# 5

Interim Report to 30 September 2015

BKS Bank
3 Banken Gruppe

# Contents



**Forward-looking statements**

This Interim Report as at and for the nine months ended 30 September 2015 contains statements and forecasts concerning the future performance and development of the BKS Bank Group. Such forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 25 November 2015. If the assumptions upon which those forecasts were based prove wrong or if risk events transpire, actual results may differ from those that are currently expected. This Interim Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG.*

**Disclaimer**

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

# Overview of the BKS Bank Group

| Income account, €m | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Net interest income | 119.2 | 119.5 | 0.2 |
| Impairment charge on loans and advance | (40.2) | (25.2) | (37.3) |
| Net fee and commission income | 35.0 | 39.2 | 12.1 |
| General administrative expenses | (76.9) | (79.2) | 3.0 |
| Other operating income net of other operating expenses | (4.1) | (9.2) | >100 |
| Profit for the period before tax | 37.8 | 50.2 | 32.7 |
| Profit for the period after tax | 32.7 | 44.0 | 34.5 |

| Balance sheet data, €m | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Assets | 6,854.6 | 6,995.7 | 2.1 |
| Receivables from customers after impairment charge | 4,815.8 | 4,913.8 | 2.0 |
| Primary deposit balances | 5,013.0 | 4,991.5 | (0.4) |
| – Of which savings deposit balances | 1,705.5 | 1,654.1 | (3.0) |
| – Of which liabilities evidenced by paper, including subordinated debt capital | 789.1 | 779.4 | (1.2) |
| Equity | 795.8 | 836.6 | 5.1 |
| Customer assets under management | 12,972.0 | 12,924.3 | (0.4) |
| – Of which in customers’ securities accounts | 7,959.0 | 7,932.8 | (0.3) |

| Own funds within the meaning of BWG, €m | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Risk-weighted assets | 4,846.6 | 4,945.9 | 2.0 |
| Own funds | 580.9 | 534.3 | (8.0) |
| – Of which common equity Tier 1 capital (CET1) | 543.7 | 510.6 | (6.1) |
| – Of which Tier 1 capital | 543.7 | 510.6 | (6.1) |
| Common equity Tier 1 capital ratio, % | 11.2 | 10.3 | (0.9) |
| Tier 1 capital ratio, % | 11.2 | 10.3 | (0.9) |
| Own funds ratio, % | 12.0 | 10.8 | (1.2) |

| PERFORMANCE, % | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Return on equity before tax | 7.2 | 9.0 | 1.8 |
| Return on equity after tax | 6.5 | 7.9 | 1.4 |
| Cost:income ratio | 51.9 | 52.3 | 0.4 |
| Risk:earnings ratio | 31.5 | 21.1 | (10.4) |

| Resources | 2014 | 30/9/2015 | +/(–) Change |
|---|---|---|---|
| Average number of staff | 915 | 922 | 7 |
| Branches | 57 | 59 | 2 |

| BKS Bank’s shares | 2014 | 1/1–30/9/2015 | +/(–) Change |
|---|---|---|---|
| No. of ordinary no-par shares (ISIN: AT0000624705) | 34,236,000 | 34,236,000 | — |
| No. of no-par preference shares (ISIN: AT0000624739) | 1,800,000 | 1,800,000 | — |
| High: ordinary/preference share, € | 17.8/15.6 | 17.5/15.7 | — |
| Low: ordinary/preference share, € | 16.9/14.9 | 16.8/14.8 | — |
| Close: ordinary/preference share, € | 17.3/15.3 | 17.0/15.2 | — |
| Market capitalization, €m | 619.8 | 609.4 | (10.4) |

In all the tables in the Management Report that were affected, the figures for the period from 1/1 to 30/9/2014 and for 2014 as a whole were restated in conformity with IAS 8. See page 23 of the Notes for more details.

# PREFACE BY THE MANAGEMENT BOARD

## Dear shareholder,
## Dear customer,
## Dear business associate,

We would like to present our Interim Report as of and for the nine months ended 30 September 2015 and, at the same time, report on an eventful nine-month period in this financial year. It too was dominated by massive upheavals in the banking sector. After a very good start to the financial year, our results continued to develop well in a difficult market during the third quarter. As these Interim Financial Statements show, we were able to increase our profit for the period after tax and minority interests by over a third compared with the same period of 2014 to €44.0 million. Between the beginning of the year and the end of the period under review, our bank's consolidated assets grew by 2.1 per cent to nearly €7.0 billion notwithstanding the burdens caused by the low interest rates policies pursued by the ECB and other big central banks and by further increases in regulatory requirements. Net interest income after the impairment charge was roughly one fifth up on the same period of 2014 to €94.3 million; and we kept a tight reign on our general administrative expenses, which came to €79.2 million.

We are also pleased to be able to tell you about our bank's comfortable capital position. BKS Bank had a good own funds base at the end of the third quarter of 2015. Its Tier 1 ratio was 10.3 per cent, which was well above the minimum required for banks operating across the European Union, and the own funds ratio came to 10.8 per cent. Surplus own funds of €138.6 million meant that BKS Bank is well armed for further expansion as it competes for customers and profits. In line with our sustainable strategy, we took further forward-looking action to reinforce our capital base by issuing an additional Tier 1 note. This was in response to ever stricter capital adequacy requirements. The subscription period ended on 30 October, which means that only part of this note's impact on our capital ratio was apparent as of 30 September.

We will continue to act with efficiency and with our customers in mind during the final weeks of this financial year, even if we cannot rule out the possibility that the market might put stress on our bank. We expect the market environment to stay bleak during the first half of 2016. We plan to address this situation with the help of responsible cost and risk discipline and by focussing on core areas of business that are profitable on a sustainable basis.

As was recently concluded by the well-respected rating agency *oekom research AG*, your BKS Bank is a 'prime' bank, which means that it is one of the world's best in its class in the category of sustainability. The bank had already been named an 'Excellent Austrian Enterprise' (*Exzellentes Unternehmen Österreichs*) by *Quality Austria* at the beginning of the year. We were awarded those titles in recognition of the high level of commitment exhibited by BKS Bank and its employees. They gave us both pleasure and pride.

Herta Stockbauer
Chairwoman of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

# Consolidated Management Report for the Nine Months Ended 30 September 2015

## The Economic Setting in which Banks are Operating

### The general economic situation

Looking back, 2015 is likely to be seen as one of those years in which a dense series of shocking headlines superimposed themselves on a challenging general economic situation. In particular, we recall the devastating earthquake in Nepal, the murderous attacks in Paris, Tunisia and Ankara, the continuation of the smouldering conflict in the Ukraine and the escalation of terrorism in the Islamic regions of the Middle East and North Africa. Above all, we were shocked by the immeasurable suffering created by the refugee crisis that resulted. It is the biggest since the end of World War II and has become a test of endurance for Europe.

The global economy was hit by uncertainty about developments in China and other threshold countries and the rapid fall in energy and raw material prices. Against this backdrop, its growth was weak and lacked homogeneity. The so-called developed economies—including, above all, the United States—experienced a slight economic upturn driven by low crude oil prices and low financing costs. According to the Bank of Japan, Japan's modest economic recovery continued—with annual growth of 0.7 per cent—despite record unemployment and a serious decline in exports. On the other hand, economic outlooks in the big emerging markets worsened in the face of large structural imbalances. Russia—a BRICS country—fell into a deep recession, and Brazil and South Africa have also been in the economic doldrums for some time. In view of its sobering economic numbers and massive upheavals in its equity markets, China is unlikely to live up to its real growth forecast of 7 per cent this year. Cuts in key interest rates by the People's Bank of China, fiscal stimulation measures by the central government and efforts to relax capital adequacy requirements for banks achieved no more than a superficial alleviation of the slump. Real economic growth in the countries of Central, Eastern and Southeastern Europe lay between 2.5 per cent and 3.5 per cent. Those countries are profiting from rising purchasing power, modest lending growth and recovery in their labour markets.

Real GDP in the United States is likely to grow by about 2.6 per cent this year. This growth will be driven mainly by a rise in private consumer spending. To date, cheap refinancing terms, recovery in the labour and residential property markets and the diminishing effect of progressive taxation (fiscal drag) have had a positive impact. However, the rise in the effective rate of exchange of the US dollar versus the currencies of its trading partners from the middle of the year dented export growth. Moreover, the sharp drop in crude oil prices probably had a negative impact on investment in the energy sector. On the other hand, employment growth remained robust, reducing the jobless rate to 5.1 per cent in September.

The eurozone's economic recovery continued without a break, and the ECB is predicting real GDP growth of 1.5 per cent this year. However, this means that the recovery is still weak by historical standards. To date, low oil prices have had a positive impact on real disposable incomes and, as a consequence, on private consumer spending and earnings in the corporate sector. The ECB's monetary policy improved financing terms and, therefore, access to investment finance. The German economy shifted onto a path of roughly 2 per cent growth against the backdrop of a highly dynamic domestic economy and an expansionary monetary environment. The extent to which the massive inflow of refugees in recent weeks and months can make a perceptible contribution to strengthening production capacities will depend on how quickly integration is achieved and jobs can be created for refugees looking for work. The robust recoveries in the crisis countries at the periphery of the European Union—with the exception of Greece—continued. This was above all the case in Ireland, Spain and Portugal. Italy has also been recording positive GDP growth of late. Because of persistent structural problems, growth in France and the Netherlands was marginal. The jobless rate in the eurozone fell from 11.4 per cent to 10.8 per cent between the beginning of the year and the end of the period under review. At that time, it ranged from 4.5 per cent in Germany to 21.8 per cent in Spain. It was highest in Greece, where, still, every fourth member of the workforce was unemployed.

Following GDP growth of 0.2 per cent in the first quarter and 0.3 per cent in the second, the Austrian economy's growth in the third quarter was sluggish and below the eurozone average. Despite a small increase in investment in plant and equipment, investment activity was still restrained. Public sector and private consumption provided little economic stimulus. However, the level of incoming orders and the euro's depreciation mean that we can expect export growth to accelerate. The situation in the job market was aggravated by the influx of foreign workers, the increase in the proportion of women in the workforce and a drop in the number of people taking early retirement. The jobless rate at the end of September applying Austria's national definition was 8.3 per cent, and it was 5.7 per cent when calculated using the *Eurostat* definition. Austria's rate of inflation in the period under review was still well above the eurozone average of 0.2 per cent. WIFO expects inflation in Austria to average 1.1 per cent over 2015 as a whole.

## Exchange rates

As a result of the ECB's expansionary monetary policy and Europe's mediocre economic outlook, the euro lost ground versus the currencies of most of the eurozone's principal trading partners. The euro weakened by 7.7 per cent against the US dollar to US$1.1203/€ during the first three quarters, and the single currency also weakened versus sterling (down 5.2 per cent to £0.7385/€), the Swiss franc (down 9.2 per cent to SFr 1.0915/€), the yen (down 7.3 per cent to ¥134.69/€) and the Chinese renminbi (down 5.5 per cent to CNY 7.1206/€). The drastic drop in oil prices and the weak Russian economy put pressure on the ruble, weakening it by 1.3 per cent to RUB 73.2416/€. The Croatian kuna, which is of importance to our bank, was trading at HRK 7.6445/€ at the end of September, as against HRK 7.6580/€ at the beginning of the year.

## Money and capital markets

As for key interest rates, the ECB's monetary policy in 2015 has continued to focus on ensuring medium-term price stability. Based on an unchanged low interest rate on main refinancing operations of 0.05 per cent, a negative 0.2 per cent deposit facility rate and a peak refinancing rate of 0.3 per cent, the ECB continued as planned its long-term refinancing operations and its extended Public Sector Purchase Programme in order to improve the money supply and credit indicators. As things stand at the time of writing, the ECB will be carrying out the entirety of its securities purchasing programme of €60 billion a month until the end of September 2016—and beyond if necessary. The medium-term goal is a rate of inflation of close to 2 per cent. In the meantime, banks' funding costs have dropped to a historical low, and this is contributing to a gradual recovery of credit growth. Recently, the impression in the United States has increasingly been that the already long announced moderate increase in key interest rates will actually happen before the end of this year. In contrast, in line with the mechanisms of 'Abenomics', key rates in Japan are likely to stay low for the next two years. China, India and a number of other threshold countries combated deflationary tendencies by easing their monetary policies. They did this by cutting key interest rates. Although the ECB's key rates did not change, money market rates in the eurozone continued to drop during the first nine months of 2015. The 3-month euribor—an important reference rate for new loans—dropped to negative figures for the first time in the second half of April and came to negative 0.040 per cent on 30 September. The monthly average yield on long-term AAA German government bonds was at a historical low of close to zero in March. However, it had rebounded to 0.59 per cent by the end of September. The yield on US equivalents was 2.04 per cent at the end of the third quarter.

## Equity and raw material markets

The performance of the international equity markets was extremely volatile during the first nine months against the backdrop of the threat of a 'Grexit' from the eurozone, worsening geopolitical tensions in the Middle East and growing concern about the possibility of an economic slump in China. Nonetheless, the markets ended the period under review at roughly the same level as at the beginning of the year. Capital market participants' uncertainty regarding developments in Greece reached a peak at the end of June and the beginning of July, but it was temporary. Measured in terms of the Euro Stoxx 50, share prices dropped by over 9 per cent between 26 June and 7 July. Devaluation of the Chinese renminbi (CNY) on 11 August led to serious price losses on China's stock exchanges and a sharp increase in global uncertainty. Combined with an equally rapid drop in crude oil prices, this was seen worldwide as signalling a lasting deterioration in the global growth outlook. Share prices in the eurozone also slumped between 11 August and 24 August, falling (measured in terms of the Euro Stoxx 50) by roughly 15 per cent to 3,073.39 points. The MSCI World Equity Index in euros rose just marginally in the nine months up to the end of the third quarter of 2015, reaching 144.7 points. On the other hand, the ATX delivered a performance of 3.2 per cent in the period under review to close the first three quarters at 2,229.49 points. The BKS Bank ordinary no-par share, which is listed in the Vienna Stock Exchange's *Standard Market Auction* segment, was worth €17.0 on 30 September, while the price of the BKS Bank no-par preference share reached €15.2. BKS Bank's market capitalization was €609.4 million at the end of the third quarter. This was 1.7 per cent less than at the end of 2014.

Having cost US$57.56 a barrel at the beginning of the year, European benchmark Brent crude went up to over US$62 a barrel in the second quarter but had then slumped by over a fifth to US$48.56 a barrel by the end of September. The oil market was still dominated by a massive over-supply from OPEC. In addition, shale oil production in the United States proved to be highly flexible and more robust than had been expected. Moreover, the crude oil markets seemed already to have priced in the growing supply of oil from Iran. At the moment, that country, which has the world's fourth-largest crude oil reserves, is producing about 2.8 million barrels a day. According to the long-term futures curve, market participants are expecting at most a gradual rise in oil prices. The prices of other industrial raw materials and precious metals followed a similar pattern. Having started the year at US$1,183.40 an ounce, the price of the 'crisis currency' gold was determined above all by speculation on the part of big professional investors and the waning Far East economy. At the end of September, the spot price of a fine ounce was US$1,115.00.

# Notes on the Scope of Consolidation

At the reporting date, 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 Versicherungs-Aktiengesellschaft*.

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 quantitative 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 entity in question.

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 MEMBERS OF THE GROUP

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

### Banks and Other Financial Service Providers

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

### Other Consolidated Entities

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

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. Besides *Drei-Banken Versicherungs-Aktiengesellschaft*, our investments in our sister banks *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft* were also accounted for using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of those banks at 30 September 2015, holding stakes of 17.97 per cent and 15.10 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. *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, 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 €6.99 billion at 30 September 2015. This was 2.1 per cent more than at the end of 2014. The increase was due to growth in the line items *Receivables from customers*, which grew by 2.2 per cent to €5.12 billion, and *Receivables from other banks*, which grew by 9.9 per cent to €296.3 million. *Cash and balances with the central bank* increased by €10.4 million or 4.8 per cent to €225,7 million. The impairment allowance balance came to €205.5 million, compared with €194.2 million at the end of 2014 (increase of 5.8 per cent).

Unlike many of our competitors, we recorded further growth in our lending operations during the first nine months of this financial year. Receivables in the customer loan portfolio grew by a total of €109.3 million or 2.2 per cent to €5.12 billion during the first three quarters. This uptrend was all the more remarkable given that the substantial cash holdings of many companies led to debt service payments that were, in some cases, very big. However, as our new sales structure began to bear fruit, we managed to compensate for them thanks to excellent new business volumes in the corporate and business banking and retail banking segments.

Leasing operations in Austria also grew well during the period under review. The attractiveness of leased products increased considerably. Our bank was able to take advantage of this trend with the help of its attractive financing products. The number of new car, truck and other capital goods leases was significantly up on 2014. The present value of lease receivables at *BKS Leasing GmbH* came to €167.1 million at the end of the period under review. Our leasing subsidiaries abroad—in Slovenia, Slovakia and Croatia—were also able to build on their successes in 2014, achieving a present value of €144.4 million. Our Slovenian subsidiary in particular developed well during the first nine months, achieving remarkable success in its business acquisition activities.

*BKS Bank d.d.*, which is headquartered in Rijeka, performed well. At the end of September, it was servicing over 4,600 customers and had increased its assets to €185.0 million. Above all, there was growth in its receivables from customers. In line with this company's strategy, most of the increase in volumes was accounted for by its retail customer operations.

The foreign currency loan portfolio got smaller during the period under review. The portfolio of Swiss franc loans shrank by SFr189.7 million to SFr332.3 million. However, some customers proved rather unwilling to convert to euros once the Swiss National Bank had abandoned the cap on the exchange rate between the Swiss franc and the euro in the middle of January 2015. Nonetheless, the foreign exchange ratio fell sharply to just 6.6 per cent at the end of September, compared with 9.4 per cent at the end of 2014.

The line item *Financial assets* grew by 0.5 per cent to €1.41 billion. Investments in fixed-interest securities played an important part in ensuring our compliance with the legislative liquidity requirements. The growth in the held to maturity portfolio (HTM) of 3.5 per cent to €702.3 million must be seen in this light. The portfolio of assets designated as at fair value through profit and loss (FV) shrank by one fifth to €118.2 million.

Similarly, the available for sale portfolio (AFS) shrank by 9.2 per cent to €166.4 million. Overall, interest rates were stuck at the same low level as before and provided little incentive to invest. The yield on 10-year German *bunds* stood at just 0.59 per cent at 30 September.

Investments in entities accounted for using the equity method increased by 8.0 per cent to €427.4 million. The change in this line item was due to the addition of the profit for the period recorded by the entities accounted for using the equity method. These consisted primarily of *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft*.

## Equity and Liabilities

On the equity and liabilities side of the Balance Sheet, the line item *Payables to other banks* grew by 9.8 per cent to €944.8 million. Most of the increase was accounted for by banks abroad. A number of trends shaped the development of so-called ‘primary’ deposit balances during the period under review. They came to €4.99 billion, echoing the solid total of €5.01 billion recorded at the end of 2014. Once again, the line item *Payables to customers* was dominated by sight and time deposit balances, which came to €2.56 billion (31 December 2014: €2.52 billion). Investors in the Slovenian market in particular have faith in our bank, as was demonstrated by a deposit balance of roughly €0.6 billion at 30 September 2015. On the other hand, market conditions diminished the savings deposit balance by €51.4 million to €1.65 billion. The unchanged low level of interest rates increasingly motivated our customers too to look for alternative forms of investment outside the banking system. OeNB (Austrian National Bank) statistics also reflected this trend. The balance of Austrian savings deposits with BKS Bank fell by 0.9 per cent during the first three quarters of 2015 and shrank by all of 5.6 per cent between the close of 2012 and the end of the period under review.

The line item *Liabilities evidenced by paper* came to €591.3 million. This was roughly static compared with the beginning of the year. In this period of extremely low interest rates, it has been and remains difficult to issue attractive securities of our own. Nonetheless, we were able to sell €61.4 million of new securities in the period under review.

Redemptions slightly reduced our subordinated debt capital outstanding, decreasing it by 3.7 per cent to €188.1 million. This year to date, we have yet to issue an instrument in this category. However, we will be inviting subscriptions for a supplementary capital note—the *BKS Bank Nachrangige Obligation 2015 – 2025* [1]—during the fourth quarter of 2015 to make up for a redemption totalling €15.0 million that is scheduled for December.

The line item *Equity* increased by €40.8 million or 5.1 per cent to €836.6 million during the period under review. Most of the increase was due to the addition of profit for the period and issuances of additional equity instruments. Subscribed capital was unchanged at €72.1 million.

# Consolidated Own Funds

BKS Bank calculated its own funds ratio and basis of assessment in accordance with the own funds regime established by Basel III, which was incorporated into European law by the CRR. Our own funds requirement was computed in compliance with the requirements of the standardized approach. Stronger credit growth increased the basis of assessment by €99.3 million versus the end of 2014 to €4.95 billion.

BKS Bank’s own funds position remained solid thanks to its conservative and forward-looking business strategy. There was a small increase in its total own funds during the third quarter. We were able to keep common equity Tier 1 capital, which plays an important role in the bank’s management, at the high level of €510.6

[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 investment mentioned here. Nor does it constitute a recommendation to buy or sell. The offering of the product described here took place on the basis of *BKS Bank AG*’s *Informationsmemorandum* (information memorandum) of 28 August 2015 and the final terms and conditions contained therein.

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

| €m | 31/12/2014 | 31/3/2015 | 30/6/2015 | 30/9/2015 |
|---|---|---|---|---|
| Equity | 71.4 | 71.0 | 71.0 | 71.0 |
| Reserves less intangible assets | 714.5 | 714.5 | 706.9 | 703.3 |
| Deductions | (242.2) | (250.9) | (268.5) | (263.7) |
| **Common equity Tier 1 capital** | **543.7** | **534.5** | **509.4** | **510.6** |
| Common equity Tier 1 capital ratio | 11.2% | 10.7% | 10.4% | 10.3% |
| | | | | |
| Hybrid capital | 32.0 | 28.0 | 28.0 | 28.0 |
| Additional Tier 1 capital | 0 | 0 | 0 | 8.8 |
| Deductions | (32.0) | (28.0) | (28.0) | (36.8) |
| **Additional Tier 1 capital** | **0** | **0** | **0** | **0** |
| **Tier 1 capital** (CET1 + AT1) | **543.7** | **534.5** | **509.4** | 510.6 |
| Tier 1 capital ratio | 11.2% | 10.7% | 10.4% | 20.3% |
| | | | | |
| Ancillary capital items and instruments | 117.8 | 112.2 | 106.3 | 112.3 |
| Deductions | (80.6) | (82.1) | (87.3) | (88.6) |
| **Ancillary capital** | **37.2** | **30.1** | **19.0** | **23.7** |
| | | | | |
| **Total own funds** | **580.9** | **564.6** | **528.4** | **534.3** |
| Own funds ratio | 12.0% | 11.3% | 10.7% | 10.8% |
| | | | | |
| Basis of assessment | 4,846.6 | 4,982.7 | 4,919.3 | 4,945.9 |
| **Surplus own funds** | **193.2** | **166.0** | **134.9** | **138.6** |

million, compared with €509.4 million at the end of the first half. This gave us a common equity Tier 1 capital ratio of 10.3 per cent at 30 September 2015. We issued a total of €23.4 million of the *BKS Bank Additional Tier 1-Anleihe 2015*, which was open for subscription from 1 September. It constitutes additional Tier 1 capital under CRR Art. 51 *et seq.* €8.8 million thereof was accounted for in the period under review. We would like to add that this Interim Report has not been audited by an auditor and that profit for the period in the reporting year could not be taken into account. Including supplementary capital in the amount of €23.7 million, our bank had own funds of €534.3 million at the reporting date. The own funds ratio was 10.8 per cent, and surplus own funds came to €138.6 million.

The new regulatory ratio associated with the implementation of the CRR—the so-called 'leverage ratio'—was 7.5 per cent at the end of the third quarter of 2015. This was well above the regulatory benchmark of 3 per cent. This ratio measures the relationship between common equity Tier 1 capital and non-risk weighted assets inclusive of off-balance sheet items.

# Performance

During 2015, BKS Bank has again found itself in a business environment dominated by persistently difficult market conditions and still shaped by low interest rates and intense competition. In addition, the banking sector has been confronted with new regulatory demands at ever shorter intervals. Meeting them has been challenging and resource intensive and has dented profits. Overall, though, we are satisfied with our reported profit for the period after tax and minority interests of €44.0 million, which compares with €32.7 million in the same period of 2014. It is a reflection of the favourable development of the impairment charge on loans and advances and our pleasing earnings from service operations.

Net interest income before the impairment charge came to €119.5 million, which was slightly—0.2 per cent—up on the nine months ended 30 September 2014. In the period under review, we were almost able to make up for the drop in interest income by reducing interest expenses. However, the pressure on margins was undiminished, especially in Austria and Slovenia. That notwithstanding, we were able to keep our lending margin at the same level as at 30 September 2014, at 1.97 per cent. Deposit margins were affected by market interest rates, dropping by 0.1 percentage points versus the same period of 2014 to 0.0 per cent.

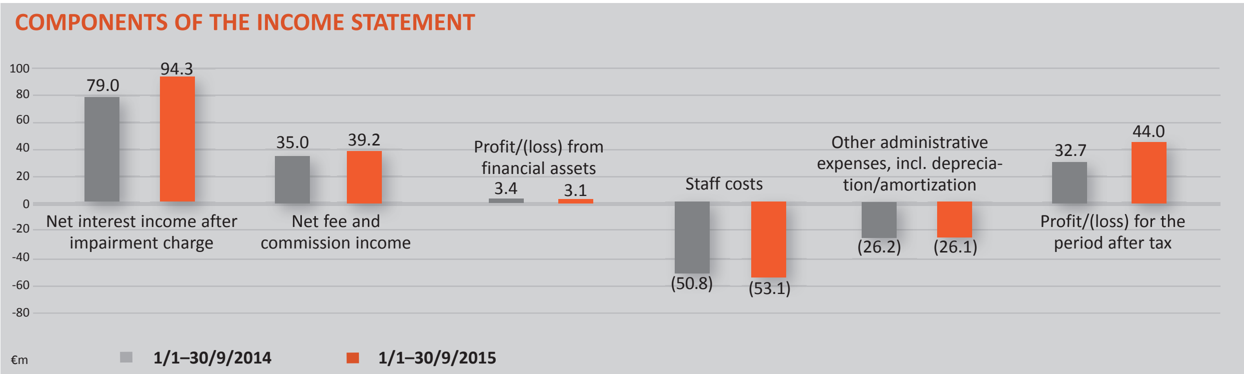
Our conservative risk policy and preparedness to consistently combat risks continued to prove their worth during this reporting period in 2015. Although the requisite impairment charge of €12.9 million in the third quarter of 2015 was higher than the charge in both the previous quarters, we were able to keep the impairment charge on loans and advances well below the prior-year figure of €40.2 million at €25.2 million. The charge was reduced by impairment reversals made possible by debt recoveries and by the reversal of some of the allowance for country risk exposure following an upgrade of Slovenia's country rating from 2a to 1b.

Net fee and commission income in the period under review was €4.2 million or 12.1 per cent up on the same period of 2014 to €39.2 million. This was essentially thanks to an increase in fee and commission income from payment services (up 4 per cent to €14.7 million), the dynamic growth of earnings from securities operations (up 14.2 per cent to €10.5 million) and increases in fee and commission earnings from credit and foreign exchange operations (up 10.8 per cent to €10.3 million and up 77.9 per cent to €2.8 million, respectively). The securities portfolios held in custody by BKS Bank were worth €7.93 billion at the end of September 2015. We would like to add that we streamlined our fees and charges in the retail customer segment and have, since April 2015, been offering our customers more up-to-date and attractive account models. They are called *Klassikkonto Privat* (classic personal account), *Premiumkonto Privat* (premium personal account) and *New Bankingkonto Privat* (new personal bank account). Their nationwide introduction was practically glitch-free and customer response was very positive.

Profit for the period from financial assets came to €3.1 million, compared with €3.4 million in the nine months up to the end of September 2014. The main factors underlying the pleasing development of our earnings from financial assets were our revaluation gains on derivatives in the portfolio of financial assets designated as at fair value through profit or loss and realized and redemption gains in the available for sale portfolio. The profit from investments in entities accounted for using the equity method was €3.6 million or 17.2 per cent up on the same period of 2014 to €24.7 million. This was thanks to the solid business performance of the entities accounted for in this way, which did particularly well during the second quarter of 2015.

General administrative expenses in the nine months up to the end of September were only slightly up on the same period of 2014, increasing by 3.0 per cent to €79.2 million. We are pleased to be able to report that our bank succeeded thanks to structural measures in keeping the workforce at an acceptable level despite the high regulatory demands. The average number of staff increased by just seven to 922 (full year equivalents) during the period under review. Most of the additions to the workforce took place in sales as two more branches were added to the network. The 2015 increases in salaries under collective agreements averaged 1.78 per cent. They took effect on 1 April 2015. Whereas our spending on wages and salaries fell by 3.4 per cent to €38.1 million, our expenditure on corporate pensions rose sharply, increasing by €6.0 million. There was a moderate reduction in other administrative costs and write-downs to fixed assets, which fell by 0.2 per cent to €26.1 million. This was in line with our commitment to maintaining strict Group-wide cost discipline, particularly when it came to discretionary expenses.

The negative balance of *Other operating income* and *Other operating expenses* was €5.1 million bigger than in the same period of 2014 at €9.2 million. This loss resulted from the €3.1 million of bank tax payable to the inland revenue service and other unavoidable expenses in the supervisory field. The provisional figure for our outlay on



the Austrian resolution mechanism for banks was €1.6 million. We expect our outlay on the deposit guarantee scheme to come to €0.8 million in 2015. We were required to allocate another €0.5 million to provisions for litigation risks in connection with possible MPC damages. Complaints in connection with stop-loss conversions of Swiss franc loans had an impact in the form of a €0.3 million provision. In addition, this line item also includes a provision of €3.5 million for any additional tax liabilities that may result from a tax audit.

# Segmental Reports

Our segmental reporting was based on the organizational structure of the Group that underlies its internal management reporting system. In 2014 and in the first half of 2015, BKS Bank focused intensively on optimizing its sales structure and sales organization and carrying out a minor change to its segmental structure. Up to and including 30 June 2015, the retail banking segment also included retail business customers. These are businesses with borrowings of not more than €1.0 million. With the exception of customers who could be counted as belonging to the healing professions, those customers were integrated into the corporate and business banking segment as of 1 July 2015 so as to provide them with the best possible customer care. This has led to minimal changes in our segmental reporting. The figures for the same period of 2014 have been restated retrospectively in conformity with IFRS 8.29.

The success of each segment was measured on the basis of its profit before tax and return on equity (ROE), its cost:income ratio (CIR) and its risk:earnings ratio (RER).

## Corporate and Business Banking

We were servicing some 17,800 corporate and business banking customers in this segment at the end of September 2015. BKS Bank having originally been conceived as a corporate and business bank, this business segment has the longest tradition and it remained the enterprise's most important pillar. Institutional customers still accounted for the larger part of the loan portfolio and made an essential contribution to profit for the period. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed the income and expenses of *BKS Bank d.d.* in Croatia and of our leasing companies insofar as they arose from business done with companies.

In the period under review, the significant reduction in credit risk in the corporate and business banking segment led to a big increase in profit for the period, which came to €28.2 million. That compared with €12.0 million in the first three quarters of 2014. This pleasing result gives us reason to hope that we will again be able to achieve profits like those we posted in the successful years before the crisis. Looking at the segment's performance in detail, net interest income was 2.5 per cent up on the same period of 2014 to €62.9 million; and it proved possible to cut the impairment charge on loans and advances by €14.5 million or over one third to €23.6 million. Consequently, the risk:earnings ratio fell sharply from 62.0 per cent to 37.5 per cent.

**PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT**


| | Q1–Q3 2014 | Q1–Q3 2015 |
|---|---|---|
| ROE | 6.2% | 14.9% |
| CIR | 39.0% | 38.8% |
| RER | 62.0% | 37.5% |

| | Q1–Q3 2014 | Q1–Q3 2015 |
|---|---|---|
| ROE | 1.3% | (1.9%) |
| CIR | 94.6% | 98.2% |
| RER | 6.9% | 6.1% |

| | Q1–Q3 2014 | Q1–Q3 2015 |
|---|---|---|
| ROE | 10.3% | 9.0% |
| CIR | 14.2% | 13.0% |
| RER | 1.3% | 0.9% |

A detailed segmental analysis is presented in the Notes on page 38.

General administrative expenses were only marginally up on the same period of 2014 to €32.8 million. Moreover, the advance in fee and commission income from credit and securities operations helped increase the segment's net fee and commission income by 4.2 per cent to €20.9 million. The performance ratios in the corporate and business banking segment—the return on equity and cost:income ratio—were very good at 14.9 per cent (Q1 – Q3 2014: 6.2 per cent) and 38.8 per cent (Q1 – Q3 2014: 39.0 per cent), respectively.

## Retail Banking

At the end of September 2015, approximately 132,000 customers of *BKS Bank AG*, *BKS Bank d.d.* and the Group's leasing companies were assigned to the retail banking segment. Because it is highly dependent on branch operations, this segment is very resource and cost intensive. Nonetheless, it is indispensable to our bank's stable and sustainable development because it remains a dependable source of funds for BKS Bank even in times of historically low interest rates. Roughly 87 per cent of savings deposit balances and about 28 per cent of sight and time deposit balances had been generated in the retail banking segment. In all, this was over half of our reported payables to customers, which came to €4.21 billion. On the other hand, only about 22 per cent of the credit portfolio was accounted for by lending to our bank's retail banking customers.

Following a small profit of €0.4 million in the same period of 2014, this segment's profit for the period before tax in the first three quarters of 2015 was slightly negative. There was a perceptible decline of €3.6 million in net interest income, which came to €20.9 million. We were very unhappy about the decline, but it was a direct consequence of the renewed drop in deposit margins, which fell from 0.15 per cent to just 0.04 per cent during the period under review. On the other hand, our intensive efforts to acquire new customers yielded satisfactory results in the period under review as the customer base grew by 2,485 compared with the end of September 2014. We were particularly successful in the hard-fought Viennese market and at our foreign branch in Slovenia. This was not completely unexpected. After all, in an independent study carried out by *ÖGVS-Gesellschaft für Verbraucherstudien*, BKS Bank emerged, among other things, as the best provider of credit advice in Vienna.

The impairment charge remained modest in the third quarter. Having come to €1.7 million in the same period of 2014, the requisite impairment charge on loans and advances fell to just €1.3 million. This phenomenon was mirrored by a low risk:earnings ratio of 6.1 per cent. The sizeable decline in net interest income was mitigated by our very robust service operations in this segment. Net fee and commission income was sharply up on the same period of 2014, increasing by €3.2 million to €17.4 million. Above all, securities operations have been a supporting pillar of our service operations during 2015. General administrative expenses were practically unchanged at €38.1 million. However, the segment's cost:income ratio was still unsatisfactory, at 98.2 per cent, and there will be little improvement in the medium term.

## 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 responsibility for and management of so-called 'structural' income earned in the financial markets segment were in the hands of BKS Bank's Asset Liability Management (ALM) Committee. With reference interest rates in the credit market at a uniquely low level, the Committee was still under considerable pressure.

Profit for the period before tax in the financial markets segment came to €34.9 million in the first nine months of the year, compared with €32.2 million in the same period of 2014. The increase in profit from investments in entities accounted for using the equity method contributed to this segment's good overall performance. Net interest income was 6.9 per cent up on the same period of 2014 to €34.6 million. Profit from financial assets came to €3.1 million, which was marginally down on the figure of €3.4 million recorded in the first three quarters of 2014. General administrative expenses in this segment were already modest, and we were able to keep them low at €4.8 million. The segment's cost:income ratio improved to 13.0 per cent and the risk:earnings ratio fell to just 0.9 per cent. Having been 10.3 per cent in the same period of 2014, the return on equity fell to 9.0 per cent. This was because the average equity allocated to the financial markets segment increased by €101.2 million to €515.7 million.

# Key Corporate Ratios

CORPORATE RATIOS

| | 2013 | 2014 | 30/9/2015 |
|---|---|---|---|
| ROE (before tax) | 6.4% | 7.2% | 9.0% |
| ROA (before tax) | 0.7% | 0.8% | 1.1% |
| Cost:income ratio | 54.1% | 51.9% | 52.3% |
| Risk:earnings ratio | 30.4% | 31.5% | 21.1% |
| Common equity Tier 1 capital ratio | — | 11.2% | 10.3% |
| Own funds ratio | — | 12.0% | 10.8% |

The BKS Bank Group's key performance ratios improved considerably in the first nine months of 2015. This was above all due to a respectable increase of 34.5 per cent in profit for the period. Both the return on equity before tax (ROE) and the return on assets before tax (ROA) surpassed the satisfactory levels achieved in prior periods and lived up to our ambitious expectations, coming to 9.0 per cent and 1.1 per cent, respectively. There was also a significant improvement in the risk:earnings ratio. We are pleased to report that it was well below the prior-year figure of 31.5 per cent at 21.1 per cent and below the bank's internal benchmark target of 25 per cent. However, this ratio rose compared with the first half because the requisite risk impairment charge was higher in the third quarter than in prior quarters. The cost:income ratio weakened just marginally from 51.9 per cent in the same period of 2014 to 52.3 per cent in the period under review. As a result, it stayed well below our internal benchmark target of 55 per cent. We rate this both as evidence of the efficacy of our consistent cost management activities and as a reflection of the totally unsatisfactory level of market interest rates.

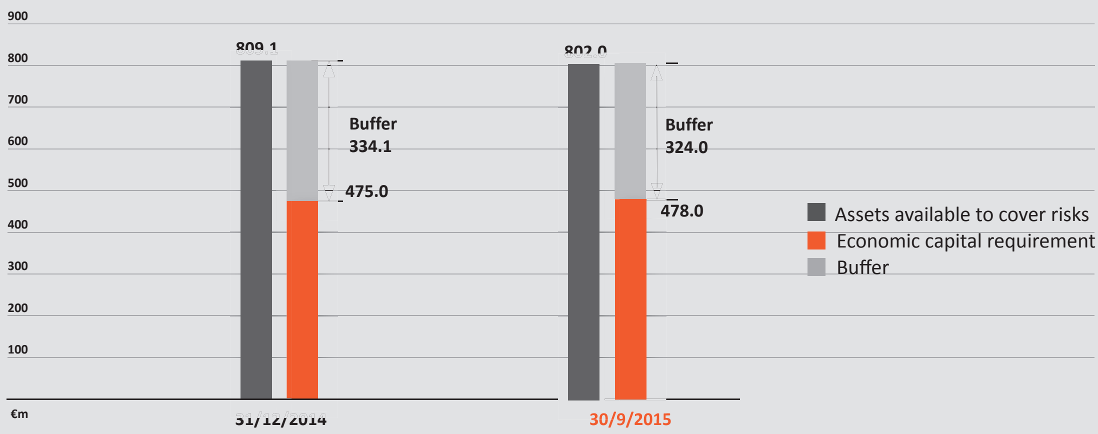
# Risk Report

Our business policy objective 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. The goal of our risk policy was to detect all the relevant operational and other banking risks early and to actively manage and limit them using effective risk management techniques. The aim was to continuously and fully capture every individual risk. Available capital was used as efficiently as possible in the light of our medium-term and long-term strategic goals, and the trade-off between risk and return was constantly optimized. The precept that we only enter into risks that BKS Bank can bear without outside help is anchored in the Risk Strategy as a general principle.

BKS Bank's risks were managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures and controlled by means of organizational structures. Pursuant to the provisions of *§ 39a BWG* (Austrian banking act), banks are required to have effective plans and procedures in place to ascertain the amount, composition and distribution of the capital available to cover quantitatively all material operational and other banking risks. These procedures were combined within the internal capital adequacy assessment process (ICAAP) and applied at BKS Bank within the scope of the risk bearing capacity calculation process.

We assessed our internal capital adequacy once a quarter on the basis of the risks that had been identified using internal models. The goal 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. This overall bank risk was the equivalent of our economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit risk and liquidity risk were factored into prices as risk premiums (standard risk costs, liquidity premiums) and were therefore incorporated into the interest rates charged to customers. 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 cover unexpected losses without suffering serious detriment to its business activities. The individual components of the assets that were available to cover risks were ranked according to their commercial usability while also taking account, above all, of their disposability and publicity effects.

## CALCULATION OF RISK BEARING CAPACITY ON A LIQUIDATION BASIS




When a capital adequacy target was set on a going concern basis, the potential risk and risk bearing capacity had to be balanced in such a way that the bank would be in a position to cope with an adverse burden while continuing to conduct business in an orderly manner. A capital adequacy target set on a liquidation basis is a regulatory requirement. It serves to protect creditors. At BKS Bank, unexpected losses within a period of observation of one year were predicted on a liquidation basis with a confidence interval of 99.9 per cent. As in the same period of 2014, the economic capital requirement for credit risk was the biggest risk capital requirement within the *Kreditinstitutsgruppe* (credit institution group). Credit risk accounted for about 79.7 per cent (31 December 2014: 82.8 per cent) of the total potential loss. Market risk was responsible for 10.5 per cent (31 December 2014: 8.7 per cent). On a liquidation basis, our economic capital requirement at 30 September 2015 was €478.0 million, compared with €475.0 million at the end of 2014. The assets available to cover risks came to €802 million, compared with €809.1 million at the end of 2014.

### Credit Risk

We define credit risk as the risk of a partial or complete loss of contractually agreed loan payments. This risk can be caused by a counterparty's credit standing or, indirectly, by country risk exposure as the result of a counterparty's domicile or place of residence. Credit risk was BKS Bank's most important risk category by far. Monitoring and analysis took place at the product level, at the single customer level, at the level of groups of related customers and at the portfolio level. Our management of credit risk was based on the principle that loans should only be granted on a know-your-customer basis. In other words, loans were only granted after thorough personal and credit checks and on a dual-control or 'four-eyes' basis (front office and back office).

**RATING CLASSES**

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

Collateral requirements were based on the rating class and the product concerned. Fair value valuations of collateral took their bearings from average proceeds from liquidations achieved in the past. Lending in markets outside Austria was regulated by guidelines that were fine tuned to allow for the specific features of the country concerned. They were in particular geared to the economic setting and took account of the heightened risk involved in realizing collateral. BKS Bank employed a 13-class rating system. At the reporting date of 30 September 2015, about 44 per cent of the total corporate and business loan portfolio and about 67 per cent of the retail loan portfolio were in the very good rating classes from AA to 2b. BKS Bank's new business acquisition activities focused on customers in those rating classes.

**CHARGE FOR IMPAIRMENT LOSSES**

| €m | 30/9/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Direct write-offs | 0.4 | 0.4 | 2.2 |
| Impairment allowances | 44.0 | 32.4 | (26.4) |
| Impairment reversals | (3.9) | (6.9) | 78.6 |
| Subsequent recoveries | (0.4) | (0.7) | 87.8 |
| **Charge for impairment losses** | **40.2** | **25.2** | **(37.3)** |

The charge for impairment losses in the period under review in 2015 was satisfactorily low at €25.2 million, as against €40.2 million in the same period of 2014. This represents a reduction of 37.3 per cent, or more than one third. Impairments allowances were cut by a quarter from €44.0 million to €32.4 million. This figure includes individual impairment allowances, collective assessments of impairments carried out in accordance with IAS 39 and the collective allowance for country risk exposure. The improvement was also contributed to by a partial reversal of the allowance for country risk exposure in the amount of €0.8 million made possible by our uprating of Slovenia, whose rating improved from 2a auf 1b in our internal ratings system. Looking at our credit risk at the level of non-performing loans, the proportion of such loans was slightly down on the end of 2014, accounting for 7.2 per cent of the total portfolio. The requisite risk charge at our foreign subsidiaries came to just €0.2 million, and almost all of it was accounted for by *BKS-leasing d.o.o.*, Ljubljana.

**IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS**

| Carrying Amount or Max. Default Risk per Category | Financial Instruments that were Neither Past Due nor Impaired | | Past Due Financial Instruments | |
|---|---|---|---|---|
| €m | 31/12/2014 | 30/9/2015 | 31/12/2014 | 30/9/2015 |
| Receivables from customers | 5,085 | 5,129 | 556 | 562 |
| Contingent liabilities | 183 | 203 | 5 | 3 |
| Receivables from other banks | 306 | 323 | 0 | 0 |
| Securities and fund units | 755 | 734 | 0 | 0 |
| Equity investments | 378 | 383 | 0 | 0 |
| **Total** | **6,707** | **6,772** | **561** | **565** |

| Carrying Amount or Max. Default Risk per Category | Impaired Financial Instruments | | Financial Instruments that were Past Due but Not Yet Impaired | |
|---|---|---|---|---|
| €m | 31/12/2014 (IFRS) | 30/9/2015 (IFRS) | 31/12/2014 (IFRS) | 30/9/2015 (IFRS) |
| Receivables from customers | 445 | 462 | 173 | 118 |
| Contingent liabilities | 0 | 0 | 0 | 0 |
| Receivables from other banks | 0 | 1 | 0 | 0 |
| Securities and fund units | 0 | 0 | 0 | 0 |
| Equity investments | 0 | 0 | 0 | 0 |
| **Total** | **445** | **463** | **173** | **118** |

## Market Risk

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

**VALUE AT RISK**

| €m | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Interest rate risk [1] | 7.2 | 15.2 | >100 |
| FX risk | 0.6 | 1.1 | >100 |
| Equity price risk | 1.1 | 1.3 | 18.2 |
| Total (including diversification effects) | 7.7 | 15.8 | >100 |

[1] Includes credit spread risk.

Interest rate risk is the risk of adverse changes in the values of interest rate sensitive positions caused by a change in interest rates. Differing maturities and interest rate adjustment periods can lead to interest rate risks 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 three quarters, 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 4.4 per cent at the end of 2014. Again, it remained significantly below the critical 20 per cent mark.

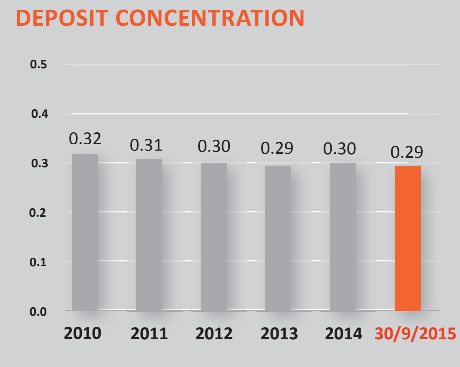
Since earning profits from open currency positions is not one of the focuses of our business policy, BKS Bank has always kept its foreign exchange risks low. Consequently, open currency positions were only held in small amounts and for short periods. Generally, foreign currency loans and foreign currency deposit balances were funded or invested in the same currency. To offset foreign exchange positions, BKS Bank sometimes engaged in derivative transactions like cross currency swaps, currency forwards and futures and currency swaps. Our open currency positions came to €4.2 million at the end of September. This was €1.0 million less than at the end of 2014. Our foreign exchange value at risk increased slightly from €0.6 million to €1.1 million during the first three quarters.

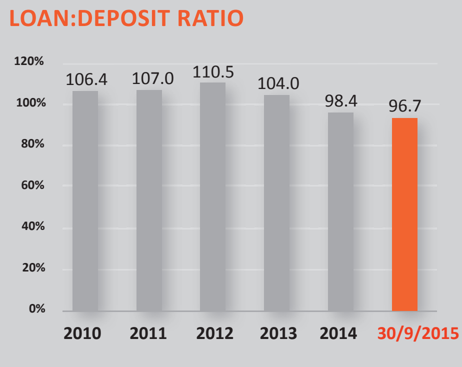
At the end of the first three quarters, equity positions in the portfolio that did not represent equity investments in subsidiaries or associates came to €29.7 million, which was only marginally down on 31 December 2014. The equity value at risk at the end of September was €1.3 million, compared with €1.1 million at 31 December 2014.

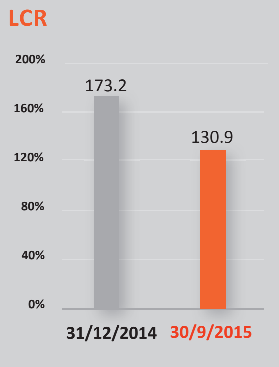
## Liquidity Risk

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

Clearly defined principles were in place to govern the management of liquidity risk. They were anchored in our Risk Strategy and in our liquidity management manuals. The diversification of our funding profile to achieve a mix of investor categories, products and maturities was an essential part of the liquidity management process. At BKS Bank, the management of liquidity so as 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 set liquidity risk boundaries. We mainly held as a liquidity buffer highly liquid securities that were eligible for refinancing with the ECB and eligible customer accounts. Material liquidity risk management decisions were made and liquidity risk monitoring was carried out by our Asset Liability Management Committee, which met regularly. At 30 September, BKS Bank's liquidity reserves were very solid. The liquidity buffer (counterbalancing capacity) was roughly the same as at the end of 2014, at €0.96 billion.




The deposit concentration is a ratio that helps us estimate the deposit withdrawal risk. Above all, it therefore highlights the dangers that come with relying on large deposits. At the end of the third quarter of 2015, this indicator—which is of importance to us—came to 0.29. The loan:deposit ratio shows the relationship between the loan portfolio and primary deposit balances. At the end of the period under review, it came to 96.7 per cent, which was a pleasing result. It means that the totality of loans roughly corresponded to the customer deposit balances. The liquidity coverage ratio (LCR) is used to test whether a bank is in a position to remain liquid for the coming 30 days even in the event of simultaneous market and bank-specific stresses. It compares holdings of highly liquid assets with the expected net cash outflow under stress conditions in the coming 30 days. At BKS Bank, this regulatory liquidity ratio came to 130.9 per cent at 30 September 2014. This was far above the minimum ratio of 100 per cent that will gradually be phased in between October 2015 and the year 2018.

### Operational Risk

In line with the Capital Requirements Regulation (CRR), we define operational risk as the risk of losses arising primarily in BKS Bank's operational domain and resulting from inadequate or failed internal processes, people or systems or from external factors. Operational risks at *BKS Bank AG* and all its subsidiaries in Austria and abroad were limited by an appropriate and continually refined internal control system. This system included a raft of organizational measures ranging from the appropriate separation of functions 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 245 loss events (not including those resulting from credit operations) during the first three quarters of 2015. After the deduction of compensation received for those loss events, they cost €2.0 million. The 14 cases that were recorded in conformity with *§ 19 WAG* (Austrian securities supervision act) were below our internally set risk tolerance threshold of €1.0 million and caused a total loss of €0.8 million.

## Outlook for the Year as a Whole

Hardly any year in the past has been so intensively affected by political and economic upsets as 2015. While it remained impossible to contain the military trouble spots in the Middle East and North Africa—which meant that there was still no prospect of a lasting de-escalation of the refugee tragedy—there was at least a gradual brightening on the economic horizon. Based on European Commission analyses, the global economy is growing at a rate of about 3.1 per cent notwithstanding the weak growth of the BRICS and other emerging market economies. The United States, Japan and the eurozone are looking forward to GDP growth of 2.6 per cent, 0.7 per cent and 1.6 per cent, respectively. We assume that the ECB will be implementing the entirety of its special monetary quantitative easing measures by purchasing assets as well as taking further action to stimulate the economy until the end of September 2016 and, if necessary, beyond. Whereas the ECB Council left key interest rates unchanged at its meeting on 22 October 2015, basing its decision on its regular economic and monetary analyses, the key interest rates turnaround by the Federal Reserve System—which has been announced a number of times—is drawing closer. The different monetary policies being pursued in the United States and the eurozone make it likely that the euro will continue to weaken versus the US dollar. Moreover, the eurozone economy is unlikely to improve much during the next few quarters as the euro's depreciation and lower crude oil prices provide no more than a temporary stimulus to growth against the backdrop of structural problems in many regions that have, until now, been growing.

The banking sector is going through a ceaseless longer-term structural transformation. In the wake of demands made by European Union and Austrian legislators that have already been exaggeratedly described as a 'tsunami of regulation', the conditions in which banks are operating have seen only a partial improvement. Meeting those demands is very expensive and is tying up substantial financial and human resources. Although profits are modest, many banks are managing to accumulate additional capital buffers and satisfy the regulators' strict requirements. Higher capital adequacy requirements have now been compounded by strict processing rules and growing creditor involvement. This means that the implicit government guarantees are gradually being reduced. The sector's business development is being hampered by interest rates, which are still extremely low, and a trend reversal in the next few quarters is not in sight. As a result, the margins on customer operations will not improve. Moreover, the mitigation of burdens on banking books being caused by cuts in impairment charges on loans and advances seems fragile. In addition, the high price sensitivity exhibited by customers in the light of the low interest rates and growing competition from online banks and technology driven providers of banking services are making it difficult to develop new profit opportunities.

Our challenge is therefore to continuously re-evaluate and optimize our internal processes, structures and technical platforms. We intend to continue to reinforce BKS Bank's reputation as a capable 'universal' bank with a firm focus on its customers' needs. We will do so by providing individual advice and offering customers an attractive range of products and services. Given our rather satisfactory quarterly numbers to date, we are cautiously optimistic about 2015 as a whole. As before, our main focus is on continuing to achieve profitable growth and expanding our market shares. If we are spared unpleasant surprises in the fourth quarter and if our profit position does not weaken, we intend, as in prior years, to distribute a dividend for the 2015 financial year that adequately reflects our profits.

Klagenfurt
25 November 2015

Herta Stockbauer
Chairwoman of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

# The BKS Bank Group at a glance

| | BKS Bank Group | | Oberbank Group | | BTV Group | |
|---|---|---|---|---|---|---|
| **Income account, €m** | 1/1 – 30/9/2014 | 1/1 – 30/9/2015 | 1/1 – 30/9/2014 | 1/1 – 30/9/2015 | 1/1 – 30/9/2014 | 1/1 – 30/9/2015 |
| Net interest income | 119.2 | 119.5 | 262.6 | 283.5 | 139.5 | 129.3 |
| Impairment charge on loans and advances | (40.2) | (25.2) | (53.5) | (33.7) | (18.5) | (9.5) |
| Net fee and commission income | 35.0 | 39.2 | 87.7 | 99.7 | 31.9 | 37.9 |
| General administrative expenses | (76.9) | (79.2) | (175.0) | (181.8) | (106.3) | (108.0) |
| Other operating income net of other operating expenses | (4.1) | (9.2) | 1.4 | (30.5) | 31.3 | 29.5 |
| Profit for the period before tax | 37.8 | 50.2 | 126.3 | 146.6 | 78.3 | 160.0 |
| Profit for the period after tax | 32.7 | 44.0 | 107.4 | 125.9 | 62.4 | 141.0 |
| **Balance sheet data, €m** | 31/12/2014 | 30/9/2015 | 31/12/2014 | 30/9/2015 | 31/12/2014 | 30/9/2015 |
| Assets | 6,854.6 | 6,995.7 | 17,774.9 | 18,272.7 | 9,597.7 | 9,271.3 |
| Receivables from customers after impairment charge | 4,815.8 | 4,913.8 | 11,801.8 | 12,250.6 | 6,187.2 | 6,269.2 |
| Primary deposit balances | 5,013.0 | 4,991.5 | 12,288.6 | 12,296.0 | 6,918.6 | 6,604.5 |
| – Of which savings deposit balances | 1,705.5 | 1,654.1 | 3,098.5 | 2,963.0 | 1,176.3 | 1,199.5 |
| – Of which liabilities evidenced by paper | 789.1 | 779.4 | 2,295.0 | 2,185.8 | 1,391.5 | 1,418.6 |
| Equity | 795.8 | 836.6 | 1,534.1 | 1,799.8 | 1,004.4 | 1,095.0 |
| Customer assets under management | 12,972.0 | 12,924.3 | 23,441.9 | 24,621.9 | 12,155.5 | 12,175.0 |
| – Of which in customers' securities accounts | 7,959.0 | 7,932.8 | 11,153.3 | 12,325.9 | 5,236.8 | 5,570.5 |
| **Own funds within the meaning of CRR, €m** | 31/12/2014 | 30/9/2015 | 31/12/2014 | 30/9/2015 | 31/12/2014 | 30/9/2015 |
| Basis of assessment of own funds | 4,846.6 | 4,945.9 | 11,935.2 | 12,019.0 | 6,212.8 | 6,297.9 |
| Own funds | 580.9 | 534.3 | 1,874.4 | 1,972.9 | 930.1 | 885.5 |
| – Of which common equity Tier 1 capital (CET1) | 543.7 | 510.6 | 1,306.9 | 1,463.1 | 796.1 | 817.8 |
| – Of which total Tier 1 capital (CET1 and AT1) | 543.7 | 510.6 | 1,385.2 | 1,536.8 | 796.1 | 817.8 |
| Common equity Tier 1 capital ratio, % | 11.2 | 10.3 | 11.0 | 12.2 | 12.8 | 13.0 |
| Tier 1 capital ratio, % | 11.2 | 10.3 | 11.6 | 12.8 | 12.8 | 13.0 |
| Own funds ratio, % | 12.0 | 10.8 | 15.7 | 16.4 | 15.0 | 14.1 |
| **Corporate ratios, %** | 31/12/2014 | 30/9/2015 | 31/12/2014 | 30/9/2015 | 31/12/2014 | 30/9/2015 |
| Return on equity before tax | 7.2 | 9.0 | 10.7 | 11.8 | 11.0 | 20.4 |
| Return on equity after tax | 6.5 | 7.9 | 9.3 | 10.1 | 8.7 | 18.0 |
| Cost:income ratio | 51.9 | 52.3 | 50.1 | 50.2 | 52.4 | 54.1 |
| Risk:earnings ratio | 31.5 | 21.1 | 20.9 | 11.9 | 13.3 | 7.3 |
| **Resources** | 2014 | 1/1 – 30/9/2015 | 2014 | 1/1 – 30/9/2015 | 2014 | 1/1 – 30/9/2015 |
| Average number of staff | 915 | 922 | 2,004 | 2,025 | 1,232 | 1,237 |
| Branches | 57 | 59 | 156 | 154 | 38 | 36 |

The *3 Banken Group* has existed for more than 20 years. This voluntary collaboration between *Oberbank AG*, *Bank für Tirol und Vorarlberg Aktiengesellschaft* and *BKS Bank AG* has the strength of a major bank. The success of BKS Bank and its sister banks stems from the fact that each has its own strategy and business policy and from their self-image as independent and capable 'universal' banks servicing retail banking customers and export-orientated medium-sized enterprises in their respective regions. All three banks continued on their business policy paths in the period from January through September 2015. Their goal was profitable growth. Their aggregate profit for the period before tax grew by €114.4 million or 47.2 per cent to €356.8 million. Their aggregate assets stabilized at a level of €34.5 billion, and their aggregate loan portfolio net of impairment allowance balances came to €23.4 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 €23.9 billion at the close of September 2015. At the end of the period under review, the three banks employed a total of 4,184 people. The branch network, which is at the disposal of all three sister banks, consisted of 249 branches for corporate and business banking and retail banking customers.

# Consolidated Financial Statements as at and for the Nine Months Ended 30 September 2015

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

## INCOME STATEMENT

| €k | Note | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|---|
| Interest income | | 146,300 | 130,054 | (11.1) |
| Interest expenses | | (48,219) | (35,318) | (26.8) |
| Profit/(loss) from investments in entities accounted for using the equity method | | 21,094 | 24,730 | 17.2 |
| **Net interest income** | **(1)** | **119,175** | **119,466** | **0.2** |
| Impairment charge on loans and advances | (2) | (40,174) | (25,194) | (37.3) |
| **Net interest income after impairment charge** | | **79,001** | **94,272** | **19.3** |
| Fee and commission income | | 37,244 | 41,675 | 11.9 |
| Fee and commission expenses | | (2,261) | (2,468) | 9.2 |
| **Net fee and commission income** | **(3)** | **34,983** | **39,207** | **12.1** |
| Net trading income | (4) | 1,522 | 2,017 | 32.5 |
| General administrative expenses | (5) | (76,954) | (79,233) | 3.0 |
| Other operating income | (6) | 2,562 | 3,541 | 38.2 |
| Other operating expenses | (6) | (6,651) | (12,731) | 91.4 |
| **Total profit/(loss) from financial assets** | | **3,376** | **3,130** | **(7.3)** |
| – Profit/(loss) from financial assets designated as at fair value through profit or loss | (7) | 706 | 1,293 | 83.1 |
| – Profit/(loss) from available-for-sale financial assets | (8) | 2,670 | 1,550 | (41.9) |
| – Profit/(loss) from held-to-maturity financial assets | (9) | 0 | 287 | — |
| **Profit for the period before tax** | | **37,839** | **50,203** | **32.7** |
| Income tax expense | (10) | (5,145) | (6.229) | 21.1 |
| **Profit for the period after tax** | | **32,694** | **43,974** | **34.5** |
| Minority interests in profit for the period | | (2) | (2) | 0.0 |
| **Profit for the period after tax and minority interests** | | **32,692** | **43,972** | **34.5** |

## OTHER COMPREHENSIVE INCOME (OCI)

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| **Profit for the period after tax** | **32,694** | **43,974** | **34.5** |
| **Items not reclassified to consolidated profit or loss for the year** | **(1,415)** | **(5,147)** | **>100** |
| +/(–) Actuarial gains less losses in conformity with IAS 19 | (2,000) | 0 | (100,0) |
| +/(–) Deferred taxes in conformity with IAS 19 | 500 | 0 | (100,0) |
| +/(–) Gains less losses arising from use of the equity method in conformity with IAS 19 | 85 | (5,147) | >(100) |
| **Items reclassified to consolidated profit or loss for the year** | **6,955** | **(2,240)** | **>(100)** |
| +/(–) Foreign exchange differences | (61) | 52 | >(100) |
| +/(–) Available for sale reserve | 764 | (404) | >(100) |
| +/(–) Deferred taxes taken to AFS reserve items | (364) | 33 | >(100) |
| +/(–) Gains less losses arising from use of the equity method | 6,616 | (1,921) | >(100) |
| **Total income and expenses taken directly to equity** | **5,540** | **(7,387)** | **>(100)** |
| **Comprehensive income before minority interests** | **38,234** | **36,587** | **(4.3)** |
| Of which minority interests | (2) | (2) | 0.0 |
| **Comprehensive income after minority interests** | **38,232** | **36,585** | **(4.3)** |

## CHANGE IN THE PERIOD WITH WHICH THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2015 IS COMPARED RESULTING FROM RESTATEMENTS AS OF 30 JUNE 2015

As was explained in the Semi-Annual Financial Report as of and for the six months ended 30 June 2015, an audit by *Österreichische Prüfstelle für Rechnungslegung* (Austrian financial reporting enforcement panel) produced two results. These are explained in detail on pages 22 and 23 of the Semi-Annual Financial Report (available *inter alia* on BKS Bank's website). We refer you to that Semi-Annual Financial Report regarding restatements of items in the financial statements as of and for the year ended 31 December 2014.

In the comparative period (the nine months ended 30 September 2014), the restatement in connection with the deferral of loan processing fees and charges resulted in the following changes in the Comprehensive Income Statement:

| €k | Amount Reported in Shareholders Letter to 30/9/2014 | Restatement | Amount after Restatement | +/(–) Change, % |
|---|---|---|---|---|
| Fee and commission income | 38,028 | (784) | 37,244 | (2.1) |
| Profit for the period before tax | 38,624 | (784) | 37,839 | (2.0) |
| Income tax expense | (5,341) | 196 | (5,145) | (3.7) |
| Profit for the period after tax | 33,282 | (588) | 32,694 | (1.8) |
| Earnings per share (annualized), € | 1.38 | (0.03) | 1.35 | (2.2) |

The restatement in connection with ALGAR, which was accounted for in the Consolidated Financial Statements for the comparative period using the equity method and not on a proportionate basis, led to just minimal shifts within the Income Statement. On grounds of their immateriality and lack of effect on profit or loss, they are not commented on in more detail here.

In all the tables in the Consolidated Financial Statements that were affected, the figures for the period from 1 January to 30 September 2014 and for 2014 as a whole were restated in conformity with IAS 8.

## QUARTERLY REVIEW

| €k | Q3 2014 | Q4 2014 | Q1 2015 | Q2 2015 | Q3 2015 |
|---|---|---|---|---|---|
| Interest income | 48,262 | 45,874 | 43,099 | 45,985 | 40,970 |
| Interest expenses | (16,114) | (15,174) | (13,376) | (11,303) | (10,639) |
| Profit/(loss) from investments in entities accounted for using the equity method | 8,712 | 7,468 | 6,371 | 8,735 | 9,624 |
| **Net interest income** | **40,860** | **38,168** | **36,094** | **43,417** | **39,955** |
| Impairment charge on loans and advances | (12,279) | (9,346) | (6,161) | (6,126) | (12,907) |
| **Net interest income after impairment charge** | **28,581** | **28,822** | **29,933** | **37,291** | **27,048** |
| Fee and commission income | 12,820 | 13,417 | 14,439 | 14,103 | 13,133 |
| Fee and commission expenses | (879) | (823) | (769) | (843) | (856) |
| **Net fee and commission income** | **11,942** | **11,809** | **13,670** | **13,260** | **12,277** |
| Net trading income | 458 | (149) | (67) | 998 | 1,086 |
| General administrative expenses | (24,960) | (28,855) | (26,173) | (26,875) | (26,185) |
| Other operating income | (411) | 3,411 | 1,433 | 899 | 1,209 |
| Other operating expenses | (2,751) | (1,834) | (1,751) | (4,170) | (6,810) |
| **Total profit/(loss) from financial assets** | **933** | **2,247** | **1,768** | **1,004** | **358** |
| – Profit/(loss) from financial assets designated as at fair value through profit or loss | (112) | (2,787) | 1,256 | (528) | 565 |
| – Profit/(loss) from available-for-sale financial assets | 1,045 | 347 | 225 | 1,532 | (207) |
| – Profit/(loss) from held-to-maturity financial assets | 0 | 4,687 | 287 | 0 | 0 |
| **Profit for the period before tax** | **13,791** | **16,236** | **18,813** | **22,407** | **8,983** |
| Income tax expense | (1,770) | (188) | (6,534) | (3,032) | 3,337 |
| **Profit for the period after tax** | **12,022** | **16,049** | **12,279** | **19,375** | **12,320** |
| Minority interests in profit for the period after tax | (1) | (1) | (1) | (1) | 0 |
| **Profit for the period after tax and minority interests** | **12,020** | **16,048** | **12,278** | **19,374** | **12,320** |

# Balance Sheet of the BKS Bank Group as at 30 September 2015

## ASSETS

| €k | Note | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|---|
| Cash and balances with the central bank | (11) | 215,269 | 225,653 | 4.8 |
| Receivables from other banks | (12) | 269,482 | 296,252 | 9.9 |
| Receivables from customers | (13) | 5,009,929 | 5,119,274 | 2.2 |
| – Impairment allowance balance | (14) | (194,161) | (205,462) | 5.8 |
| Trading assets | (15) | 46 | 61 | 32.6 |
| Total financial assets | | 1,407,362 | 1,414,294 | 0.5 |
| – Financial assets designated as at fair value through profit or loss | (16) | 149,399 | 118,155 | (20.9) |
| – Available-for-sale financial assets | (17) | 183,310 | 166,385 | (9.2) |
| – Held-to-maturity financial assets | (18) | 678,757 | 702,316 | 3.5 |
| – Investments in entities accounted for using the equity method | (19) | 395,896 | 427,438 | 8.0 |
| Intangible assets | (20) | 1,993 | 1,850 | (7.2) |
| Property and equipment | (21) | 59,040 | 59,144 | 0.2 |
| Investment property | (22) | 28,985 | 31,443 | 8.5 |
| Deferred tax assets | (23) | 24,958 | 26,149 | 4.8 |
| Other assets | (24) | 31,738 | 27,028 | (14.8) |
| **Total assets** | | **6,854,641** | **6,995,686** | **2.1** |

## EQUITY AND LIABILITIES

| €k | Note | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|---|
| Payables to other banks | (25) | 860,517 | 944,795 | 9.8 |
| Payables to customers | (26) | 4,223,966 | 4,212,140 | (0.3) |
| – Of which savings deposit balances | | 1,705,479 | 1,654,140 | (3.0) |
| – Of which other payables | | 2,518,487 | 2,558,000 | 1.6 |
| Liabilities evidenced by paper | (27) | 593,614 | 591,252 | (0.4) |
| Trading liabilities | (28) | 45 | 54 | 20.0 |
| Provisions | (29) | 128,519 | 137,646 | 7.1 |
| Deferred tax liabilities | (30) | 10,505 | 11,751 | 11.9 |
| Other liabilities | (31) | 46,173 | 73,292 | 58.7 |
| Subordinated debt capital | (32) | 195,453 | 188,138 | (3.7) |
| Equity | | 795,849 | 836,618 | 5.1 |
| – Of which total minority interests and equity | | 795,837 | 836,604 | 5.1 |
| – Of which minority interests in equity | | 12 | 14 | 16.7 |
| **Total equity and liabilities** | | **6,854,641** | **6,995,686** | **2.1** |

## EARNINGS AND DIVIDEND PER SHARE

| | 30/9/2014 [1] | 30/9/2015 |
|---|---|---|
| Average number of shares in issue | 32,172,435 | 35,430,369 |
| Dividend per share, € | 0.25 | 0.23 |
| Earnings per share (annualized), € | 1.35 | 1.65 |
| Earnings per share for the period, € | 1.02 | 1.24 |

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

# Statement of Changes in Equity

## TOTAL MINORITY INTERESTS AND EQUITY

| €k | Subscribed Capital | Capital Reserves | Foreign Exchange Differences | Revaluation Reserve | Retained Earnings | Adjustment for Associates | Additional Equity Instruments | Profit/(Loss) for the Period | Equity |
|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2015** | **72,072** | **143,056** | **(1,107)** | **2,560** | **519,297** | **11,219** | **0** | **48,740** | **795,837** |
| Distribution | | | | | | | | (8,148) | (8,148) |
| Taken to retained earnings | | | | | 40,592 | | | (40,592) | 0 |
| Profit for the period after tax | | | | | | | | 43,974 | 43,974 |
| Gains and losses taken directly to equity | | | 52 | (371) | | (7,068) | | | (7,387) |
| Increase in share capital | | | | | | | | | 0 |
| Change arising from use of the equity method | | | | | | 4,336 | | | 4,336 |
| Changes in treasury shares | | | | | (1.737) | | | | (1.737) |
| Issues of additional equity instruments (AT1) [1] | | | | | | | 8,800 | | 8,800 |
| Other changes | | | | | 943 | | | | 943 |
| **At 30 September 2015** | **72,072** | **143,056** | **(1,055)** | **2,189** | **559,095** | **8,487** | **8,800** | **43,974** | **836,618** |
| Available for sale reserve | | | | | | | | | 2,909 |
| Deferred tax reserve | | | | | | | | | (720) |

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

## TOTAL MINORITY INTERESTS AND EQUITY

| €k | Subscribed Capital | Capital Reserves | Foreign Exchange Differences | Revaluation Reserve | Retained Earnings | Adjustment for Associates | Profit/(Loss) for the Period | Equity |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2014** | **65,520** | **97,929** | **(987)** | **2,498** | **493,127** | **4,276** | **39,799** | **702,162** |
| Distribution | | | | | | | (8,044) | (8,044) |
| Taken to retained earnings | | | | | 31,755 | | (31,755) | 0 |
| Restated profit for the period after tax | | | | | | | 32,694 | 32,694 |
| Gains and losses taken directly to equity | | | (61) | 400 | (1,500) | 6,701 | | 5,540 |
| Increase in share capital | | | | | | | | 0 |
| Change arising from use of the equity method | | | | | | (2,105) | | (2,105) |
| Changes in treasury shares | | | | | (775) | | | (775) |
| Other changes | | | | | (584) | | | (584) |
| **At 30 September 2014** | **65,520** | **97,929** | **(1,048)** | **2,898** | **522,023** | **8,872** | **32,694** | **728,888** |
| Available for sale reserve | | | | | | | | 5,364 |
| Deferred tax reserve | | | | | | | | (1,332) |

# Cash Flow Statement

## CASH FLOWS

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 |
|---|---|---|
| **Cash and cash equivalents at end of previous period** | **104,815** | **215,269** |
| Profit for the period after tax and before minority interests | 32,694 | 43,974 |
| Non-cash items in profit for the period | 13,613 | 14,034 |
| Changes in assets and liabilities arising from operating activities after correction for non-cash items | (45,937) | (51,703) |
| **Net cash from operating activities** | **370** | **6,305** |
| Cash inflows arising from sales | 130,427 | 130,876 |
| Cash outflows arising from investments | (93,347) | (118,632) |
| **Net cash from investing activities** | **37,080** | **12,244** |
| Other receipts | — | 8,800 |
| Dividends paid | (8,044) | (8,148) |
| Subordinated liabilities and other financing activities | (29,161) | (9,052) |
| **Net cash from/(used in) financing activities** | **(36,429)** | **(8,400)** |
| Effect of exchange rate changes on cash and cash equivalents | 210 | 235 |
| **Cash and cash equivalents at end of reporting period** | **106,046** | **225,653** |

# 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 nine months ended 30 September 2015 were prepared in accordance with the provisions of the IFRS standards published by the IASB (International Accounting Standards Board) that were effective at the reporting date and as adopted by the EU. Account was also taken of the relevant interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

## II. Recognition and measurement

### Scope of consolidation

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

**CONSOLIDATED ENTITIES**

| Entity | Head Office | Direct Equity Interest, % | Indirect Equity Interest, % | Date of Financial Statements |
|---|---|---|---|---|
| *BKS Bank d.d.* | Rijeka | 100.00 | — | 30/9/2015 |
| *BKS-Leasing Gesellschaft m.b.H* | Klagenfurt | 99.75 | 0.25 | 30/9/2015 |
| *BKS-leasing d.o.o.* | Ljubljana | 100.00 | — | 30/9/2015 |
| *BKS-leasing Croatia d.o.o.* | Zagreb | 100.00 | — | 30/9/2015 |
| *BKS-Leasing s.r.o.* | Bratislava | 100.00 | — | 30/9/2015 |
| *IEV Immobilien GmbH* | Klagenfurt | 100.00 | — | 30/9/2015 |
| *Immobilien Errichtungs- und Vermietungs GmbH & Co. KG* | Klagenfurt | 100.00 | — | 30/9/2015 |
| *BKS Zentrale-Errichtungs- und Vermietungs GmbH* | Klagenfurt | — | 100.00 | 30/9/2015 |
| *BKS Hybrid alpha Gmbh* | Klagenfurt | 100.00 | — | 30/9/2015 |
| *BKS Hybrid beta GmbH* | Klagenfurt | 100.00 | — | 30/9/2015 |
| *VBG-CH Verwaltungs- und Beteiligungs GmbH* | Klagenfurt | 100.00 | — | 30/9/2015 |
| *LVM Beteiligungs Gesellschaft mbH* | Klagenfurt | — | 100.00 | 30/9/2015 |
| *BKS Immobilien-Service GmbH* | Klagenfurt | 100.00 | — | 30/9/2015 |
| *BKS Service GmbH* | Klagenfurt | 100.00 | — | 30/9/2015 |
| *BKS 2000 Beteiligungsverwaltungs GmbH* | Klagenfurt | 100.00 | | 30/9/2015 |

**ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD**

| Entity | Head Office | Direct Equity Interest, % | Indirect Equity Interest, % | Date of Financial Statements |
|---|---|---|---|---|
| *Oberbank AG* | Linz | 16.95 | — | 30/6/2015 |
| *Bank für Tirol und Vorarlberg AG* | Innsbruck | 13.59 | — | 30/6/2015 |
| *Drei-Banken Versicherungs-Aktiengesellschaft* | Linz | 20.00 | — | 30/9/2015 |

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 September 2015, namely of 17.97 per cent and 15.10 per cent, respectively, and equity interests of less than 20 per cent, namely of 16.56 per cent and 13.59 per cent, respectively, the exercise of voting rights was regulated by syndicate agreements. These allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them

**Entities accounted for on a proportionate basis**

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

### ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

| Entity | Head Office | Direct Equity Interest, % | Date of Financial Statements |
|---|---|---|---|
| *ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.* (ALGAR) | Linz | 25.00 | 30/9/2015 |

### FOREIGN SUBSIDIARIES AND BRANCHES AT 30 SEPTEMBER 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) | 9,024 | 10,886 | 99.3 | 1,572 |
| Slovakia Branch (banking branch) | 877 | 1,063 | 20.0 | (66) |
| **Subsidiaries** | | | | |
| *BKS Leasing d.o.o.*, Ljubljana | 1,724 | 2,159 | 10.6 | 873 |
| *BKS-leasing Croatia d.o.o.*, Zagreb | 1,220 | 1,299 | 9.8 | 855 |
| *BKS-Leasing s.r.o.*,Bratislava | 768 | 1,138 | 12.0 | 67 |
| *BKS Bank d.d.*, Rijeka | 3.990 | 4.403 | 55,2 | 1.142 |

### FOREIGN SUBSIDIARIES AND BRANCHES AT 30 SEPTEMBER 2014

| €k | Net Interest Income | Operating Profit | Number of Staff (Full Year Equivalents) | Profit/(Loss) for the Period Before Tax |
|---|---|---|---|---|
| **Branches abroad** | | | | |
| Slovenia Branch (banking branch) | 8,360 | 10,028 | 87.3 | (3,433) |
| Slovakia Branch (banking branch) | 905 | 991 | 19.0 | (275) |
| **Subsidiaries** | | | | |
| *BKS Leasing d.o.o.*, Ljubljana | 1,336 | 1,610 | 10.6 | 845 |
| *BKS-leasing Croatia d.o.o.*, Zagreb | 1,492 | 1,648 | 10.0 | 362 |
| *BKS-Leasing s.r.o.*,Bratislava | 799 | 1,172 | 14.0 | 122 |
| *BKS Bank d.d.*, Rijeka | 3.380 | 3.882 | 61,0 | 413 |

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

**Financial assets and liabilities designated as at fair value through profit or loss**

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 and any revaluation gains or losses were recognized in the Income Statement in the line item *Profit/(loss) from financial assets designated as at fair value through profit or loss*.

**Available-for-sale financial assets**

Available-for-sale (AFS) securities are a separate category of financial instrument. They are what remains when a financial asset is recognized neither as a held-to-maturity asset nor as an asset designated as at fair value through profit or loss. They were generally measured applying stock exchange prices. If these were not available, values of interest rate products were measured using present value techniques. Revaluation gains and losses were recognized in the AFS reserve and not through profit or loss. If such securities were sold, the corresponding part of the AFS reserve was released through profit or loss.

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

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

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

**Loans and receivables, other liabilities**
The category *Loans and receivables* includes all non-derivative financial assets with fixed or determinable payments that were not listed in an active market. At BKS Bank, this category corresponded to the line items *Receivables from other banks* and *Receivables from customers*. They were measured at amortized cost. Impairments were allowed for by recognizing impairment 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).

**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 3.0 per cent. Depreciation was immediate and linear.

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

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

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

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

**Intangible assets**
The line item *Intangible assets* comprises goodwill and other intangible assets. The *Other intangible assets* were all purchased 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 Company's budgets.
Phase 2: In phase 2, a perpetual annuity was calculated on the basis of the cash flow in the most recent plan year.

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

**Leasing**

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

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

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

**Subordinated debt capital**
Subordinated debt capital and subordinated obligations are 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 benefits, for taxes and for interest on stepped coupon products. The provision for death benefits was also calculated in accordance with the IFRS principles contained in IAS 19. As of 31 December 2000, the pension expectancies of all active employees were transferred to *VBV-Pensionskasse AG* as the legal successor to *BVP-Pensionskasse AG*.

**Equity**

Equity consisted of paid-in and earned capital (capital reserves, retained earnings, revaluation reserve, foreign exchange differences and profit for the period). BKS Bank strives to strengthen its capital base on a sustainable basis by ploughing back its profits. An additional Tier 1 note was issued during the period under review. 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.

**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 costs and depreciation and amortization. They were accounted for on an accrual basis.

**Net trading income**

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

**Other operating income net of other operating expenses**

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

**Other notes**

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

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

# Details of the Income Statement

## (1) NET INTEREST INCOME

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| **Interest income** | **146,300** | **130,054** | **(11.1)** |
| – Of which from credit operations | 110,610 | 97,324 | (12.0) |
| – Of which from fixed-interest securities | 20,939 | 17,825 | (14.9) |
| – Of which from lease receivables | 7,102 | 6,461 | (9.0) |
| – Of which from shares and investments in other entities | 5,832 | 6,008 | 3.0 |
| – Of which from investment property | 1,817 | 2,436 | 34.1 |
| **Interest expenses** | **48,219** | **35,318** | **(26.8)** |
| – Of which arising from deposits from customers and other banks [1] | 27,194 | 16,121 | (40.7) |
| – Of which arising from liabilities evidenced by paper | 20,583 | 18,559 | (9.8) |
| – Of which arising from investment property | 442 | 638 | 44.3 |
| **Profit from investments in entities accounted for using the equity method** | **21,094** | **24,730** | **17.2** |
| – Of which income from investments in entities accounted for using the equity method | 21,283 | 24,730 | 16.2 |
| – Financing costs of investments in entities accounted for using the equity method [2] | (189) | 0 | — |
| **Net interest income** | **119,175** | **119,466** | **0.2** |

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

The line item *Interest income* includes income from unwinding (i.e. resulting from changes in the present values of cash flows from impaired receivables) in the amount of €1.4 million (Q1 – Q3 2014: €1.7 million).

## (2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Impairment allowances | 44,017 | 32,409 | (26.4) |
| Impairment reversals | (3,890) | (6,947) | 78.6 |
| Direct write-offs | 416 | 425 | 2.2 |
| Recoveries on receivables previously written off | (369) | (693) | 87.8 |
| **Impairment charge on loans and advances** | **40,174** | **25,194** | **(37.3)** |

## (3) NET FEE AND COMMISSION INCOME

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| **Fee and commission income** | **37,244** | **41,675** | **11.9** |
| – Of which from payment services | 15,374 | 16,129 | 4.9 |
| – Of which from securities operations | 9,831 | 11,099 | 12.9 |
| – Of which from credit operations | 9,568 | 10,618 | 11.0 |
| – Of which from money and foreign exchange transactions | 1,581 | 2,798 | 77.0 |
| – Of which from other services | 890 | 1,031 | 15.8 |
| **Fee and commission expenses** | **2,261** | **2,468** | **9.2** |
| – Of which arising from payment services | 1,262 | 1,458 | 15.5 |
| – Of which arising from securities operations | 643 | 609 | (5.3) |
| – Of which arising from credit operations | 233 | 279 | 19.7 |
| – Of which arising from money and foreign exchange transactions | 18 | 18 | 0.0 |
| – Of which arising from other services | 105 | 104 | (1.0) |
| **Net fee and commission income** | **34,983** | **39,207** | **12.1** |

## (4) NET TRADING INCOME

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Price-based contracts | 38 | (7) | (>100) |
| Interest rate and currency contracts | 1,484 | 2,024 | 36.4 |
| **Net trading income** | **1,522** | **2,017** | **32.5** |

## (5) GENERAL ADMINISTRATIVE EXPENSES

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Staff costs | 50,768 | 53,105 | 4.6 |
| – Of which wages and salaries | 39,418 | 38,075 | (3.4) |
| – Of which social security costs | 8,930 | 8,985 | 0.6 |
| – Of which costs of old-age benefits | 2,420 | 6,045 | >100 |
| Other administrative costs | 21,225 | 21,041 | (0.9) |
| Depreciation/amortization | 4,961 | 5,087 | 2.5 |
| **General administrative expenses** | **76,954** | **79,233** | **3.0** |

## (6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Other operating income | 2,562 | 3,541 | 38.2 |
| Other operating expenses | (6,651) | (12,731) | 91.4 |
| **Other operating income net of other operating expenses** | **(4,089)** | **(9,190)** | **>100** |

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

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Revaluation gains and losses on derivatives | 1,405 | 1,218 | (13.3) |
| Gain/(loss) as a result of using the fair value option | (699) | 75 | (>100) |
| **Profit/(loss) from financial assets designated as at fair value through profit or loss** | **706** | **1,293** | **83.1** |

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

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Revaluation gains and losses | (46) | (38) | (17.4) |
| Gains and losses realized on disposal | 2,716 | 1,588 | (41.5) |
| **Profit/(loss) from available-for-sale financial assets** | **2,670** | **1,550** | **(41.9)** |

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

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Revaluation gains and losses | 0 | 0 | — |
| Gains and losses realized on disposal | 0 | 287 | — |
| **Profit/(loss) from held-to-maturity financial assets** | **0** | **287** | **—** |

## (10) INCOME TAX EXPENSE

| €k | 1/1–30/9/2014 | 1/1–30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Current taxes | (4,187) | (6,627) | 58.3 |
| Deferred taxes | (958) | 398 | (>100) |
| **Income tax expense** | **(5,145)** | **(6,229)** | **21.1** |

# Details of the Balance Sheet

## (11) CASH AND BALANCES WITH THE CENTRAL BANK

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Cash in hand | 34,693 | 31,739 | (8.5) |
| Credit balances with central banks of issue | 180,576 | 193,914 | 7.4 |
| **Cash and balances with the central bank** | **215,269** | **225,653** | **4.8** |

## (12) RECEIVABLES FROM OTHER BANKS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Receivables from Austrian banks | 167,323 | 173,695 | 3.8 |
| Receivables from foreign banks | 102,159 | 122,557 | 20.0 |
| **Receivables from other banks** | **269,482** | **296,252** | **9.9** |

## (13) RECEIVABLES FROM CUSTOMERS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Corporate and business banking customers | 3,827,652 | 3,981,990 | 4.0 |
| Retail banking customers [1] | 1,182,277 | 1,137,284 | (3.8) |
| **Receivables from customers** | **5,009,929** | **5,119,274** | **2.2** |

[1] The restructuring of our sales organization led to adjustments to our segment definitions. Figures for the comparative period were also adjusted accordingly. See Note (33) for further details.

## (14) IMPAIRMENT ALLOWANCE BALANCE

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| At beginning of period under review | 176,109 | 194,161 | 10.3 |
| Change in consolidation policy [1] | 28,285 | 0 | (100.0) |
| + Added | 55,566 | 33,404 | (39.9) |
| – Reversed | (13,147) | (8,140) | (38.1) |
| – Used | (52,607) | (13,940) | (73.5) |
| + Foreign exchange differences | (45) | (23) | (48.9) |
| **At end of period under review** | **194,161** | **205,462** | **5.8** |

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

## (15) TRADING ASSETS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Bonds and other fixed-interest securities | 0 | 0 | — |
| Shares and other variable-yield securities | 0 | 0 | — |
| Positive fair values of derivative financial instruments | | | |
| – Of which currency contracts | 0 | 6 | — |
| – Of which interest rate contracts | 46 | 55 | 19.6 |
| **Trading assets** | **46** | **61** | **32.6** |

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

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Bonds and other fixed-interest securities | 62,339 | 41,980 | (32.7) |
| Loans | 87,060 | 76,175 | (12.5) |
| **Financial assets designated as at fair value through profit or loss** | **149,399** | **118,155** | **(20.9)** |

## (17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Bonds and other fixed-interest securities | 82,636 | 64,989 | (21.4) |
| Shares and other variable-yield securities | 42,281 | 41,272 | (2.4) |
| Investments in other associates and in subsidiaries | 4,393 | 4,457 | 1.5 |
| Other equity investments | 54,000 | 55,667 | 3.1 |
| **Available-for-sale financial assets** | **183,310** | **166,385** | **(9.2)** |

## (18) HELD-TO-MATURITY FINANCIAL ASSETS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Bonds and other fixed-interest securities | 678,757 | 702,316 | 3.5 |
| **Held-to-maturity financial assets** | **678,757** | **702,316** | **3.5** |

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

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| *Oberbank AG* | 259,001 | 282,205 | 9.0 |
| *Bank für Tirol und Vorarlberg AG* | 132,631 | 140,970 | 6.3 |
| *Drei-Banken Versicherungs-AG* | 4,264 | 4,263 | 0.0 |
| **Investments in entities accounted for using the equity method** | **395,896** | **427,438** | **8.0** |

## (20) INTANGIBLE ASSETS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Goodwill | 0 | 0 | — |
| Other intangible assets | 1,993 | 1,850 | (7.2) |
| **Intangible assets** | **1,993** | **1,850** | **(7.2)** |

## (21) PROPERTY AND EQUIPMENT

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Land | 7,856 | 7,869 | 0.2 |
| Buildings | 41,232 | 39,723 | (3.7) |
| Other | 9,952 | 11,552 | 16.1 |
| **Property and equipment** | **59,040** | **59,144** | **0.2** |

## (22) INVESTMENT PROPERTY

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Land | 11,842 | 8,941 | (24.5) |
| Buildings | 17,43 | 22,502 | 31.3 |
| **Investment property** | **28,985** | **31,443** | **8.5** |

## (23) DEFERRED TAX ASSETS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| **Deferred tax assets** | **24,958** | **26,149** | **4.8** |

## (24) OTHER ASSETS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Positive fair values of derivative financial instruments | 15,821 | 10,807 | (31.7) |
| Other items | 13,566 | 13,367 | (1.5) |
| Deferred items | 2,351 | 2,854 | 21.4 |
| **Other assets** | **31,738** | **27,028** | **(14.8)** |

## (25) PAYABLES TO OTHER BANKS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Payables to Austrian banks | 593,228 | 752,775 | 26.9 |
| Payables to foreign banks | 267,289 | 192,020 | (28.2) |
| **Payables to other banks** | **860,517** | **944,795** | **9.8** |

## (26) PAYABLES TO CUSTOMERS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| **Savings deposit balances** | **1,705,479** | **1,654,140** | **(3,0)** |
| – Of which from corporate and business banking customers [3] | 195,651 | 218,766 | 11.8 |
| – Of which from retail banking customers [3] | 1,509,828 | 1,435,374 | (4.9) |
| **Other payables** | **2,518,487** | **2,558,000** | **1.6** |
| – Of which to corporate and business banking customers [3] | 1,741,031 | 1,835,620 | 5.4 |
| – Of which to retail banking customers [3] | 777,456 | 722,380 | (7.1) |
| **Payables to customers** | **4,223,966** | **4,212,140** | **(0.3)** |

[3] The restructuring of our sales organization led to adjustments to our segment definitions. Figures for the comparative period were also adjusted accordingly. See Note (33) for further details.

## (27) LIABILITIES EVIDENCED BY PAPER

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Issued bonds | 500,655 | 482,688 | (3.6) |
| Other liabilities evidenced by paper | 92,959 | 108,564 | 16.8 |
| **Liabilities evidenced by paper** | **593,614** | **591,252** | **(0.4)** |

## (28) TRADING LIABILITIES

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Interest rate contracts | 45 | 54 | 20.0 |
| Currency contracts | 0 | 0 | — |
| **Trading liabilities** | **45** | **54** | **20.0** |

## (29) PROVISIONS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Provisions for post-employment benefits and similar obligations | 78,917 | 81,136 | 2.8 |
| Provisions for taxes (current tax) | 117 | 4,766 | >100 |
| Other provisions | 49,485 | 51,744 | 4.6 |
| **Provisions** | **128,519** | **137,646** | **7.1** |

## (30) DEFERRED TAX LIABILITIES

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| **Deferred tax liabilities** | **10,505** | **11,751** | **11.9** |

## (31) OTHER LIABILITIES

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Negative fair values of derivative financial instruments | 26,257 | 37,947 | 44.5 |
| Other items | 13,928 | 30,962 | >100 |
| Deferred items | 5,988 | 4,383 | (26.8) |
| **Other liabilities** | **46,173** | **73,292** | **58.7** |

## (32) SUBORDINATED DEPT CAPITAL

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Supplementary capital | 155,453 | 148,138 | (4.7) |
| Hybrid capital | 40,000 | 40,000 | 0.0 |
| **Subordinated debt capital** | **195,453** | **188,138** | **(3.7)** |

## (33) SEGMENTAL REPORTING

Our segmental reporting was based on the organizational structure of the Group that underlies its internal management reporting system. In 2014 as well as in the first half of 2015, BKS Bank focused intensively on optimizing its sales structure and sales organization and developing a clear focus on its redefined retail banking segment and its 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 were left in the retail banking segment. This has led to minor changes in our segmental reporting. Figures for the comparative period have been restated retrospectively in conformity with IFRS 8.29.

| €k | Retail Banking | | Corporate and Business Banking | | Financial Markets | |
|---|---|---|---|---|---|---|
| | 1/1–30/9/2014 | 1/1–30/9/2015 | 1/1–30/9/2014 | 1/1–30/9/2015 | 1/1–30/9/2014 | 1/1–30/9/2015 |
| **Net interest income** | **24,512** | **20,948** | **61,381** | **62,904** | **32,390** | **34,638** |
| – Of which from investments in entities accounted for using the equity method | — | — | — | — | **21,094** | **24,730** |
| Impairment charge on loans and advances | (1,691) | (1,270) | (38,072) | (23,598) | (411) | (326) |
| **Net fee and commission income** | **14,236** | **17,408** | **20,102** | **20,944** | **146** | **186** |
| Net trading income | 0 | 0 | 0 | 0 | 1,522 | 2,017 |
| General administrative expenses | (36,979) | (38,115) | (31,969) | (32,773) | (4,819) | (4,777) |
| Other operating income net of other operating expenses | 324 | 447 | 520 | 717 | (30) | (18) |
| Profit from financial assets | 0 | 0 | 0 | 0 | 3,376 | 3,130 |
| **Profit for the period before tax** | **402** | **(582)** | **11,962** | **28,194** | **32,174** | **34,850** |
| Average risk-weighted assets | 529,295 | 500,491 | 3,217,720 | 3,144,633 | 670,057 | 835,520 |
| Average allocated equity | 42,344 | 40,039 | 257,418 | 251,571 | 414,598 | 515,748 |
| **ROE based on profit for the period** | 1.3% | **(1.9%)** | **6.2%** | **14.9%** | **10.3%** | **9.0%** |
| **Cost:income ratio** | 94.6% | **98.2%** | **39.0%** | **38.8%** | **14.2%** | **13.0%** |
| **Risk:earnings ratio** | **6.9%** | **6.1%** | **62.0%** | **37.5%** | **1.3%** | **0.9%** |

| €k | Other | | Total | |
|---|---|---|---|---|
| | 1/1–30/9/2014 | 1/1–30/9/2015 | 1/1–30/9/2014 | 1/1–30/9/2015 |
| **Net interest income** | **892** | **976** | **119,175** | **119,466** |
| – Of which from investments in entities accounted for using the equity method | — | — | **21,094** | **24,730** |
| Impairment charge on loans and advances | 0 | 0 | (40,174) | (25,194) |
| **Net fee and commission income** | **499** | **669** | **34,983** | **39,207** |
| Net trading income | 0 | 0 | 1,522 | 2,017 |
| General administrative expenses | (3,187) | (3,568) | (76,954) | (79,233) |
| Other operating income net of other operating expenses | (4,903) | (10,336) | (4,089) | (9,190) |
| Profit from financial assets | 0 | 0 | 3,376 | 3,130 |
| **Profit for the period before tax** | **(6,699)** | **(12,259)** | **37,839** | **50,203** |
| Average risk-weighted assets | 44,314 | 49,220 | 4,461,386 | 4,529,864 |
| Average allocated equity | 7,166 | 8,868 | 721,526 | 816,226 |
| **ROE based on profit for the period** | — | — | **6.8%** | **9.0%** |
| **Cost:income ratio** | — | — | **50.8%** | **52.3%** |
| **Risk:earnings ratio** | — | — | **33.7%** | **21.1%** |

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

The reports used for internal management purposes were structured as follows:
– monthly reporting of results at the profit centre level;
– reporting of all relevant types of risk at least once a quarter;
– *ad-hoc* reports in the event of exceptional occurrences.

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

## (34) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Subscribed capital | 72,072 | 72,072 | 0.0 |
| – Of which share capital | 72,072 | 72,072 | 0.0 |
| Capital reserves | 143,056 | 143,056 | 0.0 |
| Retained earnings and other reserves, current profit | 580,721 | 612,690 | 5.5 |
| Additional equity instruments | 0 | 8,800 | > 100 |
| **Shareholders' equity before minority interests** | **795,849** | **836,618** | **5.1** |
| Minority interests | (12) | (14) | 16.7 |
| **Shareholders' equity after minority interests** | **795,837** | **836,604** | **5.1** |

The share capital was represented by 34,236,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. The nominal value of each share was €2.0. *Capital reserves* contains premiums arising from the issuance of shares. *Retained earnings and other reserves* consists essentially of ploughed back profits. The line item *Additional equity instruments* concerned the additional Tier 1 note issued during the period under review. Under IAS 32, it required classification as equity.

## (35) CONTINGENT LIABILITIES AND COMMITMENTS

| €k | 31/12/2014 | 30/9/2015 | +/(–) Change, % |
|---|---|---|---|
| Guarantees | 392,244 | 388,225 | (1.0) |
| Letters of credit | 2,948 | 1,786 | (39.4) |
| **Contingent liabilities** | **395,192** | **390,011** | **(1.3)** |
| Other commitments | 868,499 | 987,660 | 13.7 |
| **Commitments** | **868,499** | **987,660** | **13.7** |

## (36) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

| | Outstanding Balances at | | Guarantees Received at | | Guarantees Issued at | |
|---|---|---|---|---|---|---|
| €k | 31/12/2014 | 30/6/2015 | 31/12/2014 | 30/9/2015 | 31/12/2014 | 30/9/2015 |
| **Unconsolidated subsidiaries** | | | 0 | 0 | 0 | 0 |
| Receivables | 5,597 | 5,469 | | | | |
| Payables | 1,165 | 1,318 | | | | |
| **Associates and joint arrangements** | | | 0 | 0 | 0 | 0 |
| Receivables | 59,585 | 73,734 | | | | |
| Payables | 145,108 | 223,645 | | | | |
| **Key management personnel** | | | 0 | 0 | 0 | 0 |
| Receivables | 440 | 424 | | | | |
| Payables | 479 | 1,123 | | | | |
| **Other related persons** | | | 0 | 0 | 109 | 109 |
| Receivables | 16 | 18 | | | | |
| Payables | 592 | 493 | | | | |

## LOANS AND ADVANCES GRANTED

| €k | 31/12/2014 | 31/3/2015 | +/(–) Change, % |
|---|---|---|---|
| Loans and advances granted to members of the Management Board | 165 | 149 | (9.7) |
| Loans and advances granted to members of the Supervisory Board | 275 | 275 | 0.0 |
| **Loans and advances granted** | **440** | **424** | **(3.6)** |

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 September 2015) affecting the assets, liabilities, financial position or profit or loss as presented in this report

## (38) FAIR VALUES

The two tables that follow on page 41 present the fair values of the respective balance sheet items. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

If market values were unavailable, fair value was ascertained using customary valuation models based on observable input factors and market data (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'* on page 41, the values of individual financial instruments were measured on the basis of special generally accepted valuation methods. If their fair value could not be reliably ascertained, available-for-sale equity investments and investments in entities accounted for using the equity method in the category *Level 3* were recognized at their carrying amounts. In general, receivables from customers and liabilities evidenced by paper in the category *Level 3* were measured on the basis of market data that could be observed for the respective asset or liability (e.g. yield curves, foreign exchange rates). The factors affecting the valuation of positions in the category *Level 3* that were not observable in the market were adjustments on the basis of internal rating procedures to the credit ratings of customers and BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in the category *Level 3* were measured using present value techniques.

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

**Changes in ratings of liabilities measured to fair value**
The change in BKS Bank's credit standing affected the value of the liabilities measured to fair value to the tune of €0.4 million during the period under review (2014: €0.6 million).

## FAIR VALUES

| 30 SEPTEMBER 2015<br>€k | Level 1 'Market Values' | Level 2 'Based on Market Data' | Level 3 'Internal Valuation Methodology' | Fair Values (Total) | Carrying Amounts 30/9/2015 | Difference Between Fair Values and Carrying Amounts |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Receivables from other banks | 0 | 296,372 | 0 | 296,372 | 296,252 | 120 |
| Receivables from customers | 0 | 5,183,765 | 0 | 5,183,765 | 5,119,274 | 64,491 |
| Trading assets | 0 | 61 | 0 | 61 | 61 | 0 |
| Financial assets designated as at fair value through profit or loss | 41,980 | 0 | 76,175 | 118,155 | 118,155 | 0 |
| Available-for-sale financial assets | 140,775 | 0 | 25,610 | 166,385 | 166,385 | 0 |
| Held-to-maturity financial assets | 772,056 | 0 | 0 | 772,056 | 702,315 | 69,741 |
| Investments in entities accounted for using the equity method | 321,875 | 0 | 4,264 | 326,139 | 427,438 | (101,299) |
| Investment property | 0 | 0 | 47,369 | 47,369 | 31,443 | 15,926 |
| Other assets (derivatives) | 0 | 10,807 | 0 | 10,807 | 10,807 | 0 |
| **Equity and liabilities** | | | | | | |
| Payables to other banks | 0 | 947,849 | 0 | 947,849 | 944,795 | 3,054 |
| Payables to customers | 0 | 4,226,181 | 0 | 4,226,181 | 4,212,140 | 14,041 |
| Liabilities evidenced by paper | 411,246 | 95,251 | 103,798 | 610,295 | 591,252 | 19,043 |
| – Of which designated as at fair value through profit or loss | 0 | 0 | 103,798 | 103,798 | 103,798 | 0 |
| Subordinated debt capital | 188,335 | 2,353 | 0 | 190,688 | 188,138 | 2,550 |
| Trading liabilities | 0 | 54 | 0 | 54 | 54 | 0 |
| Other liabilities (derivatives) | 0 | 37,947 | 0 | 37,947 | 37,947 | 0 |

| 31 DECEMBER 2014<br>€k | Level 1 'Market Values' | Level 2 'Based on Market Data' | Level 3 'Internal Valuation Methodology' | Fair Values (Total) | Carrying Amounts 31/12/2014 | Difference Between Fair Values and Carrying Amounts |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Receivables from other banks | 0 | 269,535 | 0 | 269,535 | 269,482 | 53 |
| Receivables from customers | 0 | 5,096,551 | 0 | 5,096,551 | 5,009,929 | 86,622 |
| Trading assets | 0 | 46 | 0 | 46 | 46 | 0 |
| Financial assets designated as at fair value through profit or loss | 62,338 | 0 | 87,061 | 149,399 | 149,399 | 0 |
| Available-for-sale financial assets | 158,345 | 0 | 24,965 | 183,310 | 183,310 | 0 |
| Held-to-maturity financial assets | 758,106 | 0 | 0 | 758,106 | 678,757 | 79,349 |
| Investments in entities accounted for using the equity method | 316,811 | 0 | 4,264 | 321,075 | 395,896 | (74,821) |
| Investment property | 0 | 0 | 44,520 | 44,520 | 28,985 | 15,534 |
| Other assets (derivatives) | 0 | 15,821 | 0 | 15,821 | 15,821 | 0 |
| **Equity and liabilities** | | | | | | |
| Payables to other banks | 0 | 863,933 | 0 | 863,933 | 860,517 | 3,416 |
| Payables to customers | 0 | 4,242,935 | 0 | 4,242,935 | 4,223,966 | 18,969 |
| Liabilities evidenced by paper | 431,111 | 78,488 | 106,316 | 615,915 | 593,614 | 22,301 |
| – Of which designated as at fair value through profit or loss | 0 | 0 | 106,316 | 106,316 | 106,316 | 0 |
| Subordinated debt capital | 197,585 | 2,354 | 0 | 199,939 | 195,453 | 4,486 |
| Trading liabilities | 0 | 45 | 0 | 45 | 45 | 0 |
| Other liabilities (derivatives) | 0 | 26,257 | 0 | 26,257 | 26,257 | 0 |

**LEVEL 3: Changes between 1 January and 30 September 2015**

| €k | Available for Sale | Investments in Entities Accounted for using the Equity Method | 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 | 0 | 0 | 0 | 0 |
| Income Statement [1] | (67) | 0 | (987) | (2,518) |
| Other profit or loss | 47 | 0 | 0 | 0 |
| Purchased | 665 | 0 | 0 | 0 |
| Sold/redeemed | 0 | 0 | (9,899) | 0 |
| **At 30 September 2015** | **25,610** | **4,264** | **76,175** | **103,798** |

[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 September 2015 | Nominal, by Term to Maturity | | | | Fair Values | |
|---|---|---|---|---|---|---|
| €k | < 1 Year | 1– 5 Years | > 5 Years | Total | Positive | Negative |
| **Currency contracts** | **1,470,435** | **347,880** | **0** | **1,818,315** | **2,873** | **28,844** |
| – Of which in trading book | 1,000 | — | — | 1,000 | 7 | — |
| **Interest rate contracts** | **128,006** | **102,332** | **272,870** | **503,208** | **6,876** | **7,854** |
| – Of which in trading book | 4,006 | 9,832 | 11,060 | 24,898 | 55 | 54 |
| **Securities contracts** | **920** | **—** | **—** | **920** | **—** | **9** |
| – Of which in trading book | — | — | — | — | — | — |
| **Total** | **1,599,361** | **450,212** | **272,870** | **2,322,443** | **9,749** | **36,707** |
| – Of which in trading book | 5,006 | 9,832 | 11,060 | 25,898 | 62 | 54 |

| 31 December 2014 | Nominal, by Term to Maturity | | | | Fair Values | |
|---|---|---|---|---|---|---|
| €k | < 1 Year | 1– 5 Years | > 5 Years | Total | Positive | Negative |
| **Currency contracts** | **1,365,225** | **630,789** | **0** | **1,996,014** | **6,743** | **13,094** |
| – Of which in trading book | — | — | — | — | — | — |
| **Interest rate contracts** | **211,928** | **172,574** | **280,896** | **665,398** | **8,320** | **11,603** |
| – Of which in trading book | 2,928 | 9,324 | 14,986 | 27,238 | 46 | 46 |
| **Securities contracts** | **—** | **—** | **—** | **—** | **—** | **—** |
| – Of which in trading book | — | — | — | — | — | — |
| **Total** | **1,577,153** | **803,363** | **280,896** | **2,661,412** | **15,063** | **24,697** |
| – Of which in trading book | 2,928 | 9,324 | 14,986 | 27,238 | 46 | 46 |

# Statement by BKS Bank's Management

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

Klagenfurt am Wörthersee
25 November 2015

The Management Board

Herta Stockbauer (Chairwoman)

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

Dieter Krassnitzer (Member)

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

Wolfgang Mandl (Member)

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

**Financial Calendar for 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: | Semi-Annual Report as at and for the 6 months ended 30 June 2016 |
| 25 November 2016: | Interim Report as at and for the 9 months ended 30 September 2016 |

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# 201