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Semi-Annual Financial Report 2015

BKS Bank
3 Banken Gruppe

Contents

Forward-looking statements

This Interim Report as at and for the six months ended 30 June 2015 contains statements and forecasts concerning the future performance and development of the BKS Bank Group. Such forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 17 August 2015. If the assumptions upon which those forecasts were based prove wrong or if risk events transpire, actual results may differ from those that are currently expected. This Interim Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG.*

Disclaimer

This Interim Report does not require auditing and, therefore, has not been audited or examined in full by an auditor. The German version of this report is the authentic version for all legal purposes. Interim reports in English are translations.

Overview of the BKS Bank Group

Income account, €m	H1 2014	H1 2015
Net interest income	78.3	79.5
Impairment charge on loans and advance	(27.9)	(12.3)
Net fee and commission income	23.0	26.9
General administrative expenses	(52.0)	(53.0)
Profit for the period before tax	24.0	41.2
Profit for the period after tax and minority interests	20.7	31.7

Balance sheet data, €m	31/12/2014	30/6/2015
Assets	6,854.6	6,930.8
Receivables from customers after impairment charge	4,815.8	4,921.2
Primary deposit balances	5,013.0	5,090.6
– Of which savings deposit balances	1,705.5	1,690.8
– Of which liabilities evidenced by paper, including subordinated debt capital	789.1	784.9
Equity	795.8	820.1
Customer assets under management	12,972.0	13,357.7
– Of which in customers' securities accounts	7,959.0	8,267.1

Own funds within the meaning of BWG, €m	31/12/2014	30/6/2015
Risk-weighted assets	4,846.6	4,919.3
Own funds	580.9	528.4
– Of which Common Equity Tier 1 capital for the purposes of Basel III	543.7	509.4
Surplus own funds for the purposes of Basel III	193.2	134.9
Tier 1 capital ratio, %	11.2	10.4
Own funds ratio for the purposes of Basel III, %	12.0	10.7

Performance, %	2014	H1 2015
Return on equity before tax	7.2	7.5
Return on assets before tax	0.8	0.9
Cost:income ratio	51.9	51.1
Risk:earnings ratio (credit risk in % of net interest income)	31.5	15.5

Resources	2014	H1 2015
Average number of staff	915	924
Branches	57	59

BKS Bank's shares	2014	H1 2015
No. of ordinary no-par shares (ISIN: AT0000624705)	34,236,000	34,236,000
No. of no-par preference shares (ISIN: AT0000624739)	1,800,000	1,800,000
High: ordinary/preference share, €	17.8/15.6	17.5/15.6
Low: ordinary/preference share, €	16.9/14.9	16.8/14.8
Close: ordinary/preference share, €	17.3/15.3	16.9/14.9
Market capitalization, €m	619.8	605.4

In all the tables in the Management Report that were affected, the figures for the first half of 2014 and 2014 as a whole were restated in conformity with IAS 8 (see the Notes from page 22).

From left to right: Dieter Krassnitzer, Herta Stockbauer and Wolfgang Mandl

Dear shareholder,
Dear customer,
Dear business associate of BKS Bank,

We welcome you very warmly to our second Shareholders Letter in 2015, which takes the form of a semi-annual financial report as at and for the six months ended 30 June. We would also like to invite you to read more online.

As you will discover when reading these Interim Financial Statements, having had a very good start to the current financial year, BKS Bank also posted a respectable profit up to the end of the first six months. Building on a solid own funds base, we continued to focus on achieving sustainable growth and raising efficiency in every area of our business operations. The most important components of our Income Statement—net interest income after the impairment charge and net fee and commission income—were one third or 16.9 per cent up on the same period of last year (H1 2014). We continued to allow consistently for risk positions by recognizing appropriate impairment charges, but for the first time in a long period, there were clear signs that the situation was easing. This led to a significant cut of €15.6 million in the impairment charge, which came to just €12.3 million. Profit for the period after tax and minority interests increased accordingly, increasing by over one half to €31.7 million. This was achieved notwithstanding the persistently low interest rates and the burden on earnings caused by the resource-intensive application of regulatory requirements.

Our balance sheet assets grew slightly between the beginning of the year and the end of the period under review, increasing by 1.1 per cent to roughly €6.93 billion. On the assets side of the account, there was a comparatively respectable increase in the line item Receivables from customers, which grew by 2.1 per cent to €5.12 billion. On the equity and liabilities side of the account, there was a solid inflow of so-called 'primary' deposits, increasing the primary deposit balance by 1.5 per cent to approximately €5.09 billion. Our branch network continued to grow during the first half of 2015. After adding another branch in Vienna and in Slovakia, we had 59 branches at the end of the period under review. Our branches abroad developed particularly satisfactorily during the first six months of the year, and they all reported significant profit growth.

Consolidated Management Report for the Six Months Ended 30 June 2015

The Economic Setting in which Banks are Operating

Contrary to expectations, the world economy's expansion was slow in the period up to the middle of 2015. Moreover, to date, the recovery has been mixed depending on the region concerned. Although the sharp drop in energy and raw material prices since the middle of 2014 has worked in favour of economic recovery, as have the still favourable financing terms, there has been a negative side effect in that rates of inflation around the world have dropped to historical lows. However, the U.S. central bank, ECB and Bank of Japan have opened the monetary floodgates wide. This has successfully helped stem deflationary tendencies and, therefore, curb a precarious downward spiral of falling prices, declining consumption and investment cuts.

Despite the economic cool-down in the first quarter, the signs are that the United States will see real GDP growth of about 3.1 per cent over 2015 as a whole. This growth will be driven mainly by higher spending by private households, favourable financing terms and recovery in the property market. In addition, the U.S. labour market has continued to improve, showing a jobless rate of just 5.3 per cent in June. Japan's economy seems to have rebounded somewhat from the economic slump it suffered as a result of the hike in consumption tax in April 2014. Oil price driven increases in real incomes and an export sector spurred on by the depreciation of the yen mean that we can expect Japan to return to (still fragile) GDP growth of about 1.1 per cent this year. In contrast, the pace of expansion in a number of big threshold countries is likely to slacken. In China, escalating credit growth and high private debt levels have led to a significant downturn in the property market, a fall-off in investment in the construction sector and slumps in production in many manufacturing industries. The state has intervened massively in an attempt to counteract the violent turbulence in the equity and commodity markets. The Russian economy is going to enter the economic shadows this year and will stay there for some time in the wake of a drastic drop in crude oil prices, double-digit inflation and serious structural issues.

On the other hand, the European economy has picked up speed again this year, resulting in rates of growth of about 0.4 per cent in the first and second quarter. The eurozone is expected to achieve real GDP growth of 1.5 per cent in 2015. Alongside Germany (expected real GDP growth of 1.8 per cent) and Spain, France and Italy too have been producing better economic numbers since the beginning of this year. As for the stubborn Greek crisis, the possibility that Greece might leave the eurozone (a 'Grexit') appears to have been averted for the time being following the agreement of another bailout by its creditors. Above all, the gradual recovery in economic activity and in the eurozone's labour markets has been underpinned by the slump in crude oil prices. In addition, the ECB's loose monetary policy is clearly having an impact, giving both larger companies and SMEs easier access to credit. Besides private consumption, the growth of gross investment in fixed assets has also accelerated. Public sector consumption too has contributed positively to growth, and the weaker euro has been good for exports. The European labour market has recovered slightly. The jobless rate in the eurozone was 11.1 per cent at the end of the period under review, and the EU-wide jobless rate at the end of June was 9.6 per cent. In particular, unemployment in the peripheral countries continues to fall.

The recovery of the Austrian economy was hesitant compared with that of the eurozone. For the fourth year in succession, it will grow by less than 1 per cent this year. Economic analysts (WIFO) are predicting GDP growth of just 0.5 per cent and only foresee a stronger surge in growth towards 1.3 per cent in 2016. There was a pleasing increase in order levels in the Austrian corporate sector as companies were helped along by the weaker euro and lower energy prices. On the other hand, Austrian exports were still failing to get into gear as Austria proved unable to benefit fully from Germany's consumption-driven recovery. Sustained uncertainty about profitability in the future put a damper on investment in plant and machinery, whose growth is likely to slow by 1.2 percentage points compared with 2014 to 0.5 per cent. Contrary to expectations, low inflation—1.0 per cent at the end of the period under review—still did not revive private household consumption.

Although Austrian retailers have been reporting an increase in turnover since the beginning of the year, a sustained improvement in private consumption is unlikely to happen until the tax reform takes effect in 2016. The situation in the labour market was still tense. The slight economic upturn did not suffice to curb the rise in unemployment. The number of people looking for work continued to grow rapidly because of the rising number of older people in the workforce, the rising female employment rate and an inflow of workers from abroad. According to *Eurostat*, Austria's jobless rate will increase to 5.7 per cent in 2015.

The euro fell versus other key currencies between the beginning of the year and the middle of April. This occurred against the backdrop of the ECB's accommodating monetary policy stance. However, the single currency's real exchange rate stayed largely stable during the final weeks of the period under review. The euro's temporary weakness was due partly to market participants' limited expectations regarding the success of the ECB's monetary policies and partly to persistent speculation about a possible Greek exit from the eurozone. The Swiss National Bank's (SNB's) departure from the cap on the exchange rate in the middle of January caused a big drop in the value of the euro versus the Swiss franc. Subsequently, yield gaps between long-term U.S. and eurozone bonds narrowed or stabilized, allowing the euro to regain ground against the U.S. dollar. Looking at exchange rates in greater detail, the euro weakened by 7.8 per cent against the U.S. dollar to US$1.1189 in the six months up to 30 June; and it also weakened versus the Swiss franc (down 13.4 per cent to SFr 1.0413/€), the Japanese yen (down 5.8 per cent to ¥137.01/€) and the Chinese renminbi (down 8.0 per cent to CNY 6.9366/€). At the end of the second quarter, the Croatian kuna, which is important to our bank, was trading at HRK 7.5948/€, compared with HRK 7.6580/€ at the beginning of the year.

Developments in the international money markets during the first half of 2015 reflected market participants' belief that U.S. monetary policy would become slightly tighter. Meanwhile, the bank of Japan and the central banks of China, India and a number of other threshold countries decided to prolong quantitative easing. The ECB Council too stayed on its stable monetary policy path during the first half of 2015 with the aim of achieving medium-term core inflation rates of below but close to 2 per cent. In view of its extremely low key interest rate, it stepped up to this challenge by initiating a new bond purchasing programme. This programme, which aims to mitigate the risk of deflation by influencing money supply and credit growth, will run until the end of September 2016. It began as planned in March with a monthly volume of €60 billion. The ECB bought and is buying government bonds, covered bonds and asset backed securities. The monthly average yield on long-term German AAA *bunds* reached a historical low of close to zero in April, but it had rebounded to 0.79 per cent by the end of the first half. Yields on 10-year government bonds in Europe ranged from 0.65 per cent (Luxembourg) to 11.43 per cent (Greece). The U.S. equivalents were yielding 2.33 per cent at the end of June. The one-month, three-month, six-month and 12-month Euribor rates continued to fall after the beginning of 2015 and were negative 0.064 per cent, negative 0.014 per cent, 0.050 per cent and 0.164 per cent, respectively, at the end of June.

On balance, the international capital markets performed robustly during the first six months. By the end of June, the broad Euro-STOXX had advanced by about 9 per cent to 3,424.30 points. Following stable price gains in the first quarter, European stock markets in particular went through periods of high volatility associated with the threat of Greece's exit from the eurozone and serious upsets in China's stock markets. Having stood at 144.3 points at the end of 2014, the MSCI World Equity Index in euros had risen to 159.1 points by the end of June. Although the DAX briefly fell to below 10,000 points in the middle of June after reaching a high of 12,338.73 points in April, its performance over the first half was positive at 11 per cent. The DAX stood at 10,944.97 points at the end of June. The ATX achieved similar success. Prices rose substantially during the first five months of the year, and after a period of consolidation lasting until the end of June, this Austrian stock market index was 12 per cent up on the beginning of 2015 at the end of the first half, at 2,411.77 points.

BKS Bank's shares were trading in a corridor of between €16.8 and €17.5 in the period from January through June 2015. At the end of June, the ordinary no-par share was worth €16.9 and the BKS Bank no-par preference share had reached €14.9. The market capitalization represented by all of BKS Bank's shares at the end of the first half was €605.4 million.

During the period under review, sentiment in the international raw material markets remained dominated by movements in crude oil and precious metal prices. At the end of June, a barrel of Brent crude cost US$63.5, compared with US$112.4 at the end of June 2014 and US$57.6 at the beginning of 2015. The price of a barrel of the American benchmark, WTI Cushing, has fallen below the US$50 mark a number of times this year. The subdued state of some Asian economies, the maintenance of the same high production levels by the petroleum exporting countries (OPEC) and the prospect of an end to the trade embargo against Iran will sustain the pressure on the price of oil. The Greek crisis led to a temporary rise in the price of gold as uncertainty about its outcome prompted many investors to step up their speculative investments in gold. However, although in January the price of a fine ounce of this crisis indicator came close to the US$1,300 mark again for the first time since August 2014, it had flattened back to US$1,190.50 by the end of June. Many big professional investors are obviously still expecting its price to fall—a trend that is likely to gather even more strength given the likelihood of an interest rate turnaround by the Fed and in the light of turbulence in the Chinese financial markets.

Notes on the Scope of Consolidation

At the reporting date, the scope of consolidation of BKS Bank upon which Group analyses are based consisted of 20 banks and other financial institutions and entities rendering banking-related ancillary services. Those entities included our leasing companies in Austria and abroad as well as insurer *Drei-Banken Versicherungs-Aktiengesellschaft*.

The overview that follows presents the entities whose assignment to the BKS Bank Group was required by the International Financial Reporting Standards. When choosing which subsidiaries to include, materiality was judged in accordance with common Group-wide criteria on the basis of qualitative and quantitative parameters. The principal criteria of materiality were the balance sheet total of a subsidiary, the Group's interest in an associate's equity and the number of people employed by the entity in question.

THE MEMBERS OF THE GROUP

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

Banks and Other Financial Service Providers

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

Other Consolidated Entities

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

Besides *BKS Bank AG*, the consolidated members of the Group comprised 15 banks and other financial institutions and entities rendering banking-related ancillary services that were controlled by *BKS Bank AG*. During the elimination of investments in and equity of subsidiaries upon consolidation, an entity's cost was compared with the Group's interest in that entity's measured equity. These Interim Consolidated Financial Statements were thus based on the separate financial statements of all the consolidated entities, which were prepared applying common, Group-wide policies.

The carrying amounts of our investments in the three associates accounted for using the equity method in conformity with IAS 28 were adjusted according to the change in the net assets of each entity in which an investment was held. Besides *Drei-Banken Versicherungs-Aktiengesellschaft*, in which BKS Bank held a stake of 20 per cent, our investments in our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft* were also accounted for using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of those banks, the exercise of voting rights was regulated by syndicate agreements. These allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them. *Alpenländische Garantie-GmbH* was accounted for on a proportionate basis because this investment required classification as a joint operation under IFRS 11. The other consolidated entities, most of which were designated as real estate companies, rendered banking-related ancillary services. All other shareholdings were assigned to the available for sale portfolio.

Assets, Liabilities, Financial Position

Assets

The BKS Bank Group's assets totalled €6.93 billion at the end of June 2015. The small increase of 1.1 per cent compared with the beginning of the year resulted from the increase in credit demand and from growth in the line item *Financial assets* of €33.0 million or 2.3 per cent to approximately €1.44 billion. The line item *Receivables from other banks* grew by €7.6 million or 2.8 per cent to €277.1 million. On the other hand, *Cash and balances with the central bank* fell by €77.1 million or 35.8 per cent to €138.2 million. Having come to €194.2 million at the end of 2014, the balance of impairment allowances for customer receivables increased marginally to €196.2 million.

We were pleased with the increase in the line item *Receivables from customers*, which grew by €107.4 million or 2.1 per cent to €5.12 billion. New lending in the corporate and business banking segment came to €587.8 million, but a lot of companies had high liquidity surpluses, so loan repayments were substantial. After the elimination of intragroup balances, *BKS Bank AG* accounted for €4.67 billion of the Group's consolidated loan portfolio. This represented a pleasing increase of €97.2 million compared with the end of 2014 despite continuing gloom in the Austrian and Slovenian economies. That notwithstanding, there was a big inflow of personal banking customers at our Slovenian branches, albeit one dominated by new depositors.

Leasing operations in Austria also developed well, and similarly, our leasing companies abroad—in Slovenia, Slovakia and Croatia (*BKS-leasing d.o.o.*, Ljubljana; *BKS-leasing Croatia d.o.o.*, Zagreb; and *BKS-Leasing s.r.o.*, Bratislava)—reported lease receivables with a present value of €140.6 million. This echoed the prior-year figure of €144.3 million. Above all, the volume of new business at *BKS-leasing d.o.o.*, which is headquartered in Ljubljana, grew very satisfactorily.

BKS Bank d.d.—our banking subsidiary in Croatia—continued on its growth path during the period under review. It had 4,559 customers at the end of June, and its receivables from customers grew by €9.1 million to €138.0 million. Its assets grew by €4.4 million to €172.9 million. It recorded €36.7 million of portfolio growth from new business during the first half of 2015. Our strategic focus in the Croatian market continued to be on the development of retail customer operations.

Movements in our portfolio of foreign currency loans were primarily a reflection of the Swiss National Bank's departure from the cap on the exchange rate between the Swiss franc and the euro that had been in place since September 2011. It continued to shrink as a result. We stepped up our efforts to permanently reduce the foreign currency loan portfolio. This led to another fall in our FX ratio to 7.7 per cent, compared with 9.4 per cent at the end of 2014. The Swiss franc loan portfolio thus shrank by SFr150.3 million to SFr371.5 million. However, our customers were still unenthusiastic about switching to euros.

The line item *Financial assets* grew by 2.9 per cent to €698.3 million, compared with €678.8 million at the end of 2014. This was mainly due to acquisitions in the held to maturity portfolio. The brief rise in yields on 10-year Austrian government bonds to a peak of 1.285 per cent allowed individual purchases and helped us cushion the effects of redemptions. On balance, though, interest rates stayed at historical lows.

Investments in entities accounted for using the equity method increased by 6.7 per cent to €422.2 million. The change in this line item resulted from the addition of the profits for the period earned by the entities accounted for using the equity method, these being above all *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft*. In addition, the capital increase at *Oberbank AG* added €9.8 million.

Equity and Liabilities

The balance of primary deposits from corporate and business banking and retail banking customers came to €5.09 billion at the end of the first half, compared with €5.01 billion at the end of 2014. The pleasing increase was mainly accounted for by the line item *Other liabilities*, which is made up of sight and time deposit balances. It came to €2.61 billion at the end of June, as against €2.52 billion at 31 December 2014. On the other hand, there were small outflows of savings deposits, especially in the second quarter. Among other things, the decrease in the savings deposit balance, which fell by 0.9 per cent or €14.7 million to €1.69 billion, was caused by maturing *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts. Because of the low interest rates, our customers were motivated to park more of their liquid assets in sight deposits rather than re-investing in savings deposits. Our loan:deposit ratio was again outstanding, at 95.3 per cent.

The line item *Liabilities evidenced by paper* was slightly up on 31 December 2014 at the end of June, coming to €596.2 million. The extremely low interest rates made it hard to compensate for scheduled redemptions by issuing new securities. The weak market associated with the ECB's zero interest rates policy meant that we had not yet issued any subordinated debt capital bonds at the end of the period under review. This reduced the outstanding total by 3.4 per cent to €188.7 million. We are considering issuing an Additional Tier 1 note in the autumn to strengthen the own funds underlying our banking operations. We believe this is currently preferable to issuing a supplementary capital note.

Consolidated Own Funds

BKS Bank calculated its own funds ratio and basis of assessment in accordance with the own funds regime established by Basel III. Our own funds requirement was computed in compliance with the requirements of the standardized approach. Because of the modest revival of credit growth, our basis of assessment was €72.7 million up on the end of 2014 to €4.92 billion.

As a result of the decrease in ancillary own funds and an increase in the deductions carried out in connection with investments in entities accounted for using the equity method, our total own funds decreased by €52.5 million to €528.4 million during the first half. Nonetheless, we were able to keep our Common Equity Tier 1 capital, which plays such a important role in the bank's management, high at €509.4 million. This resulted in a Common Equity Tier 1 capital ratio of 10.4 per cent at 30 June 2015, compared with 11.2 per cent at the end of

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

€m	31/12/2014	31/3/2015	30/6/2015
Equity	71.4	71.0	71.0
Reserves less intangible assets	714.5	714.5	706.9
Deductions	(242.2)	(250.9)	(268.5)
Common Equity Tier 1 capital	**543.7**	**534.5**	**509.4**
Common Equity Tier 1 capital ratio	11.2%	10.7%	10.4%
Hybrid capital	32.0	28.0	28.0
Deductions	(32.0)	(28.0)	(28.0)
Additional Tier 1 capital	0	0	0
Tier 1 capital (CET1 + AT1)	**543.7**	**534.5**	**509.4**
Tier 1 capital ratio (including additional Tier 1 capital)	11.2%	10.7%	10.4%
Ancillary capital items and instruments	117.8	112.2	106.3
Deductions	(80.6)	(82.1)	(87.3)
Ancillary capital	**37.2**	**30.1**	**19.0**
Total own funds	**580.9**	**564.6**	**528.4**
Own funds ratio	12.0%	11.3%	10.7%
Basis of assessment	4,846.6	4,982.7	4,919.3
Surplus own funds	**193.2**	**166.0**	**134.9**

2014. Our own funds ratio fell to 10.7 per cent from 12.0 per cent at 31 December 2014. Surplus own funds at the reporting date came to €134.9 million.

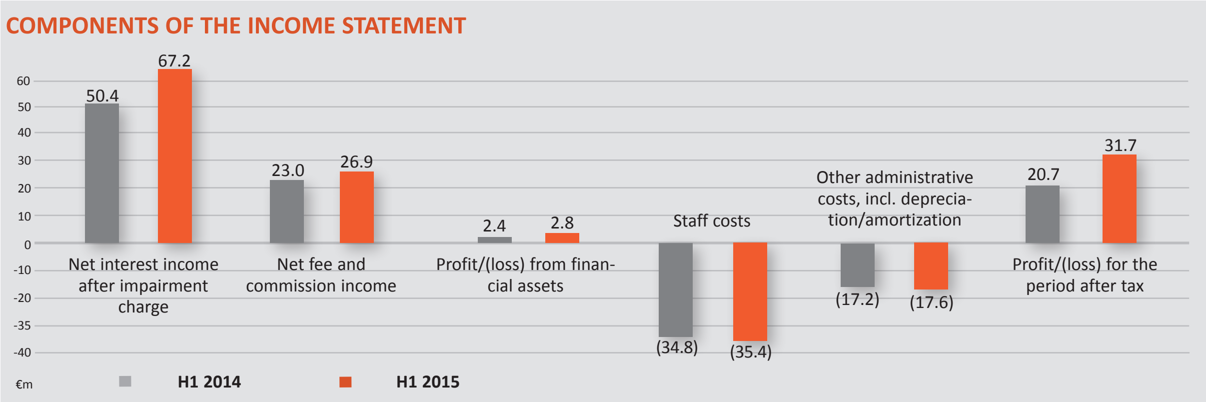
The CRR introduced a new regulatory ratio—the leverage ratio—to limit the gearing of financial institutions and make absolute debt in the financial system more transparent. The leverage ratio is Common Equity Tier 1 capital divided by non-risk-weighted assets inclusive of off-balance sheet exposures. It was 7.5 per cent at the end of June 2015, which was well over the regulatory benchmark of 3 per cent.

Performance

BKS Bank posted a profit for the period after tax of €31.7 million in the first half of 2015, as against €20.7 million in the same period of 2014. This pleasing result was mainly a reflection of the improvement in the impairment charge on loans and advances.

In a persistently difficult market environment, net interest income before the impairment charge increased by 1.5 per cent to €79.5 million, having come to €78.3 million in the six months ended 30 June 2014. We were able make up for the decrease in interest income, which fell by 9.1 per cent to €89.1 million, by way of a sharp drop in interest expenses, which fell by 23.1 per cent to €24.7 million. It proved possible to cushion some of the persistent pressure of competition on lending margins by taking targeted remedial measures in the deposits field. For example, by the end of June 2015, the average return on customer deposits had fallen to 0.49 per cent, having still been 0.66 per cent a year earlier. Deposit margins too fell to a record low of close to zero during the first half in response to trends in the market.

At the same time, we managed to keep lending margins nearly static at an average of 1.90 per cent. Our earnings from entities accounted for using the equity method were €2.7 million up on the same period of 2014.



Our readiness to take consistent action to combat risks bore fruit during the first half of 2015. It proved possible to reduce the impairment charge on loans and advances by more than half to €12.3 million from €27.9 million in the first half of 2014. This was because BKS Bank was for the most part spared any bad financial news from its customers during the first half and because our ongoing project to permanently reduce our credit risks helped raise awareness of the issue. Furthermore, improved country ratings, including above all the rating of Slovenia, allowed us to reverse €782.7 thousand of the allowance for country risk exposure.

Net fee and commission income in the first half came to €26.9 million, compared with €23.0 million in the same period of 2014. Payment services remained the most important source of fee and commission earnings, contributing €9.7 million to the total. In addition, higher turnover and the improvement in investor sentiment in the wake of increased momentum in the equity markets increased our transaction and portfolio based earnings from securities operations by €1.2 million to €7.1 million. By the middle of 2015, our customers' securities portfolios were worth in the order of €8.27 billion, as against €7.96 billion at the end of 2014. Credit commission also made a big contribution to our good net fee and commission income, increasing to €7.3 million. This compared with €6.0 million in the first half of 2014.

General administrative expenses were up just 2.0 per cent on the same period of the previous year to total €53.0 million. As a result of the average hike in salaries under collective agreements of 1.78 per cent that took effect on 1 April 2015 and the increase in the workforce associated with opening two new branches, staff costs increased by 1.9 per cent to €35.4 million. This year too, our enterprise-wide commitment to cost discipline, the economic management of regular office and operating costs and the modesty of our investment programme resulted in an increase of just 2.1 per cent in the line item *Other administrative costs* to €14.3 million despite the steady increase in IT costs.

Other operating expenses increased by more than half versus the first six months of 2014 to €5.9 million. Once again, this was a consequence of the strict regulatory and fiscal regimes. Bank tax payable as of the end of June came to €2.1 million. In addition, BKS Bank will be required to contribute an estimated €2 million to the Single Resolution Mechanism and another €1.4 million to the deposit guarantee scheme in 2015. Our reported semiannual profit takes account of these costs on a proportionate basis. We created provisions in the amount of €760 thousand for possible damages claims resulting from securities and credit operations. Our income tax expense was €6.2 million up on the same period of 2014 to €9.6 million. This was due to the significant increase in our profit alongside the need to recognize a provision of €3.5 million in respect of a tax audit that had lasted for more than two years and had still not been completed.

Segmental Reports

Our segmental reporting was based on the organizational structure of the Group that underlies its internal management reporting system. BKS Bank thus focused its activities on its three big business segments, namely the corporate and business banking, retail banking and financial markets segments. The success of each of those segments was measured on the basis of its profit before tax and return on equity (ROE), its cost:income ratio (CIR) and its risk:earnings ratio (RER).

Corporate and Business Banking

We were servicing some 14,600 corporate and business banking customers in this segment in the middle of 2015. BKS Bank having originally been conceived as a pure corporate and business bank, this segment has the longest tradition and remains the enterprise's most important pillar. Institutional customers still accounted for the larger part of the loan portfolio and made an essential contribution to profit for the period. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed the income and expenses of *BKS Bank d.d.* in Croatia and our leasing companies insofar as they arose from business done with companies.

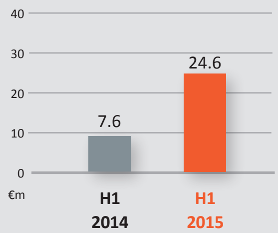
The significant reduction in credit risk substantially increased profit for the period in the corporate and business banking segment, taking it to €24.6 million. This compared with €7.6 million in the first half of 2014. This result arouses hopes that we can return to the profits delivered by this segment in its successful years before the crisis. Having been €26.3 million in the first half of 2014, the impairment charge on loans and advances was down by over 50 per cent to just €12.0 million in the period under review. The segment's risk:earnings ratio improved accordingly, dropping sharply from 65.2 per cent to just 28.7 per cent. Net interest income increased by 3.4 per cent to €41.8 million. On the other hand, though, we were also able to keep general administrative expenses in this segment at the same low level as in the first half of 2014, resulting in general administrative expenses of €19.5 million. Furthermore, fee and commission earnings from credit and securities operations increased, boosting net fee and commission income by 13.5 per cent to €13.6 million. We were pleased with the return on equity and cost:income ratio in the corporate and business banking segment, which came to 19.8 per cent (H1 2014: 5.9 per cent) and 34.8 per cent (H1 2014: 36.1 per cent), respectively.

Retail Banking

Roughly 135,100 customers of *BKS Bank AG*, *BKS Bank d.d.* and the Group's leasing companies were being serviced in the retail banking segment at the end of June 2015. Because it is highly dependent on branch operations, this was our most resource and cost intensive segment. At the same time, though, it was indispensable to us because it remains a stable source of funds for our bank even in times of historically low interest rates. About 89 per cent of savings deposit balances and roughly 31 per cent of sight and time deposit balances—that is, in total, 54 per cent or €2.32 billion of our payables to customers—were accounted for by retail customers. At the

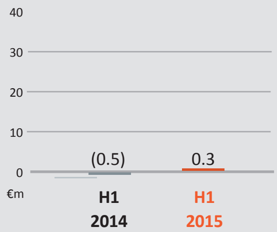
PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT

Corporate and Business Banking



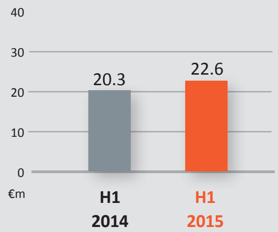
ROE	5.9%	19.8%
CIR	36.1%	34.8%
RER	65.%	28.7%

Retail Banking



ROE	(2.4%)	1.7%
CIR	97.6%	95.1%
RER	7.1%	6.9%

Financial Markets



ROE	10.2%	8.9%
CIR	15.3%	14.3%
RER	1.6%	—

A detailed segmental analysis is presented in the Notes on page 39.

same time, about 23 per cent of the entire loan portfolio, totalling €1.16 billion, consisted of loans to our retail banking customers.

Following a small loss of €0.5 million in the same period of 2014, the segment's profit for the period before tax turned round in the first half of 2015, even if it was modest at positive €0.3 million. The small drop in net interest income, which fell by €1.4 million to €15.9 million, was a direct effect of the renewed decline in the deposit margin, which fell from 0.16 per cent to nearly zero (0.06 per cent) during the period under review. This was a precarious trend, but it was cushioned by expansion of the retail customer base in the Viennese market and at our foreign branches in Slovenia. Net fee and commission income was €2.4 million or 22.8 per cent up on the same period of 2014. This was in particular thanks to strong growth in securities operations in this segment and slightly less strong growth im credit operations. We see this as further evidence of a sustainable stabilization of profits in our retail banking segment. Our risk-aware management of the impairment charge on loans and advances also produced pleasing results. Having come to €1.2 million in the same period of 2014, the impairment charge fell by 11.2 per cent to €1.1 million. The risk:earnings ratio followed suit, falling from 7.1 per cent in the first half of 2014 to 6.9 per cent in the period under review. It proved possible to keep general administrative expenses virtually unchanged at €27.9 million. However, although the segment's income and expense performance improved, its cost:income ratio was still unsatisfactory at 95.1 per cent.

Financial Markets

The financial markets segment encompassed the profits from *BKS Bank AG*'s proprietary trading activities, from securities held in our own portfolios, from equity investments, from derivatives in the banking book and from interbank transactions as well as earnings from interest-rate term structure management activities. The responsibility for and forward-looking management of so-called 'structural' income earned in the financial markets segment were in the hands of BKS Bank's Asset Liability Management (ALM) Committee. Because reference interest rates in the credit segment were exceptionally low, the Committee continued to be under considerable pressure.

Profit for the period before tax in the financial markets segment in the first six months of this year came to €22.6 million, as against €20.3 million in the same period of 2014. Earnings from equity investments, the contribution to profit made by the structural income recorded by *BKS Bank AG* and the reversal of the impairment allowance for country risk exposure in Slovenia (see above) all helped improve the segment's result. Net interest income was 4.2 per cent up on the same period of 2014 to €21.2 million. Although they were already low, we were able to reduce general administrative expenses in this segment by 3.0 per cent to €3.2 million. The cost:income ratio fell accordingly, dropping by 100 basis points to 14.3 per cent. Having been 10.2 per cent in the first half of 2014, the return on equity dropped to 8.9 per cent. This was because the average equity allocated to the financial markets segment increased by €111.7 million to €510.4 million.

Key Corporate Ratios

CORPORATE RATIOS

Per cent	Actual 2014	Actual H1 2015
ROE (before tax)	7.2	7.5
ROA (before tax)	0.8	0.9
Cost:income ratio	51.9	51.1
Risk:earnings ratio	31.5	15.5
Tier 1 capital ratio	11.2	10.4
Own funds ratio	12.0	10.7

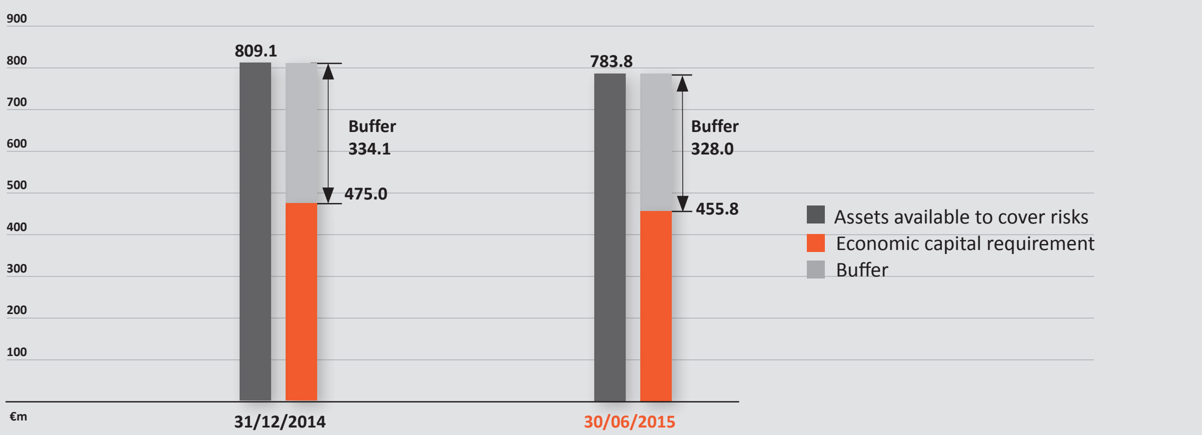
Thanks to the pleasing growth in profit that we have already described, the BKS Bank Group's key performance ratios during the first half of 2015 were generally satisfactory. Based on our business performance up to the end of the first half, both our return on equity (ROE) before tax and the return on assets (ROA) before tax echoed their satisfactory levels in prior periods and met our ambitious expectations, coming to 7.5 per cent and 0.9 per cent, respectively. Our cost:income ratio improved from 51.9 per cent in the first half of 2014 to 51.1 per cent in the period under review, evidencing the effectiveness of our consistent cost management activities. It thus stayed well below our internal benchmark target of 55 per cent. We will continue to do everything we can to close the divergence between our rising costs and falling net interest income. We are pleased to report that our first-half risk:earnings ratio was well below the 2014 figure of 31.5 per cent at 15.5 per cent. This meant that for the first time in a long period it was below our internal benchmark target of 25 per cent.

Risk Report

Our business policy objective is to safeguard BKS Bank's autonomy and independence by increasing profits within the framework of a sustainable growth strategy. Consequently, the selective assumption of risks was an important feature of our business activities. The goal of our risk policy was to detect all the relevant operational and other banking risks early and to actively manage and limit them using effective risk management techniques. The aim was to continuously and fully capture every individual risk. Available capital was used as efficiently as possible in the light of our medium-term and long-term strategic goals, and the trade-off between risk and return was constantly optimized. The precept that we only enter into risks that BKS Bank can bear without outside help is anchored in the Risk Strategy as a general principle.

BKS Bank's risks were managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures and controlled by appropriate organizational structures. Pursuant to the provisions of *§ 39a BWG*, banks are required to have effective plans and procedures in place to ascertain the amount, composition and distribution of the capital available to cover quantitatively all material operational and other banking risks. The requisite amount of capital must be held on that basis. These procedures were combined within the internal capital adequacy assessment process (ICAAP) and captured within BKS Bank during the risk bearing capacity calculation process. We assessed our internal capital adequacy once a quarter on the basis of the risks that had been identified using internal models. The aim was to ensure that BKS Bank always had sufficient assets available to cover its risks, enabling it to absorb the risks it had assumed even if unexpected events were to occur. All identified and quantified unexpected risks were therefore aggregated to obtain a figure for overall bank risk. The overall bank risk was the equivalent of our economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit risk and liquidity risk were factored into prices as risk premiums (standard risk costs, liquidity premiums) and were therefore incorporated into the interest rates imposed on customers. This aggregated total potential loss was compared with the assets available to cover such a potential loss to ascertain whether the bank was in a position to cover unexpected losses without suffering serious detriment to its business activities. The individual components of the assets that were available to cover risks were ranked according to their commercial usability while taking account, above all, of disposability and publicity effects. When a capital adequacy target was set on a going concern basis, the potential risk and risk bearing capacity had to be balanced in such a way that the bank would be in a position to absorb an adverse burden while continuing to conduct business in an orderly manner. A capital adequacy target set on a liquidation basis is a regulatory requirement. It serves to protect creditors. We continuously developed and refined the methods used to measure and analyze the bank's material risks. At BKS Bank, unexpected losses within a period of observation of one year were

CALCULATION OF RISK BEARING CAPACITY ON A LIQUIDATION BASIS



predicted on a liquidation basis with a confidence interval of 99.9 per cent. As in the same period of 2014, the economic capital requirement for credit risk was the biggest risk capital requirement within the *Kreditinstitutsgruppe* (credit institution group). Credit risk accounted for about 81.5 per cent (31 December 2014: 82.8 per cent) of our total potential loss. Market risk was responsible for 10.0 per cent (31 December 2014: 8.7 per cent). On a liquidation basis, our economic capital requirement at 30 June 2015 was €455.8 million, compared with €475.0 million at the end of 2014. The corresponding assets available to cover risks came to €783.8 million, compared with €809.1 million at the end of 2014.

Credit Risk

We define credit risk as the risk of a partial or complete loss of contractually agreed loan payments. This risk can be caused by a counterparty's credit standing or, indirectly, by country risk exposure as the result of a counterparty's domicile or place of residence. Credit risk was BKS Bank's biggest risk category by far. Monitoring and analysis took place at the product level, at the single customer level, at the level of groups of related customers and at the portfolio level. Our management of credit risk was based on the principle that loans could only be granted on a know-your-customer basis. In other words, loans were only granted after thorough personal and credit checks and on a dual-control or 'four-eyes' basis (front office and back office). Collateral requirements were based on the rating class and the product concerned. Fair value valuations of collateral took their bearings from average proceeds from liquidations achieved in the past. Lending in markets outside Austria was regulated by guidelines that were fine tuned to suit the specific features of the country concerned. They were in particular geared to the economic setting and allowed for the heightened risk involved in realizing collateral. BKS Bank employed a 13-class rating system. At the reporting date of 30 June 2015, about 44 per cent of the total corporate and business loan portfolio and about 65 per cent of the retail loan portfolio were in the very good rating classes from AA to 2b. BKS Bank's new business acquisition activities focused on customers in those rating classes, and the proportion of those classes in the total portfolio increased accordingly compared with the end of the first quarter of 2014.

RATING CLASSES

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

The charge for impairment losses in the first half of 2015 was satisfactorily low at €12.3 million, compared with €27.9 million in the same period of 2014. This represents a reduction of €15.6 million or 56.0 per cent. Impairments allowances were cut from €30.2 million to €17.8 million. This figure includes individual impairment allowances, collective assessments of impairments carried out in accordance with IAS 39 and the collective allowance for country risk exposure. The improvement was also contributed to by the impairment reversal of €782.7 thousand in respect of country risk exposure that resulted from the uprating of Slovenia during the half under review. Its rating improved from 2a to 1b. Looking at our credit risk at the level of non-performing loans, the proportion of such loans was unchanged compared with the end of 2014, accounting for 7.35 per cent of the total portfolio. The requisite risk charge at our

CHARGE FOR IMPAIRMENT LOSSES

€m	30/6/2014	30/6/2015	+/(–) Change, %
Direct write-offs	0.3	0.3	—
Impairment allowances	30.2	17.8	(41.1)
Impairment reversals	(2.4)	(5.5)	>100
Subsequent recoveries	(0.2)	(0.3)	8.4
Charge for impairment losses	**27.9**	**12.3**	**(56.0)**

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying Amount or Max. Default Risk per Category €m	Financial Instruments that were Neither Past Due nor Impaired 31/12/2014	30/6/2015	Past Due Financial Instruments 31/12/2014	30/6/2015
Receivables from customers	5,085	5,173	556	560
Contingent liabilities	183	190	5	6
Receivables from other banks	306	310	0	1
Securities and fund units	755	790	0	0
Equity investments	378	378	0	0
Total	**6,707**	**6,841**	**561**	**567**

Carrying Amount or Max. Default Risk per Category €m	Impaired Financial Instruments 31/12/2014 (IFRS)	30/6/2015 (IFRS)	Financial Instruments that were Past Due but Not Yet Impaired 31/12/2014 (IFRS)	30/6/2015 (IFRS)
Receivables from customers	445	443	173	130
Contingent liabilities	0	0	0	0
Receivables from other banks	0	1	0	0
Securities and fund units	0	0	0	0
Equity investments	0	0	0	0
Total	**445**	**444**	**173**	**130**

foreign subsidiaries fell to a total of just €0.2 million. Almost all of it was accounted for by *BKS-leasing d.o.o.*, Ljubljana.

Market Risk

BKS Bank defines market risk as the risk of losses that might arise from movements in market prices and rates (e.g. equity and bond prices, foreign exchange rates, interest rates) or other parameters that influence prices or rates (e.g. volatilities and credit spreads). Market risk affected all interest rate and price sensitive positions in the banking and trading books of BKS Bank and the individual institutions within the *Kreditinstitutsgruppe*. BKS Bank subdivided market risk into the categories of interest rate risk (including credit spread risk), equity price risk and foreign exchange risk. We used a combination of different proven ways of gauging risk (value at risk, modified duration, volumes and stress testing) to effectively manage market risks and set limits.

Interest rate risk is the risk of adverse changes in the values of interest rate sensitive positions caused by a change in interest rates. Differing maturities and interest rate adjustment periods can lead to interest rate risks on both the assets and the equity and liabilities side of the account. However, they can generally be hedged against by on-balance sheet and off-balance sheet transactions or a combination thereof. BKS Bank pursued a conservative interest rate risk strategy and did not in general engage in any material speculative derivative transactions. BKS Bank engaged in derivative transactions almost exclusively to hedge against market risks. In doing so, it only used instruments whose characteristics were known, the risks associated with which were known and where we had experience based data. In the course of the first half, the ratio of our interest rate risk to our eligible own funds assuming an interest rate shift of 200 basis points as reportable to OeNB fell to 3.88 per cent from 4.39 per cent at the end of 2014. It thus remained significantly below the critical 20 per cent mark. The decrease was due to a reduction of the gap between the assets and liabilities sides of the account caused by new investments in the treasury securities portfolio.

Since earning profits from open currency positions is not one of the focuses of our business policy, BKS Bank has always kept its foreign exchange risks low. Consequently, open currency positions were only held in small amounts and for short periods. Generally, foreign currency loans and foreign currency deposit balances were funded or invested in the same currency. To offset foreign exchange risks, BKS Bank sometimes engaged in derivative transactions like cross currency swaps, currency forwards and futures and currency swaps. Our

VALUE AT RISK

€m	31/12/2014	30/6/2015	+/(–) Change, %
Interest rate risk [1]	7.2	10.9	51.4
FX risk	0.6	1.0	66.7
Equity price risk	1.1	1.9	72.7
Total (including diversification effects)	7.7	11.5	49.4

[1] Includes credit spread risk.

open currency positions came to €3.5 million at the end of June. This was €1.7 million less than at the end of 2014. Our foreign exchange value at risk increased slightly from €0.6 million to €1.0 million during the first half.

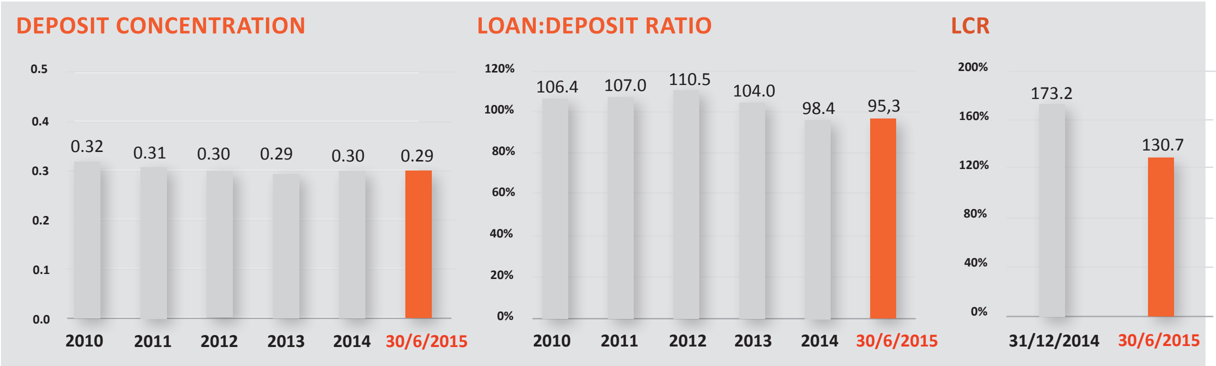
Equity price risk is the risk of changes in prices caused by the interplay of supply and demand. Most of our investments in equities in our treasury portfolio were in highly liquid German and Austrian stock market securities. At the end of the first half, equity positions in the portfolio totalled €31.1 million, which was only slightly down on 31 December 2014. The equity value at risk at the end of June was €1.9 million, compared with €1.1 million at the end of 2014.

Liquidity Risk

Liquidity risk is associated with the danger of not being able to meet present or future financial obligations in full or in time. This also includes the risk of only being able to raise funds at higher than usual market rates (funding risk) or liquidate assets at lower than usual market rates or prices (market liquidity risk). We would like to begin by pointing out that BKS Bank continued to have unrestricted access to the money and capital markets during the period under review. We were therefore liquid and solvent at all times.

The management of liquidity risk was governed by clearly defined principles that were anchored in our Risk Strategy and in our liquidity management manuals. The diversification of our funding profile to achieve a mix of investor categories, products and maturities was an essential part of the liquidity management process. At BKS Bank, the management of liquidity in order ensure solvency at all times was carried out with the help of a daily maturity gap analysis broken down into the main currencies. Limits were set at the short end to define liquidity risk boundaries. We mainly held as a liquidity buffer highly liquid securities that were eligible for refinancing with the ECB and eligible customer accounts. Material liquidity risk management decisions were made and liquidity risk monitoring was carried out by our bank's Asset Liability Management Committee, which met regularly. BKS Bank had a solid liquidity buffer (liquidity buffer 1) of €879.0 million at 30 June, compared with €898.5 million at year-end 2014. The extended liquidity buffer 2 (counterbalancing capacity), which also includes additional equities and fund units, was roughly unchanged versus the end of 2014 at €1.03 million.

The deposit concentration is a ratio that helps us estimate the deposit withdrawal risk. Above all, it therefore shows the dangers that come with relying on large deposits. At the end of the second quarter of 2015, this indicator—which is of crucial importance to us—came to 0.29. The loan:deposit ratio shows the relationship between the loan portfolio and primary deposit balances. At the end of the period under review, it came to 95.3 per cent, which was a strategically pleasing result. The liquidity coverage ratio (LCR) is used to test whether a bank is in a position to remain liquid for the coming 30 days even in the event of simultaneous market and bank-specific stresses. It compares holdings of highly liquid assets with the expected net cash outflow (cash outflow less cash inflow) in the coming 30 days. At BKS Bank, this regulatory liquidity ratio came to 130.7 per cent at 30 June 2015 and was therefore far above the minimum ratio of 100 per cent that will gradually be phased in between October 2015 and 2018.



Operational Risk

In line with the Capital Requirements Regulation under the Basel III regime (CRR), we define operational risk as the risk of losses arising primarily in BKS Bank's operational domain and resulting from inadequate or failed internal processes, people or systems or from external factors. Operational risks at *BKS Bank AG* and all its subsidiaries in Austria and abroad were limited by an appropriate and continually refined internal control system. This system included a raft of organizational measures ranging from the appropriate separation of functions during business processes (separation of front office from back office activities, dual-control or 'four-eyes' principle) to extensive bodies of internal rules and regulations and regular controls to emergency plans and self-auditing systems. We registered 172 loss events (not including those resulting from credit operations) during the first half of 2015. After the deduction of compensation received for those loss events, they cost €1.3 million. The 11 cases that were of relevance for the purposes of *§ 19 WAG* (risk management) were below the risk tolerance threshold of €1.0 million and caused a total loss of €0.8 million.

Outlook for the Year as a Whole

The world economy was growing at a rate of about 2.8 per cent during the first few weeks of the second half of 2015. Consequently, contrary to forecasts, it is unlikely to grow much more strongly this year than in 2014. There are serious risks radiating from emerging markets like the so-called BRIC countries (Brazil, Russia, India and China), whose economic pace has slowed. For instance, China, which has been hit by major turbulence in its financial markets, is looking at GDP growth of just 6.5 per cent this year. It would be China's lowest growth rate since 1990. On the other hand, after a minor dip in the first quarter and a recovery in the second quarter that was at best modest, the U.S. economy is expected to return to a growth rate of roughly 3 per cent during the rest of the year. The previously announced interest rate turnaround by the Federal Reserve System has now been postponed until the near future. Despite low crude oil prices and the euro's depreciation versus the U.S. dollar, the pace of economic growth in the eurozone is likely to increase only marginally following growth of 0.9 per cent in 2014. Regardless of the economy's tangible recovery and a rate of inflation that is now above zero again, we expect the ECB to complete the entirety of its bond purchasing programme and therefore, believe that further action will be taken to stimulate the economy in an environment of low real interest rates until at least 2016. The German economy was still feeling the effects of weaker demand from the threshold economies during the first half, but it should make the transition back to a modest consumption driven growth rate of just below 2 per cent during the second half. In addition, economic recovery in the peripheral EU countries (including, above all, Ireland, Portugal and Spain) will boost the average rate of growth in the eurozone, which is now higher than Austria's. As for the Austrian economy, the output of material goods could now emerge from the period of weakness that we have been seeing since the second half of 2014. However, domestic demand, the propensity to invest and exports have remained weak to date. Private consumption alone has recovered somewhat. So far, the prospect of tax cuts taking effect from 2016 has failed to inspire any advance purchasing. Because of weak economic growth and the continuing increase in the labour supply, *Eurostat* believes that the jobless rate will go on rising this year, reaching 5.7 per cent.

Our bank's performance during the first half confirmed that our business policy decisions so far have been the right ones. However, the improvement in the conditions under which banks are operating has been just partial. In addition to the challenging low interest rates environment, we are faced with the steadily increasing regulatory requirements imposed by the EU and Austria's legislators. They are very cost intensive and tie up a lot of human resources. As an Austrian bank, BKS Bank is being subjected to a number of special burdens that do not particularly benefit its customers. Among other things, they include a bank tax that is exorbitant by European standards. Payments into the EU Single Resolution Mechanism for banks and expenditure on the Austrian deposit guarantee scheme will also impose substantial additional cost burdens in the next few years. In addition, the non-profit related bank tax is also systematically weakening the assets of those banks that were able to overcome the financial crisis on their own and without state aid. Subsequently, it is hampering the sustainable accumulation of the own funds needed to lend money and the investments in forward looking business models that are required.

This means that we must continuously re-evaluate and optimize our internal processes, structures and technical platforms. In the interests of our customers and BKS Bank's sustained positive development, we are facing up to these challenges and are working intensively on a series of projects for the future. Among other things—to cite just the most resource intensive ones—they address the optimization of sales in Austria and abroad; measures to optimize our back-office activities, improve the management of the credit portfolio and apply the *Bundesgesetz über die Sanierung und Abwicklung von Banken* (BaSAG: the Austrian bank recovery and resolution act); the new deposit guarantee scheme; quality management; online banking; and the introduction of reporting to the new accounts register.

We are continuing the consistent application of our customer focused strategy. It is characterized by risk discipline, capital efficiency, earnings diversification, rigorous cost discipline and, not least, the maintenance of an outstanding liquidity position. Based on our generally satisfactory numbers in the first half, we are cautiously optimistic about 2015 as a whole. As before, we are focusing primarily on continuing to grow profitably and increasing our market shares. As in prior years, we plan to distribute a dividend for the 2015 financial year that adequately reflects our profits.

We remain,

Yours faithfully,

Herta Stockbauer
Chairwoman

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

The BKS Bank Group at a glance

	BKS Bank Group		Oberbank Group		BTV Group	
Income account, €m	H1 2014	H1 2015	H1 2014	H1 2015	H1 2014	H1 2015
Net interest income	78.3	79.5	172.5	178.8	91.5	87.7
Impairment charge on loans and advances	(27.9)	(12.3)	(35.8)	(27.3)	(17.3)	(4.4)
Net fee and commission income	23.0	26.9	59.5	68.0	21.7	25.9
General administrative expenses	(52.0)	(53.0)	(116.4)	(120.5)	(76.0)	(77.6)
Other operating income net of other operating expenses	(0.9)	(3.6)	5.5	(9.1)	31.3	30.3
Profit for the period before tax	24.0	41.2	87.2	96.0	51.4	67.2
Profit for the period after tax	20.7	31.7	73.6	83.7	42.3	55.3
Balance sheet data, €m	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/3/2015
Assets	6,854.6	6,930.8	17,774.9	17,991.0	9,597.7	9,811.4
Receivables from customers after impairment charge	4,815.8	4,921.2	11,801.8	12,237.2	6,187.2	6,506.0
Primary deposit balances	5,013.0	5,090.6	12,288.6	12,296.5	6,918.6	6,942.4
– Of which savings deposit balances	1,705.5	1,690.8	3,098.5	3,009.8	1,176.3	1,195.1
– Of which liabilities evidenced by paper	789.1	784.9	2,295.0	2,196.8	1,391.5	1,425.7
Equity	795.8	820.1	1,534.1	1,758.6	1,004.4	1,038.2
Customer assets under management	12,972.0	13,357.7	23,441.9	24,838.9	12,155.5	12,618.5
– Of which in customers' securities accounts	7,959.0	8,267.1	11,153.3	12,542.4	5,236.8	5,676.1
Own funds within the meaning of CRR, €m	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015
Basis of assessment of own funds	4,846.6	4,919.3	11,935.2	12,016.9	6,212.8	6,343.5
Own funds	580.9	528.4	1,874.4	1,980.5	930.1	895.1
– Of which Common Equity Tier 1 capital (CET1)	543.7	509.4	1,306.9	1,450.0	796.1	822.6
– Of which total Tier 1 capital (CET1 and AT1)	543.7	509.4	1,385.2	1,530.8	796.1	822.6
Common Equity Tier 1 capital ratio, %	11.2	10.4	11.0	12.1	12.8	13.0
Tier 1 capital ratio, %	11.2	10.4	11.6	12.7	12.8	13.0
Own funds ratio, %	12.0	10.7	15.7	16.5	15.0	14.1
Corporate ratios, %	2014	H1 2015	2014	H1 2015	2014	H1 2015
Return on equity before tax	7.2	7.5	10.7	11.9	9.3	13.3
Return on equity after tax	6.5	6.2	9.3	10.4	7.9	10.9
Cost:income ratio	51.9	51.1	50.1	49.4	54.4	52.6
Risk:earnings ratio	31.5	15.5	20.9	15.3	15.9	5.0
Resources	2014	H1 2015	2014	H1 2015	2014	H1 2015
Average number of staff	915	924	2,004	2,026	1,195	1,328
Branches	57	59	156	153	38	36

Oberbank AG, *Bank für Tirol und Vorarlberg Aktiengesellschaft* and BKS Bank have been collaborating on a voluntary basis for more than 20 years within the scope of the *3 Banken Group*. This collaboration has the strength of a major bank. The success of BKS Bank and its sister banks stems from the fact that each has its own strategy and business policy and from their self-image as independent and capable 'universal' banks servicing export-orientated medium-sized enterprises in their respective regions. All three banks continued on their sustainable business policy paths in the period from January through June 2015. Their aggregate profit for the period before tax grew by € 42.4 million or 26.1 per cent to €205.0 million. Their aggregate assets stabilized at a level of €34.7 billion, their aggregate loan portfolio net of impairment allowance balances came to €23.7 billion, and funds under management by the three banks in the form of savings, sight and time deposit balances, liabilities evidenced by paper and subordinated liabilities came to € 24.3 billion at the end of June. At the end of the period under review, the three banks employed a total of 4,278 people. The branch network, which is at the disposal of all three sister banks, consisted of 248 branches for corporate and business banking and retail banking customers.

Consolidated Financial Statements as at and for the Six Months Ended 30 June 2015

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Restatement in Conformity with IAS 8

IAS 8 — *Accounting Policies, Changes in Accounting Estimates and Errors* is applied when selecting and applying accounting policies, accounting for changes in estimates and reflecting corrections of prior period errors. Changes in accounting policies and corrections of errors are generally retrospectively accounted for. Between November 2014 and July 2015, Austria's financial report auditing body subjected the Consolidated Financial Statements as at and for the year ended 31 December 2013 and the Semi-Annual Financial Reports as at and for the six months ended 30 June 2013 and 30 June 2014 to an audit in accordance with *§ 2 Abs. 1 Z 2 RL-KG* (audit without specific grounds). The audit was an off-site audit for which there were no specific grounds. The audit of the Consolidated Financial Statements for 2013, the Semi-Annual Financial Statements as at and for the six months ended 30 June 2014 and the Consolidated Financial Statements for 2014 produced two results: In the Consolidated Financial Statements for 2013 and the 2013 und 2014 Semi-Annual Financial Statements, loan processing fees and charges and transaction costs were not deferred as provided in IAS 39.9 in conjunction with AG6 of IAS 39 and IAS 18, IE14 (a)(i) and (ii). Instead, they were in each case taken in their entirety to income each year. As a result, the declared profit before the tax for the year ended 31 December 2013 of €45.5 million was €1.1 million and the declared equity of €714.2 million was a total of €12.0 million too high. In addition, it was established that pursuant to IFRS 11, ALGAR should already have been classified as a joint operation as of 1 January 2014 and, therefore, accounted for in the Semi-Annual Financial Report as of and for the six months ended 30 June 2014 on a proportionate basis. In the Semi-Annual Financial Report, it was still accounted for in conformity with IAS 28.10 (using the equity method) and not in conformity with IFRS 11.20 (on a proportionate basis). ALGAR was accounted for correctly but not retrospectively in the Consolidated Financial Statements as at and for the year ended 31 December 2014 and the reconciliation was presented in Note (37) in the 2014 Annual Report. The following table presents the changes in the amounts of the individual line items that result from restatement in conformity with IAS 8.49:

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

€k	1/1/2014	30/6/2014	31/12/2014
Effect on assets			
Amount reported in the respective Annual Report or Shareholders Letter	6,743,760	6,900,003	6,864,504
Restatement	(9,048)	(9,043)	(9,863)
Amount after restatement	6,734,712	6,890,960	6,854,641
Change, %	(0.13)	(0.13)	(0.14)
Effect on equity			
Amount reported in the respective Annual Report or Shareholders Letter	714,164	732,808	805,712
Restatement	(11,992)	(12,384)	(9,863)
Amount after restatement	702,172	720,424	795,849
+/(–) change, %	(1.68)	(1.69)	(1.22)

€k	1/1–31/12/2013	1/1–30/06/2014	1/1–31/12/2014
Effect on profit for the period (year) after tax			
Amount reported in the respective Annual Report or Shareholders Letter	40,596	21,064	46,614
Restatement	(797)	(392)	2,129
Amount after restatement	39,799	20,672	48,743
+/(–) change, %	(1.96)	(1.86)	4.57
Effect on earnings per share (annualized)			
Amount reported in the respective Annual Report or Shareholders Letter	1.26	1.31	1.42
Restatement	1.23	1.28	1.49
+/(–) change, €	(0.03)	(0.03)	0.07

EFFECT OF RESTATEMENT ON ASSETS

€k	1/1/2014	30/6/2014	31/12/2014
Receivables from other banks			
Amount reported in the respective Annual Report or Shareholders Letter	116,917	209,392	269,482
Restatement	43,249	43,646	—
Amount after restatement	160,166	253,038	269,482
+/(–) change, %	36.99	20.84	0.00
Receivables from customers			
Amount reported in the respective Annual Report or Shareholders Letter	5,050,314	5,061,591	5,023,080
Restatement	(15,989)	(16,512)	(13,151)
Amount after restatement	5,034,325	5,045,079	5,009,929
+/(–) change, %	(0.32)	(0.33)	(0.26)

EFFECT OF RESTATEMENT ON ASSETS (CONTD)

€k	1/1/2014	30/6/2014	31/12/2014
Impairment allowance balance			
Amount reported in the respective Annual Report or Shareholders Letter	(176,109)	(188,563)	(194,161)
Restatement	(39,331)	(39,331)	—
Amount after restatement	(215,440)	(227,894)	(194,161)
+/(–) change, %	22.33	20.86	0.00
Investments in entities accounted for using the equity method			
Amount reported in the respective Annual Report or Shareholders Letter	361,126	378,676	395,896
Restatement	(974)	(974)	—
Amount after restatement	360,152	377,702	395,896
+/(–) change, %	(0.27)	(0.26)	0.00
Deferred tax assets			
Amount reported in the respective Annual Report or Shareholders Letter	17,109	17,526	21,670
Restatement	3,997	4,128	3,288
Amount after restatement	21,106	21,654	24,958
+/(–) change, %	23.36	23.55	15.17

EFFECT OF RESTATEMENT ON LIABILITIES

€k	1/1/2014	30/6/2014	31/12/2014
Payables to other banks			
Amount reported in the respective Annual Report or Shareholders Letter	1,302,332	1,076,715	860,517
Restatement	(31,364)	(32.979)	—
Amount after restatement	1,270,968	1,043,736	860,517
+/(–) change, %	(2.41)	(3.06)	0.00
Provisions			
Amount reported in the respective Annual Report or Shareholders Letter	83,992	84,986	128,519
Restatement	34,308	36,320	—
Amount after restatement	118,300	121,306	128,519
+/(–) change, %	40.85	42.74	0.00

EFFECT OF RESTATEMENT ON THE INCOME STATEMENT

€k	1/1–31/12/2013	1/1–30/06/2014	1/1–31/12/2014
Impairment charge on loans and advances			
Amount reported in the respective Annual Report or Shareholders Letter	(42,710)	(27,001)	(49,520)
Restatement	(1,700)	(894)	—
Amount after restatement	(44,410)	(27,895)	(49,520)
+/(–) change, %	3.98	3.31	0.00
Fee and commission income			
Amount reported in the respective Annual Report or Shareholders Letter	48,329	24,946	47,823
Restatement	(1,063)	(523)	2,838
Amount after restatement	47,266	24,423	50,661
+/(–) change, %	(2.20)	(2.10)	5.93
Other operating income net of other operating expenses			
Amount reported in the respective Annual Report or Shareholders Letter	3,567	2,124	5,973
Restatement	1,597	849	—
Amount after restatement	5,164	2,973	5,973
+/(–) change, %	44.77	39.97	0.00
Income tax expense			
Amount reported in the respective Annual Report or Shareholders Letter	(4,933)	(3,506)	(4,623)
Restatement	266	131	(710)
Amount after restatement	(4,667)	(3,375)	(5,333)
+/(–) change, %	(5.39)	(3.74)	15.36

Comprehensive Income Statement of the BKS Bank Group for the Period from 1 January to 30 June 2015

INCOME STATEMENT

€k	Note	H1 2014 [1]	H1 2015 [1]	+/(–) Change, %
Interest income		98,038	89,084	(9.1)
Interest expenses		(32,105)	(24,679)	(23.1)
Profit/(loss) from investments in entities accounted for using the equity method		12,382	15,106	22.0
Net interest income	**(1)**	**78,315**	**79,511**	**1.5**
Impairment charge on loans and advances	(2)	(27,895)	(12,287)	(56.0)
Net interest income after impairment charge		**50,420**	**67,224**	**33.3**
Fee and commission income		24,423	28,542	16.9
Fee and commission expenses		(1,382)	(1,612)	16.6
Net fee and commission income	**(3)**	**23,041**	**26,930**	**16.9**
Net trading income	(4)	1,064	931	(12.5)
General administrative expenses	(5)	(51,993)	(53,048)	2.0
Other operating income	(6)	2,973	2,332	(21.6)
Other operating expenses	(6)	(3,900)	(5,921)	51.8
Total profit/(loss) from financial assets		**2,443**	**2,772**	**13.5**
– Profit/(loss) from financial assets (FV)	(7)	818	728	(11.0)
– Profit/(loss) from financial assets (AFS)	(8)	1,625	1,757	8.1
– Profit/(loss) from financial assets (HTM)	(9)	0	287	—
Profit for the period before tax		**24,048**	**41,220**	**71.4**
Income tax expense	(10)	(3,376)	(9,566)	>100
Profit for the period after tax		**20,672**	**31,654**	**53.1**
Minority interests in profit for the period		(1)	(2)	100.0
Profit for the period after tax and minority interests		**20,671**	**31,652**	**53.1**

OTHER COMPREHENSIVE INCOME (OCI)

€k	H1 2014 [1]	H1 2015 [1]	+/(–) Change, %
Profit for the period after tax	**20,672**	**31,654**	**53.1**
Items not reclassified to consolidated profit or loss	**85**	**(5,247)**	**(>100)**
+/(–) Actuarial gains less losses in conformity with IAS 19	0	0	—
+/(–) Deferred taxes in conformity with IAS 19	0	0	—
+/(–) Gains less losses arising from use of the equity method in conformity with IAS 19	85	(5,247)	(>100)
Items reclassified to consolidated profit or loss	**5,982**	**1,331**	**(77.7)**
+/(–) Foreign exchange differences	(151)	244	>100
+/(–) Available-for-sale reserve	2,301	1,754	(23.8)
+/(–) Deferred taxes taken to AFS reserve items	(767)	(508)	(33.8)
+/(–) Gains less losses arising from use of the equity method	4,599	(159)	(>100)
Total income and expenses taken directly to equity	**6,067**	**(3,916)**	**(>100)**
Comprehensive income before minority interests	**26,739**	**27,738**	**3.7**
Of which minority interests	(1)	(1)	—
Comprehensive income after minority interests	**26,738**	**27,737**	**3.7**

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

QUARTERLY REVIEW

€k	Q2 2014 [1]	Q3 2014 [1]	Q4 2014 [1]	Q1 2015 [1]	Q2 2015
Interest income	47,961	48,262	45,874	43,099	45,985
Interest expenses	(16,216)	(16,114)	(15,174)	(13,376)	(11,303)
Profit/(loss) from investments in entities accounted for using the equity method	7,493	8,712	7,468	6,371	8,735
Net interest income	**39,238**	**40,860**	**38,168**	**36,094**	**43,417**
Impairment charge on loans and advances	(13,982)	(12,279)	(9,346)	(6,161)	(6,126)
Net interest income after impairment charge	**25,256**	**28,581**	**28,822**	**29,933**	**37,291**
Fee and commission income	12,283	13,605	9,549	14,439	14,103
Fee and commission expenses	(666)	(879)	52,922	(769)	(843)
Net fee and commission income	**11,617**	**12,726**	**(38,851)**	**13,670**	**13,260**
Net trading income	743	458	(149)	(67)	998
General administrative expenses	(26,062)	(24,960)	(28,855)	(26,173)	(26,875)
Other operating income	2,104	(411)	3,411	1,433	899
Other operating expenses	(3,019)	(2,751)	(1,834)	(1,751)	(4,170)
Total profit/(loss) from financial assets	**2,443**	**933**	**2,247**	**1,768**	**1,004**
– Profit/(loss) from financial assets (FV)	145	(112)	(2,787)	1,256	(528)
– Profit/(loss) from financial assets (AFS)	1,207	1,045	347	225	1,532
– Profit/(loss) from financial assets (HTM)	0	0	4,687	287	0
Profit for the period before tax	**11,990**	**14,575**	**15,452**	**18,813**	**22,407**
Income tax expense	(1,643)	(1,966)	9	(6,534)	(3,032)
Profit for the period after tax	**10,347**	**12,609**	**15,461**	**12,279**	**19,375**
Minority interests in profit for the period after tax	0	(1)	(1)	(1)	(1)
Profit for the period after tax and minority interests	**10,347**	**12,608**	**15,460**	**12,278**	**19,374**

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

Balance Sheet of the BKS Bank Group as at 30 June 2015

ASSETS

€k	Note	1/1/2014 [1]	31/12/2014 [1]	30/6/2015	+/(–) Change, %
Cash and balances with the central bank	(11)	104,815	215,269	138,201	(35.8)
Receivables from other banks	(12)	160,166	269,482	277,060	2.8
Receivables from customers	(13)	5,034,325	5,009,929	5,117,353	2.1
– Impairment allowance balance	(14)	(215,440)	(194,161)	(196,173)	1.0
Trading assets	(15)	352	46	88	91.3
Total financial assets		1,515,809	1,407,362	1,440,374	2.3
– Financial assets designated as at fair value through profit or loss	(16)	188,626	149,399	145,143	(2.8)
– Available-for-sale financial assets	(17)	251,483	183,310	174,708	(4.7)
– Held-to-maturity financial assets	(18)	715,548	678,757	698,275	2.9
– Investments in entities accounted for using the equity method	(19)	360,152	395,896	422,248	6.7
Intangible assets	(20)	1,907	1,993	1,940	(2.7)
Property and equipment	(21)	63,251	59,040	59,638	1.0
Investment property	(22)	22,814	28,985	31,177	7.6
Deferred tax assets	(23)	21,106	24,958	26,007	4.2
Other assets	(24)	25,607	31,738	35,114	10.6
Total assets		**6,734,712**	**6,854,641**	**6,930,779**	**1.1**

EQUITY AND LIABILITIES

€k	Note	1/1/2014 [1]	31/12/2014 [1]	30/6/2015	+/(–) Change, %
Payables to other banks	(25)	1,270,968	860,517	775,215	(9.9)
Payables to customers	(26)	3,783,595	4,223,966	4,305,614	1.9
– Of which savings deposit balances		1,741,201	1,705,481	1,690,784	(0.9)
– Of which other payables		2,042,394	2,518,485	2,614,830	3.8
Liabilities evidenced by paper	(27)	591,083	593,614	596,246	0.4
Trading liabilities	(28)	404	45	88	95.6
Provisions	(29)	118,300	128,519	140,980	9.7
Deferred tax liabilities	(30)	5,593	10,505	11,342	8.0
Other liabilities	(31)	39,788	46,173	92,432	>100
Subordinated debt capital	(32)	222,809	195,453	188,721	(3.4)
Equity		702,172	795,849	820,141	3.1
– Of which total minority interests and equity		702,162	795,837	820,127	3.1
– Of which minority interests in equity		10	12	14	16.7
Total equity and liabilities		**6,734,712**	**6,854,641**	**6,930,779**	**1.1**

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

EARNINGS AND DIVIDEND PER SHARE

	30/6/2014 [1]	30/6/2015
Average number of shares in issue	32,184,566	35,445,278
Dividend per share, €	0.25	0.23
Earnings per share (annualized), €	1.28	1.79
Earnings per share for the period, €	0.64	0.89

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

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

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Foreign Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/(Loss) for the Period	Equity
At 1 January 2015	**72,072**	**143,056**	**(1,107)**	**2,560**	**519,297**	**11,219**	**48,740**	**795,837**
Distribution							(8,148)	(8,148)
Taken to retained earnings (restated)					40,592		(40,592)	0
Profit for the period after tax (restated)							31,654	31,654
Gains and losses taken directly to equity			244	1,246	0	(5,406)		(3,916)
Increase in share capital								0
Change arising from use of the equity method						6,898		6,898
Changes in treasury shares					(1,175)			(1,175)
Other changes					(1,023)			(1,023)
At 30 June 2015	**72,072**	**143,056**	**(863)**	**3,806**	**557,691**	**12,711**	**31,654**	**820,127**
Available for sale reserve								5,067
Deferred tax reserve								(1,262)

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Foreign Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/(Loss) for the Period	Equity
At 1 January 2014	**65,520**	**97,929**	**(987)**	**2,498**	**504,322**	**4,276**	**40,596**	**714,154**
Restatement					(11,195)		(797)	(11,992)
At 1 January 2014 after restatement	65,520	97,929	(987)	2,498	493,127	4,276	39,799	702,162
Distribution							(8,044)	(8,044)
Taken to retained earnings (restated)					31,755		(31,755)	0
Profit for the period after tax (restated)							20,672	20,672
Gains and losses taken directly to equity			(151)	1,534		4,684		6,067
Increase in share capital								0
Change arising from use of the equity method						174		174
Changes in treasury shares					(379)			(379)
Other changes					(239)			(239)
At 30 June 2014	**65,520**	**97,929**	**(1,138)**	**4,032**	**524,264**	**9,134**	**20,672**	**720,413**
Available-for-sale reserve								5,364
Deferred tax reserve								(1,332)

Cash Flow Statement

CASH FLOWS

€k	H1 2014 [1]	H1 2015
Cash and cash equivalents at end of previous period	**104,815**	**215,269**
Net cash from/(used in) operating activities	59,994	(41,404)
Net cash from/(used in) investing activities	2,234	(19,859)
Net cash from/(used in) financing activities	(13,970)	(16,047)
Effect of exchange rate changes on cash and cash equivalents	(133)	242
Cash and cash equivalents at end of reporting period	**152,940**	**138,201**

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

Notes to the Consolidated Financial Statement of BKS Bank – Material Accounting Policies

I. General information

The Interim Financial Statements of the BKS Bank Group as at and for the six months ended 30 June 2015 were prepared in accordance with the provisions of the IFRS standards published by the IASB (International Accounting Standards Board) that were effective at the reporting date and as adopted by the EU. Account was also taken of the relevant interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

II. Recognition and measurement

Scope of consolidation

Besides *BKS Bank AG*, the Consolidated Financial Statements accounted for a total of 19 entities (15 consolidated, three accounted for using the equity method and one accounted for on a proportionate basis). The scope of consolidation was unchanged versus 31 December 2014.

CONSOLIDATED ENTITIES

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
BKS Bank d.d.	Rijeka	100.00	—	30/6/2015
BKS-Leasing Gesellschaft m.b.H	Klagenfurt	99.75	0.25	30/6/2015
BKS-leasing d.o.o.	Ljubljana	100.00	—	30/6/2015
BKS-leasing Croatia d.o.o.	Zagreb	100.00	—	30/6/2015
BKS-Leasing s.r.o.	Bratislava	100.00	—	30/6/2015
IEV Immobilien GmbH	Klagenfurt	100.00	—	30/6/2015
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	Klagenfurt	100.00	—	30/6/2015
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	—	100.00	30/6/2015
BKS Hybrid alpha Gmbh	Klagenfurt	100.00	—	30/6/2015
BKS Hybrid beta GmbH	Klagenfurt	100.00	—	30/6/2015
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00	—	30/6/2015
LVM Beteiligungs Gesellschaft mbH	Klagenfurt	—	100.00	30/6/2015
BKS Immobilien-Service GmbH	Klagenfurt	100.00	—	30/6/2015
BKS Service GmbH	Klagenfurt	100.00	—	30/6/2015
BKS 2000 Beteiligungsverwaltungs GmbH	Klagenfurt	100.00		30/6/2015

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
Oberbank AG	Linz	16.95	—	31/3/2015
Bank für Tirol und Vorarlberg AG	Innsbruck	13.59	—	31/3/2015
Drei-Banken Versicherungs-Aktiengesellschaft	Linz	20.00	—	30/6/2015

Regarding *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*, we point out that although BKS Bank had voting interests of less than 20 per cent in those banks, namely of 17.97 per cent and 15.10 per cent, respectively, and equity interests of less than 20 per cent, namely of 16.56 per cent and 13.59 per cent, respectively, the exercise of voting rights was regulated by syndicate agreements. These allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them.

Entities accounted for on a proportionate basis

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

ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

Entity	Head Office	Direct Equity Interest, %	Date of Financial Statements
Alpenländische Garantie-GmbH	Linz	25.00	30/6/2015

FOREIGN SUBSIDIARIES AND BRANCHES AT 30 JUNE 2015

€k	Net Interest Income	Operating Profit	Number of Staff (Full Year Equivalents)	Profit/(Loss) for the Period Before Tax
Branches abroad				
Slovenia Branch (banking branch)	5,986.7	7,218.8	93.3	667.2
Slovakia Branch (banking branch)	577.0	625.0	20.0	(95.8)
Subsidiaries				
BKS Leasing d.o.o., Ljubljana	1,166.2	1,577.8	10.6	855.2
BKS-leasing Croatia d.o.o., Zagreb	894.6	936.1	9.8	663.2
BKS-Leasing s.r.o.,Bratislava	531.3	738.7	14.0	41.4
BKS Bank d.d., Rijeka	2,699.8	2,972.3	56.2	895.2

FOREIGN SUBSIDIARIES AND BRANCHES AT 30 JUNE 2014

€k	Net Interest Income	Operating Profit	Number of Staff (Full Year Equivalents)	Profit/(Loss) for the Period Before Tax
Branches abroad				
Slovenia Branch (banking branch)	5,408.9	6,458.5	86.4	(3,032.4)
Slovakia Branch (banking branch)	595.1	651.4	19.0	(183.3)
Subsidiaries				
BKS Leasing d.o.o., Ljubljana	877.7	1,095.5	10.6	378.7
BKS-leasing Croatia d.o.o., Zagreb	1,167.6	1,279.2	10.0	623.6
BKS-Leasing s.r.o.,Bratislava	521.4	720.9	14.0	25.7
BKS Bank d.d., Rijeka	2,237.4	2,605.5	62.0	261.3

Foreign currency translation

Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates ruling at the balance sheet date. The financial statements of subsidiaries that were not prepared in euros were translated using the *closing rate method*. Within the Group, there were just two companies that did not prepare their financial statements in euros. They were Croatian companies that prepared their financial statements in Croatian kunas (HRK). Their assets and liabilities were translated at the exchange rates ruling at their balance sheet dates. Expenses and income were translated applying the average rate of exchange in the respective period. The resulting foreign exchange differences were recognized in *Other comprehensive income*. Foreign exchange differences were recognized as a component of equity.

Notes on Individual Items on the Balance Sheet

Cash and balances with the central bank

Cash and balances with the central bank were recognized at nominal values.

Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one entity and a financial liability or equity of another entity. Financial assets and liabilities were initially measured at their fair value, which was, as a rule, their cost. They were subsequently measured in accordance with the provisions of IAS 39 and their assignment to one of the following categories:

- financial assets and liabilities requiring measurement to fair value, subdivided into
  - trading assets and trading liabilities: these are financial instrument held for trading, including all derivatives except for those that are designated as hedges (held for trading);

  – financial assets and liabilities designated as at fair value through profit or loss (fair value option)
– available-for-sale financial assets and liabilities (AFS);
– held-to-maturity financial assets and liabilities (HTM);
– loans and receivables (LAR);
– financial liabilities (other liabilities).

On each reporting date, financial assets are tested to determine whether there is objective evidence of impairment. Such objective evidence includes, for instance, a debtor in financial difficulties, default or delay in interest payments or repayments and concessions made by *BKS Bank AG* or the consolidated subsidiary to a debtor for financial or legal reasons connected with the debtor's financial difficulties that would otherwise not have been made. In the valuations that follow, financial instruments have either been measured to fair value or at amortized cost. BKS Bank classified and measured financial instruments in conformity with IAS 39 and IFRS 7 as follows:

CLASSIFICATION AND VALUATION OF FINANCIAL INSTRUMENTS

Assets	At Fair Value	At Amortized Cost	Other, Note	IAS 39 Category
Cash and balances with the central bank			Nominal	Not assignable
Receivables from other banks		✓	—	Loans and receivables
Receivables from customers		✓	—	Loans and receivables
Trading assets	✓		—	Held for trading
Financial assets designated as at FV through Profit or loss	✓		—	Fair value option
Available-for-sale financial assets	✓		—	Available for sale
Held-to-maturity financial assets		✓	—	Held to maturity
Investments in entities accounted for using the equity method			Equity Method	Not assignable
Investment property		✓	—	Not assignable
Other assets				
– Of which derivatives	✓		—	Held for trading
– Of which other items			Nominal	Not assignable

EQUITY AND LIABILITIES	At Fair Value	At Amortized Cost	Other, Note	IAS 39 Category
Payables to other banks		✓	—	Other liabilities
Payables to customers		✓	—	Other liabilities
Liabilities evidenced by paper				
– Of which designated as at FV through profit or loss	✓		—	Fair value option
– Of which other liabilities evidenced by paper		✓	—	Other liabilities
Trading liabilities	✓		—	Held for trading
Other liabilities				
– Of which derivatives	✓		—	Held for trading
– Of which other items			Nominal	Not assignable
Subordinated debt capital		✓	—	Other liabilities

As in 2014, no reclassifications were carried out in accordance with IFRS 7.12 during the period under review.

Financial assets and liabilities designated as at fair value through profit or loss
The measurement of certain positions took place under the collective designation *as at fair value through profit or loss* using the fair value option (FV). Their inclusion in this category was decided by the Asset Liability Management (ALM) Committee. These positions (asset or liability and associated derivative) were thus measured at fair value through profit or loss and any revaluation gains or losses were recognized in the Income Statement in the line item *Profit/(loss) from financial assets designated as at fair value through profit or loss*.

Available-for-sale financial assets
Available-for-sale (AFS) securities are a separate category of financial instrument. They are what remains when a financial asset is recognized neither as a held-to-maturity asset nor as an asset designated as at fair value through profit or loss. They were generally measured applying stock exchange prices. If these were not available, values of

interest rate products were measured using present value techniques. Revaluation gains and losses were recognized in the AFS reserve and not through profit or loss. If such securities were sold, the corresponding part of the AFS reserve was released through profit or loss.

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

Held-to-maturity financial assets
This line item comprises financial instruments that were to be held to maturity (HTM). Premiums and discounts were spread over their term using the *effective interest rate method*. Impairment losses were recognized through profit or loss.

Investments in entities accounted for using the equity method
Entities in which BKS Bank held a stake of over 20 per cent were accounted for in the Consolidated Financial Statements using the equity method. In addition, *Oberbank AG* and *Bank für Tirol und Vorarlberg AG* were also accounted for in the Consolidated Financial Statements using the equity method even though the stakes held in *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft* were smaller than 20 per cent. This is because syndicate agreements were in place. They allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them. If there was objective evidence of impairment of an investment accounted for using the equity method, a value in use was calculated on the basis of the estimated future cash flows that were to be expected from the associate. Present value was measured on the basis of a discounted cash flow model. A two-phase mathematical model was used. No impairment losses were incurred in the year under review.

Loans and receivables, other liabilities
The category *Loans and receivables* includes all non-derivative financial assets with fixed or determinable payments that were not listed in an active market. At BKS Bank, this category corresponded to the line items *Receivables from other banks* and *Receivables from customers*. They were measured at amortized cost. Impairments were allowed for by recognizing impairment allowances. If there were premiums or discounts, they were spread over the term of the asset and recognized in profit or loss. *Other liabilities* comprises payables to other banks and payables to customers. These liabilities were recognized at the amounts payable.

Impairment allowance balance
Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing individual impairment charges (in the case of material exposures, these were calculated on the basis of the *discounted cash flow method*), by recognizing individual impairment charges applying class-specific criteria and by collective assessment of impairment of the portfolio carried out in accordance with IAS 39.64. The latter included incurred but not yet identifiable losses. Provisions were recognized for risks arising from contingent liabilities in accordance with IAS 37. An assessment of impairment of the portfolio arising from country risks was recognized at the reporting date, with the exposures outstanding in each country being broken down into risk classes. The total impairment allowance balance is disclosed as a deduction on the assets side of the Balance Sheet (impairment account).

Investment property
This line item encompasses property intended for letting to third parties. It was measured at amortized cost (*cost method*). The fair value of the properties held as financial investments is disclosed in the Notes. It was mainly based on estimates (by certified appraisers). Depreciation rates were between 1.5 per cent and 3.0 per cent. Depreciation was immediate and linear.

Trading assets and trading liabilities
Within the line item *Trading assets*, primary financial instruments were measured at fair value. Derivative financial instruments were measured at fair value. Financial instruments with negative fair values were recognized on the Balance Sheet in the line item *Trading liabilities*. Revaluation gains and losses on this line item were recognized in the Income Statement in the line item *Net trading income*. Interest expenses incurred in the financing of trading assets were reported in the line item *Net interest income*. Spot transactions were accounted for and charged off at their settlement dates.

Derivatives
Derivative financial instruments were measured at fair value. Changes in value were generally recognized through profit or loss in the Income Statement.

Property and equipment
The line item *Property and equipment* consists mainly of land, buildings and other property and equipment comprising primarily office furniture and equipment. Property and equipment was recognized at the amortized cost of acquisition or conversion. Ordinary depreciation was linear based on an asset's usual useful life and lay within the following bands:
- immovable assets: 1.5 per cent to 3.0 per cent (i.e. between 33.3 and 66.7 years);
- office furniture and equipment: 10 per cent to 20 per cent (i.e. between 5 and 10 years).

Impairments were allowed for by recognizing extraordinary depreciation, which was recognized in the Income Statement in the line item *General administrative expenses*. If an impairment no longer existed, a write-back was made up to the asset's amortized cost. No extraordinary depreciation or write-backs were recognized during the period under review.

Intangible assets
The line item *Intangible assets* comprises goodwill and other intangible assets. The *Other intangible assets* were all purchased, had limited useful lives and consisted primarily of software. Ordinary amortization was linear based on an asset's usual useful life. The amortization rate for software was 25 per cent (i.e. 4 years).

Purchased goodwill was recognized at cost at the date of acquisition. It is not amortized. Instead, an impairment test is carried out at least once a year. When goodwill on the Balance Sheet was tested for impairment, its carrying amount was compared with the present value of the company's interest in all future cash flows (value in use). Present value was measured on the basis of a discounted cash flow model. A two-phase mathematical model was used:
Phase 1: In phase 1, cash flows in the ensuing five years were calculated and discounted on the basis of the company's budgets.
Phase 2: In phase 2, a perpetual annuity was calculated on the basis of the cash flow in the most recent plan year.

No goodwill was shown on the Balance Sheet as at 30 June 2015.

Leasing

The leased assets within the Group required recognition as assets leased under finance leases (the risks and rewards being with the lessee for the purposes of IAS 17). Leased assets were recognized as receivables in the amount of the present values of the agreed payments taking into account any residual values.

Other assets and other liabilities
Besides deferred items, the line items *Other assets* and *Other liabilities* comprise 'other' assets and liabilities and the fair values of derivative instruments. They were recognized at amortized cost or measured to fair value.

Liabilities evidenced by paper
The line item *Liabilities evidenced by paper* comprises bonds in circulation, debt securities and other liabilities evidenced by paper (own issuances). As a rule, liabilities evidenced by paper were recognized at amortized cost. In exceptional cases (decided by the Asset Liability Management Committee), liabilities evidenced by paper were measured to fair value (fair value option).

Subordinated debt capital
Subordinated debt capital and subordinated obligations are obligations that, by contractual arrangement, will, in the event of BKS Bank's liquidation or bankruptcy, only be settled after the claims of other creditors. As a rule, subordinated debt capital was recognized at amortized cost.

Deferred tax assets and deferred tax liabilities
The reporting and calculation of income tax expense took place in accordance with IAS 12. The calculation for each taxed entity was carried out applying the tax rates that, according to the applicable legislation, were to be applied in

the tax period in which a temporary difference was going to reverse. Deferred taxes were computed on the basis of differences between the tax base and the carrying amounts of assets or liabilities for the purposes of IFRSs. These would cause additional tax burdens or reduce tax burdens in the future.

Provisions

Provisions were created in accordance with IAS 37 if there was a reliably determinable current obligation to a third party arising from an event in the past likely to cause a drain on resources. BKS Bank mainly created provisions for post-employment benefits and similar employee benefits, for taxes and for interest on stepped coupon products. The provision for death benefits was also calculated in accordance with the IFRS principles contained in IAS 19. As of 31 December 2000, the pension expectancies of all active employees were transferred to *VBV-Pensionskasse AG* as the legal successor to *BVP-Pensionskasse AG*.

Equity

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

Notes to Individual Line Items in the Income Statement

Net interest income

The line item *Net interest income* contains interest income from credit operations, from securities in the treasury portfolio, from equity investments (in the form of dividend payments), from lease receivables and from investment property less interest expenses on deposits from other banks and from customers, liabilities evidenced by paper and investment property. Interest income and interest expenses were accounted for on an accrual basis. Income from equity investments in entities accounted for using the equity method was disclosed in the line item *Net interest income* net of financing costs.

Impairment charge on loans and advances

This line item captures impairment allowances, impairment reversals and the creation of provisions for contingent liabilities. Recoveries on receivables previously written off were also accounted for in this line item.

Net fee and commission income

This line item comprises income from services rendered to third parties net of the expenses attributed to such services. Fees and commission in connection with newly granted loans with original durations of more than one year were recognized in the Income Statement *pro rata temporis*.

General administrative expenses

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

Net trading income

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

Other operating income net of other operating expenses

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

Other notes

Forward-looking assumptions and estimates regarding yield curves and foreign exchange rates were made as required. The financial statements were prepared on the basis of the knowledge and information available at the copy deadline date.

The assumptions and estimates made for the purposes of the Consolidated Interim Financial Statements were made on the basis of the knowledge and information available at the reporting date of 30 June 2015.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	H1 2014	H1 2015	+/(–) Change, %
Interest income	**98,038**	**89,084**	**(9.1)**
– Of which from credit operations	73,644	65,219	(11.4)
– Of which from fixed-interest securities	14,128	12,037	(14.8)
– Of which from lease receivables	4,617	4,437	(3.9)
– Of which from shares and investments in other entities	4,392	5,750	30.9
– Of which from investment property	1,257	1,641	30.5
Interest expenses	**32,105**	**24,679**	**(23.1)**
– Of which arising from deposits from customers and other banks [1]	18,187	11,719	(35.6)
– Of which arising from liabilities evidenced by paper	13,578	12,500	(7.9)
– Of which arising from investment property	340	460	35.3
Profit from investments in entities accounted for using the equity method	**12,382**	**15,106**	**22.0**
– Of which income from investments in entities accounted for using the equity method	12,692	15,139	19.3
– Financing costs of investments in entities accounted for using the equity method [2]	(310)	(33)	(89.4)
Net interest income	**78,315**	**79,511**	**1.5**

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

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	H1 2014	H1 2015	+/(–) Change, %
Impairment allowances	30,228	17,813	(41.1)
Impairment reversals	(2,364)	(5,528)	>100
Direct write-offs	268	259	(3.4)
Recoveries on receivables previously written off	(237)	(257)	8.4
Impairment charge on loans and advances	**27,895**	**12,287**	**(56.0)**

(3) NET FEE AND COMMISSION INCOME

€k	H1 2014	H1 2015	+/(–) Change, %
Fee and commission income	**24,423**	**28,542**	**16.9**
– Of which from payment services	10,115	10,571	4.5
– Of which from securities operations	6,421	7,526	17.2
– Of which from credit operations	6,176	7,503	21.5
– Of which from money and foreign exchange transactions	980	2,130	>100
– Of which from other services	731	812	11.1
Fee and commission expenses	**1,382**	**1,612**	**16.6**
– Of which arising from payment services	707	910	28.7
– Of which arising from securities operations	467	420	(10.1)
– Of which arising from credit operations	128	169	32.0
– Of which arising from money and foreign exchange transactions	8	44	>100
– Of which arising from other services	72	69	(4.2)
Net fee and commission income	**23,041**	**26,930**	**16.9**

(4) NET TRADING INCOME

€k	H1 2014	H1 2015	+/(–) Change, %
Price-based contracts	20	(5)	(>100)
Interest rate and currency contracts	1,044	936	(10.3)
Net trading income	**1,064**	**931**	**(12.5)**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	H1 2014	H1 2015	+/(–) Change, %
Staff costs	34,761	35,427	1.9
– Of which wages and salaries	25,460	25,080	(1.5)
– Of which social security costs	6,260	6,246	(0.2)
– Of which costs of old-age benefits	3,041	4,101	34.9
Other administrative costs	13,990	14,284	2.1
Depreciation/amortization	3,242	3,337	2.9
General administrative expenses	**51,993**	**53,048**	**2.0**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	H1 2014	H1 2015	+/(–) Change, %
Other operating income	2,973	2,332	(21.6)
Other operating expenses	(3,900)	(5,921)	51.8
Other operating income net of other operating expenses	**(927)**	**(3,589)**	**>100**

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

€k	H1 2014	H1 2015	+/(–) Change, %
Revaluation gains and losses on derivatives	959	802	(16.4)
Gain/(loss) as a result of using the fair value option	(141)	(74)	(47.5)
Profit/(loss) from financial assets designated as at fair value through profit or loss	**818**	**728**	**(11.0)**

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

€k	H1 2014	H1 2015	+/(–) Change, %
Revaluation gains and losses	13	(60)	(>100)
Gains and losses realized on disposal	1,612	1,817	12.7
Profit/(loss) from available-for-sale financial assets	**1,625**	**1,757**	**8.1**

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

€k	H1 2014	H1 2015	+/(–) Change, %
Revaluation gains and losses and gains and losses realized on disposal	0	0	0
Profit/(loss) from held-to-maturity financial assets	**0**	**287**	**—**

(10) INCOME TAX EXPENSE

€k	H1 2014	H1 2015	+/(–) Change, %
Current taxes	(2,962)	(10,203)	>100
Deferred taxes	(414)	637	(>100)
Income tax expense	**(3,376)**	**(9,566)**	**>100**

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2014	30/6/2015	+/(–) Change, %
Cash in hand	34,693	35,306	1.8
Credit balances with central banks of issue	180,576	102,895	(43.0)
Cash and balances with the central bank	**215,269**	**138,201**	**(35.8)**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Receivables from Austrian banks	167,323	77,714	(53.6)
Receivables from foreign banks	102,159	199,346	95.1
Receivables from other banks	**269,482**	**277,060**	**2.8**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Corporate and business banking customers	3,883,416	3,958,856	1.9
Retail banking customers	1,126,513	1,158,497	2.8
Receivables from customers	**5,009,929**	**5,117,353**	**2.1**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2014	30/6/2015	+/(–) Change, %
At beginning of period under review	176,109	194,161	10.3
Change in consolidation policy [1]	28,285	0	(100.0)
+ Added	55,566	19,498	(64.9)
– Reversed	(13,147)	(5,969)	(54.6)
– Used	(52.607)	(11.625)	(77.9)
+ Foreign exchange differences	(45)	108	(>100)
At end of period under review	**194,161**	**196,173**	**1.0**

[1] Because of the proportionate consolidation of *Alpenländische Garantie-GmbH* (ALGAR), the dedicated provisions and provisions in respect of ALGAR's declarations of freedom from impairment were accounted for as specific risk allowances.

(15) TRADING ASSETS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Bonds and other fixed-interest securities	0	0	—
Shares and other variable-yield securities	0	0	—
Positive fair values of derivative financial instruments			
– Of which currency contracts	0	0	—
– Of which interest rate contracts	46	88	91.3
Trading assets	**46**	**88**	**91.3**

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

€k	31/12/2014	30/6/2015	+/(–) Change, %
Bonds and other fixed-interest securities	62,339	62,383	0.1
Loans	87,060	82,760	(4.9)
Financial assets designated as at fair value through profit or loss	**149,399**	**145,143**	**(2.8)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Bonds and other fixed-interest securities	82,636	69,815	(15.5)
Shares and other variable-yield securities	42,281	44,831	6.0
Investments in other associates and in subsidiaries	4,393	4,393	0.0
Other equity investments	54,000	55,669	3.1
Available-for-sale financial assets	**183,310**	**174,708**	**(4.7)**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Bonds and other fixed-interest securities	678,757	698,275	2.9
Held-to-maturity financial assets	**678,757**	**698,275**	**2.9**

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

€k	31/12/2014	30/6/2015	+/(–) Change, %
Oberbank AG	259,001	278,874	7.7
Bank für Tirol und Vorarlberg AG	132,631	139,110	4.9
Drei-Banken Versicherungs-AG	4,264	4,264	0.0
Investments in entities accounted for using the equity method	**395,896**	**422,248**	**6.7**

(20) INTANGIBLE ASSETS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Goodwill	0	0	—
Other intangible assets	1,993	1,940	(2.7)
Intangible assets	**1,993**	**1,940**	**(2.7)**

(21) PROPERTY AND EQUIPMENT

€k	31/12/2014	30/6/2015	+/(–) Change, %
Land	7,856	7,864	0.1
Buildings	41,232	40,371	(2.1)
Other	9,952	11,403	14.6
Property and equipment	**59,040**	**59,638**	**1.0**

(22) INVESTMENT PROPERTY

€k	31/12/2014	30/6/2015	+/(–) Change, %
Land	11,842	8,941	(24.5)
Buildings	17,143	22,236	29.7
Investment property	**28,985**	**31,177**	**7.6**

(23) DEFERRED TAX ASSETS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Deferred tax assets	**24,958**	**26,007**	**4.2**

(24) OTHER ASSETS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Positive fair values of derivative financial instruments	15,821	19,622	24.0
Other items	13,566	12,763	(5.9)
Deferred items	2,351	2,729	16.1
Other assets	**31,738**	**35,114**	**10.6**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Payables to Austrian banks	593,228	606,070	2.2
Payables to foreign banks	267,289	169.145	(36.7)
Payables to other banks	**860,517**	**775,215**	**(9.9)**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Savings deposit balances	**1,705,481**	**1,690,784**	**(0.9)**
– Of which from corporate and business banking customers	195,651	182,714	(6.6)
– Of which from retail banking customers	1,509,830	1,508,070	(0.1)
Other payables	**2,518,485**	**2,614,830**	**3.8**
– Of which to corporate and business banking customers	1,742,938	1,799,445	3.2
– Of which to retail banking customers	775,547	815,385	5.1
Payables to customers	**4,223,966**	**4,305,614**	**1.9**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2014	30/6/2015	+/(–) Change, %
Issued bonds	500,655	486,686	(2.8)
Other liabilities evidenced by paper	92,959	109,560	17.9
Liabilities evidenced by paper	**593,614**	**596,246**	**0.4**

(28) TRADING LIABILITIES

€k	31/12/2014	30/6/2015	+/(–) Change, %
Interest rate contracts	45	88	95.6
Currency contracts	0	0	—
Trading liabilities	**45**	**88**	**95.6**

(29) PROVISIONS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Provisions for post-employment benefits and similar obligations	78,917	80,711	2.3
Provisions for taxes (current tax)	117	10,047	>100
Other provisions	49,485	50,222	1.5
Provisions	**128,519**	**140,980**	**9.7**

(30) DEFERRED TAX LIABILITIES

€k	31/12/2014	30/6/2015	+/(–) Change, %
Deferred tax liabilities	**10,505**	**11,342**	**8.0**

(31) OTHER LIABILITIES

€k	31/12/2014	30/6/2015	+/(–) Change, %
Negative fair values of derivative financial instruments	26,257	63,017	>100
Other items	13,928	24,864	78.5
Deferred items	5,988	4,551	(24.0)
Other liabilities	**46,173**	**92,432**	**>100**

(32) SUBORDINATED DEPT CAPITAL

€k	31/12/2014	30/6/2015	+/(–) Change, %
Supplementary capital	155,453	148,721	(4.3)
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**195,453**	**188,721**	**(3.4)**

(33) SEGMENTAL REPORTING

Method: Net interest income was subdivided using the *market interest rate method*. Incurred costs were allocated to the individual business segments on a cost-by-cause basis. So-called *structural income* was allocated to the financial markets segment. Capital was allocated according to regulatory criteria. Average allocated equity was recognized applying an interest rate of 5 per cent and the result was recognized as income from investing equity in the line item *Net interest income*. The performance of each business segment was gauged in terms of the profit before tax recorded in that segment. Alongside the cost:income ratio, return on equity was one of the principal benchmarks for managing business segments. Our segmental reporting was based on our internal management processes. The Management Board as a whole was responsible for the enterprise's management. The reporting structure used for internal management purposes was divided into the following subareas:

– the monthly analysis of results at the profit centre level;
– reporting of all relevant types of risk at least once a quarter;
– *ad-hoc* reports in the event of exceptional occurrences.

The 'Other' segment encompasses everything not directly connected with business segments, items of income and expense that could not be allocated to the other segments and those contributions to profit that could not be attributed to any one segment. Segment results for the first half of 2014 were restated in conformity with IAS 8.

SEGMENTAL PERFORMANCE ANALYSIS

	Retail Banking		Corporate and Business Banking		Financial Markets	
€k	H1 2014	H1 2015	H1 2014	H1 2015	H1 2014	H1 2015
Net interest income	**17,301**	**15,920**	**40,426**	**41,803**	**20,323**	**21,179**
– Of which from investments in entities accounted for using the equity method	—	—	—	—	12,382	15,106
Impairment charge on loans and advances	(1,228)	(1,091)	(26,343)	(11,979)	(324)	783
Net fee and commission income	**10,695**	**13,135**	**11,962**	**13,581**	**97**	**150**
Net trading income	0	0	0	0	1,064	931
General administrative expenses	(27,620)	(27,945)	(19,179)	(19,518)	(3,281)	(3,182)
Other operating income net of other operating expenses	316	330	776	717	(8)	(7)
Profit from financial assets	0	0	0	0	2,443	2,772
Profit for the period before tax	**(536)**	**349**	**7,642**	**24,604**	**20,314**	**22,626**
Average risk-weighted assets	558,737	499,449	3,261,275	3,111,101	615,012	848,489
Average allocated equity	44,699	39,956	260,902	248,888	398,678	510,397
ROE based on profit for the period	**(2.4%)**	**1.7%**	**5.9%**	**19.8%**	**10.2%**	**8.9%**
Cost:income ratio	**97.6%**	**95.1%**	**36.1%**	**34.8%**	**15.3%**	**14.3%**
Risk:earnings ratio	**7.1%**	**6.9%**	**65.2%**	**28.7%**	**1.6%**	**—**

	Other		Total	
€k	H1 2014	H1 2015	H1 2014	H1 2015
Net interest income	**265**	**608**	**78,315**	**79,510**
– Of which from investments in entities accounted for using the equity method	—	—	12,382	15,106
Impairment charge on loans and advances	0	0	(27,895)	(12,287)
Net fee and commission income	**287**	**64**	**23,041**	**26,930**
Net trading income	0	0	1,064	931
General administrative expenses	(1,913)	(2,403)	(51,993)	(53,048)
Other operating income net of other operating expenses	(2,011)	(4,629)	(927)	(3,589)
Profit from financial assets	0	0	2,443	2,772
Profit for the period before tax	**(3,372)**	**(6,360)**	**24,048**	**41,219**
Average risk-weighted assets	44,206	48,832	4,479,231	4,507,872
Average allocated equity	7,019	8,754	711,297	807,995
ROE based on profit for the period	**—**	**—**	**6.8%**	**7.5%**
Cost:income ratio	**—**	**—**	**51.2%**	**51.1%**
Risk:earnings ratio	**—**	**—**	**35.6%**	**15.5%**

(34) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Subscribed capital	72,072	72,072	0.0
– Of which share capital	72,072	72,072	0.0
Capital reserves	143,056	143,056	0.0
Retained earnings and other reserves, current profit	580,721	605,013	4.2
Shareholders' equity before minority interests	**795,849**	**820,141**	**3.1**
Minority interests	(12)	(14)	16.7
Shareholders' equity after minority interests	**795,837**	**820,127**	**3.1**

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

(35) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2014	30/6/2015	+/(–) Change, %
Guarantees	392,244	400,905	2.2
Letters of credit	2,948	583	(80.2)
Contingent liabilities	**395,192**	**401,488**	**1.6**
Other commitments	868,499	923,373	6.3
Commitments	**868,499**	**923,373**	**6.3**

(36) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

	Outstanding Balances at		Guarantees Received		Guarantees Issued	
€k	31/12/2014	30/6/2015	31/12/2014	30/6/2015	31/12/2014	30/6/2015
Unconsolidated subsidiaries			0	0	0	0
Receivables	5,597	5,466				
Payables	1,165	1,625				
Associates and joint arrangements			0	0	0	0
Receivables	59,585	3,398				
Payables	145,108	145,256				
Key management personnel			0	0	0	0
Receivables	440	427				
Payables	479	908				
Other related persons			0	0	109	109
Receivables	16	19				
Payables	592	537				

LOANS AND ADVANCES GRANTED

€k	31/12/2014	31/3/2015	+/(–) Change, %
Loans and advances granted to members of the Management Board	165	153	(7.3)
Loans and advances granted to members of the Supervisory Board	275	274	(0.4)
Loans and advances granted	**440**	**427**	**(3.0)**

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

(37) EVENTS AFTER THE INTERIM REPORTING DATE

No activities or events that were exceptional in either form or nature took place at BKS Bank after the interim reporting date (30 June 2015) affecting the assets, liabilities, financial position or profit or loss as presented in this report.

(38) FAIR VALUES

The two tables that follow on page 42 present the fair values of the respective balance sheet items. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Valuation policies and classification

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

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

In the category *Level 3 'Internal Valuation Methodology'* presented on page 43, the values of individual financial instruments were measured on the basis of special generally accepted valuation methods. If their fair value could not be reliably ascertained, available-for-sale equity investments and investments in entities accounted for using the equity method in the category *Level 3* were recognized at their carrying amounts. In general, receivables from customers and liabilities evidenced by paper in the category *Level 3* were measured on the basis of market data that could be observed for the respective asset or liability (e.g. yield curves, foreign exchange rates). The factors affecting the valuation 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 BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in the category *Level 3* were measured using present value techniques.

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). No reclassifications were carried out during the period under review.

Changes in ratings of liabilities measured to fair value

During the period under review, the change in BKS Bank's credit standing reduced the value of the liabilities measured to fair value by €0.3 million (2014: reduction of €0.6 million).

(38) FAIR VALUES

30 JUNE 2015 €k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 30/6/2015	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	277,130	0	277,130	277,060	70
Receivables from customers	0	5,194,549	0	5,194,549	5,128,994	65,555
Trading assets	0	88	0	88	88	0
Financial assets designated as at fair value through profit or loss	62,383	0	82,760	145,143	145,143	0
Available-for-sale financial assets	149,163	0	25,545	174,708	174,708	0
Held-to-maturity financial assets	762,848	0	0	762,848	698,275	64,573
Investments in entities accounted for using the equity method	323,455	0	4,264	327,719	422,248	(94,529)
Investment property	0	0	47,095	47,095	31,177	15,918
Other assets (derivatives)	0	19,622	0	19,622	19,622	0
Equity and liabilities						
Payables to other banks	0	778,242	0	778,242	775,216	3,026
Payables to customers	0	4,320,886	0	4,320,886	4,305,614	15,272
Liabilities evidenced by paper	416,410	94,107	103,924	614,441	596,246	18,195
– Of which designated as at fair value through profit or loss	0	0	103,924	103,924	103,924	0
Subordinated debt capital	190,228	2,350	0	192,578	188,721	3,857
Trading liabilities	0	88	0	88	88	0
Other liabilities (derivatives)	0	63,017	0	63,017	63,017	0

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

LEVEL 3: Changes between 1 January and 30 June 2015

€k	Available for Sale (FV)	Investments in Entities Accounted for using the Equity Method	At Fair Value Through Profit or Loss (FV)	Liabilities Evidenced by Paper, of which at Fair Value Through Profit or Loss
At 1 January 2015	24,965	4,264	87,061	106,316
Reclassified	0	0	0	0
Income Statement [1]	(67)	0	(529)	(2,392)
Other profit or loss	47	0	0	0
Purchased	600	0	0	0
Sold/redeemed	0	0	(3,772)	0
At 30 June 2015	**25,545**	**4,264**	**82,760**	**103,924**

[1] Revaluations through profit or loss.

(39) BALANCE OF DERIVATIVES OUTSTANDING

The nominal and fair values of the derivative contracts outstanding (banking and trading book) were as follows:

30 June 2015	Nominal, by Term to Maturity				Fair Values	
€k	< 1 Year	1– 5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**2,108,748**	**356,714**	**0**	**2,465,462**	**12,225**	**52,377**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**233,148**	**128,352**	**274,930**	**636,430**	**6,059**	**7,985**
– Of which in trading book	4,148	10,602	11,060	25,810	89	88
Securities contracts	**920**	**—**	**—**	**920**	**—**	**31**
– Of which in trading book	—	—	—	—	—	—
Total	**2,342,816**	**485,066**	**274,930**	**3,102,812**	**18,284**	**60,393**
– Of which in trading book	4,148	10,602	11,060	25,810	89	88

31 December 2014	Nominal, by Term to Maturity				Fair Values	
€k	< 1 Year	1– 5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**1,365,225**	**630,789**	**—**	**1,996,014**	**6,743**	**13,094**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**211,928**	**172,574**	**280,896**	**665,398**	**8,320**	**11,603**
– Of which in trading book	2,928	9,324	14,986	27,238	46	46
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,577,153**	**803,363**	**280,896**	**2,661,412**	**15,063**	**24,697**
– Of which in trading book	2,928	9,324	14,986	27,238	46	46

Statement by BKS Bank's Management

"We confirm that, to the best of our knowledge, the Consolidated Interim Financial Statements as at and for the six months ended 30 June 2015 prepared in accordance with the effective financial reporting standards present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group and that the Consolidated Management Report for the period from 1 January to 30 June 2015 presents fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group with respect to the important events occurring during the first six months of the financial year and their impact on the Consolidated Interim Financial Statements with respect to the material risks and uncertainties for the remaining six months of the financial year."

Klagenfurt am Wörthersee
17 August 2015

The Management Board

Herta Stockbauer (Chairwoman)

Member of the Management Board responsible for Corporates, Accounts and Sales Controlling, Human Resources, Treasury and Proprietary Trading, Public Relations, Marketing and Investor Relations, Construction, Subsidiaries and Equity Investments; abroad, she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

Dieter Krassnitzer (Member)

Member of the Management Board responsible for Risk Management, Risk Controlling, BKS Bank's Credit Back Office and Service Companies, Business Organization, IT and Technical Services and *3 BANKEN EDV Gesellschaft*; abroad, he is responsible for the Back Office, Risk Management and IT.

Wolfgang Mandl (Member)

Member of the Management Board responsible for Retail Personal Banking and Retail Business Banking in Austria, Private Banking and Securities Operations, Capital Management and Custodian Operations, Online Sales and Social Media and Sales Partners; abroad, he is responsible for the Italy region.

Financial Calendar for 2015

31 March 2015:	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2014 in the Internet and in the official *Wiener Zeitung* gazette
20 May 2015:	76th Ordinary General Meeting (AGM)
22 May 2015:	Ex-dividend date
26 May 2015:	Dividend payment date

BKS Bank's Interim Reports

22 May 2015:	Interim Report as at and for the 3 months ended 31 March 2015
21 August 2015:	Semi-Annual Report as at and for the 6 months ended 30 June 2015
27 November 2015:	Interim Report as at and for the 9 months ended 30 September 2015

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