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Semi-Annual Financial Report 2016

BKS Bank
3 Banken Gruppe

Contents

Forward-looking statements

This 2016 Semi-Annual Financial Report contains statements and forecasts concerning the future performance and development of the BKS Bank Group. Such forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 23 August 2016. 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 Semi-Annual Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

Disclaimer

This Semi-Annual Financial 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 and the relevant version for all legal purposes. Interim reports in English are translations.

Minimal differences between amounts in tables and charts are the result of rounding errors.

Overview of the BKS Bank Group

INCOME ACCOUNT, €m	H1 2015	H1 2016	+/(–) Change, %
Net interest income	79.5	77.3	(2.8)
Impairment charge on loans and advance	(12.3)	(12.4)	0.9
Net fee and commission income	26.9	25.4	(5.8)
General administrative expenses	(53.0)	(54.3)	2.4
Profit for the period before tax	41.2	30.5	(26.0)
Profit for the period after tax	31.7	24.7	(21.9)

BALANCE SHEET DATA, €m	31/12/2015	30/06/2016	+/(–) Change, %
Assets	7,063.4	7,099.9	0.5
Receivables from customers after impairment charge	4,920.1	4,984.2	1.3
Primary deposit balances	5,109.8	5,120.0	0.2
– Of which savings deposit balances	1,629.8	1,595.5	(2.1)
– Of which liabilities evidenced by paper, including subordinated debt capital	758.1	763.3	0.7
Equity	860.2	877.1	2.0
Customer assets under management	13,212.1	13,009.5	(1.5)
– Of which in customers' securities accounts	8,102.3	7,889.5	(2.6)

OWN FUNDS FOR THE PURPOSES OF CRR, €m	31/12/2015	30/06/2016	+/(–) Change, %
Risk-weighted assets	4,883.4	4.933.1	1.0
Own funds	599.9	597.1	(0.5)
– Of which common equity Tier 1 capital (CET1)	575.6	545.8	(5.2)
– Of which total Tier 1 capital (CET1 and AT1)	575.6	545.8	(5.2)
Surplus own funds	209.2	171.6	(18.0)
Common equity Tier 1 capital ratio, %	11.8	11.1	(0.7)
Total capital ratio, %	12.3	12.1	(0.2)

PERFORMANCE, %	31/12/2015	30/06/2016	+/(–) Change, ppt
Return on equity before tax	7.3	6.1	(1.2)
Return on assets before tax	0.9	0.8	(0.1)
Cost:income ratio	48.7	55.8	7.1
Risk:earnings ratio (credit risk in % of net interest income)	29.2	16.0	(13.2)

RESOURCES	31/12/2015	30/06/2016	+/(–) Change
Average number of staff	923	926	3
Branches	59	60	1

BKS BANK'S SHARES	2015	H1 2016
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, €	17.5/15.7	17.3/15.3
Low: ordinary/preference share, €	16.5/14.8	16.2/14.5
Close: ordinary/preference share, €	16.9/15.1	16.4/14.6
Market capitalization, €m	605.8	587.8

Dear shareholder,
Dear customer,
Dear business associate,

Welcome to our 2016 semi-annual financial report. We had an eventful first half in 2016. The surprising outcome of the Brexit referendum and its uncertain economic and political consequences together with terrible terrorist attacks are visibly unnerving the people of Europe.

Despite these worrying developments, the BKS Bank Group earned a respectable profit for the period after tax of €24.7 million in the first half. Thanks to our cautious risk policy, we were able to keep the impairment charge on loans and advances stable at €12.4 million. Interest rate-sensitive operations have again been under considerable pressure in recent months. Dented by the extremely low interest rates, net interest income was 2.8 per cent down on the same period of 2015 to €77.3 million. As a result of the uncertainty in the stock markets, net fee and commission income fell, decreasing by 5.8 per cent to €25.4 million. On the other hand, general administrative expenses increased by just 2.4 per cent to €54.3 million. We attribute this good result to our strict cost discipline.

The BKS Bank Group's assets were unchanged compared with 31 December 2015 at €7.1 billion. The economy's slight recovery in the first half rejuvenated credit demand. Receivables from customers before the impairment charge grew by 1.2 per cent to €5.2 billion. The balance of primary deposits stabilized at €5.1 billion, reflecting customer confidence in our bank.

The changes to the stability levy brought a welcome reduction of the burdens on our profit position. We see the long overdue change in the levy on banks—which will in future be based on the German model with significantly lower contributions—as an important step forward in strengthening our competitiveness, although the plan to demand a one-off payment of

€1 billion from us banks will leave a bitter aftertaste. On the other hand, we do not believe that anything will be gained from the emotional debate about ATM charges. Creating the infrastructure needed make cash withdrawals possible costs a lot of money, so we must be allowed to consider charging for them. However, at this point, I would like to stress that we do not charge anything for ATM withdrawals and do not currently plan to introduce any such charges.

We also achieved a number of non-financial successes in the first half. We have already told you in detail in these reports about our plans to merge our Croatian banking subsidiary into *BKS Bank AG*. I am pleased to be able to tell you that we have now reached a very important milestone in that both Croatia's national bank and the Austrian Financial Market Authority (FMA) have approved the merger. We will be the first bank in Europe to carry out a cross-border merger of a Croatian with an Austrian bank.

The addition of BKS Bank's ordinary no-par share to the Vienna Stock Exchange's *VÖNIX Nachhaltigkeitsindex* (sustainability index) was another highlight. It means that BKS Bank is one of Austria's top sustainability performers. Furthermore, we will be celebrating 30 years on the stock exchange in the autumn and will be holding a series of events to commemorate this anniversary.

In the spring, we carried out a customer satisfaction survey in the retail and corporate and business banking segments. I am delighted by our score of 1.7 on a 5 point scale from 1 (best) to 5 (worst). That apart, in May 2016, we won the *FMVÖ-Recommender-Award* for 'outstanding customer orientation' in the 'Regional Banks' category. As our customers' high level of satisfaction shows, we are on the right track as a provider of quality advisory services.

We plan to carry out a capital increase in the autumn of 2016. Although we are satisfied with our current own funds base (own funds ratio of 12.1 per cent and common equity Tier 1 capital ratio of 11.1 per cent), it is important for us to set our course for the future in good time. We want to use the forthcoming capital increase to strengthen the Carinthian economic region by lending to businesses and to press ahead with our plans for expansion in Vienna and in foreign markets.

Our employees do great things for our customers, shareholders and business associates on a daily basis. I would like to thank them warmly for their hard work.

Herta Stockbauer
Chairwoman of the Management Board

Klagenfurt
23 August 2016

Consolidated Management Report for the Six Months Ended 30 June 2016

The Economic Setting in which Banks are Operating

Modest growth in the world economy

In its latest report, the International Monetary Fund (IMF) again reduced its growth forecast for the world economy. It gave as its main reason 'Brexit', which stands for the United Kingdom's impending exit from the European Union (EU). According to the forecast, the world economy will only grow by about 3.1 per cent this year, and the forecast for 2017 was also reduced from 3.5 per cent to 3.4 per cent. However, given the high level of uncertainty, actual growth might be weaker still. The other risks named by the IMF included above all the European banking system's unsolved problems (particularly in Italy and Portugal), the lack of structural reforms, growing protectionism, the refugee crisis, geopolitical dislocations and terrorism.

Stable growth in the US economy

The US economy's performance can be summed up succinctly as 'waning but highly stable.' At the moment, the signs are that its growth in the second quarter will be slightly stronger than in the first. Above all, private consumption should make an appreciable positive contribution to growth, although the increase in corporate investment is expected to be just marginal. Key sentiment indicators have also been better than expected. Consumer confidence reached a new high for the year of 98 points, and the ISM's national Manufacturing Purchasing Managers Index improved to 53.2 points, which was its highest level since February 2015.

Brexit is dampening the eurozone's growth outlook

Not surprisingly, the British economy is likely to be most affected by the Brexit vote. The IMF expects Britain's economic growth to slow by 0.2 percentage points to 1.7 per cent this year. In fact, some market participants believe that the British economy will slide into a mild recession. The effect on Europe should be less pronounced. The United Kingdom's direct economic impact on Europe is modest. European companies with extensive activities and assets in the United Kingdom will probably limit their investments until there is clarity about the future relationship between the United Kingdom and the EU. Trade could also suffer. The biggest threat to the EU is felt to be less the economic consequences of the Brexit referendum than the risk of an increase in the number of Eurosceptics stirring up doubts about the EU project.

Austria's economic growth is picking up again

The Austrian economy has not gained much momentum in recent years and has lagged behind developments in other EU countries. Although the economy's growth accelerated from 0.4 per cent to 0.9 per cent last year, calculations by *Statistik Austria* show that it still fell short of its own 20-year average. Growth in the first half of this year was significantly stronger than had been expected. Thanks to exceptional factors, consumer spending by private households and the public sector gained ground in the first half, and we also saw an upturn in investment activity. Above all, the construction sector appears to be profiting from the growing demand for housing. Austria's Institute of Higher Studies (IHS) is expecting GDP growth of 1.4 per cent in 2016 and 2017, with Brexit denting economic growth by a predicted 0.5 percentage points. The situation in the labour market was still a problem. Although there was an increase in the number of jobs, it was too small to make up for the increase in the labour supply. The jobless rate was 6.1 per cent according to *Eurostat* (May 2016) and 8.1 per cent calculated using the Austrian formula.

The European Central Bank (ECB) retains its loose monetary policy

Last March, ECB boss Mario Draghi took the central bank's policy up another notch. To combat excessively low inflation, its key rate was cut by five basis points to a record low of 0.0 per cent. Furthermore, the ECB's deposit rate for banks was cut by another 0.1 percentage points to negative 0.4 per cent. Monthly bond purchases were increased to €80 billion. In addition, corporate bonds were added to the range of securities being bought by the ECB. The ECB is expected to loosen its monetary policy even more in the wake of the Brexit vote. Many market observers believe that we will see another cut in the deposit rate and an extension of the bond purchasing programme beyond March 2017.

Big fluctuations in exchange rates

The US dollar weakened slightly against the euro during the first half of this year. In view of its more restrictive interest rates policy, one would have expected the Fed—the central bank of the United States—to slowly increase interest rates. That would in turn have strengthened the dollar. It is not what happened. The key rate in the United States stayed at 0.5 per cent, and the US$/€ exchange rate increased from roughly US$ 1.09/€ at the beginning of the year to about US$ 1.11/€ at 30 June 2016. The euro followed a similar path against the Swiss franc. Up to the time of the Brexit vote, the euro appreciated against the Swiss franc from SFr 1.09/€ to SFr 1.11/€. On the day after the Brexit result was announced, it dropped to SFr 1.08/€. The Croatian kuna, which is of importance to our bank, strengthened slightly against the euro in the period under review and was trading at HRK 7.53/€ at the end of June. This compared with HRK 7.65/€ at the beginning of the year.

Highly volatile equity markets

The performance of the international equity markets has fluctuated a great deal so far this year, and the general trend has been negative. They were already performing very weakly at the beginning of the year. At that time, the biggest burden on the markets came from sales by the sovereign wealth funds of the oil-exporting countries that were undertaken to stabilize their national budgets. The DAX—Germany's key index—had the worst start to the year in its history, weakening by about 8.8 per cent in January, and the Dow Jones lost about 6.35 per cent (in US dollar terms). The downtrend continued until the middle of February. The markets recovered significantly thereafter but their overall performance was nonetheless negative. Fluctuations became considerably more intense again in June as a result of the uncertainty surrounding the referendum in the United Kingdom. Above all, European and Japanese equities had a generally weak first half.

At 30 June 2016, Germany's DAX equity index was about 9.9 per cent down on the beginning of the year. Over the same period, Austrian shares retreated by roughly 11.4 per cent. The broad Stoxx Europe 600 Index lost about 7.8 per cent, and in yen terms, Japanese shares lost as much as 18.6 per cent. US equities had a slightly better time. The S&P 500 gained roughly 3.8 per cent in the first half, and the Dow Jones Industrial Index advanced by about 4.3 per cent. On the other hand, the NASDAQ technology index lost some 2.6 per cent. All US amounts are stated here in terms of US dollars. For euro investors, the MSCI World Equity Index fell by about 2.8 per cent in the period under review.

BKS Bank's market capitalization was €587.8 million at the end of June, compared with €605.8 million at 31 December 2015.

Recovery begins in the raw material markets

The downtrend in raw material prices lasted into the beginning of the year. It was mid-February before we saw the beginnings of a significant recovery in raw material prices. It continued as the year progressed.

The price of oil (Brent) had returned to US$ 49.68 a barrel by 30 June 2016, as against US$ 37.28 a barrel at 31 December 2015. This translates into an increase of 33.4 per cent in the first half of 2016. As expected, the Brexit referendum did not have a direct impact on oil prices. However, the possibility of a longer period of risk aversion in the financial markets might tend to subdue oil prices indirectly. On the other hand, oil production in the United States went on dropping. As a result, the glut in the global oil market should continue to shrink as the year progresses. This means that the price of crude oil could start rising permanently from the end of the year or in 2017.

Gold and silver have regained their lustre. The price of gold increased by a good quarter in the period under review to come to US$ 1,322.2 an ounce at the end of June 2016. The price of silver increased by roughly 35.1 per cent to stand at US$ 18.7 an ounce at the end of June 2016. We expect the policies of central banks around the globe to remain expansionary, which should give further support to the price of gold. We assume that investors will buy into gold (the 'crisis currency') if political and economic uncertainties continue to increase. However, in general, the market is expecting the price of gold to move sideways with fluctuations over the next few months.

Notes on the Scope of Consolidation

At the end of June, the scope of consolidation of BKS Bank upon which Group analyses were based encompassed 20 banks and other financial institutions and entities rendering banking-related ancillary services. Those entities included the leasing companies in Austria and abroad as well as *Drei Banken Versicherungsagentur GmbH*.

The overview that follows presents the entities whose assignment to the BKS Bank Group was required by the International Financial Reporting Standards. Subsidiaries were included on the basis of common, Group-wide criteria of materiality and qualitative 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 respective entity.

THE MEMBERS OF THE CONSOLIDATED GROUP

Banks and Other Financial Service Providers

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

Other Consolidated Entities

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

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

Besides *BKS Bank AG*, the consolidated members of the BKS Bank Group comprised 15 banks and other financial institutions and entities rendering banking-related ancillary services that were controlled by *BKS Bank AG*. These Interim Financial Statements are based on the separate financial statements of all the consolidated entities, which were prepared applying common, Group-wide policies. The carrying amounts of the investments in the three associates accounted for using the equity method in conformity with IAS 28 were adjusted according to the changes in the net assets of the entities in which those investments were held.

In the second quarter of 2016, *Drei-Banken Versicherungs-Aktiengesellschaft* was transformed into *Drei Banken Versicherungsagentur GmbH* via a number of intermediate steps. Beforehand, the obligations under this company's insurance portfolio were transferred to *Generali Versicherung AG* as of the start of the year.

Like our investments in our sister banks *Oberbank* and *Bank für Tirol und Vorarlberg*, our investment in *Drei Banken Versicherungsagentur GmbH* was 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 at the end of June 2016, holding stakes of 16.5 per cent and 15.0 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* (3 Banks Group) without having control of them. *ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.* (*ALGAR*) was accounted for on a proportionate basis. This investment required classification as a joint operation pursuant to IFRS 11.

The other consolidated entities, most of which were designated as real estate companies, predominantly rendered banking-related ancillary services. All other company shares were assigned to the available for sale portfolio.

Assets, Liabilities, Financial Position

Assets

The BKS Bank Group had assets of €7.1 billion at 30 June 2016, which means that they were at the same level as at 31 December 2015. There was pleasing growth in the line item *Receivables from customers*, which increased by €63.2 million or 1.2 per cent to €5,177.1 million. In contrast, the line item *Receivables from other banks* fell by €40.9 million or 11.2 per cent to €323.0 million. The impairment allowance balance, which came to €193.7 million at the end of 2015, fell marginally to €192.9 million. The line item *Financial assets* changed little compared with 31 December 2015 to come to €1.4 billion at 30 June 2016.

A small increase in credit demand

Credit operations developed very positively, particularly in the second quarter of 2016. Lending grew both in the retail customer segment (up 2.7 per cent) and in the corporate and business banking segment (up 0.8 per cent). Besides making up for loan repayments, the volume of new business also expanded the loan book by €63.2 million. We are confident that the trend will continue as the year progresses. The drop in receivables from other banks of 11.2 per cent to €323.0 million was primarily due to the end-of-period reduction in investments of surplus liquid assets. We were little affected by the Italian banking crisis. At the end of June, Italian banks accounted for just €30 million or 9.3 per cent of our total receivables from other banks, and the amount has continued to diminish since then.

Our efforts to continuously reduce the foreign currency portion of the loan book bore fruit and the foreign currency ratio (FX ratio) went on falling. It came to 5.3 per cent at 30 June 2016, compared with 6.3 per cent at the end of 2015. As we are aiming for an FX ratio of 4.0 per cent by the end of the year, this means that we are firmly on target.

The leasing operations of our Austrian subsidiary *BKS-Leasing Gesellschaft m.b.H.* failed to meet our expectations, resulting in a portfolio of €163.0 million at 30 June 2016. Although the market demand for lease finance has now strengthened, we were not yet able to take sufficient advantage of this trend. We have therefore set up a project to improve our Austrian leasing company's position in the market. The primary objective is to generate strong growth in the motor vehicle segment. In contrast, our foreign leasing companies performed strongly. The portfolios of the three leasing companies in Slovenia, Slovakia and Croatia had a present value of €148.5 million at the end of June 2016. That was 3.4 per cent more than at the end of 2015.

BKS Bank d.d., which is headquartered in Rijeka, performed very well in the first half of 2016. Its receivables increased by €10.1 million to €167.2 million. As we have already reported on a number of occasions, we are planning to merge *BKS Bank d.d.* into *BKS Bank AG* in the autumn.

Investments in fixed-interest securities are an important management tool when it comes to meeting the legislative liquidity requirements. However, it is difficult to find suitable investments in times of negative interest rates. The benchmark yield on German 10-year government bonds turned negative for the first time and came to an incredible negative 0.17 per cent at the end of June 2016.

During the first half of 2016, scheduled redemptions reduced the line item *Financial assets designated as at fair value through profit or loss* by €7.2 million or 6.3 per cent to €107.6 million. Investments in available-for-sale (AFS) assets totalling €9.0 million increased that portfolio to €175.8 million. On balance, the held to maturity (HTM) portfolio shrank by 2.2 per cent to €708.7 million.

Investments in entities accounted for using the equity method were 3.1 per cent up on the end of 2015 to €452.4 million. The increase was due to the addition of the profits for the period of the entities accounted for using the equity method. These consisted primarily of our sister banks *Oberbank* and *Bank für Tirol und Vorarlberg Aktiengesellschaft*.

Equity and Liabilities

Steady growth in primary deposit balances

Primary deposit balances increased by €10.2 million to total €5.1 billion at 30 June 2016. Once again, their growth was driven by the line item *Other liabilities*, which includes the sight and time deposit balances of our retail and corporate and business banking customers. In all, the line item *Other liabilities* grew by €39.4 million or 1.4 per cent to €2,761.2 million. The *Mein Geld-Konto* accounts remained very popular, with total balances increasing by €14.4 million to €233.2 million during the first half.

In contrast, savings deposit balances were depleted by €34.3 million to €1.6 billion, which was 2.1 per cent down on the end of December 2015. However, the total was still a respectable one given that classical savings products continued to lose their attractiveness in the face of the persistently low interest rates.

During the period under review, the line item *Liabilities evidenced by paper* fell by 0.9 per cent to €571.0 million. The extremely low interest rates made it hard to issue new securities to compensate for scheduled redemptions. This makes us all the more pleased to be able to report that the *BKS Bank Stufenzins Obligation 2016–2025/1* note issued in January 2016 was well received by our customers. Its annual coupon rate will gradually rise from 0.75 per cent to 3.0 per cent. In April 2016, we increased our subordinated debt capital by issuing a subordinated note with a term of eight years giving a gross rate of return of 2.75 per cent. The successful placement increased our subordinated debt capital by 5.8 per cent to €192.3 million.

The line item *Equity* grew by €16.9 million to €877.1 million during the first half. Most of the increase was due to the addition of profit for the period, and income and expenses taken directly to equity were also included. Subscribed capital was unchanged at €72.1 million.

Consolidated Own Funds

We calculated our own funds requirement in conformity with the requirements of the standardized approach. The management of our own funds was a reflection of BKS Bank's conservative and proactive business strategy. An increase in deductions that resulted from expiring transitional arrangements reduced our common equity Tier 1 capital, which plays an essential role in the bank's management, by 5.2 per cent to €545.8 million. The common equity Tier 1 capital ratio fell by 72 basis points to 11.1 per cent.

Including ancillary capital in the amount of €51.3 million, our bank had own funds of €597.1 million at 30 June 2016. We were able to keep the own funds ratio at the high level of 12.1 per cent, and surplus own funds came to €171.6 million at the end of June. Since this Semi-Annual Financial Report has not been audited by an auditor, the profit for the period in the first half could not be counted towards our own funds.

We plan to carry out a capital increase in the autumn of 2016. We will do so to define our path for the future in good time and to lastingly strengthen our capital position. Our syndicate partners have already signalled their preparedness to participate in the planned capital increase. We expect the proceeds from the issue to come to about €50 million.

Our leverage ratio was 7.7 per cent at the end of June 2016. This was well above the regulatory benchmark of 3 per cent. The leverage ratio measures the relationship between Tier 1 capital and non-risk weighted assets inclusive of off-balance sheet items.

BKS BANK KREDITINSTITUTSGRUPPE: OWN FUNDS

€m	31/12/2014	31/12/2015	30/06/2016
Equity	71.4	71.0	70.6
Reserves less intangible assets	714.5	748.0	748.5
Deductions	(242.2)	(243.4)	(273.4)
Common equity Tier 1 capital (CET1)	**543.7**	**575.6**	**545.8**
Common equity Tier 1 capital ratio	11.2%	11.8%	11.1%
Hybrid capital	32.0	28.0	24.0
Additional Tier 1 capital	0	23.4	23.4
Deductions	(32.0)	(51.4)	(47.4)
Additional Tier 1 capital	**—**	**—**	**—**
Tier 1 capital (CET1 + AT1)	**543.7**	**575.6**	**545.8**
Tier 1 capital ratio	11.2%	11.8%	11.1%
Ancillary capital items and instruments	117.8	114.7	125.8
Deductions	(80.6)	(90.4)	(74.5)
Ancillary capital	**37.2**	**24.3**	**51.3**
Total own funds	**580.9**	**599.9**	**597.1**
Own funds ratio	12.0%	12.3%	12.1%
Basis of assessment	4,846.6	4,883.4	4,933.1
Surplus own funds	**193.2**	**209.2**	**171.6**

Performance

Good profit for the period despite a challenging market environment

BKS Bank recorded a profit for the period after tax of €24.7 million. Even though we were unable to repeat our excellent prior-year result of €31.7 million, we are, in view of the difficult environment, satisfied with our profit for the period. Profit in the second quarter was almost twice as high as in the previous quarter, at €16.2 million. Since the drop in profit in the first quarter of 2016 was mainly caused by high regulatory costs, we believe that the uptrend should continue until the end of 2016.

Because of the difficult interest rates situation, the line item *Net interest income* before the impartment charge fell again, to €77.3 million. That compared with €79.5 million in the same period of 2015. The drop in interest expenses—which fell by €7.0 million or 24.8 per cent—limited the decline to 2.8 per cent, but nonetheless, we did not manage to make good the drop in interest income. In addition, the pressure on margins persisted. The lending margin continued to shrink, coming to just 1.85 per cent by the end of June 2016, and the deposit margin worsened to negative 0.05 per cent. On the other hand, we were pleased with the development of the line item *Profit from investments in entities accounted for using the equity method*, which increased by 5.5 per cent to €15.9 million.

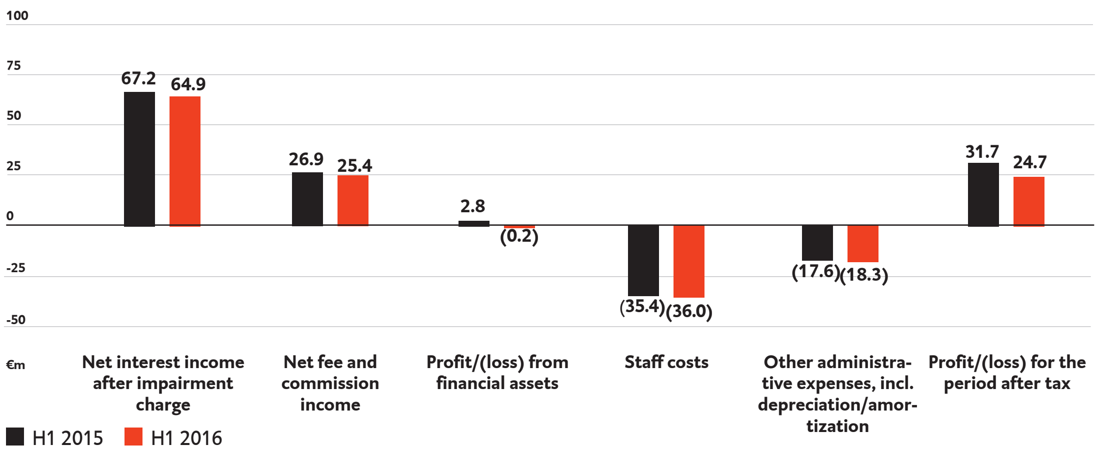
Impairment charge again low

Our conservative risk policy and preparedness to consistently combat risks continued to pay off during the first half of 2016. The impairment charge was virtually unchanged compared with the end of June 2015, at €12.4 million. Our healthy risk position was also reflected by our outstanding risk:earnings ratio of 16.0 per cent.

Fee and commission operations fail to meet expectations

Net fee and commission income came to €25.4 million. That was €1.6 million or 5.8 per cent down on the six months to 30 June 2015. The decline was due mainly to the sluggishness of securities operations in the first half of 2016. Highly volatile securities markets made investors very cautious, and this was mirrored by a drop in earnings. Earnings from securities operations in the six months to 30 June 2016 came to €6.9 million, which was €0.6 million down on the same period of 2015. Taking over the securities customers of *Perspektiva* enabled our

COMPONENTS OF THE INCOME STATEMENT



Slovakia branch to expand its securities operations. In all, it took over 250 custody accounts containing securities worth about €100 million. This should give added stimulus to securities operations in the second half.

Earnings from payment operations grew well. Setting up sales specialists in the field of payment operations bore fruit. Earnings from payment operations were 3.7 per cent up on the same period of 2015 to €11.0 million.

On the other hand, fee and commission earnings from credit operations fell slightly. That notwithstanding, our earnings of €7.3 million in the first half of 2016 were very satisfactory. They were a reflection of our highly developed profit awareness and systematic billing.

Our earnings from foreign exchange operations fell by €1.0 million. The drop was not a surprise because we had experienced a sharp increase in earnings in this area in 2015 as a result of the abandonment of the cap on the exchange rate between the Swiss franc and the euro.

Because of revaluations, profit from financial assets turned slightly negative in the six months to the end of 2016, coming to negative €0.2 million. Furthermore, we responded to the uncertainty in the securities markets by investing defensively. This dented our earnings.

A small increase in general administrative expenses

General administrative expenses were just 2.4 per cent up on the same period of 2015 to €54.3 million. This small increase was the reward for strict cost management. In addition, we were very cautious in our investments. Staff costs accounted for the biggest slice of general administrative expenses. They increased slightly compared with the six months to the end of June 2015, coming to €36.0 million. The increase was mainly attributable to the hikes in wages and salaries under collective agreements, which averaged 1.2 per cent. In general, we were defensive when filling positions that had become vacant. Group-wide, we had 926 employees (full year equivalents) at 30 June 2016.

Other operating expenses were 4.8 per cent up on the same period of 2015 to €15.0 million. The increase was due to higher expenditure on IT and facility management. Depreciation and amortization fell to €3.3 million, which was 1.4 per cent down on the same period of 2015.

Other operating income net of other operating expenses dented by big levies

The line item *Other operating income net of other operating expenses* provided convincing evidence of the burdens that banks were compelled to bear. Having already been negative in 2015, it worsened by another €2.7 million, taking it to negative €6.3 million in the period under review. The reasons for the deterioration were expenditure on the resolution mechanism and deposit guarantee scheme, which already had to be accounted for in the first half of the year, and the inclusion on a prorated basis of the cost of the stability levy.

Segmental Reports

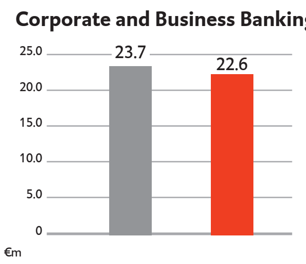
Our segmental reporting is based on the organizational structure of the Group that underlies its internal management systems. It is divided into three segments, namely corporate and business banking, retail banking and financial markets. The performance of each segment was measured on the basis of its profit before tax and the indicators return on equity (ROE), cost:income ratio (CIR) and risk:earnings ratio (RER). Return on equity was calculated on the basis of the relationship between a segment's profit for the year and the average amount of capital employed in it. Capital was allocated according to regulatory criteria. Net interest income was allocated using the *market interest rate method* and on the basis of an extensive liquidity cost allocation system. Incurred operating expenses were allocated to the individual business segments on a cost-by-cause basis. So-called 'structural' income was allocated to the financial markets segment.

Since the summer of 2015, we have been using a professional 'Sales Cockpit' dashboard to better manage our sales activities. It is a key component of our modern sales architecture. It supports self-management, promotes self-responsibility and shows how well targets are being met based on benchmarks that are specific to each segment.

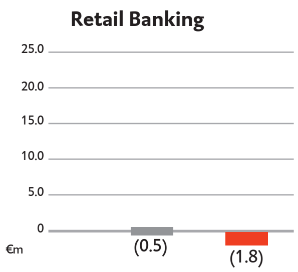
Corporate and Business Banking

About 18,300 corporate and business banking customers were being serviced in this segment at the end of June. BKS Bank having originally been conceived as a pure corporate and business bank, this segment has the longest tradition, dating back to 1922, and has remained the most important pillar of our enterprise. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, the income and expenses of *BKS Bank d.d.* in Croatia and of our leasing subsidiaries insofar as they arose from business done with companies were also allocated to this segment.

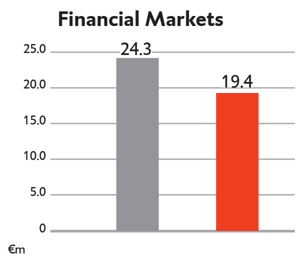
PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT



	H1 2015	H1 2016
ROE	19.1%	18.3%
CIR	38.3%	39.6%
RER	28.3%	26.6%



	H1 2015	H1 2016
ROE	(2.4%)	(8.7%)
CIR	97.6%	101.9%
RER	8.0%	9.9%



	H1 2015	H1 2016
ROE	9.5%	6.8%
CIR	13.3%	14.3%
RER	—	0.2%

A detailed segmental analysis is presented on page 47.

Business performance in the first six months of this year was satisfactory in the light of a market environment that remained difficult. The economic recovery that had set in impacted positively on credit demand. The portfolio of loans to corporate and business banking customers grew slightly, expanding by 0.8 per cent to €4.0 billion following slight shrinkage in the first quarter. We are not only a dependable provider of finance to our corporate and business banking customers. Growing numbers of business owners are also putting their trust in us when it comes to investments. We were able to increase the line item *Other liabilities*, which includes sight and time deposit balances, by 1.7 per cent or €32.3 million to €2.0 billion.

Net interest income was 2.1 per cent down on the same period of 2015 to €41.5 million. In times of extremely low interest rates and growing pressure on margins, we view our earnings from interest operations very positively. Thanks to the work we have done to improve the quality of the loan book, our risk situation has become sustainably stronger. We were able to reduce the impairment charge on loans and advances by about €1.0 million compared with the same period of 2015 to €11.0 million. On the other hand, net fee and commission income fell by 8.2 per cent to €13.6 million. In contrast, strict cost discipline kept general administrative expenses at the same low level as in 2015, at €22.0 million. The corporate and business banking segment's profit for the period before tax in the first half came to €22.6 million. However, we did not match the good profit of €23.7 million that had been achieved in the first half of 2015. The drop in this segment's profit was also mirrored by its management indicators. The return on equity fell from 19.1 per cent to 18.3 per cent; the cost:income ratio increased to 39.6 per cent, which was still very good; and the risk:earnings ratio fell from 28.3 per cent in the first half of 2015 to a very good 26.6 per cent in the period under review.

Retail Banking

Retail customer operations with their comparatively high branch density have always been hotly contested. Low interest rates and narrowing margins have dented profits and increased competitive pressures. A substantial number of customers now prefer to use banking services that are available at any time and anywhere.

Being highly dependent on branch operations, the retail banking segment is very resource and cost intensive. At the same time, though, it is indispensable to us because it remains a stable source of funds for our bank even in times of historically low interest rates. Over 86 per cent of savings deposit balances and roughly 29 per cent of sight and time deposit balances—that is, in total, about half of our payables to customers—were accounted for by retail customers. At the same time, about 23 per cent of the entire loan book, totalling €1.2 billion, consisted of loans to our retail banking customers. During the period under review, we were servicing approximately 133,000 retail customers at *BKS Bank AG*, *BKS Bank d.d.* and the Group's leasing companies.

In April, we migrated our online banking customers to our new, modern *BKS Bank-Online* system. We have been very pleased by our customers' warm response to the new customer portal.

The retail banking segment's profit before tax weakened to a disappointing negative €1.8 million in the first half of the year. There were a number of reasons for this regrettable development. The extremely low level of interest rates, the downtrend in fee and commission operations and high costs all affected earnings in this segment. Looking at its results in detail, the following changes took place compared with the six months to the end of June 2015. Net interest income fell by €0.3 million to €13.3 million. At the same time, the impairment charge on loans and advances increased by €0.2 million to €1.3 million. Net fee and commission income fell by 2.7 per cent to €11.6 million, while general administrative expenses increased by 3.8 per cent to €26.2 million. The segment's ratios also weakened. It had a return on equity of negative 8.7 per cent, and its cost:income ratio rose to an unsatisfactory 101.9 per cent. The risk:earnings ratio also increased, but, at 9.9 per cent, it continued to reflect our very strong risk position in the retail loans book.

Financial Markets

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

The segment's profit for the period before tax came to €19.4 million and was thus substantially below the profit of €24.3 million recorded in the same period of 2014. Most of the decline was accounted for by our earnings from financial assets, which dropped from positive €2.8 million to negative €0.2 million. Profit in the same period of 2015 had been driven by the still positive mood in the financial markets. This year, our earnings have been dented by the volatility of the securities markets and our heightened caution when investing. In addition, in 2015, we were able to exploit the securities markets' positive performance to carry out carefully targeted purchases. The drop in the segment's net interest income, which came to €21.9 million, was again attributable to the extremely low interest rates.

The contributions to profit made by the entities accounted for using the equity method—*Oberbank AG*, *Bank für Tirol und Vorarlberg Aktiengesellschaft* and *Drei Banken Versicherungsagentur GmbH*—proved to be stable pillars of our earnings in the financial markets segment, coming to €15.9 million. That was 5.5 per cent more than in the six months to 30 June 2015. On the other hand, general administrative expenses were virtually unchanged compared with the same period of 2015, at €3.3 million.

The segment's ratios were stable. The return on equity to 30 June 2016 was 6.8 per cent, compared with 9.5 per cent in the same period of 2015. The segment's cost:income ratio of 14.3 per cent was virtually the same as in the six months to the end of June 2015. The risk:earnings ratio of 0.2 per cent was again extremely low.

Key Corporate Ratios

At 30 June 2016, the BKS Bank Group's enterprise performance barometer—which looks at growth in the loan book and in primary deposit balances, at costs and at earnings—gave a positive picture overall. It showed that our key operational ratios were generally satisfactory. This was the fruit of our good profit performance.

The return on equity before tax (ROE) and the return on assets before tax (ROA) both fell slightly in the six months to the end of June 2016. Because of the drop in profit for the period, the return on equity fell compared with 2015, to 6.1 per cent. On the other hand, the return on assets— which expresses the total return on our assets—stayed within the same range as in the past two financial years, coming to 0.8 per cent.

The risk:earnings ratio in the first half of 2016 was excellent at just 16.0 per cent. It was well below the ratio of 29.2 per cent recorded in the same period of 2015. The reason was that our bank was spared any serious impairments in the first half of 2016. On the other hand, the cost:income ratio deteriorated from 48.7 per cent (12 months to the end of 2015) to 55.8 per cent. This was mainly due to an increase in the line item *Other operating expenses*. Under IFRIC 21, our budgeted outlay for the whole year on the national bank resolution mechanism (in the amount of €2.2 million) and on the deposit guarantee scheme (in the amount of €1.6 million) already required recognition in the Income Statement at the beginning of 2016.

Our bank had a solid own funds position. Both the common equity Tier 1 capital ratio and the own funds ratio were good, at 11.1 per cent and 12.1 per cent, respectively, and were well above the legal minima. We reported on this in greater detail in the section on our *Own Funds* on page 13.

KEY CORPORATE RATIOS

	2014	2015	30/06/2016
Return on equity before tax	7.2%	7.3%	6.1%
Return on assets before tax	0.8%	0.9%	0.8%
Cost:income ratio	51.9%	48.7%	55.8%
Risk:earnings ratio	31.5%	29.2%	16.0%
Common equity Tier 1 capital ratio	11.2%	11.8%	11.1%
Own funds ratio	12.0%	12.3%	12.1%

Risk Report

Our business policy credo was to safeguard BKS Bank's autonomy and independence by increasing its profits within the framework of a sustainable growth strategy. The selective assumption of risks was an important feature of our business activities, subject to the requirement that all the relevant operational and other banking risks should be detected early and proactively managed and limited through effective risk management. 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 was anchored in the Risk Strategy as a general principle so as not to jeopardize the bank's autonomy and independence. In 2016, BKS Bank is again doing its utmost to meet every regulatory requirement in the risk management field.

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 and qualitatively all their material operational and other banking risks. The requisite amount of capital must be held on that basis. Such procedures were combined within ICAAP and presented and reported at BKS Bank within the scope of the risk bearing capacity calculation process.

ILAAP is the process for identifying, measuring, managing and monitoring liquidity that must be put in place by BKS Bank pursuant to *§ 39 Abs. 3 BWG*. It encompasses a description of the systems and methods used to measure and manage liquidity and funding risks. BKS Bank assessed and monitored adherence to its liquidity targets within the scope of close to real-time and extensive risk reports. The quantitative disclosures contained in this report pursuant to IFRS 7.31 to 7.42 are based on our internal reports on the overall bank risk management process.

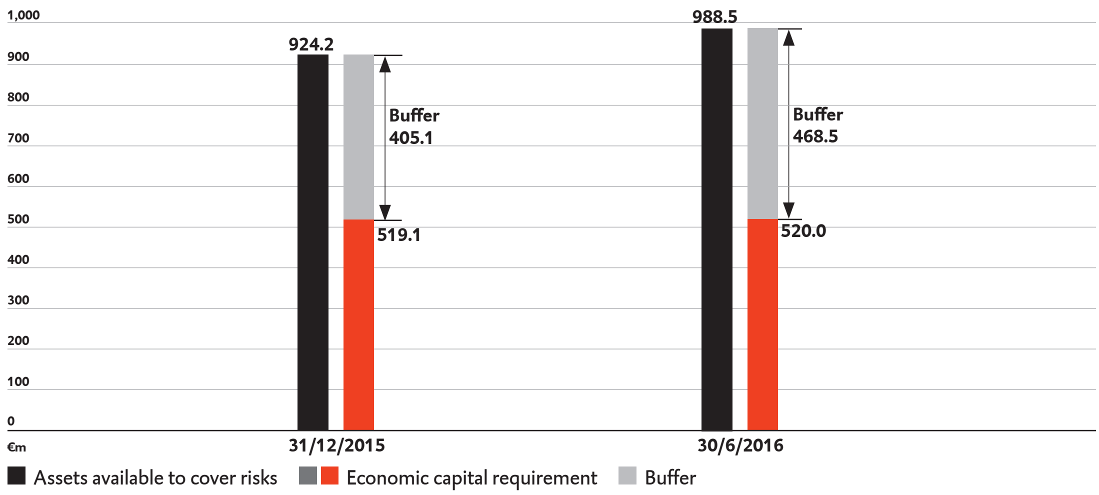
We assess our internal capital adequacy once a quarter on the basis of the risks that have been identified using internal models. The materiality of the respective risks was taken into account when deciding which models to use. The aim was to ensure that BKS Bank always had sufficient assets available 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 the economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit and liquidity risk were factored into the prices charged to customers as risk premiums (standard risk costs, liquidity premiums). The aggregated total potential loss was compared with the assets available to cover such potential losses to ascertain whether the bank was in a position to bear expected and 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 realizability while taking account, above all, of their liquidity and publicity effects. When a capital adequacy target was set on a going concern basis, the potential risk and risk bearing capacity and the limits derived from them were balanced in such a way that the bank was in a position to bear an adverse burden while continuing to conduct business in an orderly manner. The capital adequacy target set on a liquidation basis reflects a regulatory standpoint. It serves to protect creditors. At BKS Bank, unexpected losses were calculated on a liquidation basis for a period of observation of one year and with a confidence interval of 99.9 per cent.

The economic capital requirement for credit risk was the biggest risk capital requirement within the *Kreditinstitutsgruppe* (credit institution group). Credit risk accounted for about 78.0 per cent of our total potential loss at the end of June 2016 (31 December 2015: 76.1 per cent). Market and interest rate risk accounted for 8.2 per cent (31 December 2015: 10.3 per cent). Our economic capital requirement on a liquidation basis was €520.0 million at 30 June 2016, compared with €519.1 million at the end of December 2015. The assets available to cover risks came to €988.5 million (31 December 2015: €924.2 million).

RISK BEARING CAPACITY CALCULATED ON A LIQUIDATION BASIS



Credit Risk

We define credit risk as the risk of a partial or complete loss of contractually agreed loan payments. This risk can be caused by a business counterparty's credit standing or, indirectly, by country risk as the result of a counterparty's domicile or place of residence. Credit risk was BKS Bank's biggest risk category by far.

Monitoring and analysis took place at the product and single customer level, at the level of groups of related customers and on a portfolio basis. Our management of credit risk was based on the principle that loans are only to be granted on a know-your-customer basis. In other words, loans were only granted after thorough personal and credit checks and on a dual-control or 'four-eyes' basis (front office and back office).

Collateral requirements were based on the rating class and the product concerned. Fair value valuations of collateral took their bearings from average proceeds from liquidation achieved in the past. Lending in markets outside Austria was regulated by guidelines that were fine tuned to suit the specific features of the country concerned. They depended in particular on the economic landscape 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 2016, roughly 49 per cent of all lending to corporate and business banking customers and about 66 per cent of lending to retail banking customers was in the good rating classes from AA to 2b. When acquiring new business, our focus was on customers in those rating classes.

The net charge for impairment losses in the first half of 2016 came to €12.4 million, compared with €12.3 million in the same period of 2015. Impairments allowances came to €19.5 million, while impairment reversals came to €7.3 million. Individual impairment allowances, collective assessments of impairments carried out in accordance with IAS 39 and the collective allowance for country risk exposure were taken into account. Looking at our credit risk at the level of non-performing loans, the NPL ratio fell by 60 basis points compared with the beginning of 2016 to 6.0 per cent. The requisite charge for impairment losses at our foreign subsidiaries was virtually unchanged at the same low level as in the first half of 2015, at just €0.1 million.

CHARGE FOR IMPAIRMENT LOSSES

€m	H1 2015	H1 2016	+/(–) Change, %
Impairments allowances	17.8	19.5	9.4
Impairment reversals	(5.5)	(7.3)	32.8
Direct write-offs	0.3	0.6	>100
Subsequent recoveries	(0.3)	(0.4)	44.7
Charge for impairment losses	**12.3**	**12.4**	**0.9**

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying Amount or Max. Default Risk per Category €m	Financial Instruments that were Neither Past Due nor Impaired		Past Due Financial Instruments		Impaired Financial Instruments		Financial Instruments that were Past Due but Not Yet Impaired	
	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016	31/12/2015	30/6/2016
Receivables from customers	5,189	5,299	514	470	464	377	103	104
Contingent liabilities	212	220	6	4	—	—	—	—
Receivables from other banks	389	340	—	1	—	1	—	—
Securities and fund units	772	785	—	—	—		—	—
Equity investments	495	491	—	—	8		—	—
Total	**7,057**	**7,135**	**520**	**475**	**472**	**378**	**103**	**104**

Interest Rate Risk in the Banking Book Inclusive of Market Risk

BKS Bank defines interest rate risk in the banking book and market risk as the risk of losses that might arise from movements in market prices or rates (e.g. interest rates, equity and bond prices, foreign exchange rates) or other parameters that influence prices or rates (e.g. volatilities and credit spreads). These risks 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 such risks into interest rate risk (including credit spread risk), equity price risk and the risk associated with foreign currency positions. We used a combination of different proven ways of gauging risk (e.g. value at risk, modified duration, volumes and stress testing) to effectively manage interest rate and 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 means of on-balance sheet and off-balance sheet transactions or a combination thereof. BKS Bank pursued a strictly conservative interest rate risk strategy and did not engage in any large-volume 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 2.6 per cent from 3.0 per cent at the end of 2015. Again, it remained significantly below the critical 20 per cent mark.

Since earning profits from open currency positions is not one of the focuses of our business policy, BKS Bank has always largely avoided foreign exchange risks. Generally, foreign currency loans and foreign currency deposit balances were funded or invested in the same currency. To close foreign exchange positions, BKS Bank sometimes engaged in derivative transactions like cross currency swaps, currency forward and future transactions and currency swaps. Our open foreign exchange positions came to €16.9 million at the end of June. This figure includes the foreign currency portions of fund units held in our treasury portfolio. We were able to keep our foreign exchange value at risk stable at €0.8 million.

Equity positions and alternative investments that did not comprise equity investments in subsidiaries or associates came to €36.7 million at the end of the second quarter of 2016. The equity value at risk was €2.2 million, compared with €1.3 million at 31 December 2015.

VALUE AT RISK

€m	31/12/2015	30/06/2016	+/(–) Change, %
Interest rate risk[1]	12.2	6.5	(47.5)
FX risk	0.7	0.8	14.3
Equity price risk	1.3	2.2	69.2
Total (including diversification effects)	12.2	7.1	(41.8)

[1] Includes credit spread risk.

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).

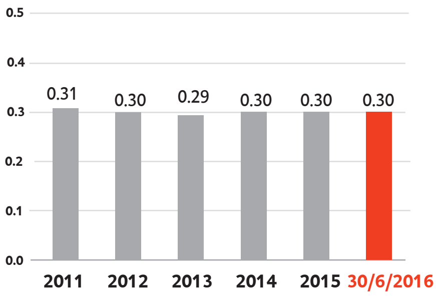
The management of liquidity risk was governed by clearly defined principles that were laid down in our Risk Strategy and in liquidity management manuals. The diversification of our funding profile to achieve a mix of investor categories, products and maturities was an essential part of the liquidity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

At BKS Bank, the management of liquidity in order to ensure solvency at all times was carried out with the help of a daily liquidity gap analysis for 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 customer accounts. Material liquidity risk management decisions were made and liquidity risk monitoring was carried out by our Asset Liability Management Committee, which met regularly. BKS Bank had substantial liquidity reserves at 30 June 2016. The liquidity buffer (counterbalancing capacity) was slightly up on the end of 2015 to €1.1 billion.

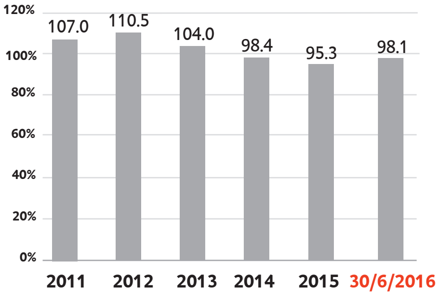
The deposit concentration sketched out in the chart below came to 0.30 in the period under review. This statistic helps us estimate the deposit withdrawal risk associated with the possibility of a run on deposits. Above all, it thus highlights the dangers that come with relying on large deposits. All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

The loan:deposit ratio is another important liquidity management indicator. It states the relationship between the size of the loan portfolio and primary deposit balances. It came to 98.1 per cent, which means that in the period under review we were below our benchmark target and, therefore, at an excellent level. We have set a balanced ratio of 100 per cent as our benchmark target.

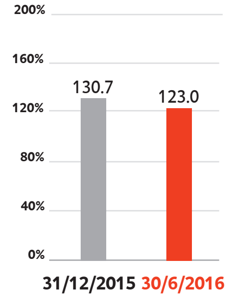
DEPOSIT CONCENTRATION



LOAN:DEPOSIT RATIO



LCR



The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain solvent 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 under stress conditions in the coming 30 days. At 30 June 2016, this regulatory liquidity ratio came to 123.0 per cent. It was thus far above the minimum ratio of 100 per cent that is gradually being phased in between October 2015 and 2018.

Operational Risk

In line with the CRR, we define operational risk as the risk of losses that primarily impinge on BKS Bank's operational domain 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 within 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 138 loss events (not including those resulting from credit operations) in the period under review. After the deduction of compensation received for those loss events, they cost roughly €251 thousand. The seven cases that were recorded in conformity with *§ 19 WAG* (Austrian securities supervision act) caused a total loss of €0.1 million. This was below our internally set risk tolerance threshold of €1.0 million.

Outlook for the Year as a Whole

The Brexit vote dampens the economic outlook around the world
Nobody knows yet what the economic consequences of the Brexit vote will be. The financial markets recovered remarkably quickly after a brief period of hefty turbulence. However, economists around the world agree that Brexit will affect the entirety of the world economy. It will of course have a bigger impact on Europe than on the North American and Asian economies. The International Monetary Fund (IMF) has reduced its global economic forecasts and is predicting global economic growth of 3.1 per cent this year and 3.4 per cent next year. The IMF has given the high level of insecurity created by the Brexit referendum as the reason.

The US economy's growth in 2017 is likely to be stronger than this year. The recent increase in the price of oil should help a number of sectors and industries. The latest data from the US labour market also suggest that the US economy is enjoying stable growth. We believe that key interest rates in the United States will rise slightly in the coming months. However, despite the fact that there have recently been calls for a move in interest rates in the near future (possibly before the end of September), it is still unclear when that will happen.

The European economy's recovery is likely to be severely affected by the Brexit vote. IMF analysts expect the eurozone economy to grow by just 1.4 per cent next year. The situation in the United Kingdom will be particularly dramatic, with GDP growth slowing from 2.2 per cent to 1.3 per cent. According to the latest surveys, the British economy is already being hurt by Brexit. Because Germany has strong trade links with the United Kingdom, German economic growth could slow by 0.4 percentage points next year. Austria's economic recovery should continue, but the Austrian Institute of Higher Studies (IHS) believes that Austria too will suffer a dent of 0.5 percentage points in its economic growth as a result of the Brexit vote.

The equity markets are still operating in an intact environment. The ECB's loose monetary policy is keeping financing terms good. However, in the short term, fluctuations might worsen again in the face of geopolitical uncertainties.

Sustained pressure on banking operations
Although our bank's good performance in the first half confirmed the soundness of our business policy decisions, banks are still operating in a challenging setting.

Given that a turnaround in interest rates policy in Europe is unlikely, our profits will continue to be affected by low interest rates. Instead of a turnaround, we are preparing ourselves for a 'new normality' of historically low interest rates. In addition, we expect the ECB to respond to the Brexit decision by taking further action to stimulate the economy and continuing to supply the market with cheap money. We are reacting to the decline in our earnings from traditional interest rate operations by stepping up our sales activities in the payments and securities fields. Furthermore, we are working intensely on the continuous optimization and standardization of operational procedures and are doing everything we can to save costs and resources throughout the enterprise. The digital revolution too still presents significant opportunities for growth and efficiency enhancement at our bank. We plan to invest accordingly in digitization in order to exploit those opportunities. Above all, we are introducing so-called end-to-end processes that will capture digitally every stage of a workflow from the customer's instructions to their execution and documentation.

We are cautiously optimistic about the remainder of this financial year

Based on our results in the first half, we are cautiously optimistic about 2016 as a whole. We are consistently applying our customer focused strategy, which is characterized by risk discipline, capital efficiency, earnings diversification, rigorous cost management and the maintenance of an outstanding liquidity position. Credit growth is expected to pick up again in the second half.

We will be opening one branch each in Vienna and Slovenia during the next six months. The new branches will focus on acquiring new corporate and business banking customers. We plan to expand our range of sustainable products and services. In the autumn, we will be adding a green or social bond to the *AVM nachhaltig*[1] sustainable active asset management line. We have already completed our preparations for the launch of this product.

The capital increase planned for the autumn of 2016 will add to the strength of BKS Bank's Tier 1 capital and safeguard the continuing growth of our core operations. The main focus will of course continue to be on achieving profitable growth in the future.

As in prior years, we plan to distribute a dividend for the 2016 financial year that adequately reflects our profits.

Klagenfurt
23 August 2016

Herta Stockbauer
Chairwoman of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

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

The BKS Bank Group at a Glance

	BKS Bank Group		Oberbank Group		BTV Group	
INCOME ACCOUNT, €m	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016
Net interest income	79.5	77.3	178.8	175.7	87.4	68.2
Impairment charge on loans and advances	(12.3)	(12.4)	(27.3)	(17.2)	(4.4)	(9.5)
Net fee and commission income	26.9	25.4	68.0	64.5	25.9	23.3
General administrative expenses	(53.0)	(54.3)	(120.5)	(131.1)	(91.2)	(96.5)
Other operating income net of other operating expenses	(3.6)	(6.3)	(9.1)	5.5	57.9	69.4
Profit for the period before tax	41.2	30.5	96.0	104.8	80.9	57.1
Profit for the period after tax	31.7	24.7	83.7	87.9	65.5	46.9
BALANCE SHEET DATA, €m	31/12/2015	30/06/2016	31/12/2015	30/06/2016	31/12/2015	30/06/2016
Assets	7,063.4	7,099.9	18,243.3	18,725.0	9,426.3	9,673.0
Receivables from customers after impairment charge	4,920.1	4,984.2	12,351.7	12,933.2	6,359.6	6,560.8
Primary deposit balances	5,109.8	5,120.0	12,620.0	12,676.3	7,020.7	7,110.0
– Of which savings deposit balances	1,629.8	1,595.5	2,912.6	2,876.8	1,200.8	1,229.0
– Of which liabilities evidenced by paper	758.1	763.3	2,098.5	2,112.2	1,377.9	1,476.6
Equity	860.2	877.1	1,925.7	2,006.2	1,148.7	1,195.6
Customer assets under management	13,212.1	13,009.5	25,245.1	25,384.4	12,732.4	12,846.5
– Of which in customers' securities accounts	8,102.3	7,889.5	12,625.1	12,708.1	5,711.6	5,736.5
OWN FUNDS FOR THE PURPOSES OF CRR, €m	31/12/2015	30/06/2016	31/12/2015	30/06/2016	31/12/2015	30/06/2016
Basis of assessment of own funds	4,883.4	4,933.1	12,216.7	12,716.1	6,262.7	6,525.4
Own funds	599.9	597.1	2,158.0	2,209.7	977.8	964.2
– Of which common equity Tier 1 capital (CET1)	575.6	545.8	1,650.8	1,708.4	950.9	927.8
– Of which total Tier 1 capital (CET1 and AT1)	575.6	545.8	1,733.3	1,785.1	950.9	927.8
Common equity Tier 1 capital ratio, %	11.8	11.1	13.5	13.4	15.2	14.2
Tier 1 capital ratio, %	11.8	11.1	14.2	14.0	15.2	14.2
Own funds ratio, %	12.3	12.1	17.7	17.4	15.6	14.8
CORPORATE RATIOS, %	31/12/2015	30/06/2016	31/12/2015	30/06/2016	31/12/2015	30/06/2016
Return on equity before tax	7.3	6.1	11.2	10.7	15.9	9.8
Return on equity after tax	6.5	5.3	9.7	9.0	12.8	8.1
Cost:income ratio	48.7	55.8	50.5	51.8	58.6	58.8
Risk:earnings ratio	29.2	16.0	12.4	9.8	9.7	13.9
RESOURCES	31/12/2015	30/06/2016	31/12/2015	30/06/2016	31/12/2015	30/06/2016
Average number of staff	923	926	2,025	2,053	1,354	1,543
Branches	59	60	156	158	36	36

For more than 20 years, voluntary collaboration between *Oberbank AG*, *Bank für Tirol und Vorarlberg Aktiengesellschaft* and *BKS Bank AG* has given the *3 Banken Group* the strength of a major bank. The successes of BKS Bank and its sister banks stem from the fact that each has its own strategy and business policy and from their self-image as independent and capable 'universal' banks servicing retail banking customers and export-orientated medium-sized enterprises in their respective regions. All three banks continued to pursue their successful business policies in the period from January through June 2016. Their aggregate profit for the period before tax came to €192.4 million in the first half, compared with €218.1 million in the first six months of 2015. Their aggregate assets stabilized at a level of €35.5 billion, and their aggregate loan book net of impairment allowance balances came to €24.5 billion. Moreover, 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 €24.9 billion at the end of June 2016. In the six months to 30 June 2016, the three banks employed an average of 4,522 people working at 254 branches.

Consolidated Financial Statements as at and for the Six Months Ended 30 June 2016

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Comprehensive Income Statement of the BKS Bank Group for the Period from 1 January to 30 June 2016

INCOME STATEMENT

€k	Note	H1 2015	H1 2016	+/(–) Change, %
Interest income		92,686	82,619	(10.9)
Interest expenses		(28,281)	(21,261)	(24.8)
Profit/(loss) from investments in entities accounted for using the equity method		15,106	15,937	5.5
Net interest income	**(1)**	**79,511**	**77,295**	**(2.8)**
Impairment charge on loans and advances	(2)	(12,287)	(12,401)	0.9
Net interest income after impairment charge		**67,224**	**64,894**	**(3.5)**
Fee and commission income		28,542	27,165	(4.8)
Fee and commission expenses		(1,612)	(1,802)	11.8
Net fee and commission income	**(3)**	**26,930**	**25,363**	**(5.8)**
Net trading income	(4)	931	978	5.0
General administrative expenses	(5)	(53,048)	(54,298)	2.4
Other operating income	(6)	2,332	2,192	(6.0)
Other operating expenses	(6)	(5,921)	(8,463)	42.9
Profit/(loss) from financial assets		**2,772**	**(181)**	**(>100)**
– Profit/(loss) from financial assets designated as at fair value through profit and loss	(7)	728	(609)	(>100)
– Profit/(loss) from available-for-sale financial assets	(8)	1,757	428	(75.6)
– Profit/(loss) from held-to-maturity financial assets	(9)	287	—	(100.0)
Profit for the period before tax		**41,220**	**30,485**	**(26.0)**
Income tax expense	(10)	(9,566)	(5,776)	(39.6)
Profit for the period after tax		**31,654**	**24,709**	**(21.9)**
Minority interests in profit for the period after tax		(2)	(2)	(17.3)
Profit for the period after tax and minority interests		**31,652**	**24,707**	**(21.9)**

OTHER COMPREHENSIVE INCOME (OCI)

€k	H1 2015	H1 2016	+/(–) Change, %
Profit for the period after tax	**31,654**	**24,709**	**(21.9)**
Items not reclassified to consolidated profit or loss for the year	**(5,247)**	**2,947**	**(>100)**
+/(–) Actuarial gains less losses in conformity with IAS 19	—	(926)	(>100)
+/(–) Deferred taxes in conformity with IAS 19	—	231	>100
+/(–) Gains less losses arising from use of the equity method in conformity with IAS 19	(5,247)	3,641	(>100)
Items reclassified to consolidated profit or loss for the year	**1,331**	**(6,681)**	**(>100)**
+/(–) Foreign exchange differences	244	459	88.1
+/(–) Available for sale reserve	1,754	(3,318)	(>100)
+/(–) Deferred taxes taken to available for sale reserve items	(508)	826	(>100)
+/(–) Gains less losses arising from use of the equity method	(159)	(4,648)	(>100)
Total income and expenses taken directly to equity	**(3,916)**	**(3,735)**	**(4.6)**
Comprehensive income before minority interests	**27,738**	**20,975**	**(24.4)**
Of which minority interests	(1)	(2)	100.0
Comprehensive income after minority interests	**27,737**	**20,973**	**(24.4)**

QUARTERLY REVIEW

€k	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Interest income	48,388	43,855	39,510	42,319	40,300
Interest expenses	(13,706)	(13,524)	(10,788)	(10,644)	(10,617)
Profit/(loss) from investments in entities accounted for using the equity method	8,735	9,624	18,256	5,726	10,211
Net interest income	**43,417**	**39,955**	**46,978**	**37,401**	**39,894**
Impairment charge on loans and advances	(6,126)	(12,907)	(23,353)	(8,793)	(3,608)
Net interest income after impairment charge	**37,291**	**27,048**	**23,625**	**28,608**	**36,286**
Fee and commission income	14,103	13,133	14,479	13,864	13,301
Fee and commission expenses	(843)	(856)	(704)	(974)	(828)
Net fee and commission income	**13,260**	**12,277**	**13,775**	**12,890**	**12,473**
Net trading income	998	1,086	303	199	779
General administrative expenses	(26,875)	(26,185)	(25,887)	(26,898)	(27,400)
Other operating income	899	1,209	6,493	1,239	953
Other operating expenses	(4,170)	(6,810)	(2,977)	(5,039)	(3,424)
Total profit/(loss) from financial assets	**1,004**	**358**	**(4,809)**	**(61)**	**(120)**
– Profit/(loss) from financial assets designated as at fair value through profit and loss	(528)	565	(1,184)	(195)	(414)
– Profit/(loss) from available-for-sale financial assets	1,532	(207)	(3,625)	134	294
– Profit/(loss) from held-to-maturity financial assets	—	—	—	—	—
Profit for the period before tax	**22,407**	**8,983**	**10,523**	**10,938**	**19,547**
Income tax expense	(3,032)	3,337	(881)	(2,414)	(3,362)
Profit for the period after tax	**19,375**	**12,320**	**9,642**	**8,524**	**16,185**
Minority interests in profit for the period after tax	(1)	—	(1)	(1)	(1)
Profit for the period after tax and minority interests	**19,374**	**12,320**	**9,641**	**8,523**	**16,184**

Balance Sheet of the BKS Bank Group as at 30 June 2016

ASSETS

€k	Note	31/12/2015	30/06/2016	+/(–) Change, %
Cash and balances with the central bank	(11)	190,310	198,889	4.5
Receivables from other banks	(12)	363,862	322,960	(11.2)
Receivables from customers	(13)	5,113,867	5,177,095	1.2
– Impairment allowance balance	(14)	(193,748)	(192,915)	(0.4)
Trading assets	(15)	46	10	(78.8)
Financial assets		1,445,094	1,444,507	0.0
– Financial assets designated as at fair value through profit or loss	(16)	114,863	107,645	(6.3)
– Available-for-sale financial assets	(17)	166,721	175,766	5.4
– Held-to-maturity financial assets	(18)	724,891	708,666	(2.2)
– Investments in entities accounted for using the equity method	(19)	438,619	452,430	3.1
Intangible assets	(20)	1,868	1,616	(13.5)
Property and equipment	(21)	58,437	57,771	(1.1)
Investment property	(22)	29,690	27,868	(6.1)
Deferred tax assets	(23)	25,441	26,302	40.6
Other assets	(24)	28,566	35,781	(7.9)
Total assets		**7,063,433**	**7,099,884**	**0.5**

EQUITY AND LIABILITIES

€k	Note	31/12/2015	30/06/2016	+/(–) Change, %
Payables to other banks	(25)	904,574	902,450	(0.2)
Payables to customers	(26)	4,351,716	4,356,748	0.1
– Of which savings deposit balances		1,629,833	1,595,502	(2.1)
– Of which other payables		2,721,883	2,761,246	1.4
Liabilities evidenced by paper	(27)	576,346	570,977	(0.9)
Trading liabilities	(28)	46	10	(78.7)
Provisions	(29)	125,973	122,952	(2.4)
Deferred tax liabilities	(30)	9,312	9,696	4.1
Other liabilities	(31)	53,472	67,641	26.5
Subordinated debt capital	(32)	181,752	192,270	5.8
Equity		860,242	877,140	2.0
– Of which total minority interests and equity		860,227	877,123	2.0
– Of which minority interests in equity		15	17	13.7
Total equity and liabilities		**7,063,433**	**7,099,884**	**0.5**

EARNINGS AND DIVIDEND PER SHARE

	30/06/2015	30/06/2016
Average number of ordinary and preference shares in issue	35,445,278	35,322,088
Earnings per share (ordinary and preference shares, in period), €	0.89	0.68
Earnings per share (ordinary and preference shares, annualized), €	1.79	1.36

Earnings per share compares consolidated profit for the period 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	Revalua-tion Reserve	Retained Earnings	Adjust-ment for Associates	Profit/ (Loss) for the Period	Additional Equity Instru-ments [1]	Equity
At 1 January 2016	**72,072**	**143,056**	**(1,030)**	**2,388**	**562,416**	**4,312**	**53,613**	**23,400**	**860,227**
Distribution							(8,124)		(8,124)
Taken to retained earnings					45,489		(45,489)		—
Profit for the period after tax							24,707		24,707
Gains and losses taken directly to equity			459	(2,492)	(694)	(1,007)			(3,735)
Increase in share capital									—
Change arising from use of the equity method					5,226				5,226
Change in treasury shares					(568)				(568)
Issues of additional equity instruments (AT1) [1]									—
Other changes					(610)				(610)
At 30 June 2016	**72,072**	**143,056**	**(571)**	**(104)**	**611,258**	**3,305**	**24,707**	**23,400**	**877,123**
Available for sale reserve									(137)
Deferred tax reserve									33

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Foreign Exchange Differences	Revalua-tion Reserve	Retained Earnings	Adjust-ment for Associates	Profit/ (Loss) for the Period	Additional Equity Instru-ments [1]	Equity
At 1 January 2015	**72,072**	**143,056**	**(1,107)**	**2,560**	**519,297**	**11,219**	**48,740**	**0**	**795,837**
Distribution							(8,148)		(8,148)
Taken to retained earnings					40,592		(40,592)		—
Profit for the period after tax							31,654		31,654
Gains and losses taken directly to equity			244	1,246		(5,406)			(3,916)
Increase in share capital									—
Change arising from use of the equity method						6,898			6,898
Change in treasury shares					(1,175)				(1,175)
Issues of additional equity instruments (AT1) [1]									
Other changes					(1,023)				(1,023)
At 30 June 2015	**72,072**	**143,056**	**(863)**	**3,806**	**557,691**	**12,711**	**31,654**	**0**	**820,127**
Available for sale reserve									5,067
Deferred tax reserve									(1,262)

[1] The issued additional Tier 1 note was classified as an equity item in conformity with IAS 32.

Cash Flow Statement

CASH FLOWS

€k	H1 2015	H1 2016
Cash and cash equivalents at end of previous period	**215,269**	**190,310**
Change in scope of consolidation	—	—
Profit for the period after tax and before minority interests	31,654	24,709
Non-cash items in profit for the period	8,737	2,939
Changes in assets and liabilities arising from operating activities after correction for non-cash items	(81,795)	(23,613)
Net cash from/(used in) operating activities	**(41,404)**	**4,035**
Cash inflows arising from sales	68,666	57,953
Cash outflows arising from investments	(88,525)	(55,455)
Net cash from/(used in) investing activities	**(19,859)**	**2,498**
Other receipts	—	—
Dividends paid	(8,147)	(8,124)
Subordinated liabilities and other financing activities	(7,900)	9,950
Net cash from/(used in) financing activities	**(16,047)**	**1,826**
Effect of exchange rate changes on cash and cash equivalents	242	220
Cash and cash equivalents at end of reporting period	**138,201**	**198,889**

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 2016 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 the 31 December 2015 reporting date.

CONSOLIDATED ENTITIES

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
BKS Bank d.d.	Rijeka	100.00	—	30/6/2016
BKS-Leasing Gesellschaft m.b.H	Klagenfurt	99.75	0.25	30/6/2016
BKS-leasing d.o.o.	Ljubljana	100.00	—	30/6/2016
BKS-leasing Croatia d.o.o.	Zagreb	100.00	—	30/6/2016
BKS-Leasing s.r.o.	Bratislava	100.00	—	30/6/2016
IEV Immobilien GmbH	Klagenfurt	100.00	—	30/6/2016
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	Klagenfurt	100.00	—	30/6/2016
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	-	100.00	30/6/2016
BKS Hybrid alpha Gmbh	Klagenfurt	100.00	—	30/6/2016
BKS Hybrid beta GmbH	Klagenfurt	100.00	—	30/6/2016
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00	—	30/6/2016
LVM Beteiligungs Gesellschaft mbH	Klagenfurt	-	100.00	30/6/2016
BKS Immobilien-Service GmbH	Klagenfurt	100.00	—	30/6/2016
BKS Service GmbH	Klagenfurt	100.00	—	30/6/2016
BKS 2000 Beteiligungsverwaltungs GmbH	Klagenfurt	100.00		30/6/2016

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
Oberbank AG	Linz	15.30	—	31/3/2016
Bank für Tirol und Vorarlberg AG	Innsbruck	13.59	—	31/3/2016
Drei-Banken Versicherungsagentur GmbH	Linz	20.00	—	30/6/2016

Regarding *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*, we point out that although *BKS Bank AG* had voting interests of less than 20 per cent in those banks at 30 June 2016, namely of 16.52 per cent and 14.95 per cent, respectively, and equity interests of less than 20 per cent, namely of 15.30 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-GESELLSCHAFT m.b.H.* required classification as a joint operation and, therefore, had to be 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-GESELLSCHAFT m.b.H.	Linz	25.0	30/6/2016

FOREIGN SUBSIDIARIES AND BRANCHES AT 30 JUNE 2016

€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)	5,296.2	6,503.7	97.9	1,757.0
Slovakia Branch (banking branch)	680.6	799.0	23.5	(49.9)
Subsidiaries				
BKS Leasing d.o.o., Ljubljana	1,115.4	1,279.6	12.4	797.7
BKS-leasing Croatia d.o.o., Zagreb	994.3	1,093.5	11.2	707.0
BKS-Leasing s.r.o.,Bratislava	429.2	652.2	10.3	61.2
BKS Bank d.d., Rijeka	3,310.8	3,714.4	53.8	1,674.9

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 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 rates 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 been measured either to fair value or at amortized cost. BKS Bank classified and measured the 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 2015, 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

Certain positions were designated collectively 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. Those positions (asset or liability and associated derivative) were measured at fair value through profit or loss. 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 (HTM) 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 AG* 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 charges. 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 way of portfolio impairment assessments carried out in accordance with IAS 39.64.

The latter captured incurred but not yet identifiable losses. Provisions were recognized for risks arising from contingent liabilities in accordance with IAS 37. 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). The criteria for charging or writing off receivables that were deemed to be irrecoverable were their total irrecoverability and the final realization of all the collateral associated with those receivables.

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 investment property is disclosed in the Notes. It was mainly based on estimates (by certified appraisers). Depreciation rates were between 1.5 per cent and 2.5 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 were 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 and had limited useful lives; they consisted primarily of software. Ordinary amortization was linear based on an asset's usual useful life. The amortization rate for software was 25 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 Group'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 2016.

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

Deferred tax assets and deferred tax liabilities

The reporting and calculation of income tax 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 benefit obligations, 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. An additional Tier 1 note was issued during the 2015 financial year. Under IAS 31, it required classification as equity.

Notes to Individual Line Items in the Income Statement

Net interest income

The line item *Net interest income* contains interest income from credit operations, from securities in the treasury portfolio, from equity investments (in the form of dividend payments), from lease receivables and from investment property less interest expenses on deposits from other banks and from customers, liabilities evidenced by paper and investment property. Interest income and interest expenses were accounted for on an accrual basis. Income from equity investments in entities accounted for using the equity method was disclosed in the line item *Net interest income* net of financing costs. The historically low interest rates led to negative interest earnings. According to the IFRIC Interpretations Committee (IC), these should not be presented as income within the meaning of IAS 18. Instead, they must be presented in an 'appropriate expense classification'. As a result, negative interest income is presented as interest expense. Likewise, positive interest expenses are presented as interest income.

Impairment charge on loans and advances

This line item 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 connected 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 expenses 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 included in the Interim Financial Statements were made on the basis of the knowledge and information available at the reporting date of 30 June 2016.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	H1 2015	H1 2016	+/(–) Change, %
Interest income from:			
Credit operations	66,649	60,859	(8.7)
Fixed-interest securities	12,037	10,706	(11.1)
Lease receivables	4,437	4,374	(1.4)
Shares and investments in other entities	5,750	2,558	(55.5)
Positive interest expenses[1]	2,172	2,673	23.1
Investment property	1,641	1,449	(11.7)
Total interest income	**92,686**	**82,619**	**(10.9)**
Interest expenses on:			
Deposits from customers and other banks[2]	13,891	7,401	(46.7)
Liabilities evidenced by paper	12,500	11,614	(7.1)
Negative interest income[1]	1,430	1,881	31.5
Investment property	460	365	(20.7)
Total interest expenses	**28,281**	**21,261**	**(24.8)**
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	15,139	15,937	5.3
Financing costs of investments in entities accounted for using the equity method[3]	(33)	—	(100.0)
Profit from investments in entities accounted for using the equity method	**15,106**	**15,937**	**5.5**
Net interest income	**79,511**	**77,295**	**(2.8)**

[1] This consists of interest expenses that are positive or interest income that is negative as a result of the historically low interest rates.
[2] Less financing costs of investments in entities accounted for using the equity method.
[3] Based on the average 3-month Euribor.

The line item *Interest income* includes income from unwinding (i.e. resulting from changes in the present values of cash flows from impaired receivables) in the amount of €1.3 million (H1 2015: € 0.7 million).

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	H1 2015	H1 2016	+/(–) Change, %
Impairment allowances	17,813	19,488	9.4
Impairment reversals	(5,528)	(7,343)	32.8
Direct write-offs	259	628	>100
Recoveries on receivables previously written off	(257)	(372)	44.7
Impairment charge on loans and advances	**12,287**	**12,401**	**0.9**

(3) NET FEE AND COMMISSION INCOME

€k	H1 2015	H1 2016	+/(–) Change, %
Fee and commission income	**28,542**	**27,165**	**(4.8)**
– Of which from payment services	10,571	10,966	3.7
– Of which from securities operations	7,526	6,946	(7.7)
– Of which from credit operations	7,503	7,310	(2.6)
– Of which from money and foreign exchange transactions	2,130	1,111	(47.8)
– Of which from other services	812	832	2.5

€k	H1 2015	H1 2016	+/(–) Change, %
Fee and commission expenses	**1,612**	**1,802**	**11.8**
– Of which arising from payment services	910	1,043	14.6
– Of which arising from securities operations	420	431	2.6
– Of which arising from credit operations	169	240	42.0
– Of which arising from money and foreign exchange transactions	44	22	(50.0)
– Of which arising from other services	69	66	(4.3)
Net fee and commission income	**26,930**	**25,363**	**(5.8)**

(4) NET TRADING INCOME

€k	H1 2015	H1 2016	+/(–) Change, %
Price-based contracts	(5)	(5)	0.0
Interest rate and currency contracts	936	983	5.0
Net trading income	**931**	**978**	**5.0**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	H1 2015	H1 2016	+/(–) Change, %
Staff costs	35,427	36,045	1.7
– Of which wages and salaries	25,080	27,227	8.6
– Of which social security costs	6,246	6,464	3.5
– Of which costs of old-age benefits	4,101	2,354	(42.6)
Other administrative expenses	14,284	14,964	4.8
Depreciation/amortization	3,337	3,289	(1.4)
General administrative expenses	**53,048**	**54,298**	**2.4**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	H1 2015	H1 2016	+/(–) Change, %
Other operating income	2,332	2,192	(6.0)
Other operating expenses	(5,921)	(8,463)[1]	42.9
Other operating income net of other operating expenses	**(3,589)**	**(6,271)**	**74.7**

[1] Consists mainly of expenditure on the resolution mechanism, the deposit guarantee scheme and the bank tax.

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

€k	H1 2015	H1 2016	+/(–) Change, %
Revaluation gains and losses on derivatives	802	0	(100.0)
Gain/(loss) as a result of using the fair value option	(74)	(609)	>100
Profit/(loss) from financial assets designated as at fair value through profit or loss	**728**	**(609)**	**(>100)**

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

€k	H1 2015	H1 2016	+/(–) Change, %
Revaluation gains and losses	(60)	66	(>100)
Gains and losses realized on disposal	1,817	362	(80.1)
Profit/(loss) from available-for-sale financial assets	**1,757**	**428**	**(75.6)**

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

€k	H1 2015	H1 2016	+/(–) Change, %
Revaluation gains and losses	—	—	—
Gains and losses realized on disposal	287	0	(>100)
Profit/(loss) from held-to-maturity financial assets	**287**	**0**	**(>100)**

(10) INCOME TAX EXPENSE

€k	H1 2015	H1 2016	+/(–) Change, %
Current taxes	(10,203)	(5,542)	(45.7)
Deferred taxes	(637)	(234)	(>100)
Income tax expense	**(9,566)**	**(5,776)**	**(39.6)**

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2015	30/06/2016	+/(–) Change, %
Cash in hand	36,700	33,020	(10.0)
Credit balances with central banks of issue	153,610	165,869	8.0
Cash and balances with the central bank	**190,310**	**198,889**	**4.5**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Receivables from Austrian banks	153,143	143,667	(6.2)
Receivables from foreign banks	210,719	179,293	(14.9)
Receivables from other banks	**363,862**	**322,960**	**(11.2)**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Corporate and business banking customers	3,974,127	4,006,813	0.8
Retail banking customers	1,139,740	1,170,282	2.7
Receivables from customers	**5,113,867**	**5,177,095**	**1.2**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2015	30/06/2016	+/(–) Change, %
At beginning of period under review	194,161	193,748	(0.2)
+ Added	54,587	21,014	(61.5)
– Reversed	(11,957)	(8,697)	(27.3)
– Used	(43,021)	(13,295)	(69.1)
+ Foreign exchange differences	(22)	145	(>100)
At end of period under review	**193,748**	**192,915**	**(0.4)**

(15) TRADING ASSETS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Bonds and other fixed-interest securities	—	—	—
Positive fair values of derivative financial instruments	46	10	(78.3)
– From currency contracts	—	—	—
– From interest rate contracts	46	10	(78.3)
Trading assets	**46**	**10**	**78.3**

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

€k	31/12/2015	30/06/2016	+/(–) Change, %
Bonds and other fixed-interest securities	41,236	42,226	2.4
Loans	73,627	65,419	(11.1)
Financial assets designated as at fair value through profit or loss	**114,863**	**107,645**	**(6.3)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Bonds and other fixed-interest securities	67,303	71,741	6.6
Shares and other variable-yield securities	42,811	48,448	13.2
Other equity investments	56,607	55,577	(1.8)
Available-for-sale financial assets	**166,721**	**175,766**	**5.4**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Bonds and other fixed-interest securities	724,891	708,666	(2.2)
Held-to-maturity financial assets	**724,891**	**708,666**	**(2.2)**

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

€k	31/12/2015	30/06/2016	+/(–) Change, %
Oberbank AG	278,308	292,912	5.2
Bank für Tirol und Vorarlberg AG	155,671	156,600	0.6
Drei-Banken Versicherungsagentur GmbH	4,640	2,918	(37.1)
Investments in entities accounted for using the equity method	**438,619**	**452,430**	**3.1**

(20) INTANGIBLE ASSETS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Other intangible assets	1,868	1,616	(13.5)
Intangible assets	**1,868**	**1,616**	**(13.5)**

(21) PROPERTY AND EQUIPMENT

€k	31/12/2015	30/06/2016	+/(–) Change, %
Land	7,870	7,884	0.2
Buildings	42,307	41,112	(2.8)
Other	8,260	8,775	6.2
Property and equipment	**58,437**	**57,771**	**(1.1)**

(22) INVESTMENT PROPERTY

€k	31/12/2015	30/06/2016	+/(–) Change, %
Land	8,667	8,666	0.0
Buildings	21,023	19,202	(8.7)
Investment property	**29,690**	**27,868**	**(6.1)**

(23) DEFERRED TAX ASSETS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Deferred tax assets	**25,441**	**26,302**	**3.4**

(24) OTHER ASSETS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Positive fair values of derivative financial instruments	10,788	17,453	61.8
Other items	15,405	14,127	(8.3)
Deferred items	2,373	4,201	77.0
Other assets	**28,566**	**35,781**	**25.3**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Payables to Austrian banks	724,001	766,687	5.9
Payables to foreign banks	180,573	135,763	(24.8)
Payables to other banks	**904,574**	**902,450**	**(0.2)**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Savings deposit balances	**1,629,833**	**1,595,502**	**(2.1)**
– Of which from corporate and business banking customers	218,263	216,884	(0.6)
– Of which from retail banking customers	1,411,570	1,378,618	(2.3)
Other payables	**2,721,883**	**2,761,246**	**1.4**
– Of which to corporate and business banking customers	1,927,113	1,959,443	1.7
– Of which to retail banking customers	794,770	801,803	0.9
Payables to customers	**4,351,716**	**4,356,748**	**0.1**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2015	30/06/2016	+/(–) Change, %
Issued bonds	485,071	498,339	2.7
Other liabilities evidenced by paper	91,275	72,638	(20.4)
Liabilities evidenced by paper	**576,346**	**570,977**	**(0.9)**

(28) TRADING LIABILITIES

€k	31/12/2015	30/06/2016	+/(–) Change, %
Interest rate contracts	46	10	(78.3)
Trading liabilities	**46**	**10**	**(78.3)**

(29) PROVISIONS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Provisions for post-employment benefits and similar obligations	74,498	75,469	1.3
Provisions for taxes (current tax)	5,739	2,389	(58.4)
Other provisions	45,736	45,094	(1.4)
Provisions	**125,973**	**122,952**	**(2.4)**

The interest rate applied when measuring so-called ‘social capital’ was changed compared with 31 December 2015 from 2.4 per cent to 1.56 per cent. This gave rise to expense of €0.9 million in *Other comprehensive income* and expense of €0.4 million in the Income Statement.

(30) DEFERRED TAX LIABILITIES

€k	31/12/2015	30/06/2016	+/(–) Change, %
Deferred tax liabilities	**9,312**	**9,696**	**4.1**

(31) OTHER LIABILITIES

€k	31/12/2015	30/06/2016	+/(–) Change, %
Negative fair values of derivative financial instruments	29,587	34,775	17.5
Other items	18,284	29,229	59.9
Deferred items	5,601	3,637	(35.1)
Other liabilities	**53,472**	**67,641**	**26.5**

(32) SUBORDINATED DEPT CAPITAL

€k	31/12/2015	30/06/2016	+/(–) Change, %
Supplementary capital	141,752	152,270	7.4
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**181,752**	**192,270**	**5.8**

(33) SEGMENTAL REPORTING

Our segmental reporting is based on the organizational structure of the Group that underlies its internal management reporting system. During the 2014 financial year and in the first half of 2015, BKS Bank worked intensively on optimizing its sales structure and sales organization and adopted a clear focus on the demarcation of the retail banking, corporate and business banking and financial markets segments. In detail, in the course of restructuring, retail business customers—small businesses and professionals—were moved from the retail banking segment to the corporate and business banking segment. Members of the so-called healing professions remained in the retail banking segment. This has led to minor changes in our segmental reporting. The amounts for the comparative period have been restated retrospectively in conformity with IFRS 8.29.

€k	Corporate and Business Banking 30/06/2015	Corporate and Business Banking 30/06/2016	Retail Banking 30/06/2015	Retail Banking 30/06/2016	Financial Markets 30/06/2015	Financial Markets 30/06/2016
Net interest income	**42,362**	**41,462**	**13,663**	**13,366**	**22,878**	**21,915**
– Of which from investments in entities accounted for using the equity method					15,106	15,937
Impairment charge on loans and advances	(11,979)	(11,028)	(1,091)	(1,326)	783	(47)
Net fee and commission income	14,810	13,597	11,906	11,580	150	28
Net trading income	—	—	—	—	931	978
General administrative expenses	(22,189)	(22,033)	(25,274)	(26,225)	(3,182)	(3,272)
Other operating income net of other operating expenses	728	630	320	784	(7)	(21)
Profit/(loss) from financial assets	—	—	—	—	2,772	(181)
Profit/(loss) for the period before tax	**23,732**	**22,628**	**(476)**	**(1,821)**	**24,325**	**19,400**
Average risk-weighted assets	3,111,101	3,089,118	499,449	523,438	848,489	889,923
Average allocated equity	248,888	247,129	39,956	41,875	510,397	569,081
ROE based on profit for the period	**19.1%**	**18.3%**	**(2.4%)**	**(8.7%)**	**9.5%**	**6.8%**
Cost:income ratio	**38.3%**	**39.6%**	**97.6%**	**101.9%**	**13.3%**	**14.3%**
Risk:earnings ratio	**28.3%**	**26.6%**	**8.0%**	**9.9%**	**—**	**0.2%**

€k	Other 30/06/2015	Other 30/06/2016	Total 30/06/2015	Total 30/06/2016
Net interest income	**608**	**552**	**79,511**	**77,295**
– Of which from investments in entities accounted for using the equity method			15,106	15,937
Impairment charge on loans and advances	—	—	(12,287)	(12,401)
Net fee and commission income	64	158	26,930	25,363
Net trading income	—	—	931	978
General administrative expenses	(2,403)	(2,768)	(53,048)	(54,298)
Other operating income net of other operating expenses	(4,630)	(7,664)	(3,589)	(6,271)
Profit/(loss) from financial assets	—	—	2,772	(181)
Profit/(loss) for the period before tax	**(6,361)**	**(9,722)**	**41,220**	**30,485**
Average risk-weighted assets	48,832	55,640	4,507,872	4,558,117
Average allocated equity	8,754	10,605	807,995	868,691
ROE based on profit for the period	**—**	**—**	**7.5%**	**6.1%**
Cost:income ratio	**—**	**—**	**51.1%**	**55.8%**
Risk:earnings ratio	**—**	**—**	**15.5%**	**16.0%**

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 in the line item *Net interest income* as income from investing equity. 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 reports used for internal management purposes were structured as follows:

- monthly reporting of results at the profit centre level;
- quarterly reporting of all relevant types of risk;
- *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.

(34) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

€k	31/12/2015	30/06/2016	+/(–) 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	621,714	638,612	2.7
Additional equity instruments	23,400	23,400	0.0
Shareholders' equity before minority interests	**860,242**	**877,140**	**2.0**
Minority interests	(15)	(17)	13.3
Shareholders' equity after minority interests	**860,227**	**877,123**	**2.0**

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. The line item *Additional equity instruments* relates to the additional Tier 1 note issued during the 2015 financial year. Under IAS 32, it required classification as equity.

(35) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2015	30/06/2016	+/(–) Change, %
Guarantees	385,094	387,135	0.5
Letters of credit	1,777	675	(62.0)
Contingent liabilities	**386,871**	**387,810**	**0.2**
Other commitments	1,057,680	1,098,964	3.9
Commitments	**1,057,680**	**1,098,964**	**3.9**

(36) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

	Outstanding Balances at		Guarantees Received at		Guarantees Issued at	
€k	31/12/2015	30/06/2016	31/12/2015	30/06/2016	31/12/2015	30/06/2016
Unconsolidated subsidiaries			—	—	—	—
Receivables	5,369	3,143				
Payables	1,108	1,607				
Associates and joint arrangements			—	—	—	—
Receivables	12,869	25,168				
Payables	158,949	145,529				
Key management personnel			—	—	—	—
Receivables	366	410				
Payables	812	1,133				
Other related persons			—	—	109	109
Receivables	14	127				
Payables	451	766				

LOANS AND ADVANCES GRANTED

€k	31/12/2015	30/06/2016	+/(–) Change, %
Loans and advances granted to members of the Management Board	92	81	(12.0)
Loans and advances granted to members of the Supervisory Board	274	329	20.1
Loans and advances granted	**366**	**410**	**12.0**

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 2016) affecting the assets, liabilities, financial position or profit or loss as presented in this report.

(38) FAIR VALUES

The two tables that follow on the next page 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 (securities exchange).

If market values were unavailable, fair value was ascertained using customary valuation models based on observable input factors and market data (e.g. by discounting future cash flows from financial instruments) and presented in the category *Level 2 'Based on Market Data'*. 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'*, 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, 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 undertaken on the basis of internal rating procedures to the credit ratings of customers and of BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in the category *Level 3* were measured using 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).

Changes in the ratings of assets and liabilities measured to fair value

Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of those financial instruments and their remaining terms to maturity. The change in the period under review in the default risk associated with liabilities measured at fair value was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining term to maturity. In the 2016 reporting period, the changes in the ratings of the receivables from customers measured to fair value changed their fair value by negative €0.1 million (31 December 2015: €0.3 million). In the 2016 reporting period, the change in BKS Bank's rating changed the fair value of the liabilities evidenced by paper that were measured to fair value by negative €0.3 million (31 December 2015: €0.5 million).

FAIR VALUES

30 June 2016

€k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 30/6/2016	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	—	323,142	—	323,142	322,960	182
Receivables from customers	—	5,242,482	—	5,242,482	5,177,095	65,387
Trading assets	—	10	—	10	10	—
Financial assets designated as at fair value through profit or loss	42,226	—	65,419	107,645	107,645	—
Available-for-sale financial assets	155,174	—	20,592	175,766	175,766	—
Held-to-maturity financial assets	792,621	—	—	792,621	708,666	83,955
Investments in entities accounted for using the equity method	349,160	—	2,918	352,078	452,430	(100,352)[1]
Investment property	—	—	44,634	44,634	27,868	16,766
Other assets (derivatives)	—	17,453	—	17,453	17,453	—
Equity and liabilities						
Payables to other banks	—	906,571	—	906,571	902,450	4,121
Payables to customers	—	4,371,798	—	4,371,798	4,356,748	15,050
Liabilities evidenced by paper	421,679	78,190	93,207	593,076	570,977	22,099
– Of which designated as at fair value through profit or loss	—	—	93,207	93,207	93,207	—
Subordinated debt capital	194,204	2,353	—	196,557	192,270	4,287
Trading liabilities	—	10	—	10	10	—
Other liabilities (derivatives)	—	34,775	—	34,775	34,775	—

[1] As in the previous year, the internal valuation of the entity on the basis of the budgets of the entities accounted for using the equity method did not reveal any impairment as of the reporting date.

31 December 2015

€k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 31/12/2015	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	—	363,976	—	363,976	363,862	115
Receivables from customers	—	5,175,621	—	5,175,621	5,113,867	61,755
Trading assets	—	46	—	46	46	—
Financial assets designated as at fair value through profit or loss	41,236	—	73,627	114,863	114,863	—
Available-for-sale financial assets	146,128	—	20,593	166,721	166,721	—
Held-to-maturity financial assets	791,709	—	—	791,709	724,891	66,818
Investments in entities accounted for using the equity method	338,871	—	4,640	343,511	438,619	(95,108)[1]
Investment property	—	—	46,894	46,894	29,690	17,204
Other assets (derivatives)	—	10,788	—	10,788	10,788	—
Equity and liabilities						
Payables to other banks	—	907,737	—	907,737	904,574	3,163
Payables to customers	—	4,366,180	—	4,366,180	4,351,715	14,464
Liabilities evidenced by paper	411,918	80,311	103,512	595,741	576,346	19,395
– Of which designated as at fair value through profit or loss	—	—	103,512	103,512	103,512	—
Subordinated debt capital	182,339	2,354	—	184,693	181,752	2,941
Trading liabilities	—	46	—	46	46	—
Other liabilities (derivatives)	—	29,587	—	29,587	29,587	—

[1] As in the previous year, the internal valuation of the entity on the basis of the budgets of the entities accounted for using the equity method did not reveal any impairment as of the reporting date.

LEVEL 3: CHANGES BETWEEN 1 JANUARY 2016 AND 30 JUNE 2016

€k	Available-for-Sale Financial Assets	Investments in Entities Accounted for Using the Equity Method	Financial Assets Designated as at Fair Value Through Profit or Loss	Liabilities Evidenced by Paper, of which at Fair Value Through Profit or Loss
At 31 December 2015	**20,592**	**4,640**	**73,627**	**103,512**
Reclassified	—	—	—	—
Income Statement [1]	—	(2,142)	779	4,695
Other profit or loss	—	—	—	—
Purchased	—	420	—	—
Contributions	—	—	—	—
Sold/redeemed	—	—	(8,987)	(15,000)
At 30 June 2016	**20,592**	**2,918**	**65,419**	**93,207**

[1] Revaluations through profit or loss.

LEVEL 3: CHANGES BETWEEN 1 JANUARY 2015 AND 30 JUNE 2015

€k	Available-for-Sale Financial Assets	Investments in Entities Accounted for Using the Equity Method	Financial Assets Designated as at Fair Value Through Profit or Loss	Liabilities Evidenced by Paper, of which at Fair Value Through Profit or Loss
At 1 January 2015	**24,965**	**4,264**	**87,061**	**106,316**
Reclassified	—	—	—	—
Income Statement [1]	(67)	—	(529)	(2,392)
Other profit or loss	47	—	—	—
Purchased	600	—	—	—
Sold/redeemed	—	—	(3,772)	—
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 2016	Nominal, by Term to Maturity				Fair Values	
€k	< 1 Year	1–5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**1,218,222**	**348,689**	—	**1,566,911**	**6,994**	**25,263**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**77,740**	**93,174**	**209,294**	**380,208**	**9,723**	**8,584**
– Of which in trading book	1,740	16,424	—	18,164	9	9
Securities contracts	**3,945**	**—**	**—**	**3,945**	**—**	**38**
– Of which in trading book	—	—	—	—	—	—
Total	**1,299,907**	**441,863**	**209,294**	**1,951,064**	**16,717**	**33,885**
– Of which in trading book	1,740	16,424	—	18,164	9	9

31 DECEMBER 2015	Nominal, by Term to Maturity				Fair Values	
€k	< 1 Year	1–5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**1,442,492**	**349,233**	**—**	**1,791,725**	**3,563**	**21,875**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**106,820**	**102,162**	**221,652**	**430,634**	**6,638**	**7,251**
– Of which in trading book	820	19,912	—	20,732	47	47
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,549,312**	**451,395**	**221,652**	**2,222,359**	**10,201**	**29,126**
– Of which in trading book	820	19,912	—	20,732	47	47

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 2016 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 2016 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
23 August 2016

The Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Member of the Management Board with responsibility for Risk Management, Risk Controlling, BKS Bank's Credit Back Office and Service Companies, the Treasury Back Office, Business Organization, IT and Technical Services and *DREI-BANKEN-EDV Gesellschaft m.b.H.*; abroad, he is responsible for the Back Office, Risk Management and IT.

Chairwoman of the Management Board with responsibility for Corporate and Business Banking, Accounts and Sales Controlling, Human Resources, Treasury and Proprietary Trading, Public Relations, Marketing and Investor Relations, Property, Subsidiaries and Equity Investments; abroad, she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

Member of the Management Board with responsibility for Retail Banking, Private Banking and Securities Operations, New Banking, Custodian Operations and collaboration with sales partners; abroad, he is responsible for the Italy region.

Financial Calendar for 2016

2 April 2016:	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2015 in the Internet and in the official *Wiener Zeitung* gazette
19 May 2016:	77th Ordinary General Meeting (AGM)
23 May 2016:	Ex-dividend date
25 May 2016:	Dividend payment date

BKS Bank's Interim Reports

20 May 2016:	Interim Report as at and for the 3 months ended 31 March 2016
26 August 2016:	2016 Semi-Annual Financial Report
25 November 2016:	Interim Report as at and for the 9 months ended 30 September 2016

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