world's largest economy, China, by 0.8% to 4.8%. China is being affected mainly by the turmoil in the real estate sector. The European Commission is forecasting above average growth for Slovenia, Croatia and Slovakia, which are our key foreign markets. According to the autumn forecast, the economy in Slovenia is expected to grow by 4.2% in 2022, in Croatia by 5.6%, and in Slovakia by 5.3%. In this case as well, it is not yet possible to assess how the war in Ukraine will affect GDP growth in these countries.

Expectations for capital markets

The Russian invasion of Ukraine has already triggered a tremor on the international stock markets. Due to the many uncertainties, temporary price corrections may occur over the course of the year, mainly in equity investments. Despite the likelihood of higher price volatility, we believe the medium-term outlook is still positive, especially for stocks. Additionally, the stock market is the only chance of real protection for capital, especially in view of the high inflation rates. Many investors are aware of this, and therefore, stock markets should remain well supported in future.

The environment for bonds remains extremely difficult. The absolute level of yields on government bonds is still unattractive despite the interest rate hikes of recent months.

Furthermore, interest rates in this segment are expected to rise further, which will weigh on prices. Corporate bonds would seem to be more attractive in this environment. However, we may assume, at least temporarily, that yields could rise, which would have negative effects at times on prices. An excellent supplement in this segment are social and green bonds. These support social and environmentally-friendly projects.

This gives investors the certainty that the capital made available is beneficial to the environment or provides social added value.

Legal disputes

We expect the court proceedings initiated by the minority shareholders UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. against BKS Bank to continue to occupy our time in 2022. The proceedings and rulings to date reinforce us in our view that BKS Bank has always acted in accordance with the law and that the allegations made by the aforementioned minority shareholders are unfounded.

Difficult financial year ahead

In the current financial year, we are celebrating our 100th anniversary. At the time, in 1922, the First World War had ended just a few years before and the economy was recovering only slowly from the ravages of war. Unfortunately, peace in Europe is again dramatically at risk 100 years later. The threat of a prolonged war could result in significant economic setbacks, with the effects also possibly spilling over into our core markets. We expect the financial year to be a challenging one. Considering the recent events, demand for loans is likely to be much lower than recently assumed. The need to increase impairment charges for losses on loans and advances could increase in the coming months. We expect business in primary deposits to continue to expand, and hope to attract institutional investors through the issuance of own bonds.

In the income statement, lending remains the most important item. It is uncertain whether there will be a trend reversal in interest rate policy in the coming months. Just a few weeks ago, we were more optimistic on this topic. It seemed that the era of inexpensive money and historically low interest rates was slowly coming to an end. However, recent geopolitical events reduced the probability of a trend reversal. The projections for the current financial year include moderate increases in net interest income. The expansion of our services business remains at the core of our sales strategy, with the focus remaining on payment transactions and the securities business.

Keeping costs well under control remains an important issue for 2022. The bankruptcy of the EU subsidiary of Russia's Sberbank is expected to result in higher contributions to the deposit guarantee scheme, and high inflation will cause costs to rise in many areas.

Strategically, we will devote our attention to the two defining topics for the financial sector: sustainability and digitization. We are already very familiar with both topics. Above all, the topic of sustainability has been a matter close to our hearts for many years. We have been pioneers in this area and have invested great efforts to support sustainability, making us one of the best with respect to this topic.

We have launched numerous new projects in a bid to keep our leading role in this area, including the implementation of the EU Action Plan: Financing Sustainable Growth, implementing measures to achieve climate neutrality, and enlarging our range of sustainable products. Measures to develop green real estate projects are also on our strategic agenda. In the spring of 2022, work on our third green building, a residential complex with commercial space and a BKS Bank branch, will be completed in Eisenstadt and the keys handed over to the tenants.

We are also devoting a great deal of energy to the second major topic, digitization. The project portfolio is full in this area as well.

The projects planned include the digitization of the corporate lending process, a wider range of digital products and services for corporate and retail customers as well as personalized and individualized communication channels with customers.

Earnings uncertainty prevails in 2022

The attainment of our goals could be derailed by the recent geopolitical events and the entailing market distortions. The development of business operations in the first few weeks was promising. Nonetheless, it will be a challenge to achieve the business targets for 2022 considering the gloomy setting.

Klagenfurt am Wörthersee, 11 March 2022

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer	Alexander Novak	Nikolaus Juhász
Member of the Management Board	Member of the Management Board	Member of the Management Board

06

06. Consolidated Financial Statements Pursuant to IFRS

Consolidated Statement of Comprehensive Income for the Financial Year 2021

Income Statement

in €k	Notes	2020	2021	± in %
Interest income applying the effective interest rate method		142,305	144,685	1.7
Other interest income and other similar income		23,584	22,222	-5.8
Interest expenses and other similar expenses		-29,417	-27,989	-4.9
Net interest income[1]	**(1)**	**136,472**	**138,918**	**1.8**
Impairment charges	(2)	-25,026	-32,389	29.4
Net interest income after impairment charges		**111,446**	**106,529**	**-4.4**
Fee and commission income		69,709	73,216	5.0
Fee and commission expenses		-5,363	-6,113	14.0
Net fee and commission income	**(3)**	**64,346**	**67,103**	**4.3**
Profit/loss from investments accounted for using the equity method	(4)	30,903	44,959	45.5
Net trading income	(5)	2,231	785	-64.8
General administrative expenses	(6)	-123,154	-125,346	1.8
Other administrative expenses	(7)	7,939	8,460	6.6
Other operating expenses	(7)	-12,416	-14,996	20.8
Profit/loss from financial assets/liabilities		**3,608**	**5,454**	**51.2**
• Profit/loss from financial instruments designated at fair value	(8)	457	170	-62.8
• Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	(9)	1,866	4,168	>100
• Profit/loss from derecognition of financial assets measured at amortised cost	(10)	1,326	1,404	5.9
• Other comprehensive income from financial assets/liabilities[1]	(11)	-41	-288	>-100
Profit for the year before tax		**84,904**	**92,948**	**9.5**
Income tax	(12)	-10,152	-12,189	20.1
Profit for the year		**74,752**	**80,759**	**8.0**

As of half-year 2021, modification gains/losses from changes to contractual terms that do not trigger derecognition of an asset are recognized in net interest income and no longer under Note (11) Other profit/loss from financial assets/liabilities. The preceding year's values were adjusted accordingly.

Other comprehensive income

in €k	2020	2021	± in %
Profit for the year	**74,752**	**80,759**	**8.0**
Other comprehensive income	**-1,001**	**11,316**	**>100**
Items not reclassified to profit or loss for the year	**1,549**	**11,369**	**>100**
± Actuarial gains/losses in conformity with IAS 19	2,463	2,959	20.2
± Deferred taxes on actuarial gains/losses in conformity with IAS 19	-616	-737	-19.6
± Changes in the fair value of equity instruments measured at fair value	-815	7,060	>100
± Deferred taxes on changes in fair value of equity instruments measured at fair value	108	-1,765	>-100
± Fair value changes due to the default risk of financial liabilities measured at fair value through profit/loss (designated)	668	388	-42.0
± Deferred taxes on fair value changes of financial liabilities due to default risk that are measured at fair value through profit/loss (designated)	-167	-97	42.0
± Share of income and expenses of associates in OCI and accounted for using the equity method	-91	3,561	>100
Items reclassified to profit or loss for the year	**-2,550**	**-53**	**-97.9**
± Exchange differences	-83	23	>100
± Changes in the fair value of debt instruments measured at fair value	684	-1,230	>-100
± Net change in fair value	684	-1,230	>-100
± Reclassified to profit or loss	-	-	-
± Deferred taxes on changes to the fair value of debt instruments measured at fair value	-171	308	>100
± Share of income and expenses of associates reported in OCI and accounted for using the equity method	-2,980	847	>100
Total comprehensive income	**73,751**	**92,075**	**24.8**

Earnings and dividend per share

	2020	2021
Average number of shares in issue[1)]	42,056,475	42,076,156
Dividend per share in EUR	0.12	0.23
Earnings per share in EUR (diluted and undiluted)[2)]	1.72	1.85

[1)] With the conversion of all preference shares into ordinary shares at the beginning of November 2020, there are now only ordinary shares in issue (pr.yr. ordinary and preference shares).
[2)] To calculate earnings per share, the coupon payment on the tier 1 bonds issued in an amount of EUR 4.0 million (pr.yr.: EUR 3.4 million) is deducted from the net profit for the year of EUR 80.8 million (pr.yr.: EUR 74.8 million) taking into account the tax effects, therefore, the calculation of the indicator is based on a net profit for the year of EUR 77.8 million (pr.yr.: EUR 72.3 million).

The indicator 'earnings per share' compares consolidated profit for the year with the average number of no-par shares in issue. In the reporting period, earnings per share and diluted earnings per share were the same, because no financial instruments with a dilution effect on the shares were issued.

Quarterly Review 2021

in €k	Q1/2021	Q2/2021	Q3/2021	Q4/2021
Interest income and similar income	39,846	41,199	42,718	43,145
Interest expenses and other similar expenses	-6,830	-6,720	-7,254	-7,185
Net interest income	**33,016**	**34,479**	**35,464**	**35,960**
Impairment charges	-6,156	-3,309	-2,669	-20,254
Net interest income after impairment charges	**26,860**	**31,170**	**32,794**	**15,706**
Fee and commission income	18,375	17,913	17,913	19,015
Fee and commission expenses	-1,533	-1,412	-1,175	-1,993
Net fee and commission income	**16,842**	**16,501**	**16,738**	**17,022**
Profit/loss from investments accounted for using the equity method	7,365	9,606	14,713	13,275
Net trading income	39	167	352	226
General administrative expenses	-32,673	-31,700	-31,573	-29,400
Other operating income	1,735	2,227	2,456	2,042
Other operating expenses	-8,326	-1,442	-1,423	-3,805
Profit/loss from financial assets/liabilities	**2,300**	**2,836**	**-1,374**	**1,692**
• Profit/loss from financial instruments designated at fair value	7	-322	-1,165	1,649
• Profit/loss from financial assets measured at fair value through profit/ loss (mandatory)	2,239	1,998	-588	518
• Profit/loss from derecognition of financial assets measured at amortised cost	51	1,149	340	-135
• Other profit/loss from financial assets/liabilities	3	11	39	-341
Profit for the year before tax	**14,142**	**29,365**	**32,684**	**16,757**
Income tax	-3,204	-3,731	-3,253	-2,001
Profit for the year	**10,938**	**25,634**	**29,430**	**14,756**

Quarterly Review 2020

in €k	Q1/2020	Q2/2020	Q3/2020	Q4/2020
Interest income and similar income	42,767	42,719	39,765	40,637
Interest expenses and other similar expenses	-7,840	-7,608	-6,806	-7,164
Net interest income[1]	**34,927**	**35,111**	**32,959**	**33,474**
Impairment charges	-6,251	-9,133	-6,728	-2,913
Net interest income after impairment charges	**28,676**	**25,978**	**26,231**	**30,561**
Fee and commission income	18,245	16,180	16,529	18,755
Fee and commission expenses	-1,315	-1,141	-1,414	-1,493
Net fee and commission income	**16,931**	**15,039**	**15,115**	**17,261**
Profit/loss from investments accounted for using the equity method	-267	2,778	12,100	16,292
Net trading income	558	934	-2	740
General administrative expenses	-30,004	-30,407	-32,042	-30,700
Other operating income	1,573	1,587	1,996	2,783
Other operating expenses	-6,121	-3,499	-1,308	-1,488
Profit/loss from financial assets/liabilities	**-6,445**	**5,891**	**229**	**3,933**
• Profit/loss from financial instruments designated at fair value	264	201	-102	94
• Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	-6,531	4,075	988	3,335
• Profit/loss from the derecognition of financial assets measured at amortised cost	-177	1,614	-656	545
• Other comprehensive income from financial assets/liabilities[1]	0	1	0	-41
Profit for the year before tax	**4,900**	**18,301**	**22,320**	**39,383**
Income tax	-2,368	-1,045	-4,240	-2,499
Profit for the period	**2,532**	**17,256**	**18,080**	**36,884**

As of half-year 2021, modification gains/losses from changes to contractual terms that do not trigger derecognition of an asset are recognized in net interest income and no longer under Note (11) Other profit/loss from financial assets/liabilities. The preceding year's values in the Quarterly Review 2020 were adjusted accordingly.

Consolidated Balance Sheet for the Period ended 31 December 2021

Assets

in €k	Notes	31/12/2020	31/12/2021	± in %
Cash and balances with the central bank	(13)	1,102,688	1,479,418	34.2
Receivables from other banks[1)]	(14)	282,770	94,582	-66.6
Receivables from customers[1)]	(15)	6,569,965	6,958,625	5.9
Trading assets	(16)	10,526	8,561	-18.7
Debt securities and other fixed-interest securities[1)]	(17)	917,599	999,561	8.9
Shares and other non-interest-bearing securities	(18)	153,426	154,548	0.7
Investments in entities accounted for using the equity method	(19)	661,538	709,256	7.2
Intangible assets	(20)	10,153	9,655	-4.9
Property, plant and equipment	(21)	78,240	80,695	3.1
Investment property	(22)	41,192	52,557	27.6
Deferred tax assets	(23)	10,988	8,484	-22.8
Other assets	(24)	17,391	22,026	26.7
Total assets		**9,856,476**	**10,577,968**	**7.3**

[1)] On the balance sheet date 30 June 2021, a change was made to charges for losses on loans and advances. These are no longer reported as a separate item with a negative value on the balance sheet, but are netted against the gross carrying amount of the corresponding balance sheet item. The presentation of preceding year's figures was also changed.

Shareholders' equity and liabilities

in €k	Notes	31/12/2020	31/12/2021	± in %
Payables to other banks	(25)	899,929	826,912	-8.1
Payables to customers	(26)	6,542,245	7,142,532	9.2
• of which savings deposits		1,401,674	1,351,180	-3.6
• of which other payables		5,140,571	5,791,352	12.7
Liabilities evidenced by paper	(27)	647,463	732,523	13.1
• of which at fair value through profit or loss		63,429	56,999	-10.1
Trading liabilities	(28)	13,711	7,886	-42.5
Provisions	(29)	129,434	119,385	-7.8
Other liabilities	(30)	51,440	48,442	-5.8
Subordinated debt capital	(31)	209,583	240,942	15.0
Equity	(32)	1,362,671	1,459,346	7.1
Total shareholders' equity and liabilities		**9,856,476**	**10,577,968**	**7.3**

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity 2021

in €k	Subscribed capital	Capital reserves	Exchange differences	Fair value reserves	Retained earnings	Profit/loss for the year	Additional equity instruments [1]	Equity
As at 01/01/2021	**85,886**	**241,416**	**-752**	**26,022**	**879,451**	**74,748**	**55,900**	**1,362,671**
Distribution						-5,047		-5,047
Coupon payments on additional equity instruments						-3,971		-3,971
Taken to retained earnings					65,730	-65,730		-
Profit for the year						80,759		80,759
Other comprehensive income			401	7,486	3,429			11,316
Capital increase								-
Effect of the equity method					2,685			2,685
Change in treasury shares					1,289			1,289
Issuance of additional equity instruments							9,300	9,300
Reclassification				820	-820			-
Other changes					345			345
As at 31/12/2021	**85,886**	**241,416**	**-351**	**34,327**	**952,109**	**80,759**	**65,200**	**1,459,346**

Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity method)	27,147
Deferred tax reserve	-6,787

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

Consolidated statement of changes in equity 2020

in €k	Subscribed capital	Capital reserves	Exchange differences	Fair value reserves	Retained earnings	Profit/loss for the year	Additional equity instruments [1]	Equity
As at 01/01/2020	**85,886**	**241,416**	**-117**	**28,331**	**797,877**	**92,905**	**55,200**	**1,301,498**
Distribution						-5,045		-5,045
Coupon payments on additional equity instruments						-3,396		-3,396
Allocation to retained earnings[1]					84,463	-84,463		-
Profit for the year						74,748		74,748
Other comprehensive income			-635	-2,662	2,296			-1,001
Capital increase								-
Effect of the equity method					-4,586			-4,586
Change in treasury shares					-260			-260
Issuance of additional equity instruments							700	700
Reclassification				352	-352			-
Other changes					13			13
As at 31/12/2020	**85,886**	**241,416**	**-752**	**26,022**	**879,451**	**74,748**	**55,900**	**1,362,671**

Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity method)	20,242
Deferred tax reserve	-5,060

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

For more details, please refer to Note (32) Shareholders' equity.

Consolidated Statement of Cash Flows

Cash Flows

in €k	2020	2021
Profit for the year	**74,752**	**80,759**
Non-cash items in profit/loss for the year and reconciliation to net cash flow from operating activities		
• Depreciation, amortisation and impairment charge on receivables, and property, plant and equipment	25,518	41,029
• Changes in provisions	-1,212	4,175
• Gains and losses on disposals	-246	-118
• Changes in other non-cash items	-9,414	-14,169
• Profit/loss shares in entities accounted for using the equity method	-30,904	-44,959
Net interest income	-135,565	-138,918
Tax expenses	10,152	12,190
Subtotal	**-66,919**	**-60,011**
Change in assets and liabilities from operating business activities after correction for non-cash items:		
• Receivables from banks and customers	-370,098	-227,985
• Trading assets	-1,771	1,966
• Other assets	-1,363	-5,181
• Payables to banks and customers	933,312	528,540
• Trading liabilities	2,863	-5,825
• Provisions and other liabilities	-4,720	-8,764
Interest received	158,416	162,971
Interest paid	-28,013	-33,509
Dividends received	5,773	3,532
Income tax paid	-11,651	-14,796
Cash flow from operating activities	**615,829**	**340,938**
Cash inflow from sales of:		
• Debt securities and other fixed-interest securities	38,566	70,461
• Shares and other non-interest-bearing securities	8,135	48,882
• Fixed assets owned	67	353
Cash outflow for purchases of:		
• Debt securities and other fixed-interest securities	-66,811	-154,689
• Shares and other non-interest-bearing securities	-24,929	-37,737
• Fixed assets owned	-13,093	-13,793
• Entities accounted for using the equity method	-3,836	-
Dividends from entities accounted for using the equity method	36	4,335
Cash flow from investing activities	**-61,865**	**-82,188**
Capital increase	-	-
Dividend distributions	-196	-5,047
Proceeds from issues of additional equity components	700	9,300
Coupon payments on additional equity instruments	-3,396	-3,971
Repurchased treasury shares	-3,940	-284
Inflows from the sale of treasury shares	3,680	1,573
Cash inflow from subordinated liabilities and liabilities evidenced by paper	105,512	208,727
Cash outflow on subordinated liabilities and liabilities evidenced by paper	-102,000	-89,750
Payouts for lease liabilities	-2,535	-2,674
Cash flow from financing activities	**-2,176**	**117,873**
Cash and cash equivalents at end of previous year	**550,752**	**1,102,688**
Cash flow from operating activities	615,829	340,938
Cash flow from investing activities	-61,865	-82,188
Cash flow from financing activities	-2,176	117,873
Effect of exchange rates on cash and cash equivalents	147	106
Cash and cash equivalents at end of reporting year	**1,102,688**	**1,479,418**

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 prepares 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 2021 financial year as exempting consolidated financial statements within the meaning of § 59a Banking Act. Furthermore, 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. After years of preparation, the limited partnership was transformed into the stock corporation, "Bank für Kärnten", in 1928. The decision to enter the Styrian market was taken in 1983. BKS Bank AG's ordinary no-par shares have been listed on the Vienna Stock Exchange since 1986 and are traded on the segment 'standard market auction'. BKS Bank has had branches in Vienna since 1990. In 2003, it began developing the markets in Burgenland and Lower Austria. Outside of Austria, it also operates in Slovenia, Croatia, Slovakia, and northern Italy. BKS Bank AG together with Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft (BTV AG) form the 3 Banken Group. The alliance in the 3 Banken Group gives the banks the strength of a major bank combined with the flexibility and market presence of a regional bank.

As a credit institution based in Austria, our purpose is to support entrepreneurs and private individuals in their financial transactions and thus be a reliable partner for the business sector and society. As a regional bank with local ties that cares about people, we offer excellent advice, services and products, and a network based on common values.

The Management Board of BKS Bank AG signed the consolidated financial statements on 11 March 2022 and approved them for submittal to the Supervisory Board. The Supervisory Board has the task of examining the consolidated financial statements and stating whether it approves these. Up to the time of sign-off, there were no reasons to doubt that the company 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 2020 financial year were retained in 2021. The figures of comparison for the previous year are based on the corresponding requirements. Standards announced but not yet effective for the financial year under review were not applied.

Applicable standards/amendments from 01/01/2021

Standard/Amendment	Effective for financial years beginning on or after this date	Endorsement by the EU
IFRS 4 - Insurance contracts (Amendment)	01/01/2021	December 2020
IFRS 9 - Financial instruments, IAS 39 - financial instruments: Recognition and measurement and IFRS 7 – Financial Instruments: Information IFRS 4 - Insurance Contracts IFRS 16 - Leases (Amendments)	01/01/2021	January 2021
IFRS 16 – Leases (Amendment)	01/04/2021	August 2021

IFRS 4 – Insurance Contracts
The amendments to IFRS 4 extend the existing option for delaying the first-time adoption of IFRS 9 to the new effective date of IFRS 17. These amendments do not have any effects on the BKS Bank Group.

IFRS 16 – COVID 19-related rent concessions
At the end of March 2021, the IASB approved a one-year extension to the practical expedient of May 2020 granted to lessees to recognize concessions in the balance sheet resulting from the coronavirus pandemic. This relief permits lessees to disregard the requirement of assessing whether eligible rent concessions are lease modifications when these are a direct consequence of the coronavirus pandemic. Accordingly, the period is now extended to payments with an original maturity of 30 June 2022. The BKS Bank Group does not make use of this option.

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform Phase 2
The amendments enacted in EU law effective as of 13 January 2021 refer to matters that may affect financial reporting when an existing reference interest rate is actually replaced. The amendments deal with the changes to financial assets, financial liabilities and lease liabilities, and with requirements relating to hedge accounting and disclosure requirements under IFRS 7. With respect to modifications that are a direct result of the IBOR reform and which must be economically equivalent, the IASB introduces a relief with these amendments. These modifications are accounted for by updating the effective interest rate, while all other modifications are accounted for applying the current IFRS requirements. Therefore, IFRS 4 and IFRS 16 were amended accordingly to offer similar reliefs here as well. The amendments regarding hedge accounting state that hedging relationships cannot be discontinued solely due to changes required by the IBOR reform. Additionally, IFRS 7 requires the disclosure of information relating to the IBOR reform in the Notes. These amendments do not have any material effects on the BKS Bank Group.

Standards/amendments applicable from 01/01/2022

Standard/Amendment	Effective for financial years beginning on or after this date	Endorsement by the EU
IAS 16 - Property, plant and equipment (Amendment)	01/01/2022	July 2021
IAS 37 - Provision (Amendment)	01/01/2022	July 2021
IFRS 3 - Business Combinations (Amendment)	01/01/2022	July 2021
Annual improvements to IFRS standards - 2018-2020 cycle	01/01/2022	July 2021

IAS 16 - Proceeds before intended use
The amendments to IAS 16 relate to the treatment of revenue arising before an item of property, plant and equipment is ready for use. Therefore, it is not permitted to deduct from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

IAS 37 - Onerous Contracts — cost of fulfilling a contract
The amendments to IAS 37 specify which costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Costs of fulfilling a contract are those that relate directly to the contract. This means costs of fulfilling that would not be incurred without the contract (incremental costs) as well costs that relate directly to fulfilling contracts.

IFRS 3 – Business combinations
The amendment to IFRS 3 updates a reference to the Conceptual Framework, but does not significantly change the requirements in the standard.

Annual improvements to IFRS standards - 2018-2020 cycle

The annual improvements to IFRSs include amendments to the following standards:

- IAS 41 Agriculture - Consistency of fair value measurement with IFRS 13 Fair value measurement
- IFRS 1 First-time Adoption of International Financial Reporting Standards - Treatment of Cumulative Exchange Differences on First-time Adoption of IFRS by a Subsidiary
- IFRS 9 Financial Instruments - Determination of Fees to be Included in the 10% Test for Assessing Derecognition of Financial Liabilities
- IFRS 16 Leases - Amendment to IE: 13 Lease Incentives

Standards/amendments to be applied from 01/01/2023 or later

Standard/Amendments	Effective for financial years beginning on or after this date	Endorsement by the EU
IAS 1 - Presentation of the financial statements (Amendment)	00.01.1900	March 2022
IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (Amendment)	00.01.1900	March 2022
IAS 12 – Income Taxes	00.01.1900	Outstanding
IFRS 17 - Insurance Contracts	00.01.1900	November 2021
IFRS 17 – Insurance Contracts (Amendment)	00.01.1900	Outstanding

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

III. Recognition and Measurement

General

The financial statements were prepared in euro (functional currency). All figures in the following Notes to the 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 account for a total of 14 entities (11 consolidated, two accounted for using the equity method and one accounted for on a proportionate basis). Consolidation applies to all entities, which, pursuant to IFRS 10 Consolidated Financial Statements, are included in the consolidated financial statements and controlled by BKS Bank AG, provided the influence on an entity's assets, financial position and profit and loss is not of minor significance.

A controlling interest is deemed given when BKS Bank AG is exposed to variable returns from its share in the investee and/or holds rights to returns and is able to exert an influence over these returns by using its power over the investee. Materiality is judged based on, among other aspects, the total assets and number of employees, and in the case of associates, based on the proportionate equity held. Pursuant to IFRS 3 Business Combinations, initial consolidation is based on the purchase method.

Compared to the preceding year, one consolidated company was removed from the scope of consolidation effective 31 March 2021 due to immateriality. The deconsolidation of this company had no effect on the consolidated income statement. At the end of December 2021, the company, E 2000 Liegenschaftsverwertungs GmbH was consolidated for the first time.

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%	31/12/2021
BKS-leasing d.o.o.	Ljubljana	100.00%	-	31/12/2021
BKS-leasing Croatia d.o.o.	Zagreb	100.00%	-	31/12/2021
BKS-Leasing s.r.o.	Bratislava	100.00%	-	31/12/2021
IEV Immobilien GmbH	Klagenfurt	100.00%	-	31/12/2021
Immobilien Errichtungs- und Vermietungs GmbH & Co KG	Klagenfurt	100.00%	-	31/12/2021
BKS 2000 – Beteiligungs- und Verwaltungs GmbH	Klagenfurt	100.00%		31/12/2021
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	-	100.00%	31/12/2021
BKS Immobilien-Service GmbH	Klagenfurt	100.00%	-	31/12/2021
BKS Service GmbH	Klagenfurt	100.00%	-	31/12/2021
E 2000 Liegenschaftsverwaltungs GmbH	Klagenfurt	99.00%	1.00%	31/12/2021

Entities accounted for using the equity method

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

Entities accounted for using the equity method

Company	*Head office*	*Direct equity interest*	*Date of financial statements*
Oberbank AG	Linz	14.2%	30/09/2021
BTV AG	Innsbruck	14.0%	30/09/2021

With respect to Oberbank AG and BTV AG, we would like to point out that although BKS Bank had voting interests of less than 20% in those banks, namely 14.8% and 17.2%, respectively, and equity interests of less than 20%, namely 14.2% and 14.0%, respectively, the exercise of voting rights was governed by syndicate agreements. These agreements allow participation in the 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 between BKS Bank AG, Oberbank AG and BTV AG, and also considering that the consolidated financial statements of the partner banks are prepared simultaneously, the reporting date 30 September 2020 applies when considering these reports in the consolidated financial statements of BKS Bank. The financial statements of the associates are adjusted for the effects of material transactions or events between the reporting date of the associated companies on 30 September and the reporting date of the Group on 31 December. As we are not aware of any such events, no adjustment was made.

Entities accounted for on a proportionate basis

Pursuant to the provisions of IFRS 11, the investment in ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT M.B.H. (ALGAR) required classification as a joint operation and was, therefore, accounted for on a proportionate basis.

Entities accounted for on a proportionate basis

Company	*Head office*	*Direct equity interest*	*Date of financial statements*
ALGAR	Linz	25.0%	31/12/2021

Other entities not included in the consolidation

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

Other entities not included in the consolidation

Company	*Head office*	*Direct equity interest*	*Indirect equity interest*	*Date of financial statements*
3 Banken IT GmbH	Linz	30.00%	-	31/12/2021
VBG Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	-	31/12/2021
Pekra Holding GmbH	Klagenfurt	100.00%	-	31/12/2021
3 Banken Versicherungsmakler Gesellschaft m.b.H.	Innsbruck	30.00%	-	31/12/2021

Performance of the foreign subsidiaries and branches

Foreign subsidiaries and branches as at 31 December 2021

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit for the year before tax	Income tax expense	Net profit for the year
Branches abroad						
Slovenia Branch (banking branch)	10,745	19,536	129.7	5,338	-1,571	3,768
Croatia Branch (banking branch)	9,873	11,109	65.2	-11,523	2,065	-9,458
Slovakia Branch (banking branch)	2,711	3,448	28.8	560	-375	186
Subsidiaries						
BKS-leasing d.o.o., Ljubljana	5,454	6,339	19.5	3,210	-606	2,604
BKS-leasing Croatia d.o.o., Zagreb	2,767	3,135	14.6	944	-172	772
BKS-Leasing s.r.o., Bratislava	1,971	1,994	13.8	664	-150	515

Foreign subsidiaries and branches as at 31 December 2020

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit for the year before tax	Income tax expense	Net profit for the year
Branches abroad						
Slovenia Branch (banking branch)	13,441	21,555	129.0	8,133	-1,426	6,707
Croatia Branch (banking branch)	8,594	9,555	63.8	61	-97	-36
Slovakia Branch (banking branch)	2,387	2,763	28.8	497	183	680
Subsidiaries						
BKS-leasing d.o.o., Ljubljana	5,491	5,874	18.9	2,288	-429	1,859
BKS-leasing Croatia d.o.o., Zagreb	2,502	3,357	13.3	1,107	-200	908
BKS-Leasing s.r.o., Bratislava	1,755	2,047	13.4	249	-55	194

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). Its assets and liabilities were translated at the exchange rates valid at the balance sheet date, while expenses and income were translated applying the average exchange rate for the respective period. The resulting exchange differences were recognized in Other comprehensive income and exchange differences were recognized as a component of equity.

Impact of the coronavirus pandemic on recognition and measurement

Statutory moratoria and voluntary deferrals

The Austrian government and the governments of the countries in which BKS Bank operates – Slovenia, Croatia and Slovakia – took action in 2020 to contain the negative effects of the coronavirus crisis on the economy. Apart from to statutory moratoria, voluntary deferrals were also offered in some cases to customers from the Corporates and Retail segments, both in Austria and abroad. At present, government-mandated or private payment deferrals are no new longer being granted in Austria or abroad. All deferrals currently granted by BKS Bank Group are individual agreements with customers. Of the loan deferrals granted in 2020, the credit volume affected by EBA-compliant deferrals since year-end 2020 dropped from EUR 282.5 million to EUR 21.7 million. Furthermore, bridge loans backed by government guarantees amounted to EUR 99.7 million at the end of 2021.

Expected credit loss

In the second quarter of 2020, BKS Bank conducted an analysis by sector of corporate and business customers to gauge how they were being affected by the coronavirus crisis. The sectors affected the most by the pandemic, namely hospitality businesses, restaurants, arts and entertainment as well as other services were collectively transferred to a different stage.
In the third quarter of 2020, a collective stage transfer was carried out for the entire Croatian corporate and business customer portfolio as well as the transport sector. A collective evaluation of the stage transfer was conducted again at the end of March 2021. All loans in the corporate and business banking segment that were subject to a government-mandated or voluntary moratorium were migrated to stage 2. In the third quarter of 2021, we reassessed the situation and excluded customers from the affected industries with a rating grade of up to 2a from the collective grade transfer.

Therefore, at year-end, financial instruments pursuant to IFRS 9.B5.5.1 et seq were also transferred from stage 1 to stage 2 even though no significant increase in credit risk was ascertained for individual debtors.

Impact of the climate crisis on recognition and measurement

The issue of climate change has had a strong influence on our business model in recent years, as we focus on businesses that contribute positively to the further development of our society, the preservation of the environment, climate protection or adaptation to climate change. In Austria, BKS Bank is a pioneer in the issuance of green and social bonds. Financing investments with an environmental or social purpose is an important contribution to climate change mitigation. However, in the coming years, the issue of climate change will not only be reflected in our business model, but the resulting risks and opportunities may also have an impact on BKS Bank's net assets, financial position and results of operations. Currently, the integration of ESG assessment criteria into the rating process and collateral valuation is in the technical implementation phase, with finalization planned for 2022. Based on the most recent ESG risk assessment, we expect transition risks with respect to climate change will already have an impact on BKS Bank and our customers over the short and to medium term. Examples of transition risks include higher costs due to CO_2 taxes, higher commodity prices and higher energy costs, changes to legislation, and changes in consumer behaviour. In the long term, winters with less snow and increased severe weather events will impact tourism as well as agriculture and forestry. However, no significant risks due to climate change had to be taken into account for the preparation of the 2021 financial statements.

Notes on individual items of the balance sheet

Cash and balances with the central bank

These items consist of cash and balances with the central bank. They were measured at amortized cost.

Financial instruments pursuant to IFRS 9

A financial instrument is a contract, which for the one contractual partner gives rise to a financial asset, and for the other contractual partner, a financial liability or equity. Cash transactions are recognised and derecognised at their settlement dates.

Financial assets and liabilities must be classified at the time of recognition. They are initially measured at fair value, which, as a rule, is at cost. The classification is the basis for the subsequent measurement on the assets side and on the liabilities side of the balance sheet.

Pursuant to IFRS 9 financial assets are measured as follows on initial recognition:
- at amortised cost
- designated at fair value through other comprehensive income (FVOCI)
- fair value through profit or loss (FVPL)

The classification of financial assets is based first, on the business model under which the financial assets are managed, and second, on the characteristics of the contractual cash flows relating to the financial assets (cash flow terms - SPPI test).

BKS Bank uses a benchmark test to ascertain if a contractual cash flow consists only of interest and principal payments, and therefore, passes the SPPI test. All new contracts and all amendments to existing contracts are reviewed to see if the contract contains components (covenants) that fail to pass SPPI test (qualitative benchmark test). BKS Bank uses a quantitative benchmark test to check compliance with the SPPI criteria for new contracts with mismatching interest rate components. A mismatch occurs when the tenor of the reference rate does not coincide with the frequency of interest rate adjustments. However, this does not necessarily result in a failure to pass the SPPI test.

Based on the quantitative benchmark test, the contractual cash flows at the time of inflow of the financial instrument to be classified are compared with the cash flows of a benchmark instrument. The terms of the benchmark instrument correspond to those of the financial instrument to be classified, except for contracts with mismatching interest rate components. If this comparison reveals a significant deviation in cash flows (>10%), the SPPI test is deemed failed, and the financial instrument is measured at fair value through profit or loss.

Financial instruments measured at amortised cost
Classification at amortised cost means that the financial assets are held within a business model whose objective is to hold the financial assets to collect their contractual cash flows. Furthermore, the SPPI test requires the contractual cash flows to consist only of principal and interest payments. Subsequent measurement at amortised cost is applied to debt instruments. At BKS Bank, this measurement class applies to receivables from other banks, receivables from customers and debt securities. Under IFRS 9, impairments are recognised as impairment charges. Premiums and discounts are distributed across the life of the instrument and recognised in profit or loss using the effective interest rate method.

Financial instruments designated at fair value through other comprehensive income (FVOCI)
A financial asset is classified as at fair value through other comprehensive income (FVOCI) when the following conditions are met: The financial assets are held within a business model whose objective is to hold the financial assets to collect their contractual cash flows or sell the financial assets. In this case as well, the SPPI test requires that when financial assets are designated as FVOCI (mandatory), the contractual cash flows consist only of principal and interest payments. Subsequent measurement in other comprehensive income (OCI) may therefore apply to **debt instruments**. They are generally measured by applying stock exchange prices. If these are not available, the present value method is used. Changes in the fair value of these instruments are recognised in other comprehensive income with no effect on profit/loss. Only when a financial asset is sold is the cumulated gain or loss in other comprehensive income reclassified to profit or loss (FVOCI with recycling). At BKS Bank, debt instruments are reported in this category.

Under IFRS 9, **equity instruments** must generally be recognized at fair value through profit or loss (FVPL), as these do not meet the SPPI test. Upon initial recognition, an entity may irrevocably elect to recognise changes in the fair value of equity instruments not designated as held for trading in other comprehensive income (fair value OCI option). The BKS Bank Group uses this option and designates equity instruments (shares and other equity) as at fair value through other comprehensive income (FVOCI without recycling). If there is no market price, the main method applied to determine the fair value is the discounted cash flow method. For equity instruments that are designated at fair value through other comprehensive income (FVOCI) based on the election of the fair value OCI option, the fair value changes that occur over the life of the instrument are recognised in other comprehensive income (OCI). When an equity instrument is sold, the cumulated gain or loss recognised in other comprehensive income is not permitted to be reclassified to profit or loss (no recycling); reclassification to another equity item is permitted.

Financial instruments recognised at fair value through profit or loss (FVPL)
Financial assets that cannot be assigned to one of the abovementioned business models or that do not pass the SPPI test are recognised at fair value through profit or loss. As derivatives generally do not meet the SPPI test, these instruments must be measured as at fair value through profit or loss (FV PL mandatory). They are reported in the line item Trading assets/trading liabilities on the balance sheet. Revaluation gains and losses on the line item Trading assets and trading liabilities are recognised in the income statement under Net trading income; interest expenses for the refinancing of trading assets are recognised in net interest income. Apart from derivatives, BKS Bank also recognises loans and debt securities in this measurement class that do not meet the SPPI test as well as equity instruments for which the fair value OCI option is not elected.

Irrespective of this, IFRS 9 offers the option of electing to irrevocably designate a financial asset upon initial recognition as at fair value through profit or loss (**fair value option**). A condition for such designation is that it must help eliminate or significantly lower measurement or recognition mismatches.

At BKS Bank, the fair value option is applied in individual cases for loans and debt securities. The designated instruments are recognised in the measurement class FVPL. The designation for the items is selected by the Asset/Liability Management Committee (ALM). These items are taken to profit or loss at their fair value (asset or liability and related derivative). The valuation result is reflected in the income statement under the item Net income from financial assets/liabilities in the sub-item net income from financial instruments designated at fair value in the income statement.

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

Assets

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

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

Financial liabilities in the trading portfolio (held for trading) are measured at fair value through profit or loss. At BKS Bank, negative market values from derivatives are reported in the item Trading liabilities. Furthermore, this measurement includes financial liabilities that are irrevocably designated as at fair value through profit or loss upon initial recognition (fair value option). The explanations on the fair value option for the assets side apply correspondingly to the liabilities side. Gains or losses from changes in the credit spread for own liabilities at fair value through profit or loss (designated) are shown in other comprehensive income (OCI).

Shareholders' equity and liabilities

	Fair value	Amortised cost	Other	Category
Payables to banks		✓	-	At amortised cost
Payables to customers		✓	-	At amortised cost
Liabilities evidenced by paper		✓	-	At amortised cost
	✓		-	Designated at FVPL (fair value option)
Trading liabilities	✓		-	FVPL mandatory
Subordinated debt capital		✓	-	At amortised cost

Impairment charges for financial instruments pursuant to IFRS 9

BKS Bank recognises impairment charges for debt securities measured at amortised at cost or designated at fair value through other comprehensive income (FV OCI mandatory) as well as for loan commitments and financial guarantees. The impairment model used pursuant to IFRS 9 is an expected loss model that also allocates impairment charges for expected future losses.

The amount of impairment charges to be allocated depends on the change in a financial instrument's default risk after its acquisition. On the basis of this approach, IFRS 9 distinguishes three different stages, with the amount of impairment charges depending on which of these stages the financial instrument in question is assigned to.

- Stage 1: For financial instruments classified in stage 1, an impairment charge equivalent to the 12-month expected credit loss (ECL) is recognised. The 12-month expected credit loss corresponds to the expected credit loss a financial instrument might incur during the 12 months following the balance sheet date. Upon acquisition, all financial instruments must be assigned to stage 1; this assignment must then be reviewed at every balance sheet date.
- Stage 2: For financial instruments classified in stage 2, it is mandatory to recognise a lifetime expected credit loss (ECL), which corresponds to the losses expected over the instrument's remaining life.
- Stage 3: For financial instruments classified in stage 3, the discounted cash flow method is used to determine the impairment charges for significant liabilities, and in the case of non-significant liabilities, lump sum criteria are used (the basis being the exposures not covered by collateral).

Instruments are reclassified from stage 1 to stage 2 as soon as the default risk increases significantly. Assignment to a stage is governed by an automated stage assessment process based on a number of factors. Both quantitative (rating downgrade) and qualitative criteria (warnings) are used to decide on reclassification from one stage to another. BKS Bank has elected to use the low credit risk exemption for the stage assessment. This means that financial instruments with a low credit risk are measured on a 12-month ECL basis. We assess credit risk as low when the rating stage is in the investment grade range from AA to 1b.

An instrument is classified in stage 3 if the financial instrument has a credit-impaired (rating in the default classes 5a to 5c) (credit impaired). Where there is objective evidence on the balance sheet date that a financial instrument is impaired, it is classified in stage 3.

Stage allocation criteria

Criterion	Stage
Initial recognition of the contract	1
30-days overdue	2
Foreign currency loans	2
Rating corresponds to investment grade	1
No initial risk rating can be determined	2
No current rating	2
Credit downgrade from investment grade by 3 or more rating stages	2
Credit downgrade from a good rating by 2 or more rating notches	2
Credit downgrade from a medium or poor rating stage by more than 1 rating notch	2
Forbearance regarding performing loans	2
Non-performing loans	3

Financial instruments which are assigned to stage 2 on the respective balance sheet date and for which there are no indications of any significant increase in credit risk since initial recognition can be retransferred to stage 1.

The determination of the ECL is based on forward-looking information.

Key parameters of the ECL model for stage 1 and stage 2

Parameter in the ECL model	Explanations
Exposure at default (EAD)	The amount of the loan at the time of credit default is the sum of all future contractual cash flows. Off-balance sheet transactions such as guarantees and unused lines of credit of customers are converted into an EAD taking into account a cash conversion feature (CCF).
Probability of default (PD)	The probability of default is determined for each customer on the basis of statistical estimates and follows the life-time concept. This means that the calculation of future probabilities of default also takes into account an assessment of future economic conditions in the form of a point-in-time calibration. Specific migration matrixes are used for every segment in the ECL model.
Forward-looking information (FLI)	Based on relevant macroeconomic forecasts, the forward-looking information weighted by BKS Bank's target market is factored into the adjusted contingent default probability applying a straight-line regression analysis. Specific loss ratios are applied for every segment.
Loss given default (LGD)	LGD designates the relative loss amount at the time of the credit default. The loss ratio is measured by the unsecured portion of the EAD, which, should the amount of the liability be irrecoverable, is written off. LGD is determined based on the customer portfolios of BKS Bank and, like the probability of default, follows the life-time concept.
Discount rate (D)	Discounting is based on the effective interest rate.
(Unconditional) marginal (m) PD	This is derived from the point-in-time PD and provides the annual change of life-time PD.

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

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

The potential loss from the open risk position is expressed in the loss given default ratio (LGD). The risk report gives information on the collateral, on the default risk excluding collateral held, as well as a description of the collateral held and quantitative information.

Expected credit loss is calculated on the basis of several scenarios. BKS Bank uses three rating scenarios: The base scenario is the initial scenario. The starting scenario is the base scenario. There is also an upside and a downside scenario for calculating the ECL. These scenarios are combined based on weighting factors. The weighting is used to arrive at a risk-adequate, probability-weighted expected credit loss in line with expectations that is neither a best-case, a worst-case or a most-likely-case scenario. When calculating the expected credit loss (ECL), probability of default (PD) takes account not only historic information, but also forecasts of macroeconomic factors in the default probability (PD). BKS Bank uses the following factors as indicators for forecasts: GDP (gross domestic product), inflation rate, unemployment rate, current account balance and interest rate.

Loss ratios are used to determine the average payments from financial assets after the default event. LGDs are calculated separately per segment, just like for PD. The portfolio segments are retail customers, corporate customers, banks, and sovereigns.

During the reporting period, the development of the coronavirus pandemic led to changes in assumptions and this is reflected in a collective stage transfer and a changed scenario weighting.

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

Impairment charges are generally recognised through profit or loss in the income statement. For financial assets designated at FVOCI, any impairment triggered by a change in credit rating is recognised in profit or loss. Impairment charges for loan commitments and financial guarantees are recognised under the item Provisions.

Impairment policy

Receivables deemed irrecoverable will be derecognised or written off when they can no longer be collected and when all the collateral for these receivables has been finally realized. Generally, no financial assets subject to execution measures are derecognised. A receivable is derecognised when attempts to collect the receivable on the basis of an enforcement title have failed for a period of two years, enforcement failed at least twice, no funds are expected to be received for the remaining debt or it is no longer possible to obtain an enforcement title. All derecognised receivables that do not entail release from the remaining debt are handed over to third parties (e.g. collection agency) for collection.

Modifications to contracts

In the lending business, BKS Bank may have to modify loan contracts for existing loans. Reasons may be changed market conditions, on the one hand, or a borrower experiencing difficulties in making payments, on the other. A difference is made between significant and non-significant amendments to a contract. At BKS Bank, significant contract modifications include, for instance, a product switch, change in ownership, change in currency, increase in loan amount or a prolongation of term. This may result in derecognition of the financial asset prior to contract modification in recognition of the modified value of the financial asset at the time of recognition. The resultant difference is reported in the income statement as the profit/loss from derecognition.

However, if the contract modification is not significant, i.e. if there is no derecognition and/or recognition, the amount of the difference between the gross carrying amount before contract modification and the gross carrying amount after contract modification is reported as a change to profit or loss in net interest income.

Investments in entities accounted for using the equity method

Entities in which BKS Bank holds a stake of over 20%, but which are not under its control, are accounted for in the consolidated financial statements using the equity method. In addition, Oberbank AG and BTV AG are also accounted for in the consolidated financial statements using the equity method, although our stakes in Oberbank AG and BTV AG are below 20%. Syndicate agreements are in place that allow participation in those banks' financial and business policy decisions within the 3 Banken Group alliance without requiring a controlling interest in these entities. If there is objective evidence (triggering events) for impairment of an investment accounted for using the equity method, a value-in-use is calculated on the basis of the estimated future cash flows that are to be expected from the associate. The present value (value-in-use) is calculated on the basis of the equity method/dividend discount model. In the reporting period, the coronavirus pandemic was defined as a triggering event and therefore an impairment test was performed. There were no impairment losses in this category in the year under review.

Investment property
This line item encompasses property intended for renting to third parties. It is measured at amortised cost (cost method). The fair value of investment property disclosed in the Notes is based mainly on estimates by certified appraisers. Depreciation rates were between 1.5% and 2.5%. Depreciation was linear.

Property, plant and equipment
Property, plant and equipment consists of land, buildings and other property and equipment comprising primarily office furniture and business equipment, and the rights of use under lease contracts. Property and equipment was recognized at the amortised cost of acquisition or conversion. Ordinary depreciation was linear 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)
- Business equipment and furnishings 10% to 20% (i.e. 10 to 5 years).

Rights of use to real estate are amortized over the term of the lease. Impairments were allowed for by recognizing extraordinary depreciation, which was recognized in the income statement in the line item general administrative expenses. If an impairment no longer existed, a write-back was made up to the asset's amortized cost. No extraordinary depreciation or write-backs were recognized during the period under review.

Government subsidies
Government subsidies are recognized only when there is reasonable certainty that the requirements will be met and the funds will be granted. Government subsidies are recognized in profit or loss over the periods in which BKS Bank recognizes the corresponding expenses as expenses that are to compensate the government subsidies.
Similarly, subsidies for depreciable assets are usually recognised in profit or loss over the periods for which depreciation on those assets is recognized.

The benefit of loans from government entities for which the interest rate is below the market rate is likewise treated as a government subsidy provided the conditions of IAS 20 are met. The interest benefit gained is recognised in accordance with IAS 20 as the difference in amount between the payment received and the carrying amount (fair value) of the loan pursuant to IFRS 9.

Intangible assets
Intangible assets have all been purchased and have limited useful lives. Essentially, this item consists of the customer base and software. Ordinary amortization was linear based on an asset's usual useful life. The amortisation rate for software is usually 25% (i.e. four years); the amortisation rate for the customer base acquired was determined at 10% (i.e. 10 years) after a detailed analysis.

Leasing
Leased assets within the Group are recognised as assets leased under finance leases (the risks and rewards belong to the lessee for the purposes of IAS 16). Leased assets were recognized as receivables in the amount of the present values of the agreed payments taking into account any residual values.

For contracts under which BKS Bank Group companies have the role of lessee, a right-of-use and corresponding leasing liability is recognised. Upon initial recognition, lease liabilities are recognised at the present value of leasing payments not yet made over the life of the leasing contract as at the start of the lease. These payments are discounted at the interest rate used as basis of the lease contract. If this interest rate cannot be ascertained, the incremental borrowing rate is used. The subsequent measurement of lease liabilities is done by raising the carrying value by the interest on lease liabilities (constant effective interest) and by reducing the carrying value by the lease instalments paid.

The right-of-use corresponds to the lease liability at the time of its initial recognition. Additionally, leasing payments already made at the time of initial recognition and initial direct costs are taken into account. The subsequent measurement of rights-of-use is done at cost less cumulated amortisation and impairment. Lease liabilities are recognised under Other liabilities, and rights-of-use under property, plant and equipment.

Other assets and other liabilities

Deferred items and other assets/other liabilities are reported in Other assets/liabilities. They were measured at amortized cost. Furthermore, lease liabilities are reported under Other liabilities; for details on measurement, please refer to the section "Leasing".

Liabilities evidenced by paper

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

Subordinated debt capital

Subordinated debt capital and subordinated obligations are liabilities that, by contractual arrangement, will, in the event of BKS Bank's liquidation or bankruptcy, only be settled after the claims of other creditors. Generally, subordinated debt capital is recognised at amortised cost.

Deferred tax assets and deferred tax liabilities

Income tax is reported and calculated in accordance with IAS 12. The calculation for each taxed entity is carried out applying the tax rates that, under applicable legislation, are to be applied in the tax period in which a temporary difference is going to reverse. Deferred taxes 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 were created in accordance with IAS 37 if there was a reliably determinable current obligation to a third party arising from an event in the past likely to cause an outflow of resources. BKS Bank set aside provisions mainly 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. The AVÖ 2018-P mortality table published in August 2018 was used for the actuarial calculation of the social capital provision. Additionally, the calculated ECL for financial guarantees and for the undrawn portion of a loan commitment is recognized in the balance sheet as a provision.

Shareholders' equity

Equity consists of paid-in and earned capital (retained earnings, fair value reserves, foreign exchange differences and profit for the period). BKS Bank strives to strengthen its capital base on a sustainable basis by reinvesting its profits. Additional tier 1 notes were issued in 2015 and from 2017 to 2020. Under IAS 32, such notes must be classified 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. The historically low interest rates led to negative interest earnings. According to the IFRIC Interpretations Committee (IC), these must be presented in an 'appropriate expense item'. As a result, negative interest income is presented as interest expense. Likewise, positive interest expenses are presented as interest income. Modification gains/losses from changes to contractual terms that do not trigger derecognition of an asset are reported in net interest income.

Impairment charges

This line item reports income and expenses from recognising and reversing impairment charges in the amount of the 12-months expected credit loss (stage 1) or lifetime expected credit loss (stages 2 and 3). BKS Bank recognizes such charges for financial assets measured at amortised cost or designated at fair value through other comprehensive income (FVOCI mandatory) as well as for loans commitments and financial guarantee contracts. See also note 2 for details.

Net fee and commission income

Net fee and commission income comprises income and expenses incurred in connection with services provided presented on an accrual basis. Fees and commissions received for services provided over a certain period are recognised over the corresponding period. These include fees and commissions earned in the lending business. However, in the case of commissions for transaction-linked services, the amounts are recognised only when the service has been completed. These are mainly fees and commissions from payment services and the securities business.

General administrative expenses

General administrative expenses include staff costs, other administrative costs and depreciation and amortisation. They are accounted for on an accrual basis.

Net trading income

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

Other operating expenses / income

This item includes fees, charges, damage incidents, damage compensation, proceeds from the sale of properties and similar items and is accounted for on an accrual basis.

Other profit or loss from financial assets/liabilities

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

Discretionary decisions and estimates

Estimates and assumptions are required to account for some of the items on the balance sheet in conformity with International Financial Reporting Standards. Such estimates and assumptions are based on historical experience, plans, expectations and forecasts regarding future events that are likely from our current perspective. The assumptions upon which the estimates were based were regularly reviewed. Potential uncertainties in the estimates mean that adjustments to the carrying amounts of assets and liabilities may be necessary in future periods. The global coronavirus pandemic since 2020, climate change, but above all the war in Ukraine and the resultant far-reaching economic sanctions are making the situation even more uncertain. The further development of the situation in Russia and the Ukraine, the consequences of the pandemic, and the pandemic measures taken in the individual countries may have a significant impact on the assets, liabilities, financial position and result of operations of the BKS Bank Group. The recoverability of financial assets may be negatively affected by these factors in the future. When preparing the financial statements for 2021, we considered all effects that can be estimated. Details on the calculation of impairment charges in connection with the coronavirus crisis are given in the section “Impact of the coronavirus pandemic on recognition and measurement”. The effects of climate change are explained in the chapter “Effects of climate change on recognition and measurement methods”.

Furthermore, BKS Bank has a presence on the markets of Austria, Croatia, Slovenia, northern Italy, and Slovakia with subsidiaries and one representation office. In areas in which discretionary decisions, assumptions and estimates are made, a precise analysis of the economic environment is made in the aforementioned markets and considered in the decision-making process. Material discretionary decisions, assumptions and estimates were made in the following areas:

Ongoing legal proceedings

The minority shareholders UniCredit Bank Austria AG und CABO Beteiligungsgesellschaft m.b.H. had filed an action for annulment in June 2019 to challenge the resolutions adopted at the Annual General Meeting of 8 May 2019, among other reasons, because their motion for a special audit was rejected. The plaintiffs withdrew this action in May 2021, and the proceedings were therefore terminated with legally binding effect. The plaintiffs had to reimburse BKS Bank for the statutory costs of the proceedings.

The same minority shareholders filed a lawsuit with the Klagenfurt Regional Court in June 2020 challenging the resolutions adopted at the Annual General Meeting of 29 May 2020. The resolutions contested include the discharge from liability of the members of the Management Board and the (non-) discharge of individual members of the Supervisory Board as well as the refusal to conduct various special audits. Furthermore, the plaintiffs are seeking a declaratory judgment by the court in respect of the challenged resolutions stating that the actions of the members of the Management Board and individual members of the Supervisory Board were not approved (no discharge granted), that the actions of one member of the Supervisory Board were approved (discharge granted) and that the abovementioned special audits are to be carried out. The proceedings continue interrupted and the file has been forwarded to the Takeover Commission.

Furthermore, in March 2020, at the request of the aforementioned minority shareholders, the Takeover Commission initiated proceedings pursuant to § 33 Takeover Act. The subject of the investigation in these review proceedings was to clarify the original matter of the aforementioned action for annulment to ascertain if the obligation to make a mandatory bid has been breached, in particular, pursuant to § 22a no 3 or § 22 para 4 Takeover Act by BKS Bank and its affiliated entities. Likewise on the request of the aforementioned minority shareholders, the Takeover Commission initiated review proceedings pursuant to § 33 Takeover Act regarding Oberbank AG and Bank für Tirol und Vorarlberg. The Takeover Commission combined these proceedings and held oral hearings. A decision is still pending. Given the relationships between the members of 3 Banken Group, a breach of the obligation to make a mandatory bid by one of the three banks may also affect the other two banks.

In July 2021, BKS Bank was served with a legal action for an injunction ruling and declaratory judgment by the aforementioned minority shareholders. The plaintiffs petitioned that the Bank für Tirol und Vorarlberg Aktiengesellschaft, Oberbank AG and Generali 3Banken Holding AG be prohibited from participating in future capital increases of BKS Bank or from allocating fewer shares to these shareholders in the event of capital increases and the plaintiffs based the petition on the “excessive allocation theory” being applicable. Furthermore, they are seeking a ruling rejecting the validity of the resolutions of the Board of Management and Supervisory Board in connection with the capital increases of 2009, 2014, 2016 and 2018.

After a careful review of the matter jointly with external experts, the Management Board is of the opinion that the allegations made by the abovementioned minority shareholders are unfounded. The course of the proceedings to date and several decisions and procedural rulings in favour of BKS Bank confirm our view.

Proceedings conducted by the FMA against BKS Bank on suspicion of market manipulation were brought to a legally binding end in the reporting year under the "accelerated termination of proceedings" procedure.[2)]

These proceedings are not expected to have any relevant effects on the balance sheet.

Impairment of financial assets: impairment charges
The identification of an impairment trigger and the determination of the need to recognize impairments contain substantial assessment uncertainties and room for discretion resulting from the economic situation and development of the borrower, and entail effects on the amount and point in time of expected future cash flows. Impairment charges on loans and advances are calculated based on statistical methods, and in cases for which no impairment has been identified, models and parameters are used such as probability of default, scenarios regarding the development of the economy and loss given default. These also leave room for discretion and assessment uncertainties. Furthermore financial assets recognised at amortised cost are tested for objective evidence of potential impairment at each balance sheet date. This requires estimates of the amounts and times of future cash flows.

[2)] FMA publications: https://www.fma.gv.at/en/announcement-fma-imposes-a-sanction-against-bks-bank-ag-due-to-breach-of-the-ban-on-market-manipulation/

Sensitivity analysis

Sensitivity scenario in €k	Explanations	***2020***	***2021***
Staging: negative scenario	Financial instruments in the "investment grade" rating class are transferred from stage 1 to stage 2. This is a changeover from the 12-month ECL view to the lifetime concept.	-20,434	-29,233
Staging: positive scenario	Financial instruments that were assigned to stage 2 due a historic credit downgrade are transferred from stage 2 to stage 1. This is a changeover from the lifetime concept to the 12-month ECL view.	6,543	5,661
Macroeconomic assessment: negative scenario	The weighting factors with respect to future economic developments deteriorate and the worst-case scenario is weighted 5% higher, while the best-case-scenario is weighted 5% lower.	-2,852	-3,068
Macroeconomic assessment: positive scenario	The weighting factors with respect to future economic developments on the target markets improve and the best-case scenario is weighted 5% higher, while the worst-case-scenario is weighted 5% lower.	2,852	3,068
Macroeconomic assessment: negative scenario	The weighting factors with respect to future economic developments deteriorate and the worst-case scenario is weighted 5% higher, while the normal scenario is weighted 5% lower.	-1,960	-2,268
Macroeconomic assessment: positive scenario	The weighting factors with respect to future economic developments on the target markets improve and the best-case scenario is weighted 5% higher, while the base scenario is weighted 5% lower.	892	800
Probability of default: negative scenario	The probability of default in the migration matrix increases by a factor of 1.1.	-3,806	-2,992
Probability of default: positive scenario	The probability of default in the migration matrix decreases by a divisor of 1.1.	3,460	5,418

Instruments are reclassified from stage 1 to stage 2 as soon as the default risk increases significantly. The assessment of such an increase is a discretionary decision.

Measuring the fair value of financial assets and liabilities

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

IFRS 13 assigns the fair values of financial assets and liabilities to one of three categories:
- Level 1: If there is an active market, the fair value can best be determined on the basis of prices quoted in the principal market or, in the absence of a principal market, in the most advantageous market.
- Level 2: If the financial instrument is not listed on an exchange, its fair value is ascertained using the input factors available in the market. BKS Bank uses mainly yield curves and foreign exchange rates as input factors.
- Level 3: 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.

Assessment of cash flow terms (SPPI test)
The classification of financial assets is based first, on the business model, and second, on the characteristics of the contractual cash flows relating to the financial assets (cash flow terms - SPPI test). This assessment is a discretionary decision.

Using the fair value option
The ALM Committee decides when to use the fair value option, i.e. designate assets and liabilities at fair value. The fair value option serves to avoid measurement mismatches when measuring assets and liabilities that are related to each other.

Recoverability of shares in entities accounted for using the equity method
Impairment testing is performed on the basis of value in use, which is determined by the equity method or dividend discount model. When the market risk premium increases by 0.25%, this reduces the value in use by 2.6% or EUR 21.4 million. When the market risk premium decreases by 0.25%, the value in use rises by 2.8% or EUR 22.8 million. The sensitivity calculation based on the market risk premium would not result in any accounting effects.

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 changing the interest rate materially affects the amount of the provision. See note 29 for further details.

Other provisions
The amounts of other provisions were calculated on the basis of experience and expert assessments.

Details of the Consolidated Statement of Cash Flows
The cash and cash equivalents shown in the Consolidated Statement of Cash Flows equal cash and balances with the central bank.

Financial liabilities under cash flows from financing activities showed the following changes:

2021	01.01.	Cash outflow	Cash inflow	Non-cash accrued interest and other changes	31/12
Subordinated liabilities and liabilities evidenced by certificates	**857,047**	**-89,750**	**208,727**	**-2,558**	**973,466**
• Liabilities evidenced by paper	647,463	-87,400	175,466	-3,006	732,523
• Subordinated debt capital	209,583	-2,350	33,261	448	240,942
Lease liabilities	**21,588**	**-2,674**	**-**	**993**	**19,907**

2020	01/01	Cash outflow	Cash inflow	Non-cash accrued interest and other changes	31/12
Subordinated liabilities and liabilities evidenced by certificates	**854,377**	**-102,000**	**105,512**	**-842**	**857,047**
• Liabilities evidenced by paper	623,792	-51,000	75,706	-1,035	647,463
• Subordinated debt capital	230,584	-51,000	29,806	193	209,583
Lease liabilities	**22,398**	**-2,535**	**-**	**1,725**	**21,588**

Details of the Income Statement

(1) Net interest income

in €k	2020	2021	± in %
Lending operations measured at amortised cost	121,720	118,898	-2.3
Fixed-interest securities measured at amortised cost	12,501	11,594	-7.3
Fixed-interest securities measured at FV OCI	618	525	-15.1
Modification gains[1)]	1,059	421	-60.2
Positive interest expenses[2)]	6,407	13,246	>100
Total interest income applying the effective interest rate method	**142,305**	**144,685**	**1.7**
Lending operations measured at fair value	2,016	2,113	4.8
Fixed-interest securities at fair value through profit or loss	452	451	-0.3
Leasing receivables	12,095	12,381	2.4
Shares and other non-interest-bearing securities	5,773	3,532	-38.8
Investment property	3,247	3,746	15.3
Total other interest income and other similar income	**23,584**	**22,222**	**-5.8**
Total interest income	**165,889**	**166,908**	**0.6**
Interest expenses and other similar expenses:			
Deposits from customers and other banks	4,444	3,496	-21.3
Liabilities evidenced by paper	18,771	16,777	-10.6
Modification losses[1)]	153	470	>100
Negative interest income[1)]	5,089	6,117	20.2
Investment property	796	993	24.7
Lease liabilities	164	137	-16.6
Total interest expenses and other similar expenses	**29,417**	**27,989**	**-4.9**
Net interest income	**136,472**	**138,918**	**1.8**

As of half-year 2021, modification gains/losses from changes to contractual terms that do not trigger derecognition of an asset are recognized in net interest income and no longer under Note (11) Other profit/loss from financial assets/liabilities. The figures for the preceding year have been adjusted accordingly, the reclassification to net interest income was EUR 0.9 million.

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

Contract amendments reported in net interest income resulted in a gain of EUR 0.4 million (pr.yr. EUR 1.1 million) and a loss of EUR 0.5 million (pr.yr. EUR 0.2 million). Amortised cost before contract amendments amount to EUR 72.1 million (pr.yr. EUR 109.1 million).

(2) Impairment charges

in €k	2020	2021	± in %
Financial instruments measured at amortised cost			
– Allocation (+)/reversal (-) of impairment charges (net)	23,986	33,543	39.8
Financial instruments measured at fair value OCI			
– Allocation (+)/reversal (-) of impairment charges (net)	19	17	-11.3
Loan commitments and financial guarantee contracts			
– Allocation (+)/reversal (-) of provisions (net)	1,020	-1,171	>-100
Impairment charges	**25,026**	**32,389**	**29.4**

For lease receivables, impairment charges contain an allocation to impairment charges of EUR 1.0 million (pr.yr.: allocation EUR 2.4 million).

(3) Net fee and commission income

in €k	2020	2021	± in %
Net fee and commission income:			
Payment services	23,980	26,056	8.7
Securities operations	20,553	23,033	12.1
Lending operations	21,520	19,563	-9.1
Foreign exchange operations	2,479	3,419	37.9
Other services	1,177	1,146	-2.6
Total fee and commission income	**69,709**	**73,216**	**5.0**
Fee and commission expenses:			
Payment services	2,558	2,788	9.0
Securities operations	1,940	2,003	3.3
Lending operations	683	1,135	66.1
Foreign exchange operations	136	144	5.7
Other services	46	43	-6.2
Total fee and commission expenses	**5,363**	**6,113**	**14.0**
Net fee and commission income	**64,346**	**67,103**	**4.3**

(4) Profit/loss from investments accounted for using the equity method

in €k	2020	2021	± in %
Profit/loss from investments accounted for using the equity method	30,903	44,959	45.5
Profit/loss from investments accounted for using the equity method	**30,903**	**44,959**	**45.5**

(5) Net trading income

in €k	2020	2021	± in %
Price-based transactions	-34	7	>100
Interest rate and currency contracts	2,265	777	-65.7
Net trading income	**2,231**	**785**	**-64.8**

(6) General administrative expenses

in €k	2020	2021	± in %
Staff costs	74,551	74,750	0.3
• Wages and salaries	54,732	54,526	-0.4
• Social insurance costs	13,365	13,538	1.3
• Costs of retirement benefits	4,073	3,472	-14.8
• Other social expenses	2,380	3,214	35.0
Other administrative costs	37,271	38,640	3.7
Depreciation/amortisation	11,332	11,956	5.5
General administrative expenses	**123,154**	**125,346**	**1.8**

The expenses for post-retirement benefits contain defined contributions to the pension fund of EUR 1.4 million (pr.yr. EUR 1.4 million).

(7) Other operating income/expenses

in €k	2020	2021	± in %
Other operating income	7,939	8,460	6.6
Other operating expenses	-12,416	-14,996	20.8
Other operating income/expenses	**-4,477**	**-6,536**	**46.0**

The main sources of other operating income are non-interest bearing lease income of EUR 3.7 million (pr.yr.: EUR 3.3 million), fee and commission income from the insurance business of EUR 1.4 million (pr.yr.: EUR 1.2 million) as well as rental income of EUR 0.2 million (pr.yr.: EUR 0.3 million).

The expenses include the payment of EUR 1.2 million for the stability tax (pr.yr.: EUR 1.3 million), the contributions to the resolution fund of EUR 3.8 million (pr.yr.: EUR 3.4 million) and the contributions to the deposit insurance scheme of EUR 6.6 million (pr.yr.: EUR 4.1 million).

(8) Profit/loss from financial instruments designated at fair value

in €k	2020	2021	± in %
Profit/loss from the fair value option	457	170	-62.8
Profit/loss from financial instruments designated at fair value	**457**	**170**	**-62.8**

Fixed-interest loans to customers of EUR 89.9 million (pr.yr.: EUR 75.7 million), bonds on the assets side of EUR 20.6 million (pr.yr.: EUR 21.2 million) and own issues of EUR 57.0 million (pr.yr.: EUR 63.4 million) were hedged by interest rate swaps under the fair value option. The effect of the fair value option essentially reflects the amount that can be attributed to counterparty risk and creditworthiness risk rather than to changes in market risk.

(9) Profit/loss from financial assets measured at fair value through profit or loss (mandatory)

in €k	2020	2021	± in %
Profit/loss from measurement	1,806	4,267	>100
Profit/loss on disposal	60	-100	>-100
Profit/loss from financial assets measured at fair value through profit or loss (mandatory)	**1,866**	**4,168**	**>100**

(10) Profit/loss from the derecognition of financial assets measured at amortised cost

in €k	2020	2021	± in %
Receivables from other banks	-	-	-
• thereof profit	-	-	-
• thereof loss	-	-	-
Receivables from customers	1,028	1,404	36.5
• thereof profit	2,804	1,836	-34.5
• thereof loss	-1,776	-432	-75.6
Debt securities	298	-	-
• thereof profit	298	-	-
• thereof loss	-	-	-
Profit/loss from derecognition of financial assets measured at amortised cost	**1,326**	**1,404**	**5.9**

(11) Other profit/loss from financial assets/liabilities

in €k	2020	2021	± in %
Derecognition gains/losses	-40	-288	>-100
• from financial assets measured through OCI	-	-	-
• from financial liabilities measured at amortised cost	-40	-288	>-100
Other profit/loss from financial assets/liabilities	**-40**	**-288**	**>-100**

(12) Income tax expense

in €k	2020	2021	± in %
Current taxes	-14,580	-12,012	-17.6
Deferred taxes	4,428	-178	>100
Income tax expense	**-10,152**	**-12,189**	**20.1**

Reconciliation

in €k	2020	2021
Profit for the year before tax	84,904	92,948
Applicable tax rate	25%	25%
Computed tax expense	21,226	23,237
Effect of differing tax rates	-683	-64
Tax savings		
• from tax-exempt income from investments	-1,443	-700
• Effects of investments in entities accounted for using the equity method	-7,726	-11,240
• from other tax-exempt income	-2	-6
• from other valuation adjustments	-969	-1,000
Additional tax incurred		
• as a result of non-deductible expenses	500	428
• from other tax effects	-152	308
Aperiodic tax expenses/income	-598	1,226
Income tax expense in period	**10,152**	**12,189**
Effective tax rate	12.0%	13.1%

Details of the Balance Sheet

(13) Cash and balances with the central bank

in €k	31/12/2020	31/12/2021	± in %
Cash in hand	87,584	138,336	57.9
Credit balances with central banks	1,015,104	1,341,081	32.1
Cash and balances with the central bank	**1,102,688**	**1,479,418**	**34.2**

(14) Receivables from other banks

in €k	31/12/2020	31/12/2021	± in %
Receivables from domestic banks	46,919	45,211	-3.6
Receivables from foreign banks	235,851	49,372	-79.1
Receivables from other banks	**282,769**	**94,582**	**-66.6**

Receivables from other banks by remaining time to maturity

in €k	31/12/2020	31/12/2021	± in %
Due on demand	85,612	29,673	-65.3
Up to 3 months	52,039	34,919	-32.9
From 3 months to 1 year	145,119	29,990	-79.3
From 1 year to 5 years	-	-	-
From 5 years and over	-	-	-
Receivables from other banks by remaining time to maturity	**282,769**	**94,582**	**-66.6**

Impairment charges on receivables from other banks

in €k	Stage 1	Stage 2	Stage 3	2021
As at 01/01/2021	200	32	-	232
Additions due to new business	41	-	-	41
Change within stage				
– Allocation/reversal	-92	-1	-	-93
• Disposals due to usage	-	-	-	-
Reclassification from one stage to another:				
• Decrease due to credit risk				
- Reclassification from stage 2 to stage 1	-	-	-	-
- Reclassification from stage 3 to stage 1	-	-	-	-
- Reclassification from stage 3 to stage 2	-	-	-	-
• Increase due to default risk				
- Reclassification from stage 1 to stage 2	-	1	-	1
- Reclassification from stage 1 to stage 3	-	-	-	-
- Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-95	-31	-	-126
As at 31/12/2021	**54**	**1**	**-**	**55**

Gross carrying amounts changed as follows in the reporting year 2021:

Gross carrying amounts for receivables from other banks

in €k	Stage 1	Stage 2	Stage 3	2021
As at 01/01/2021	279,163	3,839	-	283,002
Additions due to new business	64,227	-	-	64,227
Change within stage				
• Increase/reduction of receivables	-14,382	15	-	-14,367
• Disposals due to usage	-	-	-	-
Reclassification from one stage to another:				
• Decrease due to default risk				
- Reclassification from stage 2 to stage 1	-	-	-	-
- Reclassification from stage 3 to stage 1	-	-	-	-
- Reclassification from stage 3 to stage 2	-	-	-	-
• Increase due to default risk				
- Reclassification from stage 1 to stage 2	-17	21	-	4
- Reclassification from stage 1 to stage 3	-	-	-	-
- Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-234,495	-3,734	-	-238,229
At the end of the reporting period	**94,497**	**141**	**-**	**94,638**

(15) Receivables from customers

(15.1) Receivables from customers – Customer group[1)]

in €k	31/12/2020	31/12/2021	± in %
Corporate and Business Banking	5,110,127	5,472,015	7.1
Retail Banking	1,459,838	1,486,610	1.8
Receivables from customers by customer group	**6,569,965**	**6,958,625**	**5.9**

[1)] Change to preceding year's values, because impairment charges were netted against the gross carrying amount of receivables from customers.

(15.2) Receivables from customers – Measurement category[1)]

in €k	31/12/2020	31/12/2021	± in %
Financial assets measured at amortised cost	6,437,585	6,815,067	5.9
Financial assets measured at fair value through profit or loss (designated)	75,650	89,927	18.9
Financial assets measured at fair value through profit or loss (mandatory)	56,730	53,631	-5.5
Receivables from customers by measurement category	**6,569,965**	**6,958,625**	**5.9**

[1)] Change to preceding year's values, because impairment charges were netted against the gross carrying amount of receivables from customers.

The position loans and advances to customers includes receivables from lease transactions of EUR 577.2 million (pr. yr. EUR 531.1 million).
In the reporting year there were no sale-and-lease-back transactions of material significance.

Receivables from customers by remaining time to maturity[1)]

in €k	31/12/2020	31/12/2021	± in %
Due on demand	201,559	135,496	-32.8
Up to 3 months	974,794	973,860	-0.1
From 3 months to 1 year	568,604	508,427	-10.6
From 1 year to 5 years	1,140,839	1,559,599	36.7
From 5 years and over	3,684,168	3,781,243	2.6
Receivables from customers by remaining time to maturity	**6,569,964**	**6,958,625**	**5.9**

1) Change to preceding year's values, because impairment charges were netted against the gross carrying amount of receivables from customers.

31/12/2014 - IFRS 16

in €k	31/12/2020	31/12/2021
< 1 year	158,626	153,469
One to two years	124,212	130,911
Two to three years	100,255	110,296
Three to four years	70,438	81,100
Four to five years	40,309	52,635
Over five years	69,275	78,739
Total amount of non-discounted lease receivables	**563,115**	**607,150**
Unearned finance income	31,983	29,959
Net investment in lease	**531,132**	**577,192**

There were no guaranteed residual values on 31 December 2021.

Receivables under leases are mainly within maturity bands >1 year.

Impairment charges on receivables from customers

in €k	Stage 1	Stage 2	Stage 3	2021
As at 01/01/2021	14,265	23,377	49,736	87,378
Additions due to new business	5,843	3,743	-	9,586
Change within stage				
• Allocation/reversal	-834	193	2,891	2,250
• Disposals due to usage	-	-	-9,376	-9,376
Reclassification from one stage to another:				
• Decrease due to default risk				
- Reclassification from stage 2 to stage 1	763	-4,267	-	-3,504
- Reclassification from stage 3 to stage 1	3	-	-47	-44
- Reclassification from stage 3 to stage 2	-	361	-966	-605
• Increase due to default risk				
- Reclassification from stage 1 to stage 2	-970	6,278	-	5,308
- Reclassification from stage 1 to stage 3	-58	-	2,111	2,053
- Reclassification from stage 2 to stage 3	-	-1,455	22,642	21,187
Disposals due to repayment	-1,680	-2,212	-3,107	-6,999
As at 31/12/2021	**17,332**	**26,018**	**63,884**	**107,234**

Impairment charges includes loan loss provisions for lease receivables of EUR 6.2 million (pr.yr. EUR 5.8 million).

Gross carrying amounts changed as follows in the reporting year 2021:

Gross carrying amounts of receivables from customers

in €k	Stage 1	Stage 2	Stage 3	2021
As at 01/01/2021	4,965,173	1,421,863	137,927	6,524,963
Additions due to new business	1,306,304	200,144		1,506,449
Change within stage				
• Increase/reduction of receivables	-222,189	-88,408	5,999	-304,598
• Disposals due to usage/direct write-off	-	-	-9,763	-9,763
Reclassification from one stage to another:				
• Decrease due to default risk				
- Reclassification from stage 2 to stage 1	224,798	-242,487	-	-17,689
- Reclassification from stage 3 to stage 1	260	-	-378	-118
- Reclassification from stage 3 to stage 2	-	6,257	-7,597	-1,340
• Increase due to default risk				
- Reclassification from stage 1 to stage 2	-268,522	250,980	-	-17,542
- Reclassification from stage 1 to stage 3	-12,859	-	12,855	-4
- Reclassification from stage 2 to stage 3	-	-79,911	76,220	-3,692
Disposals due to repayment	-541,065	-188,583	-24,717	-754,364
At the end of the reporting period	**5,451,900**	**1,279,856**	**190,545**	**6,922,301**

(16) Trading assets

in €k	31/12/2020	31/12/2021	± in %
Positive fair values of derivative financial products	10,526	8,561	-18.7
• Currency contracts	3,610	3,546	-1.8
• Interest rate contracts	-	1	-
• Fair value option	6,917	5,014	-27.5
Trading assets	**10,526**	**8,561**	**-18.7**

(17) Debt securities and other fixed-interest securities

in €k	31/12/2020	31/12/2021	± in %
Financial assets measured at amortised cost	828,140	917,463	10.8
Financial assets measured at fair value through profit or loss (designated)	21,152	20,551	-2.8
Financial assets measured at fair value OCI	68,263	61,536	-9.9
Financial assets measured at fair value through profit or loss (mandatory)	44	11	-74.0
Debt securities and other fixed-interest securities	**917,599**	**999,561**	**8.9**

Debt securities and other fixed-interest securities by remaining time to maturity

in €k	31/12/2020	31/12/2021	± in %
Up to 3 months	7,836	50,758	>100
From 3 months to 1 year	69,150	91,435	32.2
From 1 year to 5 years	449,905	518,053	15.1
From 5 years and over	390,708	339,315	-13.2
Debt securities and other fixed-interest securities by remaining time to maturity	**917,599**	**999,561**	**8.9**

Impairment charges on debt securities

in €k	Stage 1	Stage 2	Stage 3	2021
As at 01/01/2021	420	630	-	1,050
Additions due to new business	209	-	-	209
Change within stage				
– Allocation/reversal	-20	-	-	-20
– Disposals due to usage	-	-	-	-
Reclassification from one stage to another:				
• Decrease due to default risk				
Reclassification from stage 2 to stage 1	78	-629	-	-551
Reclassification from stage 3 to stage 1	-	-	-	-
- Reclassification from stage 3 to stage 2	-	-	-	-
• Increase due to default risk				
- Reclassification from stage 1 to stage 2	-	-	-	-
- Reclassification from stage 1 to stage 3	-	-	-	-
- Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-8	-1	-	-9
As at 31/12/2021	**679**	**-**	**-**	**679**

Gross carrying amounts changed as follows in the reporting year 2021:

Gross carrying amounts for debt securities

in €k	Stage 1	Stage 2	Stage 3	2021
As at 01/01/2021	790,188	39,002	-	829,190
Additions due to new business	144,385	-	-	144,385
Change within stage				
• Increase/reduction of receivables	10,364	-	-	10,364
• Disposals due to usage	-	-	-	-
Reclassification from one stage to another:				
• Decrease due to default risk				
- Reclassification from stage 2 to stage 1	28,925	-28,908	-	17
- Reclassification from stage 3 to stage 1	-	-	-	-
- Reclassification from stage 3 to stage 2	-	-	-	-
• Increase due to default risk				
- Reclassification from stage 1 to stage 2	-	-	-	-
- Reclassification from stage 1 to stage 3	-	-	-	-
- Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-55,720	-10,094	-	-65,815
At the end of the reporting period	**918,142**	**-**	**-**	**918,142**

(18) Shares and other non-interest bearing securities

in €k	31/12/2020	31/12/2021	± in %
Financial assets measured at fair value through profit or loss (mandatory)	57,089	50,616	-11.3
Financial assets measured at fair value OCI	96,337	103,931	7.9
Shares and other non-interest-bearing securities	**153,426**	**154,548**	**0.7**

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

(19) Investments in entities accounted for using the equity method

in €k	31/12/2020	31/12/2021	± in %
Oberbank AG	418,759	453,678	8.3
Bank für Tirol und Vorarlberg AG	242,779	255,578	5.3
Investments in entities accounted for using the equity method	**661,538**	**709,256**	**7.2**

(20) Intangible assets

in €k	31/12/2020	31/12/2021	± in %
Intangible assets	10,153	9,655	-4.9
Intangible assets	**10,153**	**9,655**	**-4.9**

(21) Property, plant and equipment

in €k	31/12/2020	31/12/2021	± in %
Land	8,252	8,316	0.8
Buildings	36,517	38,579	5.6
Other property, plant and equipment	12,126	14,201	17.1
Right-of-use assets	21,345	19,598	-8.2
Property, plant and equipment	**78,240**	**80,695**	**3.1**

The right-of-use assets reported refer mainly to rental contracts for branches and office space in Austria and abroad. Depreciation/amortisation of capitalised right-of-use assets was EUR 2.7 million in financial year 2021 (pr.yr.: EUR 2.6 million). Additionally, an interest expense of EUR 0.1 million (pr. yr. EUR 0.2 million) was recognized for lease liabilities. In the financial year 2021, there was an addition of EUR 0.4 million (pr.yr. EUR 0.9 million EUR) in right of use assets. Total cash outflow for lease contracts was EUR 2.8 million (pr.yr. EUR 2.7 million).

(22) Investment property

in €k	31/12/2020	31/12/2021	± in %
Land	8,506	8,895	4.6
Buildings	32,686	43,662	33.6
Investment property	**41,192**	**52,557**	**27.6**

At 31 December 2021, the fair values of our investment properties totalled EUR 79.2 million (pr.yr. EUR 63.0 million). Rental income in the year under review was EUR 3.7 million (pr.yr. EUR 3.2 m).
Expenses incurred to attain this rental income came to EUR 1.0 million (pr.yr. EUR 0.8 million).

Property, plant and equipment owned, intangible assets and investment property 2021

in €k	Property, plant and equipment	Assets1)	Property2)	Total
Acquisition cost at 01/01/2021	**145,823**	**25,438**	**66,818**	**238,079**
Additions	14,551	1,708	9,331	25,590
Disposals	1,030	21	76	1,127
Exchange differences	-	-	-	-
Reclassification	-4,124	162	3,962	-
Acquisition costs at 31/12/2021	**155,220**	**27,287**	**80,035**	**262,542**
Accumulated depreciation/amortisation	94,124	17,632	27,478	139,234
Carrying amount at 31/12/2021	**61,096**	**9,655**	**52,557**	**123,308**
Carrying amount at 31/12/2020	56,894	10,154	41,192	108,240
Depreciation/amortisation in 2021	**5,371**	**2,429**	**1,413**	**9,213**

1) Intangible assets
2) Investment property

Property, plant and equipment owned, intangible assets and investment property 2020

in €k	Property, plant and equipment	Assets1)	Property2)	Total
Acquisition cost at 01/01/2020	**140,286**	**23,737**	**61,554**	**225,578**
Additions	7,213	1,708	4,173	13,093
Disposals	575	6	9	591
Exchange differences	-1	-1	-	-2
Reclassification	-1,101	-	1,101	-
Acquisition costs at 31/ 12/2020	**145,823**	**25,438**	**66,818**	**238,079**
Accumulated depreciation/amortisation	88,929	15,284	25,626	129,839
Carrying amount at 31/12/2020	**56,894**	**10,154**	**41,192**	**108,240**
Carrying amount at 31/ 12/2019	55,572	10,960	37,374	103,907
Depreciation/amortisation in 2020	**4,868**	**2,548**	**1,266**	**8,683**

1) Intangible assets
2) Investment property

(23) Deferred tax assets/deferred tax liabilities 2021

in €k	**As at 31/12/2020**	**As at 31/12/2021**	Deferred taxes assets	Deferred taxes liabilities
Receivables from customers	2,569	3,385	3,509	124
Impairment charges	10,226	11,627	11,627	-
Trading assets/trading liabilities	219	-10	1,047	1,057
Debt securities and other fixed-interest securities	-1,589	-1,232	-	1,232
Shares and other non-interest-bearing securities	-10,230	-12,140	-	12,140
Property, plant and equipment	-4,719	-4,535	32	4,567
Payables to customers	-	-209	-	209
Other assets and liabilities	4,548	4,118	4,143	24
Liabilities evidenced by paper	2,041	1,549	1,549	-
Provisions/social capital	8,136	6,148	6,148	-
Equity - issues	-213	-217	-	217
Tax assets (liabilities) before netting	**10,988**	**8,485**	**28,054**	**19,570**
Netting of taxes	-	-	-19,570	-19,570
Net deferred tax assets/liabilities	**-**	**-**	**8,484**	**-**

Deferred tax assets/deferred tax liabilities 2020

in €k	**As at 30/12/2019**	**As at 31/12/2020**	Deferred taxes assets	Deferred taxes liabilities
Receivables from customers	4,150	2,569	2,685	117
Impairment charges	3,387	10,226	10,226	-
Trading assets/trading liabilities	172	219	1,785	1,566
Debt securities and other fixed-interest securities	-1,447	-1,589	-	1,589
Shares and other non-interest-bearing securities	-9,943	-10,230	-	10,230
Property, plant and equipment	-5,446	-4,719	25	4,744
Other assets and liabilities	5,311	4,548	4,548	-
Liabilities evidenced by paper	2,363	2,041	2,041	-
Provisions/social capital	9,069	8,136	8,136	-
Equity - issues	-212	-213	-	213
Tax assets (liabilities) before netting	**7,404**	**10,988**	**29,446**	**18,458**
Netting of taxes	-	-	-18,458	-18,458
Net deferred tax assets/liabilities	**-**	**-**	**10,988**	**0**

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

Deferred tax assets were mainly the result of impairment allowances recognised in accordance with IFRS 9, derivatives in the banking book with negative fair values, use of the fair value option for own debt securities, deferrals of the upfront fees contained in receivables from customers and valuations of 'social capital' in accordance with IAS 19 that differed from the tax base. Deferred taxes taken directly to equity in conformity with IAS 19 came to EUR -0.7 million (pr.yr.: EUR -0.6 million).

Deferred tax liabilities were mainly attributable to the measurement of financial investments at value, the application of the effective interest rate method for securities measured at amortised cost, the positive fair value of securities designated under the fair value option, as well as derivatives in the banking book with positive fair values.

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

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

(24) Other assets

in €k	**31/12/2020**	**31/12/2021**	± in %
Other assets	13,235	12,433	-6.1
Deferred items	4,156	9,593	>100
Other assets	**17,391**	**22,026**	**26.7**

(25) Payables to other banks

in €k	31/12/2020	31/12/2021	± in %
Payables to domestic banks	799,242	806,982	1.0
Payables to foreign banks	100,688	19,930	-80.2
Payables to other banks	**899,929**	**826,912**	**-8.1**

In 2021, BKS Bank took part in the TLTRO III programme (Targeted Longer-Term Refinancing Operations) of the European Central Bank (ECB) with a volume of EUR 200 million. This programme makes longer-term financing available to banks at attractive terms, with the interest rate for individual banks depending on the extent to which lending targets have been met in the relevant reference periods. With regard to the accounting treatment of this financing, BKS Bank concluded on the basis of a final assessment that the TLTRO III program does not constitute a government grant within the meaning of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance and that IAS 20 therefore does not apply. A government grant is only deemed to exist if the grantor is classified as a "government agency" in accordance with IAS 20.3, the interest rate charged under the TLTRO III programme is below the market rate and, in addition, the transactions carried out under the programme can be distinguished from the normal trading transactions of the entity. As BKS Bank does not consider all three criteria to be met, IAS 20 is not applied.

As of the reporting date, liabilities of EUR 550 million from the TLTRO III programme were reported under payables to banks and accounted for in accordance with IFRS 9. In December 2021, BKS Bank assessed the achievement of the lending targets for the special period June 2021 to June 2022 as met. Therefore, BKS Bank is entitled to the additional interest rate reduction from 0.5% to -1.0% for this period. BKS Bank recognizes the change in the estimate of the attainment of the lending targets as a change in estimate pursuant to IFRS 9 B5.4.6. The total positive effect in the financial year 2021 will be EUR 6.0 million from the use of the TLTRO III programme, which will be reported as a positive interest expense in net interest income.

Payables to other banks, by remaining time to maturity

in €k	31/12/2020	31/12/2021	± in %
Due on demand	148,786	118,435	-20.4
Up to 3 months	166,093	122,498	-26.2
From 3 months to 1 year	145,202	62,498	-57.0
From 1 year to 5 years	404,341	456,678	12.9
From 5 years and over	35,507	66,802	88.1
Payables to banks by remaining time to maturity	**899,929**	**826,912**	**-8.1**

(26) Payables to customers

in €k	31/12/2020	31/12/2021	± in %
Savings deposits	**1,401,674**	**1,351,180**	**-3.6**
• Corporate and business banking customers	151,156	131,819	-12.8
• Retail banking customers	1,250,518	1,219,361	-2.5
Other liabilities	**5,140,571**	**5,791,352**	**12.7**
• Corporate and business banking customers	3,667,120	4,067,067	10.9
• Retail banking customers	1,473,451	1,724,285	17.0
Payables to customers	**6,542,245**	**7,142,532**	**9.2**

Payables to customers, by remaining time to maturity

in €k	31/12/2020	31/12/2021	± in %
Due on demand	5,047,621	5,716,656	13.3
Up to 3 months	138,033	162,049	17.4
From 3 months to 1 year	701,682	541,125	-22.9
From 1 year to 5 years	607,510	687,355	13.1
From 5 years and over	47,398	35,347	-25.4
Payables to customers by remaining time to maturity	**6,542,245**	**7,142,532**	**9.2**

(27) Liabilities evidenced by paper

in €k	31/12/2020	31/12/2021	± in %
Bonds issued	592,585	677,645	14.4
Other liabilities evidenced by paper	54,878	54,878	-
Liabilities evidenced by paper	**647,463**	**732,523**	**13.1**

Liabilities evidenced by paper include bonds issued in an amount of EUR 57.0 million (pr.yr.: EUR 63.4 million) measured at fair value (use of fair value option). The carrying amount of liabilities evidenced by paper measured at fair value is EUR 7.0 million (pr.yr.: EUR 9.0 million) above the repayment amount.

Liabilities evidenced by paper by remaining time to maturity

in €k	31/12/2020	31/12/2021	± in %
Up to 3 months	20,813	9,225	-55.7
From 3 months to 1 year	68,926	59,532	-13.6
From 1 year to 5 years	257,189	321,328	24.9
From 5 years and over	300,535	342,437	13.9
Liabilities evidenced by paper by remaining time to maturity	**647,463**	**732,523**	**13.1**

(28) Trading liabilities

in €k	31/12/2020	31/12/2021	± in %
Negative fair values of derivative financial instruments	13,711	7,886	-42.5
• Currency contracts	5,667	3,121	-44.9
• Interest rate contracts	-	1	-
• Fair value option	8,044	4,764	-40.8
Trading liabilities	**13,711**	**7,886**	**-42.5**

(29) Provisions

in €k	31/12/2020	31/12/2021	± in %
Provisions for post-employment benefits and similar obligations	68,885	61,329	-11.0
Provisions for taxes (current taxes)	5,914	2,943	-50.2
Provision for guarantees and credit facilities	2,794	1,623	-41.9
Other provisions	51,842	53,491	3.2
Provisions	**129,434**	**119,385**	**-7.8**

The line item Provisions for post-employment benefits and similar obligations contains provisions for termination benefits in the amount of EUR 21.4 million (pr.yr. EUR 24.5 m), provisions for post-employment benefits in the amount of EUR 34.0 million (pr.yr. EUR 37.7 million) and provisions for jubilee benefits in the amount of EUR 6.0 million (pr.yr. EUR 6.6 m). Other provisions contain a provision in the amount of EUR 39.9 million (pr.yr. EUR 37.8 million) resulting from the proportionate consolidation of ALGAR. Other material provisions include provisions for death benefits of EUR 4.0 million (pr.yr.: EUR 4.6 million) and provisions for remuneration in the amount of EUR 2.1 million (pr.yr. EUR 1.9 million).

Provisions for termination benefits

According to the requirements of the Austrian Salaried Employees Act and the Austrian Termination Benefits Act, Austrian employees of BKS Bank whose employment began before 1 January 2003 are entitled to termination benefits provided applicable grounds for the termination are given. Moreover, the collective agreement for employees of banks and bankers generally gives people who have been in service for more than 5 years the right to two additional months' salary if it is the employer that gives notice. These additional monthly salaries are not covered by the contributions to the employee pension scheme.

Provisions for post-employment benefits

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

Actuarial assumptions

in %	31/12/2020	31/12/2021
Financial assumptions		
Interest rate post-employment benefits	1.00%	1.06%
Interest rate other social capital provisions	1.00%	1.31%
Salary trend of active staff	2.00%	1.40%
Pensions trends	1.50%	1.40%
Career trends	0.25%	0.25%
Demographic assumptions		
Retirement age	65 years	65 years
Mortality table	AVÖ 2018	AVÖ 2018

The interest rate was determined pursuant to IAS 19.83 on the basis of yields for first-ranking fixed interest industrial bonds. As in the preceding year, the table published by Mercer (Austria) GmbH was used. The calculation of provisions for pensions as of 30 June 2021 was based on a duration of 10 years (pr.yr. 15 years).

Changes in provisions for post-employment benefits and similar obligations

in €k	31/12/2020	31/12/2021	± in %
Provisions as at 01/01	75,603	68,885	-8.9
+ Interest expense	967	668	-30.9
+ Service costs	1,698	1,399	-17.6
- Payments during the reporting year	-6,201	-5,931	-4.4
± Actuarial profit/loss[1)]	-2,463	-2,959	20.2
± Gains and losses on disposals	-719	-733	1.9
Provisions as at 31/12	**68,885**	**61,329**	**-11.0**

[1)] Based on changed financial assumptions

Development of provisions

in €k	Total 2020	Provisions for post-employment benefits and similar obligations	Taxes and other	Total 2021	± in %
Provisions as at 01/01	138,743	68,885	60,549	129,434	-6.7
± Currency change	-	-		-	-
+ Additions	11,859	1,497	9,607	11,104	-6.4
- Usage	-11,593	-5,359	-8,688	-14,047	21.2
- Reversal	-9,574	-3,694	-3,412	-7,106	-25.8
Provisions as at 31/12	**129,434**	**61,329**	**58,056**	**119,385**	**-7.8**

Sensitivity analysis for post-employment benefits and similar obligations

Sensitivity analysis of DBO/present value of obligations in €k	Termination benefits **31/12/2020**	Post-employment benefits **31/12/2020**	Termination benefits **31/12/2021**	Post-employment benefits **31/12/2021**
Discount rate +0.5%	-994	-1,837	-810	-1,576
Discount rate -0.5%	956	2,015	797	1,723
Wage increase +0.5%	939	135	790	101
Wage increase -0.5%	-987	-130	-811	-97
Pension increase +0.5%	-	1,664	-	1,436
Pension increase -0.5%	-	-1,555	-	-1,345
Increase in life expectancy by around 1 year	-	2,458	-	2,241

This sensitivity analysis shows the influence a change in the parameters for the major actuarial assumptions would have on the provisions for termination benefits and post-employment benefits as at 31 December 2021.

Maturity analysis

Cash flows in €k	Termination benefits **31/12/2021**	Post-employment benefits **31/12/2021**
Expected payments 2022	1,558	2,749
Expected payments 2023	1,170	2,550
Expected payments 2024	2,539	2,347
Expected payments 2025	1,731	2,154
Expected payments 2026	1,780	1,967
Total expected payments 2022 to 2026	**8,778**	**11,767**
Weighted average maturity	7.67	9.90

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 2021 amounted to EUR 5.5 million (pr.yr. EUR 5.9 million).

(30) Other liabilities

in €k	31/12/2020	31/12/2021	± in %
Other liabilities	24,984	23,637	-5.4
Deferred items	4,868	4,897	0.6
Leasing liabilities	21,588	19,907	-7.8
Other liabilities	**51,440**	**48,442**	**-5.8**

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

in €k	31/12/2020	31/12/2021	± in %
Up to 1 year	2,662	2,625	-1.4
From 1 year to 5 years	9,386	8,962	-4.5
From 5 years and over	9,540	8,319	-12.8
Lease liabilities	**21,588**	**19,907**	**-7.8**

(31) Subordinated debt capital

in €k	31/12/2020	31/12/2021	± in %
Supplementary capital	209,583	240,942	15.0
Subordinated debt capital	**209,583**	**240,942**	**15.0**

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 237.4 million (pr.yr. EUR 206.5 million).

Subordinated debt capital by remaining time to maturity

in €k	31/12/2020	31/12/2021	± in %
Up to 3 months	3,211	3,603	12.2
From 3 months to 1 year	2,350	-	-
From 1 to 5 years	59,983	77,306	28.9
From 5 years and over	144,039	160,033	11.1
Subordinated debt capital by remaining time to maturity	**209,583**	**240,942**	**15.0**

No supplementary capital notes will mature in 2022 (pr.yr. EUR 2.4 million).

Details on subordinated debt capital (nominal values)

in €k	31/12/2020	31/12/2021	Full term
Variable Ergänzungskapital-Obligation 2006-2021/PP	2,350	-	15 years
5% Nachrangige Obligation 2014-2023/2	20,000	20,000	9 years
4% Nachrangige Obligation 2015-2025/2	20,000	20,000	10 years
2 ¾% Nachrangige Obligation 2016-2024/2	20,000	20,000	8 years
3% Nachrangige Obligation 2017-2027/4	20,000	20,000	10 years
3.43% Nachrangige Obligation 2018-2028/3/PP	13,000	13,000	10 years
2 1/4% Nachrangige Obligation 2018-2026/3	17,287	17,287	8 years
4.54% Nachrangige Obligation 2019-2034/2/PP	8,000	8,000	15 years
3% Nachrangige Obligation 2019-2029/3	20,000	20,000	10 years
3% Nachrangige Obligation 2019-2030/4	20,000	20,000	11 years
3.85% Nachrangige Obligation 2019-2034/4/PP	3,400	3,400	15 years
3% Nachrangige Obligation 2019-2031/5	20,000	20,000	11.5 years
2 3/4% Nachrangige Obligation 2020-2032/1	8,433	8,433	12 years
3% Nachrangige Obligation 2020-2030/2	4,289	4,289	10 years
3% Nachrangige Obligation 2020-2030/3	9,739	20,000	10 years
3.25% Nachrangige Obligation 2021-2031/4/PP	-	20,000	10 years
3.03% Nachrangiges Schuldscheindarlehen 2021-2032	-	3,000	10 years
Total subordinated capital (tier 2)	**206,498**	**237,409**	

Expenditure on subordinated obligations in the financial year came to EUR 7.6 million (pr.yr. EUR 8.3 million).

(32) Equity

in €k	31/12/2020	31/12/2021	± in %
Subscribed capital	85,886	85,886	-
• Share capital	85,886	85,886	-
Capital reserves	241,416	241,416	-
Retained earnings and other reserves	979,469	1,066,845	8.9
Additional equity instruments (AT 1 bond)	55,900	65,200	16.6
Equity	**1,362,671**	**1,459,346**	**7.1**

After the decision taken at the beginning of November 2020 to convert all preference shares into ordinary shares at a ratio of 1:1, the share capital now consists of 42,942,900 ordinary no-par voting shares. Each share has a nominal value of EUR 2.0. Capital reserves contain premiums from the issuance of shares. Retained earnings and other reserves consist essentially of reinvested profits.

Additional equity instruments refer to the additional tier 1 notes: BKS TIER 1 ANL 2015 (nominal amount EUR 23.4 m), BKS TIER 1 ANL 2017 (nominal amount EUR 14.5 m), BKS TIER 1 ANL 2018 (nominal amount EUR 17.3 m) and BKS TIER 1 ANL 2020 (nominal amount EUR 10.0 m), which are classified as equity under IAS 32. The liability reserve required under § 57 (5) Banking Act in the amount of EUR 88.8 million (pr.yr. EUR 86.3 million) is contained in the item Retained earnings.

Shares in issue 2021

Number of shares	no-par ordinary shares
As at 01/01/2021	**42,060,932**
Change in treasury shares	89,597
As at 31/12/2021	**42,150,529**
Treasury shares in the Group's portfolio	**792,371**
Shares issued	**42,942,900**

Shares in issue 2020

Number of shares	no-par ordinary shares	no-par preference shares
As at 01/01/2020	**40,432,275**	**1,635,302**
Change in treasury shares	-24,086	17,441
Conversion	1,652,743	-1,652,743
As at 31/12/2020	**42,060,932**	**-**
Treasury shares in the Group's portfolio	**881,968**	**-**
Shares issued	**42,942,900**	**-**

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

	2020		***2021***	
in €k	Remeasurement from defined-benefit plans	Reserves for own credit risk	Remeasurement from defined-benefit plans	Reserves for own credit risk
As at 01/01	**-31,013**	**224**	**-29,219**	**704**
Other comprehensive income	1,794	501	3,138	291
• Change from remeasurement pursuant to IAS 19	1,846	-	2,222	-
• Reserves for own credit risk	-	501	-	291
• Effect of the equity method (IAS 19)	-52	-	917	-
Reclassification	-	-22	-	49
As at 31/ 12	**-29,219**	**704**	**-26,081**	**1,044**

Capital Management

(33) Own funds

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 is on limiting and controlling the risks assumed by the bank as part of the overall bank risk management process.

To achieve these goals, the degree of utilisation of all risk limits is checked and reported within the management information process. The core variables used for analysis and management purposes in the capital management process 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.

BKS Bank calculates the own funds ratio and total risk exposure according to the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). The calculation of own funds requirements for credit risk, for market risk and for operational risk is done using the standardised approach.

BKS Bank group of credit institutions: own funds pursuant to CRR

in € m	31/12/2020	31/12/2021
Share capital	85.9	85.9
Reserves net of intangible assets	1,193.6	1,279.0
Deductions	-610.2	-655.3
Common equity tier 1 capital (CET1)	669.3	709.5[1]
Common equity tier 1 ratio	11.8%	11.9%
AT1 note	55.9	65.2
Additional tier 1 capital	55.9	65.2
Tier 1 capital (CET1 + AT1)	725.2	774.7
Tier 1 capital ratio	12.8%	13.0%
Supplementary capital (tier 2)	190.9	209.1
Total own funds	916.1	983.8
Total capital ratio	16.2%	16.6%
Total risk exposure amount	5,664.1	5,943.8

[1] Includes profit for the year 2021. Formal adoption is still outstanding.

The Supervisory Review and Evaluation Process (SREP) conducted by the Austrian Financial Market Authority (FMA) came to the conclusion that BKS Bank was to meet the following minimum requirements without a capital conservation buffer as a percentage of the total risk exposure amount as at 31 December 2021: 5.5% for common equity tier 1 capital, and 9.7% for total capital ratio. The capital ratios at the end of December 2021 exceeded these requirements.

Risk Report

(34) Risk policy and risk strategy

Our business policy motto is to secure autonomy and independence by increasing profits within the scope of a sustainable growth strategy. A key element of our business is to specifically assume risk based on the premise of recognising all relevant risks early that may result from the banking business and banking operations, and to actively manage and mitigate risk through effective risk management. All individual risks are recorded, evaluated and analysed. The capital available is used as efficiently as possible taking into account the medium to long-term strategic goals, with the risk/profit ratio being constantly optimised.

At BKS Bank, a solid risk culture is established throughout the Group based on a comprehensive understanding of our risks based on the values of BKS Bank. The risk culture is described at the top level by the mission statement and the risk strategy of BKS Bank and represents how management staff and employees are to deal with risk within the scope of their work. A central element in the risk culture is the integration of individual key figures from the Risk Appetite Framework into the compensation policy. This ensures a risk-adequate assessment of compensation in line with risk appetite. Another important cornerstone of the risk culture is the handling of sustainability risks. The management of sustainability risks resembles a tight mesh within individual risk types. Therefore, the risk policy principles for managing sustainability risks and especially climate risks refer to the diverse management levels and risk categories.

ICAAP

In accordance with the provisions of §39 and §39a Banking Act, banks must have effective plans and procedures in place to determine the amount, the composition and the distribution of the capital available for the quantitative and qualitative hedging of all material risks relating to the banking business and banking operations. Based on these factors, banks must maintain capital in the required volumes. These processes are summarised in ICAAP and presented by BKS Bank under the risk-bearing capacity calculation. The risk-bearing capacity calculation follows the dual approach recommended by the supervisory authorities and has been prepared according to the normative perspective and the economic perspective since 2021.

ILAAP

ILAAP is the process that must be established by BKS Bank pursuant to § 39 para 3 Banking Act for the purpose of identifying, measuring, managing and monitoring liquidity. BKS Bank uses several established methods and ratios to measure liquidity and liquidity risk (e.g. capital flow statement, LCR, NSFR) and monitors compliance with liquidity goals by producing timely and extensive risk reports.

BASAG

The provisions of the Austrian Federal Act on the Recovery and Resolution of Banks (BaSAG) require banks to prepare recovery and resolution plans. The key elements within the framework of overall bank management under the Recovery and Resolution Act are:

- the recovery plan
- the resolution plan
- the MREL ratio

(35) Structure and organisation of risk management

The risk strategy of BKS Bank is characterised by a conservative handling of the risks involved in the banking business and in banking operations. A comprehensive system of risk principles, risk measurement and monitoring procedures as well as an appropriate organisational structure is in place for risk monitoring and management. Central responsibility for risk management lies with the member of the Management Board whose remit does not include front office activities.

The risk strategy is revised annually, approved by the Management Board and discussed and evaluated by the members of the Risk Committee of the Supervisory Board. The Management Board decides on the risk management principles, the limits for all relevant risks, and the procedures for monitoring and managing risks.

In accordance with § 39 para 5 Banking Act, risk controlling is a central unit independent of operations at BKS Bank that is responsible for identifying, measuring and analysing risks as well as for the continuous development and fine-tuning of the risk management instruments. 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. At the annual review of the risk strategy, BKS Bank takes an inventory of all risks.
The identification of risks and the assessment of their threat is based on a risk analysis by the risk controlling unit in the form of a risk matrix created by the ICAAP Committee.

The limits and targets defined in the risk strategy are evaluated annually and amended as required. 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 management and risk controlling as well as the internal control systems.

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

Risk Committees

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.

ALM - Asset/Liability Management
The Asset/Liability Management Committee meets monthly, analyses and manages the balance sheet structure with regard to interest rate risk in the banking book, share price risk and liquidity risk. In this context, the Committee also is responsible for the important tasks of planning for funding, funds transfer pricing and the management of concentration risks.

Operational Risk Committee
The Operational Risk Committee meets four times a year. The members of the OR Committee analyze the loss events, support the risk-taking units and the management with the active management of operational risk, monitor measures taken and develop the OR risk management system.

Credit Risk jour fixe meetings
At the weekly jour fixe meetings on credit risk, the main topics discussed relate to day-to-day lending operations, prolongations and other current topics in the corporate and retail business.
Besides the weekly Jour fixes, an extended credit risk committee meets quarterly. 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 year 2021 was also dominated by the coronavirus pandemic. Measures for the early recognition of credit risks such as reviewing the development of NPLs, loans with forbearance, overdrafts and deferrals or bridge financing, were also agreed and implemented on an ongoing basis in 2021.

(36) Internal capital adequacy and risk-bearing capacity (ICAAP)

An analysis of the risk-bearing capacity based on the internal capital adequacy assessment process (ICAAP) is an essential component of the overall bank risk management at BKS Bank. Since 2021, we have been pursuing a dual approach in overall bank management. The purpose of the normative perspective is to assess the bank's ability to meet quantitative regulatory and supervisory requirements over a period of several years. The goal here is to ensure compliance with regulatory requirements. In the economic perspective, we identify and quantify all material capital-relevant risks and compare them with the risk cover amount, the aim being to ensure adequate internal capital.

At BKS Bank, unexpected losses in the economic perspective are calculated for a period of observation of one year with a confidence level of 99.9%. As at 31 December 2021, the economic capital requirement was determined at EUR 521.4 million after EUR 507.7 million in the preceding year. The corresponding assets available to cover risks came to EUR 1,303.1 million, compared with EUR 1,239.7 million at the end of 2020.

Risk-bearing capacity by economic perspektive

Breakdown of risks in the economic perspective

in %	2020	2021
1 Credit risk	66.1	65.7
2 Interest rate risk in the banking book[1)]	12.1	11.2
3 Equity price risk[1)]	3.9	5.6
4 Foreign currency risk[1)]	0.4	0.1
5 Credit spread risk	7.3	6.7
6 Operational risk and ICT-risk	5.4	5.7
7 Liquidity risk	1.8	2.0
8 Model errors	0.4	0.4
Other risks	2.8	2.7

As in the preceding year, the economic capital requirement for credit risk was the largest risk capital requirement within the group of credit institutions. Credit risks account for about 65.7% (2020: 66.1%) of the total loss potential.

The **normative perspective** of risk-bearing capacity focuses on the regulatory capital ratios, liquidity ratios and credit risk ratios. The normative perspective is subject to a planning horizon of at least 3 years. The first step is to check whether the regulatory ratios and the internal limits derived from the risk appetite can be complied with over the planning period. In a second step, a review is conducted to ascertain whether the limits and minimum sizes required by supervisory law can also be met in the event of stress. The stress parameters are derived from the EBA stress tests and reconciled with the stress tests in the economic perspective.

The risk-bearing capacity calculation in the normative perspective shows that the limits defined in the risk appetite framework are complied with in both the base scenario and the stress scenario, and that the quantitative legal requirements are therefore also met.

(37) Stress tests in the overall banking risk strategy

We conduct stress tests on a quarterly basis to evaluate the risk-bearing capacity of the banking Group in the event of potential adverse events. The results are analysed to determine the quantitative impact on our risk-bearing capacity. Sensitivity analyses provide supplementary information on the risk-bearing capacity 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.

(38) Credit risk

We define credit risk as the risk of a partial or complete default on contractually-agreed repayments on loan. 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 a know-your-customer basis. Therefore, loans are granted only after a thorough check of the person and creditworthiness and – if relevant – in compliance with the dual control principle (front office and back office). Collateral requirements are derived from the rating class and the product.
The valuations at fair value of the collateral are oriented on the average liquidation proceeds obtained in the past. Real estate collateral is appraised and regularly reviewed by an independent expert from Credit Management. Lending in markets outside of Austria is governed by special guidelines that are specific to the

features of the country concerned, in particular, the economic environment and the higher realisation risk of the collateral.

The Risk Analysis and Service Department is responsible for risk analysis and management at the level of the individual customer. At portfolio level, the extended credit risk jour fixe is responsible for the management of risk on the basis of reports prepared by Risk Controlling. The main goals when assuming new risk positions concern the rating structure, which means that new business is acquired only if certain rating classes are met and the collateral provided is sufficient.

Concentrations of credit risk are managed at the portfolio level, with the aim being to achieve a balanced distribution of credit exposures by size, and limits for individual geographical regions, sectors and industries, as well as the foreign currency portion of the loan portfolio. BKS Bank holds a 25% stake in ALGAR, which has the purpose of securing large exposures.

Equity investment risk includes the risk of lost dividends, impairments and realised losses, and the risk of a decline in the value of hidden reserves caused by poor financial performance on the part of entities in which BKS Bank holds equity investments. The acquisition of equity investments is not a strategic focus of BKS Bank. In the case of affiliated companies, our focus is on strategic partners from the banking and financial sector as well as from banking-related service industries.

Credit risk management

1) Central Department Risk Analysis and Services
2) Central Department Risk Analysis and Services
3) Central Controlling and Accounting/Risk Controlling
4) Office of the Management Board
5) BKS Service GmbH

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

The quantitative information included in this report pursuant to IFRS 7.31 to 7.42 is based on the internal reporting for overall bank risk management.

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

(38.1) Credit risk volumes pursuant to internal risk management

in €k	31.12.2020	31.12.2021
Receivables from customers	7,184,620	7,562,928
Promised credit lines[1)]	207,504	198,688
Receivables from banks	300,881	106,773
Securities and funds	920,068	1,010,910
Equity investments	752,771	807,683
Exposure volume	**9,365,845**	**9,686,981**

[1)] Based on internally calculated withdrawal patterns

(38.2) Reconciliation of IFRS positions to internal credit risk positions

in €k	31/12/2020	31/12/2021
Consolidated receivables from customers pursuant to note (15.1)	6,569,965	6,958,625
+Impairment charges on receivables from customers pursuant to Note (15.1)	87,378	107,234
+ Contingent liabilities purs. to note (60)	567,947	610,804
+ Corporate bonds	67,138	35,262
+ Exposure from derivative contracts with customers/other	43,218	12,980
- Customer receivables pursuant to note (60) backed by principal bank	-151,027	-161,976
Receivables from customers according to internal risk management	**7,184,620**	**7,562,928**
Other exposures purs. to note (60)	1,693,658	1,702,081
Promised credit lines based on internally calculated withdrawal patterns	**207,504**	**198,688**
Receivables from other banks pursuant to Note (14)	282,769	94,582
+ Impairment charges on receivables from other banks purs. to Note (14)	233	55
+ Securities and derivatives transactions with banks	17,879	12,136
Receivables from other banks pursuant to internal risk management	**300,881**	**106,773**
+ Debt securities and other fixed-interest securities purs. to Note (17)	917,599	999,561
+ Impairment charges on debt securities pursuant to Note (17)	1,050	679
- Corporate bonds/securities/other (reclassification to loans and advances to banks and customers)	-60,774	-45,450
- Investment funds from the item Shares and other non-interest bearing securities purs. to Note (18)	56,734	50,364
+ Shares and other non-interest bearing securities purs. to Note (18)	5,460	5,756
Securities and funds according to internal risk management figures	**920,068**	**1,010,910**
Investments from the item Shares and other non-interest bearing securities purs. to Note (18)	91,233	98,176
+ Investments at fair value (mandatory) purs. to Note (18)	–	252
+ Investments in entities accounted for using the equity method purs. to Note (19)	661,538	709,256
Investments pursuant to ICAAP	**752,771**	**807,683**
Credit risk according to ICAAP	**9,365,845**	**9,686,981**

Credit ratings in credit risk

A major component of the risk assessment process is our comprehensive rating system, which serves as the basis for risk management within the BKS Bank Group. The bank's internal rating models are validated every year.

Rating classes

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

(38.3) Loan quality by class of receivable 2021

in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating
Receivables from customers	95,606	1,844,654	2,700,144	2,410,087	318,585	191,578	2,274
Credit lines promised	8,394	63,085	73,406	50,549	2,993	220	41
Receivables from banks	53,975	45,706	3,718	3,381	2	–	–
Securities and funds	778,921	184,819	47,158	–	11	–	–
Equity investments	776,460	28,313	1,478	252	–	–	1,181
Total	**1,713,356**	**2,166,577**	**2,825,904**	**2,464,269**	**321,592**	**191,798**	**3,496**

Loan quality by class of receivable 2020

in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating
Receivables from customers	79,718	1,715,997	2,654,575	2,214,603	380,818	138,513	396
Credit lines promised	13,958	60,523	76,049	50,772	5,425	748	29
Receivables from banks	220,784	39,588	36,661	3,845	4	–	–
Securities and funds	740,636	139,418	35,420	4,550	44	–	–
Equity investments	723,658	25,198	2,482	–	–	–	1,433
Total	**1,778,755**	**1,980,723**	**2,805,187**	**2,273,770**	**386,291**	**139,261**	**1,859**

At BKS Bank, receivables are deemed to be in default if they are more than 90 days overdue and the overdue amount is at least 1.0% of the agreed credit line and at least EUR 100. 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 deterioration in the quality of the receivable;
- Initiation of collection procedures because of inability or unwillingness to pay or fraud or for other reasons
- receivable only collectable at a loss for BKS Bank;
- sale of the receivable at a significant credit standing loss in credit standing for BKS Bank;
- the debtor's insolvency;
- loan irrecoverable for other reasons.

Additionally, the provisions of the EBA/GL2016/07 Guidelines on the application of the definition of default enter into force on 1 January 2021 that provide further information on the unlikeliness to pay.

At year-end, the non-performing loan ratio was 2.2% (2020: 1.7%). The calculation is based on non-performing loans in the rating classes 5a to 5c of the BKS Bank rating system (default classes) and the accounting receivables from sovereigns, central banks, credit institutions and customers. Cover for the loss potential of non-performing loans is indicated by the coverage ratio. Coverage Ratio I is the relation between risk provisions to the total risk position and was 33.7% on 31 December 2021 (2020: 37.2%). Additionally, we use Coverage Ratio III as an internal benchmark which also includes internal collateral in the calculation. The cover ratio was 91.0% at year-end (2020: 88.7%).

(38.4) Exposures classified as forborne 2021

in €k	Corporate and Business Banking	Retail Banking	Total
Performing exposure	69,818	20,084	89,902
• of which with concessions regarding instalments	60,548	19,437	79,985
• of which rescheduled	9,270	647	9,917
Non-performing exposures	35,222	17,338	52,560
• of which with concessions regarding instalments	32,689	10,669	43,358
• of which rescheduled	2,533	6,669	9,202
Total	**105,040**	**37,422**	**142,462**

Exposures classified as forborne 2020

in €k	Corporate and Business Banking	Retail Banking	Total
Performing exposures	52,297	21,724	74,021
• of which with concessions regarding instalments	40,749	20,954	61,703
• of which rescheduled	11,548	770	12,318
Non-performing exposures	27,277	8,945	36,222
• of which with concessions regarding instalments	24,484	8,083	32,567
• of which rescheduled	2,793	862	3,655
Total	**79,574**	**30,669**	**110,243**

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
- Concessions compared with the loan instalments originally agreed
- Concessions regarding the terms and conditions of the loan
- Complete reconfiguring of the loan (restructuring)

(38.5) Credit risk volumes relating to the coronavirus crisis

A number of forbearance measures were triggered as well as loan deferrals and bridging loans due to the outbreak of the coronavirus pandemic in the financial year 2020. The following table shows the relevant credit volumes 2021 affected by these measures, broken down by industry.

in €k	Loans and advances subject to EBA-compliant moratoria	Other loans and advances with COVID-19-related forbearance	Newly originated loans and advances subject to COVID-19 related public guarantee schemes	Government guarantees granted in connection with COVID-19
Retail Banking	47,589	594	108	96
Real estate activities	127,092	17,315	70	64
Construction	38,272	1,389	5,649	5,200
Manufacturing	30,032	38	36,539	32,422
Wholesale and retail trade; repair of motor vehicles and motorcycles	25,357	858	18,118	16,568
Professional, scientific and technical activities	21,654	2,473	6,171	5,847
Financial and insurance activities	21,517	484	13,530	12,230
Transport and storage	35,900	–	1,831	1,691
Accommodation and food service activities	61,805	14,270	6,708	6,254
Human health and social work activities	37,837	–	698	671
Administrative and support service activities	16,897	175	4,674	4,460
Public administration and defence; compulsory social security	–	–	–	–
Agriculture and forestry, fishery	4,331	122	774	774
Electricity, gas, steam and air conditioning supply	1,017	–	48	48
Mining and quarrying	5,899	–	–	–
Other service activities	8,107	110	912	839
Information and communication	10,832	3,938	2,672	2,508
Water supply; sewerage, waste management and remediation activities	1,513	2,832	500	500
Arts, entertainment and recreation	5,529	863	388	387
Education and instruction	1,361	13	307	307
Total	**502,541**	**45,474**	**99,698**	**90,866**

The following table shows the credit volumes of still active moratoria and remaining times to maturity of loans deferred in the financial year 2020 due to the coronavirus pandemic.

in €k	Carrying amount loans	of which loans with active moratoria	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 12 months <= 18 months	> 18 months
Loans and advances subject to EBA-compliant moratoria	502,451	–	–	–	–	–	–	–
Other loans and advances with COVID-19-related forbearance	45,474	21,687	11,074	3,309	110	2,832	4,064	298
Total	**547,925**	**21,687**	**11,074**	**3,309**	**110**	**2,832**	**4,064**	**298**

(38.6) Carrying amounts by rating class and stage/on-balance 2021

	Carrying amounts				Provisions			
in €k	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
AA	716,016	–	–	716,016	173	–	–	173
A1	90,086	–	–	90,086	42	–	–	42
1a	897,258	30,906	-	928,164	408	129	-	537
1b	924,601	38,783	-	963,384	1,221	902	-	2,123
2a	1,176,423	13,267	-	1,189,690	2,712	255	-	2,967
2b	1,158,965	171,474	-	1,330,439	4,181	1,573	-	5,754
3a	1,030,507	427,165	-	1,457,672	4,706	7,932	-	12,638
3b	403,480	352,540	-	756,020	3,233	6,620	-	9,853
4a	47,527	169,025	-	216,552	552	4,358	-	4,910
4b	16,933	76,144	-	93,077	616	4,215	-	4,831
5a – 5c	–	-	190,545	190,545	–	-	63,884	63,884
OR	2,743	693	-	3,436	221	35	-	256
Total	**6,464,539**	**1,279,997**	**190,545**	**7,935,081**	**18,065**	**26,019**	**63,884**	**107,968**

Carrying amounts by rating class and stage/on-balance 2020

	Carrying amounts				Impairment			
in €k	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
AA	26,941	292	–	27,233	1	–	–	1
A1	1,706	–	–	1,706	1	–	–	1
1a	221,656	13,267	–	234,923	39	7	–	46
1b	261,250	10,802	–	272,052	57	6	–	63
2a	450,650	26,723	–	477,372	186	45	–	231
2b	379,390	68,932	–	448,321	223	68	–	291
3a	344,669	73,322	–	417,991	476	192	–	668
3b	166,805	116,700	–	283,505	662	328	–	990
4a	17,972	52,280	–	70,252	43	215	–	258
4b	8,468	18,043	–	26,511	25	88	–	113
5a – 5c	–	–	1,627	1,627	–	–	131	131
OR	86	26	–	111	1	–	–	1
Total	**1,879,592**	**380,385**	**1,627**	**2,261,604**	**1,714**	**949**	**131**	**2,794**

In 2021, BKS Bank conducted an analysis by sector of corporate and business customers to gauge how they were being affected by the coronavirus crisis. The sectors the most severely affected by the pandemic, namely hospitality businesses, restaurants, arts and entertainment as well as other services were collectively transferred to a different stage depending on how severely they were affected. We assume that customers who are rated worse than 2a are at higher risk. On account of the coronavirus pandemic's negative effects on the Croatian economy, the entire Croatian corporate customer portfolio was transferred collectively.

Therefore, pursuant to IFRS 9.B5.5.1 et seq, financial instruments were transferred from stage 1 to stage 2 even if at the individual debtor level no significant increase in credit risk was identified. This collective stage transfer with a volume of EUR 556.7 million resulted in the allocation of impairment charges in an amount of EUR 7.3 million.

(38.7) Carrying amounts by rating class and stage/off-balance 2021

	Carrying amounts				Impairment			
in €k	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
AA	51,814	–	–	51,814	–	–	–	–
A1	18,150	–	–	18,150	–	–	–	–
1a	243,474	7,612	-	251,086	50	15	-	65
1b	429,386	9,493	-	438,879	68	5	-	73
2a	460,939	4,915	-	465,854	104	4	-	108
2b	360,059	36,333	-	396,392	154	95	-	249
3a	317,226	99,057	-	416,283	156	324	-	480
3b	98,581	91,191	-	189,772	104	272	-	376
4a	3,930	16,491	-	20,421	8	34	-	42
4b	3,611	10,424	-	14,035	22	60	-	82
5a – 5c	–	-	3,862	3,862	-	-	143	143
OR	282	86	-	368	1	4	-	5
Total	**1,987,452**	**275,602**	**3,862**	**2,266,916**	**667**	**813**	**143**	**1,623**

Carrying amounts by rating class and stage/off-balance 2020

	Carrying amounts				Impairment			
in €k	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
AA	26,941	292	–	27,233	1	–	–	1
A1	1,706	–	–	1,706	1	–	–	1
1a	221,656	13,267	–	234,923	39	7	–	46
1b	261,250	10,802	–	272,052	57	6	–	63
2a	450,650	26,723	–	477,372	186	45	–	231
2b	379,390	68,932	–	448,321	223	68	–	291
3a	344,669	73,322	–	417,991	476	192	–	668
3b	166,805	116,700	–	283,505	662	328	–	990
4a	17,972	52,280	–	70,252	43	215	–	258
4b	8,468	18,043	–	26,511	25	88	–	113
5a – 5c	–	–	1,627	1,627	–	–	131	131
OR	86	26	–	111	1	–	–	1
Total	**1,879,592**	**380,385**	**1,627**	**2,261,604**	**1,714**	**949**	**131**	**2,794**

(38.8) Loan collateral 2021[1]

in €k	Credit exposure/ max. default risk	Collateral in total	of which financial collateral	of which personal collateral	of which real estate collateral	of which other	Risk position[2]
Receivables from customers	7,562,928	5,088,097	127,622	278,722	3,802,032	879,721	2,474,831
• of which, at fair value through profit or loss (designated)	89,927	56,476	–	16,636	39,840	–	33,451
• of which, at fair value through profit or loss (mandatory)	53,631	38,763	564	7	36,547	1,645	14,867
Credit lines promised	198,688	–	–	–	–	–	198,688
Receivables from banks	106,773	13,340	–	10,188	–	3,152	93,433
Securities and funds	1,010,910	150,441	–	59,721	–	90,720	860,469
• of which, at fair value through profit or loss (designated)	20,551	–	–	–	–	–	20,551
• of which, at fair value through profit or loss (mandatory)	50,364	–	–	–	–	–	50,364
• of which, at fair value OCI	5,756	–	–	–	–	–	5,756
Equity investments	807,683	–	–	–	–	–	807,683
• of which, at fair value OCI	98,176	–	–	–	–	–	98,176
• of which Investments at fair value (mandatory)	252	–	–	–	–	–	252
• of which, investments in entities accounted for using the equity method	709,256	–	–	–	–	–	709,256
Total	**9,686,981**	**5,251,878**	**127,622**	**348,631**	**3,802,032**	**973,593**	**4,435,103**

[1] Lending value of the loan collateral measured pursuant to internal rules
[2] Exposure less collateral

Loan collateral 2020[1)]

in €k	Credit exposure/ max. default risk	Collateral in total	of which financial collateral	of which personal collateral	of which real estate collateral	of which other	Risk position[2)]
Receivables from customers	7,184,620	4,524,614	106,961	227,483	3,343,685	846,485	2,660,006
• of which, at fair value through profit or loss (designated)	75,650	39,128	–	19,329	19,799	–	36,521
• of which, at fair value through profit or loss (mandatory)	56,730	39,651	518	1,260	36,253	1,620	17,079
Credit lines promised	207,504	–	–	–	–	–	207,504
Receivables from banks	300,881	6,139	3,067	–	–	3,072	294,743
Securities and funds	920,068	147,342	–	69,666	–	77,676	772,726
• of which, at fair value through profit or loss (designated)	21,152	–	–	–	–	–	21,152
• of which, at fair value through profit or loss (mandatory)	56,734	–	–	–	–	–	56,734
• of which, at fair value OCI	3,836	–	–	–	–	–	3,836
Equity investments	752,771	–	–	–	–	–	752,771
• of which, at fair value OCI	91,233	–	–	–	–	–	91,233
• of which, investments in entities accounted for using the equity method	661,538	–	–	–	–	–	661,538
Total	**9,365,845**	**4,678,094**	**110,027**	**297,148**	**3,343,685**	**927,233**	**4,687,751**

1) Lending value of the loan collateral measured pursuant to internal rules
2) Exposure less collateral

(38.9) Receivables from customers, by economic activity

Economic activity classification in conformity with ÖNACE (Statistik Austria)	2020 in €k	2020 in %	2021 in €k	2021 in %
Retail Banking	1,287,356	17.9	1,409,757	18.6
Real estate activities	1,378,862	19.2	1,480,970	19.6
Construction	757,444	10.5	853,059	11.3
Manufacturing	878,682	12.2	884,645	11.7
Wholesale and retail trade; repair of motor vehicles and motorcycles	521,956	7.3	486,799	6.4
Financial and insurance activities	424,172	5.9	484,601	6.4
Professional, scientific and technical activities	399,331	5.6	409,638	5.4
Transport and storage	256,608	3.6	230,567	3.0
Accommodation and food service activities	224,809	3.1	240,776	3.2
Human health and social work activities	257,302	3.6	261,295	3.5
Administrative and support service activities	162,783	2.3	202,425	2.7
Public administration and defence; compulsory social security	155,186	2.2	165,930	2.2
Electricity, gas, steam and air conditioning supply	136,850	1.9	119,217	1.6
Agriculture and forestry, fishery	76,120	1.1	82,061	1.1
Mining and quarrying	34,245	0.5	31,922	0.4
Other service activities	53,350	0.7	44,302	0.6
Information and communication	60,079	0.8	66,667	0.9
Water supply; sewerage, waste management and remediation activities	58,116	0.8	66,389	0.9
Arts, entertainment and recreation	39,493	0.5	24,157	0.3
Education and instruction	21,877	0.3	17,752	0.2
Total	**7,184,620**	**1.0**	**7,562,928**	**100.0**

(38.10) Receivables from customers in foreign currencies by country and currency 2021

in €k	EUR1)	CHF	USD	JPY	Total
Austria	313	80,229	3,592	228	84,362
Slovenia	–	2,387	–	–	2,387
Croatia	561,987	330	31	–	562,348
Hungary	5,102	–	–	–	5,102
Switzerland	18,583	–	–	–	18,583
Other	11,211	1,325	–	–	12,536
Total	**597,196**	**84,271**	**3,624**	**228**	**685,319**

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

Receivables from customers in foreign currencies by country and currency 2020

in €k	EUR[1]	CHF	USD	JPY	Total
Austria	–	92,062	29	1,139	93,230
Slovenia	0	3,155	0	0	3,155
Croatia	493,189	310	39	0	493,538
Hungary	6,782	0	0	0	6,782
Switzerland	22,883	183	0	0	23,066
Other	12,031	2,192	0	0	14,223
Total	**534,885**	**97,902**	**68**	**1,139**	**633,994**

EUR loans to customers from non-euro states

(38.11) Receivables from customers by country 2021

in €k	Receivables1[1]	Past due[2]	Specific impairment allowance[3]	Collateral for past due receivables
Austria	5,514,906	99,361	29,751	61,671
Slovenia	910,902	12,825	4,082	8,381
Croatia	620,655	71,278	26,382	43,202
Hungary	20,825	2,350	1,004	1,279
Slovakia	249,546	5,698	2,626	2,379
Italy	8,234	25	25	–
Germany	185,387	39	13	25
Other	52,472	2	–	–
Total	**7,562,928**	**191,578**	**63,883**	**116,937**

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

For all financial instruments recognized in default categories (rating 5a, 5b or 5c), no impairment charge is made for the collateralized portion.

Receivables from customers by country 2020

in €k	Receivables[1]	Past due[2]	Specific impairment allowance[3]	Collateral for past due receivables
Austria	5,230,204	84,977	26,676	46,790
Slovenia	917,763	20,093	7,756	11,976
Croatia	560,036	20,749	9,070	10,351
Hungary	20,931	2,970	1,374	1,510
Slovakia	197,581	9,637	2,968	5,346
Italy	9,166	30	13.49299	15
Germany	183,123	36	2	34
Other	65,816	20	2	17
Total	**7,184,620**	**138,513**	**47,861**	**76,040**

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

(38.12) Securities and funds by domicile of issuer

in €k	At amortized cost		Carrying amount pers. to IFRS[1)]	
Regions	**2020**	**2021**	**2020**	**2021**
Austria	411,659	697,121	418,518	438,462
Germany	91,281	102,535	93,289	103,592
Belgium	34,675	34,727	35,095	35,123
Finland	14,941	15,137	15,130	15,116
France	41,967	43,433	42,145	43,606
Greece	–	–	44	11
Ireland	25,890	29,012	26,396	29,317
Croatia	10,000	10,122	10,225	10,210
Lithuania	6,000	6,072	6,046	6,035
Luxembourg	116,412	127,174	120,098	130,310
Netherlands	14,946	14,946	15,003	15,008
Norway	39,747	54,837	40,517	55,356
Poland	5,000	5,083	5,082	5,072
Portugal	15,000	15,187	15,221	15,200
Slovakia	29,800	29,932	30,328	30,332
Slovenia	14,795	29,887	14,975	30,093
Spain	19,773	24,928	20,045	25,171
Sweden	9,996	9,996	10,288	10,159
USA	1,573	1,444	1,624	1,455
Total	**903,456**	**1,262,702**	**920,068**	**1,010,910**

1) Including accrued interest

There were no impairments on positions in the securities portfolio in 2020 and 2021.

(39) Investment risk

Investment positions

in €k	**31.12.2020**	**31.12.2021**
Listed banks	661,538	709,256
Unlisted banks	18,549	18,429
Other unlisted equity investments	72,684	79,998
Total	**752,771**	**807,683**

(40) Interest rate risk

Interest rate risk refers to the risk of a negative development in positions sensitive to interest rate fluctuations or in net interest income.

Divergent maturities and interest adjustment periods may create the risk of changes to interest rates for both the assets and liabilities sides of the balance sheet. These risks may be generally hedged by a combination of on-balance sheet and off-balance sheet transactions BKS Bank does not engage 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.

The management of interest rate risk and the setting of the relevant limits is based on a combination of indicators and methods such as modified duration, volume analysis, scenario analysis pursuant to the rules for determining interest rate risk in the banking book (IRRBB) from an economic perspective as well as the NII perspective and stress tests of the economic capital. 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. The Treasury and Financial Institutions department is responsible for managing interest rate risk in the trading book. Risk is monitored by Risk Controlling.

Managing interest rate risk

[1)] Asset/Liability Management Committee
[2)] Treasury and Financial Institutions
[3)] Controlling and Accounting/Risk Controlling

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.

(40.1) Regulatory interest rate risk in % of own funds

Currency	31.12.2020	31.12.2021
EUR	1.43%	2.69%
CHF	0.26%	0.08%
USD	-0.02%	-0.04%
JPY	–	–
Other	–	–
Total	**1.67%**	**2.73%**

(40.2) Changes in present value due to an interest rate shift of 200 basis points

in €k	31/12/2020	31/12/2021
€	13,088	26,467
CHF	2,384	734
USD	-176	-373
JPY	–	–
Other	–	–
Total	**15,297**	**26,828**

(40.3) Interest rate gaps (EUR and FX)

in €k	31.12.2020	31.12.2021
< 1 month	-138,660	75,726
1 to 3 months	539,628	471,092
3 to 6 months	686,701	782,352
6 to 12 months	-1,760,056	-2,088,705
1 to 2 years	99,162	18,034
2 to 3 years	-23,551	-691,931
3 to 4 years	-203,576	214,596
4 to 5 years	-132,984	-126,769
>5 years	398,550	502,944

Positive values in the fixed-interest gaps represent an asset surplus, while negative values represent a liability surplus of the volume that comes up for interest rate adjustment in the corresponding maturity bands.

(40.4) Interest rate risk

in €k	2020	2021
Minimum values	47,789	43,100
Maximum values	77,679	58,521
Average values	64,979	52,424
Value at year-end	**63,544**	**58,521**

[1] The confidence interval of the preceding year of 95% was adjusted to 99.9% (economic perspective)

For interest rate risk, a worst-case scenario is determined from the six economic EVE (Economic Value of Equity) IRRBB shocks and the control-relevant "APM duration risk" (+100 bp shock). This method involves a complete, economic assessment and management integration of the interest rate risk of the banking book, including implicit interest rate options and with regard to a wide range of different interest rate scenarios.

(41) Credit-spread risk

in €k	2020	2021
Minimum values	36,479	35,086
Maximum values	38,973	41,669
Average values	37,622	38,314
Value at year-end	**36,479**	**35,086**

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. BKS Bank quantifies the credit spread risk for the bond portfolio in the banking book. Generally, BKS Bank Group applies a conservative strategy to avoid credit spread risks.

Credit spread risk is managed at the monthly ALM Committee meeting. Risk is monitored by Risk Controlling.

(42) Equity price risk

Equity price risk is the risk of changes in stock market prices that result from the interaction of supply and demand. Most of the investments in equities in our treasury portfolio were in highly liquid European and

Austrian listed securities. Once a month, equity price risk is quantified using a historical simulation as value-at-risk.

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

Managing equity price risk

Value-at-risk values, equity price risk

in €k	2020[1]	2021
Minimum values	15,989	22,554
Maximum values	19,964	28,977
Average values	17,614	26,092
Value at year-end	**19,964**	**28,977**

[1] The confidence interval of the preceding year of 95% was adjusted to 99.9% (economic perspective)

The value-at-risk presented for equity price risk is calculated using historical simulation based on market price changes observed over the last 1,000 days with a holding period of 90 days and a confidence level of 99.9 %.

(43) 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. An adverse movement in exchange rates may lead to losses as a result. To assess the foreign exchange risk, open currency positions are evaluated daily and compared with the corresponding limits. Traditionally exposure to currency risks is kept low at BKS Bank, because making profits on open foreign exchange positions is not the focus of our business policy. The management of foreign currency positions is the responsibility of Treasury and Financial Institutions. Foreign exchange positions are monitored by Risk Controlling.

Value-at-risk from foreign currency positions

in €k	2020[1]	2021
Minimum values	682	706
Maximum values	1,762	1,355
Average values	1,237	1,011
Value at year-end	**1,181**	**706**

[1] The confidence interval of the preceding year of 95% was adjusted to 99.9% (economic perspective)

The value-at-risk presented for foreign currency risk is calculated using historical simulation based on market price changes observed over the last 1,000 days with a holding period of 90 days and a confidence level of 99.9 %.

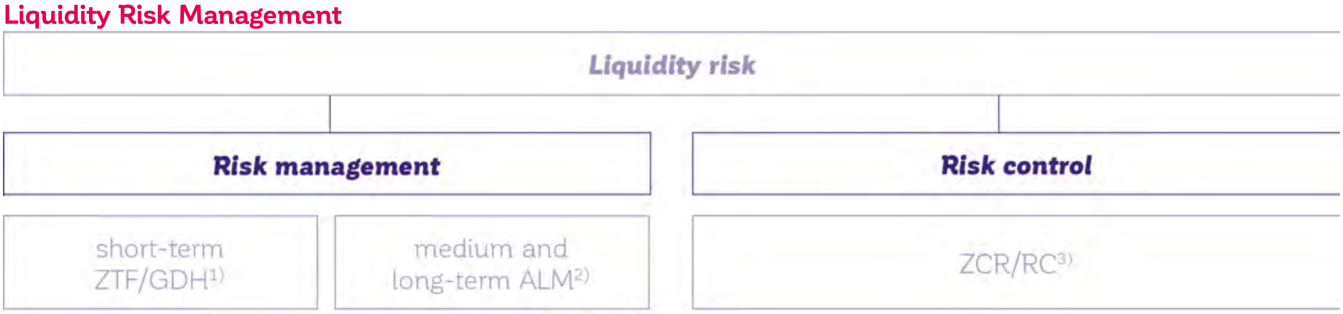
(43.1) Exchange Rate Risk (Open FX Positions)

in €k	31/12/2020	31/12/2021
HRK	-2,259	80
USD	3,959	930
GBP	-3,025	120
JPY	21	-53
CHF	1,735	169

(44) Liquidity risk and liquidity risk management (ILAAP)

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 Financial Institutions/Group Money Market and Foreign Exchange
[2] Asset/Liability Management Committee
[3] Controlling and Accounting/Risk Controlling

Liquidity management principles

ILAAP is a fundamental component of the supervisory review and evaluation process (SREP) and has the purpose of ensuring adequate liquidity and effective liquidity risk management. 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.

Essential for liquidity management is a diversification of the refinancing profile by investor category, product and maturity. The policy for loan terms and conditions is managed on the basis of the Risikomanagementverordnung (Austrian Decree on Risk Management) and the EBA Guidelines on which it is based.

The costs of refinancing financial products are determined within the scope of a sophisticated funds transfer pricing model. These costs are allocated in the product and profit centre calculations. Intraday liquidity management is done by managing daily deposits and withdrawals. This is based on information on transactions with an effect on liquidity. Such transactions include dispositions regarding payment transfers, advance information from Sales on pending customer transactions, information on cash flows resulting from the bank's own issues supplied by the securities back office, and information on securities and money market transactions by Treasury. Liquidity peaks are balanced out by borrowing or investing money with the Austrian central bank, OeNB, or on the interbank market. Intraday liquidity management is done within the limits defined and utilisation is determined, analysed and reported daily.

Medium-term and longer-term liquidity and the liquidity buffer are managed by the ALM Committee. The Risk Controlling Group was responsible for liquidity risk control, ensuring adherence to the principles, procedures and limits established.
Reporting is done on a daily, weekly, monthly and quarterly basis. In the event of extraordinary developments or when certain early warning stages or limits are reached, an ad hoc report is sent to the Management Board.

Moreover, BKS Bank has a comprehensive system of limits (limits per maturity band, time-to-wall limits) is in place that provides a quick overview of the current situation. The analyses are supplemented by stress tests, which we categorise as general macroeconomic scenarios, bank-specific scenarios or combined stress scenarios.

Most of our funds were raised in euro. As regards foreign currencies, our main focus is on securing funding for Swiss franc loans through medium-term to long-term capital market swaps.

Indicators for managing liquidity risk

	2020	***2021***
Deposit concentration	0.38	0.36
Loan-to-deposit ratio (LDR)	85.7%	83.2%
Liquidity coverage ratio (LCR)	158.1%	208.9%
Net stable funding ratio (NSFR)	117.2%	122.9%

(44.1) Collateral eligible for refinancing

in €k	***31/12/2020***	***31/12/2021***
Securities deposited with OeNB	750,414	799,774
Securities deposited with Clearstream	47,279	45,567
Securities deposited with Euroclear	89,053	96,885
Credit claims ceded to OeNB	410,014	562,146
Credit claims ceded to the Slovenian national bank	39,732	26,138
Total collateral eligible with the ECB	**1,336,492**	**1,530,510**
minus OeNB tender block	-349,057	-544,983
minus EUREX repo	-3,173	-3,094
Total available ESCB-eligible collateral	**984,262**	**982,433**
Cash and cash equivalents	85,329	135,914
Credit balance with OeNB	929,705	1,235,012
Liquidity buffer	**1,999,296**	**2,353,359**
Other securities	55,259	40,187
Counterbalancing capacity	**2,054,555**	**2,393,546**

(44.2) Development of refinancing structures

in €k	*31.12.2020*	*31.12.2021*
Savings deposits	1,401,674	1,351,180
Other payables	5,140,571	5,791,352
Liabilities evidenced by paper	647,463	732,523
Subordinated debt capital	209,583	240,942
Payables to other banks	899,929	826,912

(44.3) Derivative and non-derivative liabilities 2021 (Cash flow basis)

in €k	Carrying amounts	Contractual cash flows[1]	< 1 month	1 month to 1 year	1 to 5 years	>5 years
Non-derivative liabilities	**8,942,909**	**8,969,876**	**825,436**	**2,461,213**	**1,769,640**	**3,913,588**
• Deposits from banks	826,912	830,675	213,489	166,008	432,343	18,835
• Deposits from customers	7,142,532	7,114,394	609,960	2,226,172	804,964	3,473,298
• Liabilities evidenced by paper	732,523	732,350	1,987	61,239	403,655	265,469
• Subordinated liabilities	240,942	292,457	–	7,794	128,678	155,985
Derivative liabilities	**7,886**	**-1,181**	**3,445**	**-1,818**	**-2,383**	**-425**
• Derivatives in the banking book	7,886	-1,181	3,445	-1,818	-2,383	-425
Total	**8,950,795**	**8,968,695**	**828,881**	**2,459,395**	**1,767,257**	**3,913,163**

1) Not discounted
[2] Cash flows of customer deposits due on demand are modelled using maturity profiles.

Derivative and non-derivative liabilities 2020 (Cash flow basis)

in €k	Carrying amounts	Contractual cash flows[1]	< 1 month	1 month to 1 year	1 to 5 years	>5 years
Non-derivative liabilities	**8,299,220**	**8,372,603**	**442,573**	**2,823,460**	**1,336,805**	**3,769,765**
• Deposits from banks	899,929	893,277	263,352	217,622	376,881	35,422
• Deposits from customers	6,542,245	6,529,187	162,050	2,526,240	587,581	3,253,316
• Liabilities evidenced by paper	647,463	691,861	17,171	70,192	287,868	316,630
• Subordinated liabilities	209,583	258,279	0	9,406	84,476	164,397
Derivative liabilities	**13,711**	**6,273**	**2,106**	**1,989**	**1,460**	**718**
• Derivatives in the banking book	13,711	6,273	2,106	1,989	1,460	718
Total	**8,312,931**	**8,378,876**	**444,679**	**2,825,449**	**1,338,265**	**3,770,482**

1) Not discounted
[2] Cash flows of customer deposits due on demand are modelled using maturity profiles.

(45) Operational risk and ICT risks by event category

As set out in the CRR, we define operational risk as the risk of losses arising primarily in BKS Bank's operations that may result from inadequate or failed internal processes, people or systems errors or from external factors. Further types of risks closely related to operational risk are reputational risks, conduct risks, model risks and information and communications technology risks (ICT risks).

A risk assessment is conducted every three years. In this process, more than 100 management staff members throughout the Group were interviewed about their risk assessment for operational risk.

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

We deal with information and communications technology risks (ICT risks) by means of professional IT security management run by 3 Banken IT GmbH, a company held jointly with our partner banks, and by extensive data protection and security measures and professional business continuity management. These measures are regularly reviewed for adequacy by Internal Audit.

All enterprise processes are related to information and communication technology, and therefore, ICT governance is of enormous importance. ICT governance is understood to be all principles, procedures and measures in place to ensure that the ICT strategy supports the business targets, that resources are responsibly used, and risks are adequately monitored with the aid of the hardware and software in use at the bank.

An OR Committee has been established for the overall management of operational risk throughout the bank that meets once every quarter. Risk Controlling is responsible for operational risk measurements and for defining the operational risk framework. The implementation of risk mitigating measures is the responsibility of the risk-taking units.

Operational risk and ICT risks

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 29.6 million (pr.yr. EUR 28.9 million). This compared with actual operational risk losses net of amounts recovered of EUR 1.8 million (2020: EUR -0.5 million). The negative value results from the reversal of provisions from preceding years.

Operational risk and ICT risks by event category

in €k	31/12/2020	31/12/2021
Fraud	104	3
Employment practices and workplace safety	408	62
Customers, products, business practices	-1,324	1,684
Property damage	15	10
System failures	7	36
Settlement, sales and process management	299	45

BKS Bank quantifies coronavirus pandemic risks and losses based on the EBA Report on the implementation of selected Covid 19 policies.

(46) Macroeconomic risk

Macroeconomic risk describes the risk of adverse negative macroeconomic changes and the resulting risks that may arise for BKS Bank. The development of macroeconomic conditions is continuously monitored based on a set of indicators, discussed by the committees and incorporated into our risk models. Macroeconomic risks and their effects on credit risk are assessed based on the abating coronavirus pandemic especially the milder course of the disease in the currently predominant omicron variant. In 2021, the management and control of risks will be monitored closely by applying continuously adjusted scenario analysis and using leading default indicators in risk management.

The war waged by Russia against Ukraine could have far-reaching economic consequences for Europe. The effects include recessionary declines in the real economy, distortions in commodity prices and stocks on the global markets, problems in the banking sector with regard to the recoverability of affected exposures. Another factor are the expected migration flows of refugees and the entailing political discussion in Europe. The development of the conflict and its impact on the European economy are difficult to assess at present and depend in any case on the willingness of the parties to the conflict to negotiate.

(47) Risk of over-indebtedness

The risk of excessive borrowing indicates the threat of a high level of indebtedness that could have a negative impact on BKS Bank's business operations. Apart from any change 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 and was 8.2% at year-end (pr.yr. 8.0%). Therefore, the leverage ratio is much better than the regulatory minimum ratio of 3%.

(48) ESG risks

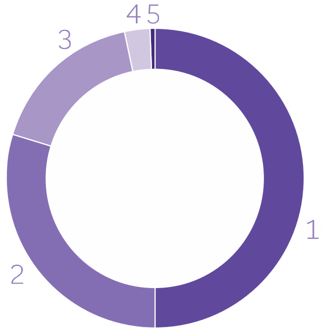
At BKS Bank we define sustainability and ESG risks as events or conditions from the areas of environment (E), social matters (S) or governance (G) which may - in fact or potentially - have negative effects on the assets, financial position and result of operations or on the reputation of our company.

Accordingly, BKS Bank must avoid and actively manage ESG and sustainability risks. The management of sustainability risks is done within the management of the individual risk types. Therefore, the risk policy principles for managing sustainability risks and especially climate risks refer to the diverse management levels and risk categories at BKS Bank. The management of sustainability risks, the due diligence process for identifying ESG risks and opportunities, the impact of ESG factors on BKS Bank with regard to the customer portfolio and the business model are explained in detail in the sustainability section in the chapter "Opportunities and risks arising from ESG factors".

In 2021, we started to measure the exposure of our client portfolio to ESG risks via an externally sourced module. The degree of the effect is measured in score values from 0 for insignificant risks to 100 for extremely high risks.

Distribution of loan portfolio pursuant to CLIMAID ESG Risk Scores

	ESG-Score	in %		ESG-Score	in %		ESG-Score	in %
1	0-10	50,0	3	21-30	16,8	5	41-50	0,3
2	11-20	29,9	4	31-40	2,9	6	51-100	0



The graph shows that around 80% of the customer volume is only exposed to insignificant or low ESG risk. 16.8% are subject to moderate ESG risk and only 3.2% are affected by a potentially higher ESG risk.

(49) Other risks

Further risk types that BKS Bank does not currently assess as material are summarized in the category Other risks.

These include:

- Risks from new types of business and major structural changes
- Reputational risks
- Risks associated with residual values in leasing operations
- Risks of money laundering and terrorism financing
- Risks from the bank's business model
- Systemic risks and risks from the financing of shadow banks
- Equity risks
- Conduct risks
- Model risks from the application of models to quantify market price risks and credit risks

(50) Fair Values

Financial assets and liabilities measured at fair value 31/12/2021

in €k	Level 1 "Market value"	Level 2 "Based on market value"	Level 3 "Internal measurement method"	Total fair value
Assets				
Receivables from customers				
• at fair value through profit or loss (mandatory)	-	-	53,631	56,631
• at fair value through profit or loss (designated)	-	-	89,927	89,927
Trading assets (derivatives)	-	8,561	-	8,561
Debt securities and other fixed-interest securities				
• at fair value through profit or loss (mandatory)	11	-	-	11
• at fair value through profit or loss (designated)	20,551	-	-	20,511
• at fair value OCI	60,518	-	1,018	61,536
Shares and other non-interest-bearing securities				
• at fair value through profit or loss (mandatory)	50,364	-	252	50,616
• at fair value OCI	5,756	9,942	94,233	103,931
Shareholders' equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss (designated)	-	-	56,999	56,999
Trading liabilities	-	7,886	-	7,886

There were no transfers between the levels in the reporting year.

31/12/2020

in €k	Level 1 "Market value"	Level 2 "Based on market value"	Level 3 "Internal measurement method"	Total fair value
Assets				
Receivables from customers				
• at fair value through profit or loss (mandatory)	-	-	56,730	56,730
• at fair value through profit or loss (designated)	-	-	75,650	75,650
Trading assets (derivatives)	-	10,527	-	10,527
Debt securities and other fixed-interest securities				
• at fair value through profit or loss (mandatory)	44	-	-	44
• at fair value through profit or loss (designated)	21,152	-	-	21,152
• at fair value OCI	67,245	-	1,018	68,263
Shares and other non-interest-bearing securities				
• at fair value through profit or loss (mandatory)	56,734	-	356	57,090
• at fair value OCI	5,460	3,841	87,036	96,337
Shareholders' equity and liabilities				
(designated)	-	-	63,429	63,429
Trading liabilities	-	13,711	-	13,711

There were no reclassifications between the individual levels in the previous year.

Level 3: Movements in financial assets and debt measured at fair value 2021

in €k	Receivables from customers at fair value through profit or loss (designated)	Receivables from customers at fair value through profit or loss (mandatory)	Debt securities and other interest-bearing securities at fair value through OCI	Shares and other non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper - at fair value through profit or loss	Shares and other non-interest bearing securities at fair value through profit or loss (mandatory)
At 01/01/2021	75,650	56,730	1,018	87,036	63,429	356
Income Statement 1)	-2,176	-654	-	-	-1,042	-104
Reclassifications	-	-	-	-	-	-
Other comprehensive income	-	-	-	5,853	-388	-
Purchased/added	20,532	4,421	-	1,683	-	-
Sold/Redeemed	-4,079	-6,866	-	-339	-5,000	-
At 31/12/2021	**89,927**	**53,631**	**1,018**	**94,233**	**56,999**	**252**

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

in €k	Receivables from customers at fair value through profit or loss (designated)	Receivables from customers at fair value through profit or loss (mandatory)	Debt securities and other interest-bearing securities at fair value through OCI	Shares and other non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper - at fair value through profit or loss	Shares and other non-interest bearing securities at fair value through profit or loss (mandatory)
At 01/01/2020	79,078	58,356	1,018	84,042	84,237	0
Income Statement 1)	977	301			-140	
Reclassifications				-356		356
Other comprehensive income				-12	-668	
Purchased/added		12,743		3,400		
Sold/Redeemed	-4,405	-14,670		-38	-20,000	
At 31/12/2020	**75,650**	**56,730**	**1,018**	**87,036**	**63,429**	**356**

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

Measurement 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 are 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 Valuation Methodology', the values of individual financial instruments were measured on the basis of special generally accepted valuation methods. In general, liabilities evidenced by paper in the category Level 3 were measured on the basis of market data that were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates).

The factors affecting the values of positions in the category level 3 that were not observable in the market were adjustments on the basis of internal rating procedures to the credit ratings of customers and of BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in the category Level 3 were measured using 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 credit ratings of assets and liabilities measured at fair value

Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of those financial instruments and their remaining time to maturity. The change in the period under review in the default risk associated with liabilities measured at fair value was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining time to maturity. In the reporting year, the changes in the credit ratings of the receivables from customers measured at fair value had an effect on the fair value of EUR 0.5 million (pr.yr. EUR 0.5 million). In the 2021 reporting year, the change in BKS Bank's credit standing had an effect on the fair value of the liabilities evidenced by paper of EUR -0.4 million (pr.yr. EUR -0.7 million).

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 0.4 million (pr.yr. EUR 0.3 million), 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 fair value of the liabilities evidenced by paper designated at fair value of EUR 0.2 million (pr.yr. EUR 0.3 million).

Of the Level 3 equity instruments of EUR 30.1 million (pr.yr. EUR 26.9 million), the interest rate is the material non-observable parameter. An increase in the interest rate by 50 basis points reduces the fair value by EUR 1.9 million (pr. yr. EUR 1.5 million). An interest rate decrease by 50 basis points raises the fair value by EUR 2.2 million (pr.yr. EUR 1.7 million). In the case of level 3 shares (investments) of EUR 53.5 million (pr.yr. 49.4 million), a change in external price information of 10% results in a change to the fair value by EUR 4.5 million (pr.yr. EUR 3.9 million). For level 3 equity instruments in an amount of EUR 9.7 million (pr.yr. EUR 10.4 million), the material non-observable parameter is the carrying amount of equity. The remainder refers to immaterial minority investments for which no fair value measurement was applied.

Financial assets and debt not measured at fair value

31/12/2021

in €k	Level 1 "Market value"	Level 2 "Based on market value"	Level 3 "Internal measurement method"	Total fair value	Carrying amount 31/12/2021
Assets					
Receivables from other banks	-	-	94,593	94,593	94,582
Receivables from customers	-	-	6,863,025	6,863,025	6,815,067
Debt securities and other fixed-interest securities	949,456	-	-	949,456	917,463
Shareholders' equity and liabilities					
Payables to other banks	-	-	820,874	820,874	826,912
Payables to customers	-	-	7,146,637	7,146,637	7,142,532
Liabilities evidenced by paper	161,307	461,663	62,477	685,448	675,524
Subordinated debt capital	190,335	23,965	29,098	243,398	240,942

31/12/2020

in €k	Level 1 "Market value"	Level 2 "Based on market value"	Level 3 "Internal measurement method"	Total fair value	Carrying amount 31/12/2020
Assets					
Receivables from other banks			282,990	282,990	282,769
Receivables from customers			6,477,780	6,477,780	6,437,585
Debt securities and other fixed-interest securities	885,594			885,594	828,140
Shareholders' equity and liabilities					
Payables to other banks			893,553	893,553	899,929
Payables to customers			6,545,783	6,545,783	6,542,245
Liabilities evidenced by paper	178,118	356,913	64,236	599,267	584,034
Subordinated debt capital	184,170	3,428	27,286	214,884	209,583

1) Reduced by spec. impair. allow./ECL

(51) Financial investments in equity instruments

In accordance with IFRS 9, all equity instruments are measured at fair value through other comprehensive income (FV OCI), as the fair value OCI option is exercised for these instruments. Apart from a small number of equities with a carrying value on the balance sheet date of EUR 5.8 million (pr.yr. EUR 5.5 million), these are mainly other investments and shares in subsidiaries that are not consolidated due to immateriality.

The fair value OCI option was chosen because these equity instruments are financial investments for which the intention is to hold them for the long term.

There were no significant effects from the sale of shares or the disposal of other investments in the financial year 2021.

Other material equity investments

in €k	Fair value at 31/12/2020	Dividend income recognized in 2020	***Fair value at 31/12/2021***	***Dividend income recognized in 2021***
Beteiligungsverwaltung Gesellschaft m.b.H.	8,314	2,460	8,813	-
Generali 3Banken Holding AG	38,696	-	42,289	-
Wienerberger AG	1,275	29	1,258	23
3-Banken Beteiligung Gesellschaft mbH	1,093	-	1,139	-
Oesterreichische Kontrollbank AG	17,317	1,000	17,043	1,000
BWA Beteiligungs- und Verwaltungs-Aktiengesellschaft	3,841	-	3,942	-
Pekra Holding GmbH	9,540	-	13,034	-
PEKRA Holding GmbH	5,514	-	5,227	-
3 Banken Kfz-Leasing GmbH	2,251	646	2,251	737
3 Banken IT GmbH	1,050	-	1,050	-
Other strategic investments	1,985	315	2,130	201
Total	**90,877**	**4,450**	**98,176**	**1,961**

(52) Gains/losses by measurement category

in €k	2020	2021
Interest income	1,661	1,931
Profit/loss recognised in the income statement	4,096	4,952
Profit/loss from financial assets[1] measured at fair value through profit or loss (mandatory)	**5,757**	**6,883**
Interest income	1,759	1,846
Interest expense	-1,935	-1,500
Profit/loss recognised in the income statement	457	170
Profit/loss recognised in other comprehensive income	668	388
Profit/loss from FI[2] measured at fair value through profit or loss (designated)	**949**	**904**
Interest income	153,111	156,509
Net fee and commission income	44,602	44,971
Profit/loss recognised in the income statement	2,232	1,404
Profit/loss from FA measured at amortised cost	**199,945**	**202,883**
Interest income	4,832	1,961
Profit/loss recognised in other comprehensive income	-815	7,060
Profit/loss from FA measured at fair value in other comprehensive income (designated)	**4,017**	**9,020**
Interest income	618	525
Profit/loss recognised in the income statement	-40	0
Profit/loss recognised in other comprehensive income	665	-1,247
Profit/loss from FA measured at fair value in other comprehensive income	**1,243**	**-722**
Interest expense	-26,767	-24,969
Profit/loss recognised in the income statement	-	-288
Profit/loss from financial liabilities measured at amortised cost	**-26,767**	**-25,257**

1) FA = financial assets
2) FI = financial instruments

(53) Information on shares in other entities

Under "Investments in entities accounted for using the equity method", Oberbank AG and BTV AG were accounted for in the consolidated financial statements even though the stake held did not reach the 20% threshold for the following reasons: For the investment in Oberbank AG, there is a syndicate agreement between BKS Bank AG, BTV AG and Wüstenrot Wohnungswirtschaft reg. Genossenschaft mbH, and for the investment in BTV AG, there is a syndicate agreement between BKS Bank AG, Oberbank AG, Generali 3Banken Holding AG and Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H. These agreements allow participation in the two banks' financial and business policy decisions within the scope of the 3 Banken Group without having a controlling interest in them.

Oberbank AG and BTV AG were included in the consolidated financial statements as of 30 September 2021, because the figures in the IFRS consolidated financial statements for year-end are not available due to the short time.

Associated companies

			Voting rights in %		Equity interests in %		Fair value of the share	
Values as at 31/12	Type of relationship with the company	Head office	2020	2021	2020	2021	2020	2021
Oberbank AG	Strategic investment to secure autonomy	Linz	14.2	14.8	14.2	14.2	421,442	458,569
BTV AG	Strategic investment to secure autonomy	Innsbruck	14.7	17.2	14.0	14.0	141,881	150,554

Financial information about material associates

in € m	Oberbank 31/12/2020	Oberbank 30/09/2021	BTV 31/12/2020	BTV 30/09/2021
Net interest income	336.9	256.2	130.9	102.4
Net fee and commission income	170.7	143.1	54.6	40.3
Consolidated profit for the year after tax	123.5	189.8	53.0	79.0
Total assets	24,432.9	26,851.1	13,969.5	13,953.8
Receivables from customers after impairment charges	17,264.7	18,220.9	8,026.1	7,971.1
Equity	3,038.9	3,256.1	1,786.9	1,871.6
Primary funds	15,426.9	16,631.0	9,649.1	9,145.1
• thereof savings deposits	2,660.9	2,579.4	1,530.8	1,451.0
• thereof liabilities evidenced by paper incl. subordinated capital	2,339.8	2,701.7	1,389.6	1,369.9
Dividends received (in €k)	903	2,910	572	572

Joint arrangement, joint operation

Under the provisions of IFRS 11, Alpenländische Garantie-GESELLSCHAFT m.b.H. (ALGAR) is classified as a joint operation and was included in the consolidation on a proportionate basis. ALGAR is run jointly by Oberbank AG, BTV AG and BKS Bank AG and serves to provide security for the large exposures of the partner banks. The decisions of its general meetings are always unanimous. Financial information on ALGAR is of minor importance.

(54) Related party disclosures

The following tables contain the mandatory disclosures of BKS Bank's relations with related entities and persons as required by the Austrian Business Code § 245a and IAS 24. Entities and persons are deemed to be related parties if they are able to exercise a controlling or significant influence over the enterprise. IAS 24.9 defines key management staff 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 as well as the management of the subsidiaries.

Related party disclosures

	Outstanding balances as at		guarantees received		guarantees received	
in €k	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021
Non-consolidated subsidiaries						
• Receivables	35,920	28,584	-	-	-	-
• Liabilities	5,838	3,584	-	-	-	-
Associates						
• Receivables	5,874	869	-	-	-	-
• Liabilities	34,785	1,600	-	-	-	-
Members of the Management Board						
• Receivables	1,012	1,301	-	-	-	-
• Liabilities	2,979	3,197	-	-	-	-
Other related parties						
• Receivables	491	672	-	-	-	-
• Liabilities	750	479	-	-	-	-

Transactions with related entities and persons were conducted on arm's length terms. In 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. In the financial year 2021, banking transactions with associated entities resulted in interest expenses of EUR 0.2 million (pr. yr. 0.2 million), and transactions with non-consolidated subsidiaries in interest income of EUR 0.4 million (pr.yr. EUR 0.4 million).

Related party disclosures

in €k	31/12/2020	31/12/2021
Average number of staff	**1,009**	**1,006**
• of which blue collar	32	8
• of which white collar	977	998
Average number of people employed by entities accounted for on a proportionate basis	**3,582**	**3,414**
Remuneration paid to the Management Board		
• Remuneration paid to active members of the Management Board	1,688	1,892
• Remuneration paid to former members of the Management Board and their surviving dependents	820	829
Remuneration paid to Supervisory Board members		
• Remuneration paid to active members of the Supervisory Board	283	276
• Remuneration paid to former members of the Supervisory Board and their surviving dependents	-	-
Management compensation pursuant to IAS 24	**1,989**	**2,169**
• Short-term employee benefits	1,762	1,915
• Post-employment benefits	227	254
• Other long-term benefits	-	-
• Termination benefits	-	-
Loans and advances granted		
• Loans and advances granted to members of the Management Board	17	180
• Loans and advances granted to members of the Supervisory Board	141	320
Expenditure on termination and post-employment benefits		
• Expenditure on termination and post-employment benefits for management board members	-3	256
• Expenditure on termination and post-employment benefits for other employees	6,856	5,384

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. Pursuant to Article 94 (1) lit. l and m of Directive 2013/36/EU and RZ 260 et seq of the EBA Guidelines on sound remuneration policies (EBA/GL/2015/22) and pursuant to no. 11 of the Annex to § 39 Austrian Banking Act, the payout of the variable remuneration components to members of management boards is to be done 50% in cash and 50% in BKS Bank's ordinary shares. The shares are subject to a three-year retention or blocking period and the members of the Management Board are not permitted to sell the shares during period. In the 2021 financial year, there were no share-based transactions.

(55) Segment Report

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

Segment results 2021

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	28,191	110,120	40,649	4,919	183,878
• of which profit/loss from investments accounted for using the equity method			44,959		44,959
Impairment charges	-570	-19,177	93	-12,734	-32,389
Net fee and commission income	29,589	36,578	-194	1,131	67,103
Net trading income	-	-	785	-	785
General administrative expenses	-54,696	-53,497	-10,087	-7,066	-125,346
Other operating income/expenses	1,492	895	-16	-8,908	-6,536
Profit/loss from financial assets/liabilities	241	1,208	4,005	-	5,454
Profit for the year before tax	**4,248**	**76,126**	**35,234**	**-22,659**	**92,949**
Average risk-weighted assets	1,028,266	3,577,702	645,469	171,152	5,422,589
Average allocated equity	125,448	436,480	804,536	44,544	1,411,009
Segment liabilities	3,458,190	5,231,719	1,673,410	214,650	10,577,968
ROE based on profit for the year before tax	**3.4%**	**17.4%**	**4.4%**	**-**	**6.6%**
Cost/income ratio	**92.3%**	**36.2%**	**24.5%**	**-**	**51.1%**
Risk/earnings ratio	**2.0%**	**17.4%**	**-**	**-**	**23.3%**

Segment results 2020

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	28,818	106,903	27,706	3,949	167,375
• of which profit/loss from investments accounted for using the equity method	-	-	30,903	-	30,903
Impairment charges	-389	-24,344	-292	-	-25,026
Net fee and commission income	28,926	34,957	-161	625	64,347
Net trading income	-	-	2,231	-	2,231
General administrative expenses	-53,921	-51,795	-10,453	-6,984	-123,154
Other operating income/expenses	1,388	851	-53	-6,663	-4,477
Profit/loss from financial assets/liabilities	156	-1,007	4,458	-	3,608
Profit for the year before tax	**4,977**	**65,565**	**23,436**	**-9,074**	**84,904**
Average risk-weighted assets	947,685	3,448,292	643,215	158,852	5,198,044
Average allocated equity	115,618	420,692	755,078	40,711	1,332,098
Segment liabilities	3,285,382	4,628,755	1,719,200	223,140	9,856,477
ROE based on profit for the year before tax	**4.3%**	**15.6%**	**3.1%**	**-**	**6.4%**
Cost/income ratio	**91.2%**	**36.3%**	**36.3%**	**-**	**53.9%**
Risk/earnings ratio	**1.4%**	**22.8%**	**1.1%**	**-**	**18.3%**

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. The performance of each business segment was measured in terms of the profit before tax recorded in that segment. The average allocated equity carries 5% interest and is recognized as return on equity invested in 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 for exceptional events

Corporate and Business Banking

In Corporate and Business Banking, there were roughly 26,400 customers in 2021. As BKS Bank was originally conceived as a bank to serve the business sector, this business segment is still the bank's most important source of income. Corporate and business banking customers still account for the larger part of the loan portfolio and contribute substantially to profit for the period. Also reported in this segment – apart from all income and expense components of BKS Bank AG from Corporate and Business Banking – are income and expenses of the leasing companies provided they relate to transactions with corporate and business customers.

Retail Banking

All income and expense components of BKS Bank AG, BKS-Leasing Gesellschaft m.b.H., BKS-leasing d.o.o., BKS-leasing Croatia d.o.o. and BKS-Leasing s.r.o. from business with retail customers, wage and salary earners, and members of the health professions are reported in Retail Banking. Some 168,100 customers were served in this segment at the end of December 2021.

Financial Markets

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

The segment **Other** includes items of income and expenses that cannot be allocated to the other segments and those contributions to profit that cannot be attributed to any other operation.

(56) Non-interest asset

in €k	31/12/2020	31/12/2021	±- in %
Non-interest bearing assets	**181,904**	**218,975**	**20.4**

Non-interest receivables from customers adjusted for impairment came to EUR 1.7 million (pr.yr. EUR 1.3 million).

(57) Total return on equity

The total return on equity was 0.79% as at 31 December 2021 (pr.yr. 0.80%).

(58) Foreign currency balances

in €k	31/12/2020	31/12/2021	± in %
Assets	297,948	285,508	-4.2
Liabilities	219,095	171,227	-21.8

(59) Administration and agency services

in €k	31/12/2020	31/12/2021	± in %
Administration and agency services	**1,972**	**1,917**	**-2.8**

(60) Contingent liabilities and commitments

in €k	31/12/2020	31/12/2021	± in %
Guarantees	567,205	607,637	7.1
Letters of credit	741	3,166	>100
Contingent liabilities and commitments	**567,947**	**610,804**	**7.5**
Other commitments	1,693,658	1,702,081	0.5
Commitments	**1,693,658**	**1,702,081**	**0.5**

Other commitments consists mainly of credit lines already promised but not yet used. The likelihood of these credit lines being used is monitored continuously and the probability of use is reviewed regularly.

(61) Netting of financial instruments

31/12/2021

in €k	Financial instruments (gross)	Balanced amounts (gross)	Balanced financial instruments (net)	Effects of netting arrangements [1]	Cash collateral received/given [1]	Net
Assets						
Trading assets	8,561	-	8,561	-4,633	-	3,927
Total assets	**8,561**	**-**	**8,561**	**-4,633**	**-**	**3,927**
Shareholders' equity and liabilities						
Trading liabilities	7,886	-	7,886	-4,633	-2,432	820
Total equity and liabilities	**7,886**	**-**	**7,886**	**-4,633**	**-2,432**	**820**

[1] Current netting possibilities which were not netted in the current balance sheet item.

31/12/2020

in €k	Financial instruments (gross)	Balanced amounts (gross)	Balanced financial instruments (net)	Effects of netting arrangements [1]	Cash collateral received/provided [1]	Net
Assets						
Trading assets	10,527	-	10,527	-6,681	-2,815	1,031
Total assets	**10,527**	**-**	**10,527**	**-6,681**	**-2,815**	**1,031**
Shareholders' equity and liabilities						
Trading liabilities	13,711	-	13,711	-6,681	-6,226	805
Total equity and liabilities	**13,711**	**0**	**13,711**	**-6,681**	**-6,226**	**805**

[1] Current netting possibilities which were not netted in the current balance sheet item.

BKS Bank uses master netting agreements for derivatives to reduce credit risks. These contracts qualify as potential netting arrangements. Master netting agreements are relevant for counterparties with multiple derivative contracts. When one counterparty defaults, these contracts ensure netting across all contracts. If additional hedging is provided in the form of cash collateral, this is reported in the corresponding column "Cash collateral received/provided".

(62) Events after the balance sheet date

At the beginning of February 2022, the Slovenian National Assembly adopted the "Act on Limitation and Distribution of Currency Risk between Creditors and Borrowers of Swiss Francs". This new law makes it mandatory for banks to retroactively introduce an exchange rate cap for Swiss franc loans granted in the period from 2004 to 2010. BKS Bank is not affected by this law for the period from 2004 to 2008. Currently, the data is being collected and we expect the effect to be in the range of a single-digit millions figure. However, we assume that this ruling does not conform with constitutional law and expect it to be repealed.

On 9 February 2022, BKS Bank disclosed a case of fraud committed by an employee at the Croatia Branch. Work on the case is still ongoing.

On 24 February 2022, Russia began a military invasion of its sovereign neighbouring state, Ukraine. This invasion currently represents the largest military conflict in Europe since the end of World War II. The United States, EU and NATO member states, and numerous other countries strongly condemn Russia's aggression and have imposed sanctions on Russia. The EU responded with sanctions on financial institutions and froze the assets of the Russian Central Bank. Russian banks were excluded from the international payment system Swift. Sanctions were also imposed on the energy sector, the transport sector, the technology sector and the media. BKS Bank is affected only to a minor extent by the Ukraine and Russian crisis, as we do not hold any Russian financial securities in our own portfolio. Around 250 Austrian and Slovenian securities customers hold individual Russian securities with a volume of around EUR 4.0 million on their securities accounts. There are a small number of accounts held by Russian citizens and a manageable number of corporate customers who maintain business relationships with Russian companies and have open credit lines. Overall, the volume of business and the number of customers is minor and does not affect the business development of BKS Bank at present. However, the geopolitical events of the past few days will have far-reaching consequences for economic development globally and in Europe. The indirect effects cannot be estimated at present. We are working intensely to rigorously implement the EU sanctions against Russia.

The aforementioned geopolitical developments and the associated massive liquidity outflows caused the insolvency of Sberbank Europe AG at the end of February 2022. Therefore, on 1 March 2022, the Financial Market Authority (FMA) prohibited the continuation of business operations with immediate effect on the basis of a directive issued by the ECB. To cover customer deposits, the deposit insurance scheme took effect that insures EUR 100,000 per depositor. The resulting expense in the form of additional contributions to the deposit insurance scheme for BKS Bank AG is currently not quantifiable.

There were no business transactions of material relevance or of relevance for reporting purposes between the end of the financial year and the preparation of the financial statements.

(63) Assets serving as collateral for liabilities

Liabilities	Assets	31/12/2020	31/12/2021
Money held in trust pursuant to § 230a Austrian Civil Code	Securities	11,919	11,932
Clearing system deposit for stock exchange trading in Vienna	Securities	1,593	1,563
Deposit for trading through EUREX	Receivables from other banks	2,103	1,556
Collateral for trading through Xetra	Securities	3,982	3,908
Euroclear pledge	Securities	10,064	10,051
EUREX Repo (GC Pooling)	Securities	3,592	3,178
Margin for futures contracts	Receivables from other banks	5,490	6,063
Accounts receivable assigned to Oesterreichische Kontrollbank (OeKB)	Loans	102,301	102,600
Collateral for OeNB funding	Loans	349,057	544,960
Cover pool of mortgage loans for covered bonds	Loans	334,132	375,637
Cover pool of public sector debt for covered bonds	Loans	7,061	0
Pledge for OeKB CCPA clearing pool	Receivables from other banks	110	110

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

(64) Information on fees paid to the bank auditor

in €k	31/12/2020	31/12/2021	± in %
Fees for mandatory audits of the single-entity and consolidated financial statements	538	548	1.9
Fees for other auditing services	44	26	-39.9
Fees for advisory services	97	106	9.2
Total fees	**679**	**680**	**0.2**

(65) Derivatives transaction volume: banking book

	Nominal amount time to maturity		
in €k	< 1 year	1-5 years	> 5 years
Interest rate contracts	**76,468**	**71,480**	**165,436**
Interest rate swaps	76,468	71,480	165,436
• Calls	38,234	35,740	82,718
• Puts	38,234	35,740	82,718
Interest rate options	-	-	-
• Calls	-	-	-
• Puts	-	-	-
Currency contracts	**1,071,222**	**96,605**	**-**
Currency forwards	540,970	-	-
• Calls	272,159	-	-
• Puts	268,811	-	-
Capital market swaps	-	96,605	-
• Calls	-	48,207	-
• Puts	-	48,398	-
Money market swaps (currency swaps)	530,252	-	-
• Calls	263,796	-	-
• Puts	266,456	-	-
Securities contracts	**-**	**-**	**-**
Stock options	-	-	-
• Calls	-	-	-
• Puts	-	-	-

Derivatives transaction volume: trading book

	Nominal amount time to maturity		
in €k	< 1 year	1-5 years	> 5 years
Interest rate contracts	**-**	**603**	**-**
Interest rate swaps	-	-	-
• Calls	-	-	-
• Puts	-	-	-
Interest rate options	-	603	-
• Calls	-	302	-
• Puts	-	302	-
Currency contracts	-	-	-
Currency options	-	-	-
• Calls	-	-	-
• Puts	-	-	-

Nominal amount		Fair value (positive)		Fair value (negative)	
31/12/2020	**31/12/2021**	**31/12/2020**	**31/12/2021**	**31/12/2020**	**31/12/2021**
290,746	**313,384**	**6,319**	**4,400**	**7,598**	**4,338**
290,746	313,384	6,319	4,400	7,598	4,338
145,373	156,692	0	196	7,459	4,338
145,373	156,692	6,319	4,204	139	0
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,093,177	**1,167,827**	**3,610**	**3,546**	**5,668**	**3,121**
485,157	540,970	216	3,431	5,339	214
240,085	272,159	134	3,401	5,322	194
245,072	268,811	82	30	17	20
184,725	96,605	-	-	40	224
92,149	48,207	-	-	-	-
92,576	48,398	-	-	40	224
423,295	530,252	3,394	115	289	2,683
213,146	263,796	27	-	109	265
210,149	266,456	3,367	115	180	2,418
-	**-**	**-**	**-**	**-**	**-**
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Nominal amount		Fair value (positive)		Fair value (negative)	
31/12/2020	**31/12/2021**	**31/12/2020**	**31/12/2021**	**31/12/2020**	**31/12/2021**
738	**603**	**-**	**1**	**-**	**1**
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
738	603	-	1	-	1
369	302	-	1	-	-
369	302	-	-	-	1
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Positions (securities and derivatives) entered into by the Money, Foreign Exchange and Securities Trading unit to achieve price gains or take advantage of interest rate fluctuations were reported in the trading book. Market value is the amount that can be obtained on the sale of a financial instrument in an active market or that would have to be paid to purchase it. If a market price was available, 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
Herta Stockbauer, Chairwoman of the Management Board
Dieter Kraßnitzer, Member of the Management Board
Alexander Novak, Member of the Management Board
Nikolaus Juhász, Member of the Management Board

Shareholder representatives on the Supervisory Board
Hannes Bogner
Gerhard Burtscher
Christina Fromme-Knoch
Franz Gasselsberger
Reinhard Iro
Susanne Kalss
Stefanie Lindstaedt
Heimo Penker
Sabine Urnik Chairwoman from 17 May 2021
Klaus Wallner, Vice Chairman from 17 May 2021

Staff representatives on the Supervisory Board
Sandro Colazzo
Maximilian Medwed
Herta Pobaschnig
Ulrike Zambelli

Klagenfurt am Wörthersee, 11 March 2022

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the
Management Board

Alexander Novak
Member of the
Management Board

Nikolaus Juhász
Member of the
Management Board

Closing Remarks by the Management Board

Management Board's Statement Pursuant to § 124 Stock Exchange Act

The Management Board of BKS Bank AG states that these annual financial statements have been prepared in conformity with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as effective and as adopted by the EU including the interpretations by the International Financial Reporting Interpretations Committee (IFRIC), and that they present a true and fair view of the assets, financial position and result of operations of the BKS Bank Group. The Management Board furthermore states that the Report of the Management Board presents the development of business, profit or loss, and situation of the BKS Bank Group in such a way so as to give a true and fair view of the assets, financial position and result of operations as well as of the material risks and uncertainties to which the Group is exposed.

Klagenfurt am Wörthersee, 11 March 2022

Management Board

Herta Stockbauer, Chairwoman of the Management Board

Chairwoman of the Management Board with responsibility for Corporate Strategy, Sustainability, Corporate Banking, Customer Payments and Funds Transfers Services, Accounting and Sales Controlling, Human Resources, Public Relations and Marketing, Investor Relations, Subsidiaries and Investments in Austria

Dieter Kraßnitzer, Member of the Management Board

Member of the Management Board with responsibility for Risk Management, Risk Controlling, Credit Back Office, BKS Service GmbH, ICT and Business Organisation, 3 Banken IT GmbH, Treasury Back Office, Securities Services, Back Office and Risk Management International

Alexander Novak, Member of the Management Board

Member of the Management Board with responsibility for Sales International, Treasury and Banking Support, BCS Fiduciaria, Leasing and Real Estate Subsidiaries International, ICT International

Nikolaus Juhász, Member of the Management Board

Member of the Management Board with responsibility for Sales at Austrian branches, Private Banking, Customer Lending and Investing as well as Investments and Retirement Planning.

Profit Distribution Proposal

The Management Board proposes to the Annual General Meeting to distribute a dividend for the financial year 2021 of EUR 0.23 per eligible share on the net profit of EUR 10,553,163.27 reported in the financial statements for the financial year ended on 31 December 2021, which is a total of EUR 9,876,867.00, and to carry the remaining amount of EUR 676,296.27 to new account.

Klagenfurt am Wörthersee, 11 March 2022

Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the
Management Board

Alexander Novak
Member of the
Management Board

Nikolaus Juhász
Member of the
Management Board

Auditor's Opinion

Report on the Consolidated Financial Statements

Audit Opinion

We have audited the consolidated financial statements of

BKS Bank AG,
Klagenfurt am Wörthersee,

and its subsidiaries (the Group), which comprise the consolidated Balance Sheet as at 31 December 2021, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and the Notes to the Consolidated Financial Statements.

In our opinion, the consolidated financial statements comply with the legal requirements and present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements of § 245a Austrian Business Code as well as § 59a Austrian Banking Act.

Basis for our opinion

We conducted our audit in accordance with EU Regulation 537/2014 (hereinafter EU Regulation) and the Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities under these regulations and standards are described in more detail in the section 'Auditor's Responsibilities" of our report. We are independent of the audited Group in accordance with Austrian commercial and banking law as well as with the principles of professional conduct for auditors, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained up to the date of this audit opinion is sufficient and appropriate to serve as a basis for our opinion on this date.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the reporting year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and taken into account when reaching our audit opinion; we do not provide a separate opinion thereon.

During the course of the audit, the following key audit matters were identified:

- Recoverability of receivables from customers
- Measurement of companies recognised using the equity method
- Legal disputes of 3 Banken Group with UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H.

Recoverability of receivables from customers

- Risk for the consolidated financial statements
- Receivables from customers after impairment charges are presented in the balance sheet in an amount of EUR 6,959 million.

The Management Board describes the mode of procedure for allocating risk provisions in the "Notes on individual items of the balance sheet (subitem "Impairment charges") as well as in "Discretionary decisions and estimates (subitem "Impairment of financial assets: impairment charges").

Within the scope of the monitoring of the lending process, the Bank checks if receivables have been impaired and therefore impairment charges (Stage 3) must be recognised for the expected loss (ECL expected credit loss). For receivables not at risk of default (Stage 1 and Stage 2), risk provisions for the expected credit loss (ECL - expected credit loss) are calculated based on a model.

The determination of specific impairment allowances for significant receivables in default (stage 3) is done individually on the basis of an estimate of the amounts and timing of expected cash flows. The cash flows are influenced primarily by the economic situation and development of business of customers as well as by the value of the collateral.

For defaulted loan receivables that are not individually significant, the Bank performs a specific allowance calculation based on established flat-rate loss ratios.

For all other receivables, a portfolio allowance is recognized for the expected loss. In principle, the 12-month ECL (stage 1) is used. In the event of a significant increase in credit risk, the ECL is calculated on the basis of the total term of the customer receivable (stage 2). When determining ECL, it is necessary to use estimates and assumptions. These include rating-based probabilities of default and loss ratios that take into account current and forward-looking information. The effects expected from the coronavirus crisis are taken into account by adjusting the parameters and carrying out stage transfers.

The risk for the financial statements results from the fact that the measurement involves major discretionary and estimation uncertainties.

Our response
When auditing the recoverability of receivables from customers, we performed the following material audit procedures:

- We examined the monitoring processes and key controls applied when determining impairment charges for the expected credit loss and assessed if the ECL model is consistent with the requirements of IFRS 9 and suitable for adequately representing the impairment charges needed for the loan receivables. We also tested the key controls of material significance with regard to design and implementation, and used random samples to assess effectiveness.
- Based on random samples of significant individual loans, we scrutinized if impairment triggers were recognised in time. The selection of the samples was mainly risk-oriented, with special attention being given to rating stages with higher risks of default.
- When impairment triggers were detected for exposures, we scrutinized whether the Bank's assessments regarding the amount and timing of future cash flows from customers and from collateral realization were adequate.
- We used the services of finance mathematicians for the assessment of risk provisions for performing loans and for non-significant loans in default based on the bank's internal measurement models for the parameters applied – especially for the 1-year and lifetime probability of default, and loss given default also with respect to the expectations triggered by the coronavirus crisis – to assess if the assumptions made were adequate. Furthermore, we analysed and measured forward-looking estimates and scenarios, and reviewed how they were taken into account in the stage allocation and in the parameter estimates.

Recoverability from entities accounted for using the equity method
Risk for the consolidated financial statements
Shares in associated companies are recognised by applying the equity method. In total, the investments in associates accounted for using the equity method had an amortised cost of EUR 710 million. The most important investments concern Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft.

The Management Board describes the mode of procedure for the measurement of entities recognized using the equity method in "Notes on individual items on the balance sheet (subitem "Companies recognised using the equity method").

The Management Board conducts an impairment test of investments in companies accounted for using the equity method when there are objective indications of impairment. The value in use is calculated based on a dividend discount model. Assumptions about future earnings available for distribution with due consideration of relevant regulatory capital requirements represent the income of relevance for measurement discounted at the cost of equity up to the reporting date. This measurement depends on internal and external factors such as business planning, the level of the discount rate, and the level of sustainable future profits used as basis in the calculation of the perpetual annuity.

The risk in respect of the financial statements results from the fact that the measurement involves major discretionary and estimation uncertainties.

Our response
When auditing the measurement of companies recognized using the equity method, we conducted the following material audit procedures:

- We employed measurement specialists to assess the adequacy of the measurement model and the inherent significant assumptions and discretionary decisions. For this purpose, we assessed the adequacy of assumptions made for determining the discount rates by comparing them with market and industry-specific reference rates and verified how the discount rates were arrived at.

- We examined the database used for the business plans in the measurement model, comparing and analysing the actual values for the given year with the values budgeted in the preceding year.

Legal disputes of 3 Banken Group with UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H.

Risk for the consolidated financial statements

The shareholders UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H. filed a lawsuit for an action for annulment of several of the resolutions adopted by the Annual General Meeting of BKS Bank and the other banks of the 3Banken Group. The allegations concern mainly the mutual cross-holdings. Furthermore, in the actions for annulment the plaintiffs claim that takeover regulations were violated and also the mandatory bid requirement of the Takeover Act. Should the courts decide that the mandatory bid requirement has been violated, the syndicates of the 3 Banken Group would be under the obligation to make a bid or face claims for damages from other shareholders.

The Management Board describes the issues in the Notes to the financial statements in the section "Discretionary decisions and estimates".

The Group commissioned several expert opinions from external legal experts. The Management Board assessed the legal risks and effects for the financial statements based on the expert opinions and the current status of the proceedings.

The risk for the financial statements derives from the assessment of the aforementioned factors, in particular, the prospects of success in the ongoing proceedings. This results in estimation uncertainties regarding potential impairment charges for the legal disputes with UniCredit Bank Austria AG and der CABO Beteiligungsgesellschaft m.b.H.

Our response

We conducted the following key auditing actions with respect to the legal dispute of the 3 Banken Group with UniCredit Bank Austria AG and CABO Beteiligungsgesellschaft m.b.H.

- During our audit, we inspected relevant documents, verified the assessments regarding risk provisions to be set up and checked the presentation in the financial statements.
- We verified the assessment of the Management Board, in particular, the assumptions made as well as the conclusions drawn with respect to the legal situation and for the financial reporting. For this purpose, we obtained and analysed the expert opinions and statements of the law office contracted by the Bank to deal with the legal proceedings in order to ascertain if the assessments of the Management Board are consistent with the current status of the information.
- Finally, an assessment was made to ascertain if the pertinent information in the Notes of the consolidated financial statements is appropriate.

Other information

The legal representatives of the Bank are responsible for other information. Other information refers to all information in the Annual Report with the exception of the consolidated financial statements, the Group management report and the auditor's report.

Our audit opinion regarding the consolidated financial statements does not cover the "Other information", and we do not express any form of assurance in this respect.

With respect to our audit of the consolidated financial statements, we have the responsibility to read the other information and assess if it contains any material inconsistency with respect to the consolidated financial statements or to the knowledge we gained during our audit or in any other way seems to be presented incorrectly.

Should we draw the conclusion based on the other information obtained in the course of our work before the date of the audit certificate indicating that there is a material misstatement in this information, we are under the obligation to report this fact. We have nothing to report in this respect.

Responsibilities of the Management Board and Audit Committee for the consolidated financial statements

The Management is responsible for the preparation of the consolidated financial statements and must ensure that these are in compliance with the IFRS as applicable within the European Union, and with the additional requirements of § 245a Austrian Business Code and § 59a Austrian Banking Act and present fairly in all material respects the assets and financial position of the Group and the results of operations of the Group. The Management is moreover responsible for the internal controls they deem necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

When drafting the consolidated financial statements, the Management is also responsible for assessing the capacity of the Group to continue as a going concern and for disclosing – if applicable – matters related to going concern and using the going concern basis of accounting, unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility

Our objectives are to obtain sufficient certainty with respect to whether the consolidated financial statements as a whole are free from material – intentional or unintentional – misrepresentations, and to award an audit certificate that states our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and with Austrian Standards on Auditing (and ISA), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing that require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatements, whether intentional or unintentional, in the financial statements; plan audit procedures in response to these risks; and perform audits that serve as a sufficient and appropriate basis for our audit opinion. The risk that material misstatements resulting from fraudulent acts will not be identified is greater than the failure to reveal misstatements resulting from errors, because fraud may include fraudulent cooperation, counterfeiting, deliberate omissions, misleading representations or the overriding of internal controls.
- We obtain an understanding of the 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 audit opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- We reach conclusions on the appropriateness of the Management's use of the going concern basis of accounting, and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor certificate. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, the structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in such a manner that achieves fair presentation.
- We obtain sufficient suitable 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's 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 during our audit.
- We communicate to the audit committee that comply with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- Of the matters communicated to the supervisory board and audit committee, we determine those matters that were of most significance in the audit,

i.e., the key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

Report on other legal requirements

Group management report

In accordance with accounting standards in Austria, group management reports are to be audited to ascertain whether they are consistent with the consolidated financial statements and prepared in accordance with legal requirements.

The Management is responsible for preparing the Group management report in accordance with Austrian company law and other legal or regulatory requirements.

We have conducted our audit in accordance with the generally accepted standards on the audit of group management reports.

Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with statutory requirements. The disclosures pursuant to § 243a UGB (Austrian Business Code) are appropriate.

Statement

Based on our findings of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the Group management report.

Additional information pursuant to Article 10 EU Regulation

We were elected auditors at the Annual General Meeting of 29 May 2020 and were appointed by the Supervisory Board on 3 June 2020 to audit the financial statements of the company for the financial year ending on 31 December 2021.

We have been auditors of the company without interruption since the consolidated financial statements for the year ended on 31 December 1991.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 (1) EU Regulation) and that we have ensured our independence throughout the course of the audit from the audited Group.

Engagement partner

The engagement partner is Wilhelm Kovsca.

Klagenfurt am Wörthersee, 11 March 2022

Wilhelm Kovsca
Wirtschaftsprüfer (Austrian Chartered Accountant)

The publication and forwarding of the consolidated financial statements with our auditor's opinion may only be done in the version we have certified. This audit certificate refers exclusively to the German language version of the complete consolidated financial statements including the Group management report. Any divergent versions are subject to the provisions of § 281 (2) Austrian Business Code.

07

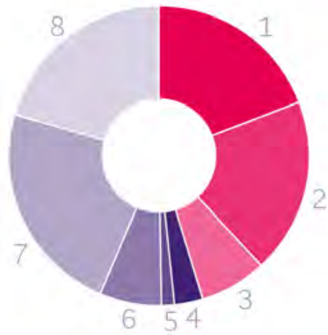
07. Supplementary Information

Shareholder Structure of the 3 Banken Group

Shareholders of BKS Bank AG

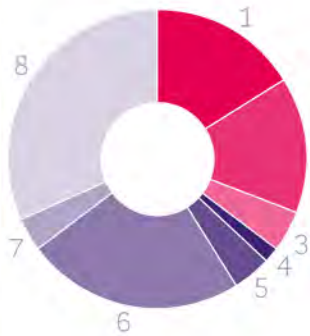
in %	by voting shares
1 Oberbank AG (incl. subordination syndicate with BVG)	19,17
2 Bank für Tirol und Vorarlberg Aktiengesellschaft	18,89
3 Generali 3Banken Holding AG	7,44
4 Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	2,98
5 BKS-Belegschaftsbeteiligungsprivatstiftung	1,64
6 UniCredit Bank Austria AG	6,63
7 CABO Beteiligungsgesellschaft m.b.H.	23,15
8 Free float	20,10
Share capital in €	85,885,800
Number of ordinary no-par shares	42,942,900

The red highlighting indicates shareholders who have signed syndicate agreements.



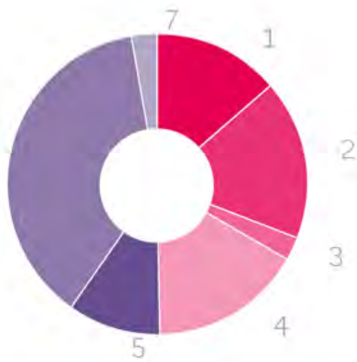
Shareholders of Oberbank AG

in %	by voting share
1 Bank für Tirol und Vorarlberg Aktiengesellschaft (incl. BTV 2000)	16,15
2 BKS Bank AG (inkl. Unterordnungssyndikat mit BVG)	14,79
3 Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	4,50
4 Generali 3Banken Holding AG	1,62
5 Mitarbeiterbeteiligung	4,26
6 CABO Beteiligungsgesellschaft m.b.H.	23,76
7 UniCredit Bank Austria AG	3,41
8 Free float	31,51
Share capital in €	105,921,900
Number of ordinary no-par shares	35,307,300



Shareholders of Bank für Tirol und Vorarlberg AG

in %	by voting share
1 Oberbank AG	13,85
2 BKS Bank AG (inkl. Unterordnungssyndikatsnehmer: BTV Privatstiftung, Doppelmayr Seilbahnen GmbH, Vorarlberger Landes-Versicherung V.a.G.)	17,23
3 Wüstenrot Wohnungswirtschaft reg. Gen.m.b.H.	2,50
4 Generali 3Banken Holding AG	16,31
5 UniCredit Bank Austria AG	9,85
6 CABO Beteiligungsgesellschaft m.b.H.	37,53
7 Free float	2,73
Share capital in €	68,062,500
Number of ordinary no-par shares	34,031,250



As at 31/12/2021

History of Our Company

1922 A. v. Ehrfeld enters into a limited partnership with Bayerische Hypotheken- und Wechselbank called Kärntner Kredit- und Wechsel-Bankgesellschaft Ehrfeld & Co.

1928 The efforts to transform the limited partnership into a stock corporation result in the establishment of "Bank für Kärnten".

1939 The company's name is changed from "Bank für Kärnten" to "Bank für Kärnten Aktiengesellschaft".

1964 Work on the branch network commences.

1983 With the expansion into Styria, the company name is changed to "Bank für Kärnten und Steiermark Aktiengesellschaft" (abbreviation: BKS).

1986 BKS Bank goes public and its ordinary share is listed on the Official Market of the Vienna Stock Exchange.

1990 First branch opens in Vienna.

1998 Start of international expansion with the establishment of a representation office in Croatia and the acquisition of a leasing company in Slovenia.

2000 First joint appearance of BKS Bank with the partner banks as the 3 Banken Group.

2003 Acquisition of a majority stake in Die Burgenländische Anlage & Kredit Bank AG (Die BAnk).

2004 First branch opens in Slovenia and representation office established in Italy.

2005 A representation office is opened in Hungary. The company name is adapted to the expansion of the past 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 into the Slovak banking market.

2015 The renowned rating agency oekom research AG confirms BKS Bank's "prime" status for the first time.

2016 BKS Bank ordinary shares are added to the sustainability index, VÖNIX, of the Vienna Stock Exchange. The Croatian BKS Bank d.d. is merged with BKS Bank AG.

2017 We are the first bank in Austria to issue a social bond. BKS Bank nominated for the first time for the state award for Business Excellence.

2018 The rating agency ISS-ESG (formerly: oekom research AG) reconfirms BKS Bank's "prime" status. This ranks us among the top companies worldwide with respect to sustainability.

2019 BKS Bank is the first bank in Austria to receive the State Award for Business Excellence. In Slovenia, we become the largest investment services company after the acquisition of another brokerage firm.

2020 BKS Bank Connect – the digital bank within the Bank – goes live in the summer. In Croatia, we receive the state award for "family-friendly enterprises" in the category of small and medium-sized businesses.

2021 BKS Bank is the only listed company with women in the positions of chairwomen of the management board, the supervisory board and the works council. We achieved first place for our sustainability report at the Austrian Sustainability Reporting Award (ASRA) and received the Sustainability Award from the Vienna Stock Exchange for our sustainable corporate policy. Our total assets exceeded the EUR 10 billion threshold for the first time reinforcing our market position as the largest bank in Carinthia.

Glossary

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

ALM Committee: The Asset/Liability Management Committee is an internal committee of BKS Bank responsible for managing the structure of the balance sheet, the interest rate risk and liquidity.

Entities accounted for using the equity method
These are entities in which no controlling interest is held, but in which it is possible to exert a significant influence on financial and business policy decisions. They are recognized in the consolidated financial statements on a proportionate basis with the share of equity held in the entity. In the consolidated income statement, the group's interest in the net profit is recognized in accordance with the equity interest held.

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.

GDP: Gross domestic product (GDP) is the total value of all goods (i.e. goods and services) produced in an economy in a year after deducting all inputs. In order to view GDP without the effect of changes in prices, 'real' GDP is used in which all good and services are valued at the prevailing prices in a base year.

The **Capital Requirements Directive IV** (CRD IV) prepared the ground for a more solid and secure European financial system. The Member States were required to enact this Directive into national law by 31 December 2013. In Austria, this entailed amendments to the Banking Act and related supervisory legislation.

The **Capital Requirements Regulation (CRR I)**, which is directly effective in Austria's legal system, introduced a common minimum set of instruments for national supervisory authorities and, therefore, binding regulations for all Member States, including provisions on equity components, capital requirements, large loans (large investments), liquidity, debt (leverage) and disclosure regulations.

Corporate Social Responsibility (CSR) is an entrepreneurial practice that combines social justices and ecological responsibility with economic goals: systematic, verifiable, transparent and voluntary.

Corporate Volunteering refers to the voluntary work of employees in social projects as well as support for the volunteer work employees already engage in.

The **cost/income ratio** measures the relation between operating expenses and operating income of banks. In this context, the general administrative expenses of a financial year are compared with the operating income of the bank. Operating income is the total of net interest income, net fee and commission income, net trading income and other operating profit or loss. This indicator states the percentage of operating profit used for general administrative expenses and provides information on cost management and cost efficiency. The lower the ratio, the more economically a company operates.

Counterbalancing capacity (CBC) is the name of the liquidity buffer made up of assets that are easily liquidated.

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 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.

The **deposit concentration** is an indicator used to estimate the withdrawal risk associated with a run on deposits and indicates, above all, the risk of being dependent on large deposits.

Endorsement: An endorsement by the EU is required for new International Financial Reporting Standards to be applicable in Austria. This endorsement refers to the process by which the European Union adopts International Financial Reporting Standards.

ESG – Environmental, Social and Corporate Governance – are the three central factors of comprehensive sustainability management. The social impact of investments in companies or of financing by banks is measured against this.

Expected-Loss Model: Expected credit losses that may occur in a financial instrument within 12 months of the date of the transaction or throughout the entire life (lifetime expected credit loss).

Fair value The fair value corresponds to the price at which an asset can be sold or a liability settled by market participants in an orderly transaction under market conditions on the balance sheet date.

The United States Congress enacted **FATCA** (the Foreign Account Tax Compliance Act) on 18 March 2010 to ensure that US subjects with accounts abroad meet their tax obligations. Under the act, all banks are obliged to identify customers with US ties and, if they consent, to report their names to the US tax authorities.

FATF (Financial Action Task Force on Money Laundering) is an international anti-money laundering body based at the OECD in Paris. Its task is to analyze money laundering and terrorism financing methods and develop measures to combat them.

Forbearance is the term for concessions made to debtors (e.g. modifications of agreements) if they are in danger of no longer being able to meet their payment obligations. The term encompasses loans, bonds and revocable and irrevocable loan commitments with the exception of held-for-trading exposures. According to the European Banking Authority (EBA) guidance, forbearance status must be reported on a quarterly basis.

Business model pursuant to IFRS 9: Pursuant to IFRS 9, financial instruments must be assigned to a business model. The business model defines how financial instruments are managed and measured.

The **going concern principle** is the principle according to which financial statements and risk assessments view the entity as continuing in business unless actual or legislative circumstances dictate otherwise. Among other things, this is important when measuring assets.

Green bonds are bonds for which proceeds of the issue are used exclusively for the pro rata or full financing or refinancing of eligible green projects and that meet all four core components of the Green Bond Principles. These may be new and/or already existing projects. The green projects selected must aim to create a clear benefit for the environment, which can be evaluated, and where feasible, quantified.

The **trading book** contains all positions held by a bank within the scope of its proprietary trading in financial instruments that it holds for re-sale or has acquired so as to exploit, on a short-term basis, existing or expected differences between buying and selling prices or movements in prices or interest rates. Positions not included in the trading book are assigned to the banking book.

Hedging is used to protect existing or future positions against the exposure to risks such as currency and interest rate risks. It involves taking a counter-position to another position so as to completely or partially offset risk.

Historical simulation is a statistical method for measuring value at risk using historical time series data.

ICAAP (Internal Capital Adequacy Assessment Process) is the name of the extensive process and associated strategy by which banks decide the amount, composition and distribution of their (internal) capital resources. The distribution of economic capital steers and limits all material operational and other banking risks.

IFRS earnings per share are consolidated profit for the year after tax divided by the average number of an entity's shares in issue.

ILAAP (Internal Liquidity Adequacy Assessment Process) is, apart from ICAAP, a procedure for assessing the adequacy of internal liquidity pursuant to pillar 2 and thus an important risk management instrument for a credit institution.

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

The **International Standards on Auditing** (ISA) 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 stands for International Securities Identification Number. The ISIN is used for the unique global identification of securities. An ISIN is a 12-character alphanumerical code comprising a two-character international country ID (e.g. AT for Austria), a nine-character national code and a one-digit control key. The ISIN of the ordinary BKS Bank AG share is AT0000624705; that of the preference share is AT0000624739.

ISS-oekom (formerly oekom research AG) is a leading global rating agency in the segment of sustainable investments. Its registered office is located in Munich. It rates companies and countries. Additionally, it also provides strategy consulting on the most diverse sustainability themes.

Tier 1 capital is divided into common equity and additional tier 1 capital. Common equity tier 1 capital consists of share capital, retained earnings and other reserves. The additional components of tier 1 capital include liabilities evidenced by paper that meet the requirements of CRR Article 52.

Key audit matters are the most important audit matters that in the view of the auditor pose the greatest risk of containing a material misstatement.

The **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 **leverage ratio** measures the relationship between common equity tier 1 capital and non-risk weighted assets including off-balance sheet items. Its purpose is to restrain business models that are based on lending large amounts to prime borrowers while keeping capital charges to a minimum.

Lifetime Expected Loss: Lifetime expected losses are the expected credit losses caused by all possible default events over the expected life of a financial instrument.

The **liquidity coverage ratio** (LCR) tests whether a bank is in a position to remain liquid for the next 30 days in the event of simultaneous market and bank-specific stress situations. It compares highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days.

Loan-to-deposit ratio is the relationship between loans to primary deposits. This indicator describes the percentage at which loans can be refinanced by primary deposits.

Market capitalisation is the stock market value of a company on a particular date. It is calculated by multiplying the number of shares in issue by the current stock market price of one share.

MiFID, MiFID II (Markets in Financial Instruments Directives) lay down uniform rules for investment services provided within the European Economic Area. The main objectives of MiFID are to heighten market transparency, to strengthen competition among providers of financial services and in this manner improve investor protection. MiFID II/MiFIR aims to improve the current rules and regulations. It focuses on trade on regulated platforms and on increasing the transparency of high frequency trading.

Minimum Requirement for Eligible Liabilities (MREL): Minimum requirement for own funds and eligible liabilities pursuant to Art. 45 BRRD (Bank Recovery and Resolution Directive). EU Member States must ensure that credit institutions at all times meet the minimum requirements for own funds and eligible liabilities in the event of winding up.

Modified duration is a measure of the sensitivity of a financial investment to interest rates. It provides a means of approximating future changes in market value.

Net stable funding ratio (NSFR): This ratio gauges the stability of funding over a horizon of more than one year. The NSFR is intended to ensure that the amount of longer-term (stable) funding is at least sufficient relative to the liquidity profiles of the assets funded. The aim is to reduce banks' dependence on the functioning and liquidity of the inter-bank market.

The calculation of the **NPL ratio** is based on non-performing loans in the rating classes 5a to 5c of the BKS Bank rating system (default classes), which are compared to gross receivables from loans to customers, contingent liabilities, loans to banks and fixed-interest securities.

ÖGNI (Österreichische Gesellschaft für Nachhaltige Immobilienwirtschaft) The Austrian Society for Sustainable Real Estate is a non-governmental organization for the promotion of sustainability in all aspects of the construction and real estate industry in Austria.

ÖNACE is the Austrian version of the European system for the industrial classification of economic activities called NACE (Nomenclature statistique des activités économiques dans la Communauté européenne). The current NACE-compatible nomenclature is called ÖNACE 2008.

Payment Services Directive: The Payment Services Directive (PSD, PSD 2) provides the legal basis for creating a single market for payments in the EU.

Primary deposit balances consist of the customer assets made available to a bank in the form of savings, sight and time deposit balances, liabilities evidenced by paper and subordinated debt capital.

The **projected unit credit method** is an actuarial valuation method used to measure obligations under company retirement benefit schemes stipulated in the international financial reporting standard IAS 19 and in many foreign accounting standards. On each valuation date, only the part of the obligation that has already been earned is measured. The present value of the earned part of the obligation is known as the defined benefit obligation.

Return on assets (ROA) is profit (net profit for the year after minority interests) expressed as a percentage of the average total assets.

Return on equity (ROE) before or after tax expresses the relationship between profit before or after tax and average equity. This indicator describes the returns earned on equity by a company. The higher the indicator, the more profit the company has made in relation to its equity.

Risk/earnings ratio (RER) The ratio indicates the credit risk expenses in relation to net interest income. This percentage states what proportion of net interest income has been used to cover credit risk.

Social bonds are bonds for which proceeds of the issue are used exclusively for the proportionate or full financing or refinancing of eligible social projects and that meet all four core components of the Social Bond Principles. The projects selected should aim to create a clear benefit for society, which can be evaluated, and where feasible, quantified.

The term **solvency** expresses the relationship between the own funds requirement arising from a bank's (weighted) balance sheet assets and off-balance sheet items and its eligible own funds within the meaning of the CRR. Solvency is regulated in the CRR.

SPPI 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 done by the Financial Market Authority (FMA) acting as the competent supervisory authority for less significant banks. It also includes reviewing adherence to all the relevant regulations, identifying breaches and imposing regulatory sanctions.

Swap is the English designation for a swap transaction. Parties to a swap exchange financial obligations, with fixed-interest obligations being exchanged for variable ones (interest rate swap) or sums in different currencies being exchanged (currency swap). Interest rate swaps make it possible to hedge against interest rate risks, resulting in a fixed interest rate that provides a solid foundation for calculations. Currency swaps make it possible to hedge against foreign exchange risks by swapping amounts denominated in different currencies together with the associated interest payments.

Total risk exposure amount is the sum of the assets weighted for counterparty risk including the requirements for operational risk, off-balance sheet items and special off-balance sheet items in the banking books determined in accordance with Austrian bank regulators' rules.

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.

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.

List of Abbreviations

ABGB	Allgemeines Bürgerliches Gesetzbuch (Austrian Civil Code)
AktG	Aktiengesetz AktG (Austrian Stock Corporation Act)
ALGAR	ALPENLÄNDISCHE GARANTIE – GESELLSCHAFT m.b.H.
AML	Anti-Money Laundering
ALM	Asset/liability management
APRÄG 2016	Abschlussprüfungsrechts-Änderungsgesetz 2016 (Austrian Act Amending Audit Regulations of 2016)
SB	Supervisory Board
ArbVG	Arbeitsverfassungsgesetz (Austrian Labour Act)
ASRA	Austrian Sustainability Reporting Award
AT1	Additional Tier 1 Capital
AVÖ	Aktuarvereinigung Österreichs (Actuarial Association of Austria)
BaSAG	Austrian Federal Act on the Recovery and Resolution of Banks
BIP	Bruttoinlandsprodukt (GDP, gross domestic product)
BMK	Federal Ministry for Climate Protection, Environment, Energy, Mobility, Infrastructure and Technology
BP	Basis point
BRRD	Bank Recovery and Resolution Directive
BSG	BKS Service GmbH
BTV AG	Bank für Tirol und Vorarlberg Aktiengesellschaft
BVG	Beteiligungsverwaltung Gesellschaft m.b.H.
BWG	Bankwesengesetz (Austrian Banking Act)
CBC	Counterbalancing capacity
CCF	Credit Conversion Factor
CCPA	California Consumer Privacy Act
CET1	Common Equity Tier 1 Capital
CHF	Swiss franc
CIA	Certified Internal Auditor
CNY	International currency symbol for the Chinese renminbi (yuán)
CO2	Carbon dioxide
CO2 equiv.	Carbon dioxide equivalents
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRD	Capital Requirements Directive (EU)
C Rules	“Comply or explain” rules (Austrian Code of Corporate Governance)
CRR	Capital Requirements Regulation
CSR	Corporate Social Responsibility
D	Diskontsatz (discount rate)
DAX	Deutscher Aktienindex (German stock index)
DBO	Defined benefit obligation
DCF method	Discounted cash flow method
DVS	Digital Vault Services
EAD	Exposure at default
EBA	European Banking Authority
ECL	Expected credit loss
EMAS	Eco-Management and Audit Scheme
ESG	Environmental, Social, Governance
ESMA	European Securities and Markets Authority
EESCB	European System of Central Banks
EUREX	European Exchange (financial derivatives exchange)
EVE	Economic value of equity
EWB	Einzelwertberichtigung (specific impairment allowance)
ECB	European Central Bank
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force on Money Laundering
FBSchVG	Austrian act on covered bonds issued by Banks
FI	Finanzinstrumente (financial instruments)
FLI	Forward-looking information
FMA	Austrian Financial Market Authority
FM-GwG	Financial Market Money Laundering Act
FV	Finanzielle Vermögenswerte (FA, financial assets)
FV OCI	Fair Value Through Other Comprehensive Income
FV PL	Fair Value Through Profit or Loss
FX-Quote	foreign exchange ratio
GAR	Green asset ratio
GBP	British pound
GDP	Gross Domestic Product
GHG	Protocol Greenhouse Gas Protocol
GL	Guidelines
GRI	Global Reporting Initiative
GWh	Gigawatt hour
G3BH	Generali 3Banken Holding AG
HRK	Croatian kuna
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee

IBOR	Inter-Bank Offered Rate
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
ICS	ICS internal control system
ICT	Information and Communication Technology
ILAAP	Internal Liquidity Adequacy Assessment Process
IMWF	Institute for Management and Economic Research
IRRBB	Interest Rate Risk in the Banking Book
ISA	International Standards on Auditing
ISIN	International Securities Identification Number
IMF	International Monetary Fund
JPY	Japanese yen
KGV	Kurs-Gewinn-Verhältnis (Price/earnings ratio, P/E ratio)
KV	Collective agreement
LAA	Loss absorption amount
LCR	Liquidity coverage ratio
LDR	Loan/deposit ratio
LGD	Loss given default
L Rules	”Legal Requirements” rules (Code of Corporate Governance)
m	marginal
MCC	Market confidence charge (premium for maintaining market confidence)
MiFID II	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MREL	Minimum Requirement for Eligible Liabilities
n/a	not applicable
NaDiVeg	Nachhaltigkeits- und Diversitätsverbesserungsgesetz (Sustainability and Diversity Improvement Act)
NGOs	Non-governmental Organizations
NII	Net interest income
NPL ratio	Non-performing loan ratio
NSFR	Net stable funding ratio
ÖCGK	Österreichischer Corporate Governance Kodex (Austrian Code of Corporate Governance)
OCI	Other Comprehensive Income
OECD	Organisation for Economic Cooperation and Development
OeKB	Oesterreichische Kontrollbank AG
OeNB	Oesterreichische Nationalbank
OGH	Oberster Gerichtshof (Supreme Court)
ÖGNI	Österreichische Gesellschaft für Nachhaltige Immobilienwirtschaft (Austrian Society for Sustainable Real Estate Management)
ÖGVS	Österreichische Gesellschaft für Verbraucherstudien (Austrian Society for Consumer Studies)
ÖNACE	Austrian version of NACE Austrian version of NACE Nomenclature statistique des activités économiques dans la Communauté européenne
OR	Operational Risk Committee
PCAF	The Partnership for Carbon Accounting Financials
PD	Probability of default
pEWB	pauschalierte Einzelwertberichtigung (general impairment allowance)
FTE	Personnel in full-time equivalents
PSD 2	Payment Services Directive (EU Payment Services Directive)
RCA	Recapitalization amount
RER	Risk/earnings ratio
ROA	Return on assets
ROE	Return on equity
R Rules	“Recommendation” rules (Austrian Code of Corporate Governance)
SIC	Standing Interpretations Committee
SPPI	Criterion Solely Payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
t	tonnes
TLOF	Total liabilities and own funds
TLTRO	Targeted longer-term refinancing operation
ÜbG	Übernahmegesetz (Takeover Act)
UCBA	UniCredit Bank Austria
UGB	Unternehmensgesetzbuch (Austrian Business Code)
USD	US dollar
VAR	Value-at-risk
WAG	Wertpapieraufsichtsgesetz (Austrian Securities Supervision Act)
WIFO	Österreichisches Institut für Wirtschaftsforschung (Austrian Institute of Economic Research)
WTO	World Trade Organization

Xetra	Exchange Electronic Trading (automated trading system used on the Vienna Stock Exchange)
XHTLM	Extensible Hypertext Markup Language
ZCR/RC	Central Department for Controlling and Accounting/Risk Controlling
ZEA	Proprietary Trading and International Operations Department
ZEA/GHD	Treasury and International Operations/Money Market and FX Group
ZKM	Credit Management Department
ZKR	Central Department for Credit Risk at BKS Bank
ZRS	Central Department for Risk Analysis and Services at BKS Bank
ZTF	Treasury and Financial Institutions Department
ZTF/GDH	Central Department for Treasury and Financial Institutions/Group Money Market and Foreign Exchange Trading
ZVB	Office of the Management Board

Forward-looking statements

This annual report contains statements and forecasts that refer to the future development of the BKS Bank Group. The forecasts are our estimates based on the information at our disposal on the copy deadline 11 March 2022. 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.

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