6

Interim Report to 30 September 2016

BKS Bank
3 Banken Gruppe

Contents

Forward-looking statements
This Interim Report contains statements and forecasts concerning the future performance and development of the BKS Bank Group. Such forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 23 November 2016. If the assumptions upon which those forecasts were based prove wrong or if risk events transpire, actual results may differ from those that are currently expected. This Financial 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.

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

Overview of the BKS Bank Group

INCOME ACCOUNT, €m	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Net interest income	119.5	117.2	(1.9)
Impairment charge on loans and advance	(25.2)	(25.8)	2.3
Net fee and commission income	39.2	36.6	(6.6)
General administrative expenses	(79.2)	(80.4)	1.5
Profit for the period before tax	50.2	40.9	(18.6)
Profit for the period after tax	44.0	36.9	(16.1)

BALANCE SHEET DATA, €m	30/9/2015	30/9/2016	+/(–) Change, %
Assets	7,063.4	7,256.8	2.7
Receivables from customers after impairment charge	4,920.1	5,066.9	3.0
Primary deposit balances	5,109.8	5,238.8	2.5
– Of which savings deposit balances	1,629.8	1,573.8	(3.4)
– Of which liabilities evidenced by paper, including subordinated debt capital	758.1	756.8	(0.2)
Equity	860.2	884.9	2.9
Customer assets under management	13,212.1	13,413.5	1.5
– Of which in customers' securities accounts	8,102.3	8,174.7	0.9

OWN FUNDS FOR THE PURPOSES OF CRR, €m	31/12/2015	30/9/2016	+/(–) Change, %/ppt
Risk-weighted assets	4,883.4	4,897.9	0.3
Own funds	599.9	580.6	(3.2)
– Of which common equity Tier 1 capital (CET1)	575.6	532.2	(7.5)
– Of which total Tier 1 capital (CET1 and AT1)	575.6	532.2	(7.5)
Surplus own funds	209.2	158.1	(24.4)
Common equity Tier 1 capital ratio, %	11.8	10.9	(0.9)
Total capital ratio, %	12.3	11.9	(0.4)

PERFORMANCE, %	31/12/2015	30/9/2016	+/(–) Change, ppt
Return on equity before tax	7.3	6.1	(1.2)
Return on assets before tax (total return on assets)	0.9	0.8	(0.1)
Cost:income ratio	48.7	54.1	5.4
Risk:earnings ratio (credit risk in % of net interest income)	29.2	22.0	(7.2)
Liquidity coverage ratio (minimum liquidity ratio)	130.7	145.3	14.6
Leverage ratio (indebtedness ratio)	7.7	7.7	—

RESOURCES	31/12/2015	30/9/2016	+/(–) Change, %
Average number of staff	923	925	2
Branches	59	60	1

BKS BANK'S SHARES	2015	Q1–Q3 2016
No. of ordinary no-par shares (ISIN AT0000624705)	34,236,000	34,236,000
No. of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000
High: ordinary/preference share, €	17.5/15.7	17.3/15.3
Low: ordinary/preference share, €	16.5/14.8	15.8/13.9
Close: ordinary/preference share, €	16.9/15.1	17.0/15.1

Dear shareholder,
Dear customer,
Dear business associate,

I extend a warm welcome to all of you and, in particular, to the many new shareholders among you. After the successful completion of our share capital increase in October, I would like to take this opportunity to thank you for the trust you have placed in our bank. By agreement with the Supervisory Board, we issued the first tranche of the new capital authorized by the 76th AGM. We were able to place a total of 3,603,600 new ordinary no-par shares at an issue price of €15.9 per share. The invitation to subscribe for new ordinary no-par shares expired on 18 October 2016. New shares that were not subscribed for within the scope of the rights offering were offered publicly to private and institutional investors in the period up to and including 19 October 2016. The ordinary no-par shares issued during our latest issuance have been traded in the *Standard Market Auction* segment on the Vienna Stock Exchange since 31 October 2016 and carry a dividend right in respect of the entirety of the 2016 financial year. At the copy deadline date, BKS Bank's ordinary no-par share was trading at €16.8 and the no-par preference share was trading at €15.0.

BKS Bank AG now has share capital of €79,279,200 represented by 37,839,600 ordinary no-par shares and 1,800,000 no-par preference shares. The gross proceeds from the recent increase in share capital came to about €57 million. They will be used to permanently strengthen our competitiveness abroad and to allow the bank to continue on its growth path in a purposeful and considered manner. At the time of writing, BKS Bank's market capitalization was €662.7 million, compared with €587.8 million at mid-year and €607.5 million at 30 September 2016.

In this Interim Report, I will be able to tell you about BKS Bank's continued solid business performance after three quarters. Although there has only been a minimal improvement this year in the difficult environment in which banks are operating, our bank continued to show its strength. That said, we were hit by the adverse interest rates. Nonetheless, thanks to the strategic measures we had already implemented—with their focus on achieving sustainable growth and optimizing and standardizing our organizational procedures—we were able to match last year's third-quarter result. The costs of the deposit guarantee scheme and resolution mechanism had to be recognized out-of-period, and that reduced our profit for the period in the first three quarters by €9.3 million to €40.9 million. On the other hand, the Group's assets had grown to approximately €7.26 billion by the end of September 2016, mirroring a slight upturn in the economy and revival of credit demand. During the period under review, receivables from customers increased by 2.7 per cent to €5.25 million. We remained uncompromising in our commitment to consistent liquidity and risk management but were still able to reduce the impairment allowance balance by 3.9 per cent to €186.2 million.

In these reports, we have already told you in detail about the merger of our Croatian banking subsidiary into *BKS Bank AG*, which was carried out in the interests of administrative simplification. BKS Bank is the only European bank ever to have effected a cross-border merger of a Croatian bank with an Austrian one. We also obtained the approvals needed to set up an EU branch in Croatia, and that branch has been continuing *BKS Bank d.d.*'s banking operations since 1 October 2016. The two branches in Rijeka and Zagreb are still open and all of their 54 employees are still working within the BKS Bank Group.

Sandra Pires' and Mario Berger's interpretation of Dionne Warwick's "That's what friends are for" provided the setting for another highlight during the period under review. It took the form of a fascinating journey back in time back to the year 1986. We were joined by our equity holders and customers as well as witnesses of those times as we celebrated BKS Bank's 30th anniversary on the stock exchange. I would remind you that, at that time, our bank had 667 employees, 24 branches and assets of roughly €1.3 billion. Since then, though, its sustainability orientated business policy has positioned it as a solid investment for private and institutional investors alike. Our highly satisfied customers are proof to us that our quality advisory services and daily commitment to CSR are the right way forward—and this has been confirmed by numerous awards. Since June, our ordinary no-par shares have also been included in the Vienna Stock exchange's VÖNIX *Nachhaltigkeitsindex* (sustainability index), and recently, our bank emerged as victor both nationwide and in Vienna in the *Studie Geldanlage Filialbanken 2016* (2016 branch-based bank investment survey) carried out by *Gesellschaft für Verbraucherstudien ÖGVS* (Austrian consumer research society).

Our declared goals during the remaining weeks of 2016 and for the year as a whole will be to deliver another balance sheet that is free from surprises and to make a dividend proposal that is appropriate to our profit for the year. However, we believe that interest rates will remain at historically—and excessively low—levels for an unforeseeable period. The restrictive regulatory environment and the ECB's interest rates policy make a trend reversal unlikely. Although there are visible signs of growth, the profit positions of banks in general as well as of our own bank are still under pressure. However, in this setting too, we are doing everything we can to conduct business soundly and, as always, have confidence both in our employees' dedication and in your trust.

Herta Stockbauer
Chairwoman of the Management Board

Klagenfurt
23 November 2016

Consolidated Management Report for the Nine Months Ended 30 September 2016

The Economic Setting in which Banks are Operating

The general economic situation

Growth rates in the major economic regions continued to differ considerably during the first three quarters of this financial year. The European Commission registered declining economic growth in the Asian, African and South American emerging markets from the middle of 2016 but is still predicting a real increase in global gross domestic product (GDP) of 3.0 per cent over the year as a whole.

In the big emerging markets—above all China—several years of cheap money have led to macroeconomic and financial excesses. Remedying them has been proving difficult and has impeded growth, not least against the backdrop of the incalculable consequences of a tighter monetary policy in the United States. In contrast, the economies of the industrialized countries have emerged permanently from the economic doldrums. Since the beginning of 2016, Japan has been on a narrow GDP growth path of about 0.7 per cent. In the United States, the Federal Reserve's Beige Book has signalled the continuation of a moderate economic policy, with one of the key indicators—unemployment—falling to 4.9 per cent during the first three quarters. Furthermore, while equipment and construction investment fell and substantial destocking took place, private household consumption grew robustly and export numbers were solid. The central bank in the United States is predicting real whole-year GDP growth of about 1.6 per cent in 2016. The now weaker but still unbroken economic recovery, good employment numbers and signs of a stronger rise in wages mean that the Fed Funds Rate is likely to rise before the end of this year (albeit it by a tiny amount).

According to the European Commission's Economic Sentiment Indicator (ESI), there has been a significant improvement in the economic climate in the eurozone. This gauge of confidence in the economy's future development, which is based on indicators for goods production, the construction industry, services, retailing and consumption, moved between 103.0 and 106.6 points during the period under review and was therefore already above the long-term average of 100 points. This was thanks to robust foreign trade and stimulus from domestic demand, including above all private consumption. The propensity to invest reflected the historically low interest rates, improved profits in the corporate sector, persistently low crude oil and raw material prices and, not least, the short-term economic effects of accepting refugees.

With the exception of Greece—which, as in 2015, is still struggling with a mild recession this year—nearly all the eurozone countries are looking forward to another year of real GDP growth, alongside Germany. The economies of Ireland, Malta, Luxembourg, Slovakia and Spain are growing particularly strongly. On the other hand, stubborn structural problems have continued to brake the economic performance of France, Belgium, Finland and Italy. Italy—the eurozone's third-largest economy—has been slow to emerge from its severest economic slump since World War II. The economies of the EU Member States in Central, Eastern and Southeastern Europe also lost some of their momentum during the period under review as international demand weakened. The jobless rate in the eurozone was 10.0 per cent at the end of the third quarter. According to *Eurostat* estimates, a total of 16.2 million men and women were unemployed at the beginning of October. If one believes the ECB's macroeconomic projections, the eurozone will nonetheless enjoy modest real GDP growth of about 1.7 per cent in the year under review. This would be roughly the same growth rate as in 2015. However, budding uncertainty about the future relationship between the EU and the United Kingdom and United States could dampen the eurozone's economic outlook.

In the light of a core rate of inflation that is far too low from a central bank point of view, the ECB Council opened the monetary floodgates again in March. At the end of the period under review, the interest rate on main refinancing operations and the peak refinancing and deposit facility rates were 0.00 per cent, 0.25 per cent and negative 0.40 per cent, respectively. In addition, the ECB's monthly asset purchases—which have for the time being been timetabled to continue until March 2017—were increased from €60 billion to €80 billion.

WIFO is interpreting the economic indicators to mean that Austria's real GDP growth will come to 1.7 per cent this year. If that is the case, Austria's growth would, for the first time in years, catch up with the eurozone average and, above all, the German economy's growth. While exports still tended to lag behind expectations in the period under review, there was a sharp increase in domestic demand. The demand for investment goods—including, in particular, equipment—increased perceptibly, growing by 5 per cent in real terms, and the construction industry too seemed to have got over its crisis. Private consumer spending grew for the first time in three years. Both the tax reform and the surge in demand triggered by population growth helped drive the increase, which came to 1.5 per cent in real terms. Inflation stayed very low in 2016, at 1.0 per cent. According to *Eurostat*, the jobless rate is likely to continue to rise, to 6.0 per cent. That will primarily be a result of significant growth in the labour supply.

Exchange rates

Exchange rates between the euro and the key reference currencies went through phases of high volatility during the period under review. Having begun the year at US$ 1.0887/€, the US dollar rate responded, as the year progressed, to the global increase in uncertainty as well as to the widening yield gaps between long-term bonds in the United States and the eurozone and the belief that the ECB would be taking further monetary policy action to stimulate the economy. At the end of September, the euro was worth US$ 1.1161. The June referendum on Britain's EU membership and, above all, Prime Minister Theresa May's announcement at the beginning of October that the United Kingdom will be giving notice to leave the EU not later than the end of March 2017 depressed sterling by over a fifth to a record low of £ 0.90353/€. The euro weakened significantly versus the rejuvenated yen during the first three quarters, sliding by 13.7 per cent to ¥ 113.09/€. On the other hand, the SFr/€ exchange rate moved within a narrow range and ended the period under review virtually unchanged at SFr 1.0876/€. That compared with SFr 1.0835 at the beginning of the year. The Croatian kuna, which is of importance to our bank, was trading at HRK 7.522/€ at the end of September, compared with HRK 7.6380/€ at the end of 2015.

Money, capital and raw material markets

Geopolitical events, Brexit, the upsurge of nationalism in the eurozone, the latent fear of terrorist attacks, the persistent low interest rates environment, the uncertainty created by the banking crisis in Italy and, not least, the bizarre Presidential election campaign in the United States affected trade on the international financial markets during the period under review. In fact, as investors sought refuge in secure investments, yields on ten-year benchmark bonds actually became negative. That notwithstanding, turbulence in the financial markets was quick to subside, suggesting that market players were increasingly taking a more relaxed view of the combination of weak growth with high political uncertainty. Consequently, stock exchanges were still recording big capital inflows at the end of the period under review, with many investors apparently still failing to find any investment alternatives. As for bonds, the European Central Bank continued to send out calming signals with its extensive and consistent bond purchasing programme.

In euro terms, the MSCI World Index—the barometer of the performance of the global equity markets—advanced marginally to 156.8 points from 156.3 points at the beginning of the year and following a February low of 132.2 points. Measured in terms of the DAX, standard German stocks fell by about 2.2 per cent in the nine months to the end of September, when the DAX stood at 10,511 points. Having slumped by 13.6 per cent, Japan's Nikkei Index stood at 16,450 points at the end of September. In contrast, the Dow Jones Industrial Average—the leading US market index—rose by about 5.1 per cent to 18,308.15 points during the first three quarters. Austria's ATX delivered a modest 0.3 per cent during the period under review to stand at 2,405 points at the end of September. At the close of trading at the end of September, the BKS Bank ordinary no-par share, which is listed on the Vienna Stock Exchange, was trading at €16.95, and the BKS Bank no-par preference share was worth €15.1. BKS Bank's market capitalization from all its shares changed marginally compared with the same date in 2015, coming to €607.5 million.

Global oil production during the period under review was near the possible maximum, and there was only a partial cut in shale oil and gas production in North America. Iran re-emerged as a key supplier in the market, and so far, the OPEC oil cartel dominated by Saudi Arabia has provided only half-hearted signals that there might be concerted production cuts. A barrel cost US$37.61 at the end of 2015. Following a trough of US$28.79 a barrel in January and a peak of US$52.39 a barrel in June, benchmark Brent crude was trading at US$49.09 a barrel at the end of September. That was roughly one third more than at the beginning of the year. The rising slope of the oil futures curve suggests that market participants are anticipating a slight increase in oil prices in the medium term, and the prices of other raw materials also rose a little during the first three quarters. Gold—the 'crisis currency'—began the year at US$ 1,060.8 an ounce and then soared to US$ 1,365 an ounce in the wake of expansionary central bank policies and in response to the political and economic uncertainties. The spot price of a fine ounce at the end of September was US$ 1,312.0.

Notes on the Scope of Consolidation

At the end of September, 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 our leasing companies in Austria and abroad as well as *Drei Banken Versicherungsagentur GmbH*.

The overview that follows presents the entities whose assignment to the BKS Bank Group was required by the International Financial Reporting Standards. Subsidiaries were included on the basis of common, Group-wide criteria of materiality and qualitative parameters. The principal criteria of materiality were the balance sheet total of a subsidiary, the Group's interest in an associate's equity and the number of people employed by the respective entity.

THE MEMBERS OF THE CONSOLIDATED GROUP

Banks and Other Financial Service Providers

BKS Bank AG, Klagenfurt	*BKS-Leasing Gesellschaft m.b.H.,* Klagenfurt	*BKS-leasing d.o.o.,* Ljubljana
BKS-leasing Croatia d.o.o., Zagreb	*BKS Bank d.d.,* Rijeka [1]	*BKS-Leasing s.r.o.,* Bratislava
Oberbank AG, Linz	*Bank für Tirol und Vorarlberg Aktiengesellschaft,* Innsbruck	*Drei Banken Versicherungsagentur GmbH,* Linz
ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H., Linz		

Other Consolidated Entities

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

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

[1] After the balance sheet date, *BKS Bank d.d.* in Croatia was merged into the Austrian parent *BKS Bank AG* and turned into an EU branch. Since 1 October 2016, this EU branch has been continuing the banking operations of *BKS Bank d.d.*

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

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

Like our investments in our sister banks *Oberbank* and *Bank für Tirol und Vorarlberg*, our investment in *Drei Banken Versicherungsagentur GmbH* was also accounted for using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of those banks at the end of September 2016, holding stakes of 16.5 per cent and 15.0 per cent, respectively, the exercise of voting rights was regulated by syndicate agreements. These allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Gruppe* (3 Banks Group) without having control of them. The investment in *ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.* (*ALGAR*) was accounted for on a proportionate basis. This investment required classification as a joint operation pursuant to IFRS 11.

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

Assets, Liabilities, Financial Position

Assets

A perceptible recovery of credit demand

In the first three quarters, the BKS Bank Group's assets grew by €193.3 million to €7.26 billion, which was 2.7 per cent more than at the end of 2015. The line item *Receivables from customer* also increased by 2.7 per cent, growing by €139.3 million to €5.25 billion. IFRSs require an impairment charge to be deducted from receivables from customers. In the period under review, it proved possible to reduce the impairment allowance balance by €7.5 million or 3.9 per cent to €186.2 million. As a result of fluctuations near the balance sheet date, the line item *Receivables from other banks* fell significantly, retreating by €136.6 million or 37.5 per cent to €227.2 million. On the other hand, the line item *Cash and balances with the central bank* increased to €404.6 million as our surplus liquid funds were invested with *Österreichische Nationalbank* as of the reporting date rather than with our correspondents. 100 per cent thereof thus qualified as high quality liquid assets (HQLAs). This further increased our liquidity coverage ratio (LCR) to 145.3 per cent, compared with 130.7 per cent at the end of 2015. The legal minimum ratio for 2016 was just 70 per cent. The line item *Financial assets* fell slightly during the period under review, retreating by 2.6 per cent to €1.41 billion.

Taking a more detailed look, one can see a turn of the tide in credit demand, especially from the second quarter. As in prior periods, *BKS Bank AG* dominated the Group's corporate and business banking and retail banking operations. New lending during the period under review of roughly €1.03 billion sufficed not only to absorb the effect of credit repayments but also to generate genuine growth. Equipment and plant expansion investment, favourable financing terms and the fiscal stimulation of private consumption were contributing factors. In Slovenia—our third-largest market with a loan book of €661.6 million and 112 employees (full year equivalent; 31 December 2015: loan book of €612.4 million and 108 employees)—it was again retail banking customers who stimulated credit demand in the mortgage segment. Thanks to the economic recovery, credit demand in the corporate and business banking segment too was again good. The loan book at our banking subsidiary in Croatia expanded by 11.9 per cent to €205.6 million.

It proved possible to further shrink the foreign currency loan book. Our efforts to mitigate the risks associated with foreign currency loans led to another reduction in the FX ratio in the total loan book. Having come to 6.3 per cent at 31 December 2016, it fell to 5.0 per cent by the end of September. We are aiming for a ratio of 4.0 per cent by the end of 2016.

BKS Leasing GmbH had receivables of €155.5 million at the end of the period under review, which was below the total of €164.1 million recorded at the end of 2015. Given that the level of incoming orders in the Austrian leasing market is quite good, we are endeavouring to combat this unsatisfactory decline with a close focus on selling more actively in the motor vehicle segment.

As we have already said, the line item *Financial assets* shrank by 2.6 per cent or €36.9 million to €1.41 billion during the period under review. Redemptions in the held to maturity portfolio reduced that line item by €44.0 million to €680.9 million. We stress that the extremely low interest rates made it very difficult to find suitable investment opportunities. For instance, the yield on German 10-year government bonds was negative 0.13 per cent at the end of June and negative 0.12 per cent at the end of September. This was an unprecedented situation. The line item *Financial assets designated as at fair value through profit or loss* shrank by roughly one fifth to €93.7 million as de-risked positions matured. On the other hand, the available for sale portfolio grew by 4.9 per cent to €174.8 million. This was mainly due to purchases of fixed-interest securities.

Investments in entities accounted for using the equity method increased by 4.6 per cent or €20.2 million to €458.8 million. This increase was due to the addition of the profits for the period of the entities accounted for using the equity method. These consisted primarily of our sister banks *Oberbank* und *Bank für Tirol und Vorarlberg Aktiengesellschaft* (*BTV*).

Equity and Liabilities

Constant growth in primary deposit balances

The growth on the equity and liabilities side of the account in the first three quarters reflected the pleasing net inflow of €129.0 million of primary deposits, which took the primary deposit balance to €5.24 billion at 30 September 2016. Including subordinated debt capital, our primary funds sufficed to fund the entirety of our receivables from customers. Although our bank enjoys the reputation of a safe haven in turbulent times for banks, savings deposits continued to lose their attractiveness in the face of the low interest rates. *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts clearly predominated over *Bindungssparbuch* fixed-term passbook accounts and demand savings deposits. Terms and conditions in keeping with the market and our branches' strong regional roots enabled our bank to resist the nationwide downtrend but not, in the end, to escape its effects. As a consequence, savings deposit balances were 3.4 per cent or €56.0 million down on the end of December 2015 to €1.57 billion. On the other hand, there was distinct growth in sight and time deposit balances, which increased by €186.4 million to €2.91 billion during the period under review. The growth of deposit balances at our branches in Slovenia and Slovakia played a tangible role in that increase.

Our *Mein Geld-Konto* accounts proved popular. On the Balance Sheet, they are included in the line item *Other liabilities*. There was significant growth of €18.8 million to €237.6 million in these account balances during the period under review, demonstrating our customers' desire to be able to access their rainy-day savings at any time.

The line item *Liabilities evidenced by paper* came to €559.8 million at the end of the period under review. In a challenging interest rates environment, that was 2.9 per cent less than the total of €576.3 million recorded at the end of 2015. We would like to stress that we are continuing to offer our customers attractive long-term investments in these times of historically low interest rates. During the period under review, we invited subscriptions for the *BKS Bank Stufenzins Obligation 2016-2025/1* note with a coupon rate ranging from 0.75 per cent to 3.0 per cent. Our subordinated debt capital increased by 8.4 per cent to €197.0 million, and in the period under review, we invited subscriptions for the 2.75 per cent *BKS Bank Nachrangige Obligation 2016-2024/* subordinated note with a duration of 8 years.

Group-wide, the line item *Equity* grew by €24.7 million or 2.9 per cent to €884.9 million during the first three quarters. Most of the increase was due to the profit for the period of €36.9 million posted for the first nine months. The distribution of €8.1 million that took place in May 2016 had to be subtracted from the total.

Consolidated Own Funds

The management of our own funds was a reflection of BKS Bank's conservative and proactively orientated business strategy. We calculated our own funds requirement in conformity with the requirements of the standardized approach. An increase in deductions that resulted from expiring transitional arrangements reduced our common equity Tier 1 capital, which plays an essential role in the bank's management, by 7.5 per cent to €532.2 million. The common equity Tier 1 capital ratio fell by roughly 90 basis points to 10.9 per cent.

Including ancillary capital in the amount of €48.4 million, our bank had own funds of €580.6 million at 30 September 2016. We were able to keep the own funds ratio high at 11.9 per cent, compared with 12.3 per cent at the end of 2015. Surplus own funds came to €171.6 million at the end of June and €158.1 million at the end of September. Since interim reports are not audited by an auditor, the profit for the period of €36.9 million (see the table titled *Equity* on page 33) could not be counted towards our own funds.

The recent one-per-10 share capital increase, which generated gross proceeds of approximately €57 million, ended on 19 October 2016 and was, therefore, naturally not yet taken into account in our calculations as of 30 September.

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

BKS BANK KREDITINSTITUTSGRUPPE: OWN FUNDS

€m	31/12/2015	31/3/2016	30/6/2016	30/9/2016
Share capital	71.0	70.6	70.6	70.6
Reserves less intangible assets	748.0	743.6	748.5	740.7
Deductions	(243.4)	(268.2)	(273.4)	(279.1)
Common equity Tier 1 capital (CET1)	**575.6**	**546.0**	**545.8**	**532.2**
Common equity Tier 1 capital ratio	11.8%	11.3%	11.1%	10.9%
Hybrid capital	28.0	24.0	24.0	24.0
Additional Tier 1 capital	23.4	23.4	23.4	23.4
Deductions	(51.4)	(47.4)	(47.4)	(47.4)
Additional Tier 1 capital	**—**	**—**	**—**	**—**
Tier 1 capital (CET1 + AT1)	**575.6**	**546.0**	**545.8**	**532.2**
Tier 1 capital ratio	11.8%	11.3%	11.1%	10.9%
Ancillary capital items and instruments	114.7	121.0	125.8	124.2
Deductions	(90.4)	(73.2)	(74.5)	(75.9)
Ancillary capital	**24.3**	**47.9**	**51.3**	**48.4**
Total own funds	**599.9**	**593.9**	**597.1**	**580.6**
Own funds ratio	12.3%	12.3%	12.1%	11.9%
Basis of assessment	4,883.4	4,834.0	4,933.1	4,897.9
Surplus own funds	**209.2**	**177.0**	**171.6**	**158.1**

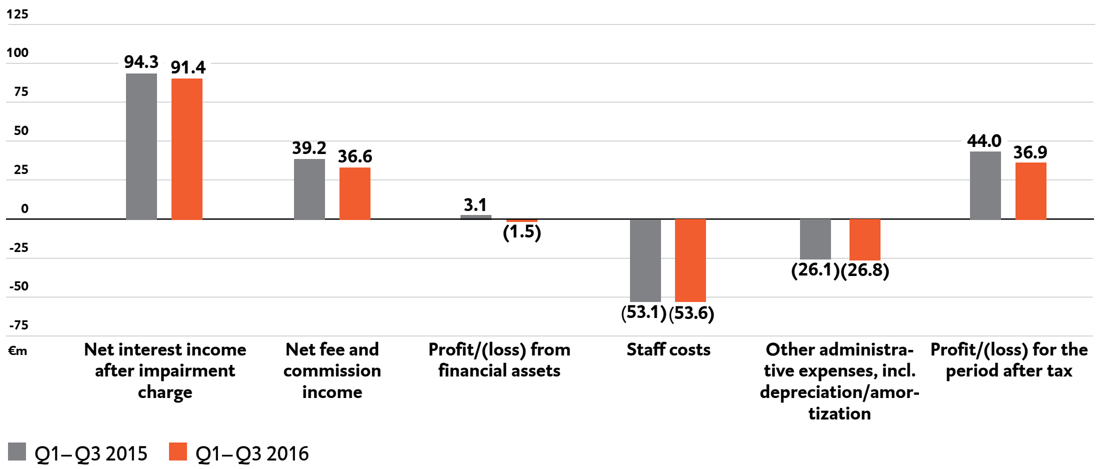
Performance

Respectable profit for the period in a challenging market environment
BKS Bank made another respectable profit in the first three quarters of 2016. The market environment was still tough when it came to generating interest income. Although we strive to stand out from our competitors in the terms and conditions war by focusing on providing quality advice, our bank was unable to escape the pressure on financing terms. However, it was not only our efforts to actively manage our interest rate operations that bore fruit; our profit from investments in entities accounted for using the equity method also met our expectations, coming to €25.7 million. Net interest income before the impairment charge came to €117.2 million, which was just below the total of €119.5 million recorded in the same period of 2015. The decrease of 1.9 per cent was attributable to the drop in our interest income, which fell by €13.8 million or 10.1 per cent to €122.7 million as interest rates fell to near-zero. In the same period, interest expenses fell by €10.6 million to €31.2 million.

The impairment charge on loans and advances came to €25.8 million, which was €0.6 million more than in the period from January through September 2015. However, the impairment charge in the third quarter of 2016 came to €13.4 million, which was much more than in the two preceding quarters. As well as increasing the individual impairment allowances for loans to customers in the default classes, we increased the allowance for 'incurred but not reported' credit risks by €9.2 million. Net interest income after the impairment charge fell by 3.0 per cent to €91.4 million.

Net fee and commission income in the period under review was unsatisfactory, at €36.6 million. That compared with €39.2 million in the first three quarters of 2015. Fee and commission earnings from payment services were our primary source of income, contributing €16.2 million or 0.6 per cent more than in the same period of 2015. On the other hand, securities operations were affected by the highly volatile stock market conditions. Earnings from securities operations came to €10.3 million, which was €0.8 million less than in the first three quarters of 2015. That trend was mirrored by the value of the securities held in custody accounts, which increased by just €72.4 million or 0.9 per in the first three quarters to total €8.17 billion at 30 September 2016. Virtually all of the increase in custody account balances resulted from our takeover of a custody account portfolio from a brokerage firm in Slovenia. That transaction added custody account balances of about €100 million in roughly 250

COMPONENTS OF THE INCOME STATEMENT



new custody accounts. Some €9.5 million of our net fee and commission income came from credit commission. As expected, fee and commission earnings from foreign exchange operations fell. In 2015, switches out of Swiss franc loans had boosted earnings by €2.8 million, but their contribution in the nine months to the end of September was less than anticipated, at €1.7 million.

The line item *Profit/(loss) from financial assets* came to negative €1.5 million in the first three quarters, compared with positive €3.1 million in the same period of 2015. The decline was mainly attributable to the item *Financial assets designated as at fair value through profit or loss*. Lower credit spreads affected valuations of BKS Bank's own issues, changing their value by negative €2.2 million. There was a positive effect of €0.5 million in the available for sale portfolio.

General administrative expenses came to €80.4 million. Thanks to efficiency increases, this was just 1.5 per cent more than in the period from January through September 2015. Given the hikes in wages and salaries under collective agreements, which took effect on 1 April 2016 and averaged 1.2 per cent, staff costs were a clear reflection of the staff cost consolidation process. They came to €53.6 million, compared with €53.1 million in the same period of 2015. We focused on the streamlined utilization of human resources with an emphasis on skills and a high work ethic. Consequently, we critically examined every request for new staff or staff changes. Group-wide, the average workforce increased by just two (full year equivalents) to 925 compared with the end of 2015 even though runaway regulation was tying up more and more resources.

It proved possible to keep the line items *Other operating expenses* and *Depreciation/amortization* virtually static compared with the same period of 2015 at €22.0 million and €4.8 million, respectively. Higher spending on IT and rent and premises running costs and an investment programme geared to essential projects contributed to whatever increase there was. Our cost management activities will be directed at doing everything possible to ensure that our tight budget is not exceeded under any circumstances.

Other operating income net of other operating expenses came to negative €6.2 million. This was striking evidence of the additional regulatory costs and burdens imposed not only on our bank but also on the entirety of the Austrian banking industry. Pursuant to the relevant IFRS provisions, expenditure on the resolution mechanism in the amount of €2.2 million and payments into the new deposit guarantee scheme in the amount of €1.6 million already had to be accounted for in the first half of 2016. Expenses associated with the stability levy in the nine months to 30 September 2016 came to roughly €2.8 million. However, the relief provided by the agreement of a final settlement payment to the inland revenue service will greatly exceed the normal annual contribution. Just to give you an idea of the scale of the stability levies paid to the inland revenue service by *BKS Bank AG* in the period from 2011 to 2016—despite the fact that our bank mastered the recent financial crisis on its own and without any state aid—I can tell you that they have amounted to €17.5 million.

Profit for the period before tax came to €36.9 million, as against €44.0 million in 2015. In other words, it was 16.1 per cent down on the period from January though September 2015. However, comparisons between quarterly profits before tax are revealing and provide clear evidence of our solid profit growth. Profit for the period in the third quarter of 2016 came to €10.4 million, which was €1.4 million or 15.6 per cent more than in the third quarter of 2015.

Segmental Reports

Our segmental reporting presents the results of the operational segments that have been defined within the BKS Bank Group. It is based on our internal management information systems. The business segments have been defined in line with our three historically evolved target groups—which are corporate and business banking customers, retail banking customers and financial markets—and the differences between the products and services that we offer our customers. It is on that basis that we assess the financial performance of each segment and make decisions about allocating the enterprise's resources. The performance of each segment was measured on the basis of its profit before tax and the indicators return on equity (ROE), cost:income ratio (CIR) and risk:earnings ratio (RER). Return on equity was calculated on the basis of the relationship between a segment's profit for the year and the average amount of equity tied up in it. Capital was allocated according to regulatory criteria. Net interest income was apportioned using the *market interest rate method* and on the basis of an extensive liquidity cost accounting system. Incurred operating expenses were assigned to the individual business segments on a cost-by-cause basis. So-called 'structural' income was assigned to the financial markets segment.

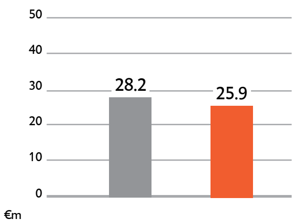
Since the middle of 2015, we have been using a professional 'Sales Cockpit' dashboard to better manage our sales activities. It is a key component of any modern sales architecture. It supports self-management, promotes self-responsibility and shows how well targets are being met based on benchmarks that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

Corporate and Business Banking

BKS Bank having originally been conceived as a pure corporate and business bank, this segment has the longest tradition, dating back to 1922, and has remained the most important pillar of our enterprise. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, the income and expenses of

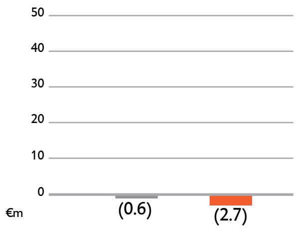
PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT

Corporate and Business Banking



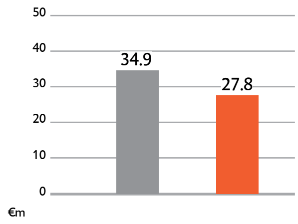
	Q1–Q3 2015	Q1–Q3 2016
ROE	14.9%	14.0%
CIR	38.8%	40.5%
RER	37.5%	38.1%

Retail Banking



	Q1–Q3 2015	Q1–Q3 2016
ROE	(1.9%)	(8.9%)
CIR	98.2%	102.7%
RER	6.1%	8.3%

Financial Markets



	Q1–Q3 2015	Q1–Q3 2016
ROE	9.0%	6.4%
CIR	13.0%	14.0%
RER	0.9%	1.1%

A detailed segmental analysis is presented on page 47.

BKS Bank d.d. in Croatia and of our leasing subsidiaries insofar as they arose from business done with companies were also allocated to this segment. About 18,500 corporate and business banking customers were being serviced in this segment at the end of September.

This segment's business performance in the first nine months of this year was satisfactory in a market environment that remained difficult. The economic recovery was particularly strongly felt from the middle of 2016. It resulted in pleasing growth in the portfolio of loans to corporate and business banking customers, which expanded by 2.6 per cent to €4.08 billion. Payables to customers, which include savings, sight and time deposit balances, showed the extent to which our bank has built up a reputation as a dependable and attractive provider of investment services. At the end of September, corporate and business banking customers accounted for savings deposit balances in the amount of €210.4 million (31 December 2015: €218.3 million) and sight and time deposit balances in the amount of €2.07 billion (31 December 2015: €1.93 billion).

As elsewhere, there was growing pressure on earnings in the corporate and business banking segment as lending margins shrank. That notwithstanding, net interest income came to €62.3 million in the persistently difficult market environment and nearly equalled the good result of €62.9 million achieved in the same period of 2015. In addition, our efforts to raise the quality of the credit portfolio led to another improvement in our risk position. The impairment allowance attributable to the corporate and business banking segment was virtually unchanged at €23.7 million despite a significant increase in the allowance for 'incurred but not reported' credit risks. In contrast, market conditions reduced net fee and commission income by €0.9 million or 4.4 per cent to €20.0 million. General administrative expenses in the corporate and business banking segment came to €33.8 million, which was only a little more than the low total of €32.8 million recorded in the same period of 2015. This was thanks to rigorous cost discipline. The segment's profit came to €25.9 million, as against €28.2 million in the same period of 2015. This was reflected in its management indicators, which were still satisfactory. The return on equity fell by 0.9 percentage points to 14.0 per cent; the cost:income ratio rose slightly to 40.5 per cent; and the risk:earnings ratio was up 0.6 percentage points to 38.1 per cent.

Retail Banking

At 30 September, approximately 133,000 customers of *BKS Bank AG*, *BKS Bank d.d.* and the Group's leasing companies were being serviced in the retail banking segment. Because it is highly dependent on branch operations, our activities in this segment are very resource and cost intensive. Nonetheless, it is indispensable to our bank as its most important source of funds even in times of historically low interest rates. At the end of the period under review, €1.36 billion or about 86.6 per cent of the savings deposit balances at BKS Bank came from retail banking operations, as did €0.84 billion or 28.7 per cent of the sight and time deposit balances. This amounts to nearly half of all our payables to customers. It is noteworthy that loans totalling €1.17 billion—or about 22.3 per cent of receivables from customers—had been granted in the retail banking segment by the end of September. Growth was healthy, at 3.1 per cent, and the subsidiaries abroad made an important contribution to it. A substantial number of customers now prefer banking services that are available at any time and anywhere. We took account of this trend by migrating our online banking customers to the updated BKS Bank Online system. This process had already been completed at the end of April.

We were not happy with this segment's profit, which came to negative €2.7 million. That compared with negative €0.6 million in the same period of 2015. Falling margins were a contributing factor. In particular, they were already negative on the deposits side of the account. Net interest income was €1.2 million down on the first three quarters of 2015 to €19.8 million. However, we did acquire more than 1,100 new customers during the period under review, evidencing a high level of confidence in our business model. The impairment charge in the first three quarters of 2016 was €1.7 million, compared with €1.3 million in the same period of 2015. The impairment charge in the third quarter on its own was just €0.3 million. The risk:earnings ratio came to a respectable 8.3 per cent, reflecting the fact that risk levels in the retail loans book were still good.

Net fee and commission income was 5.5 per cent down on the same period of 2015 to €16.4 million. Above all, the volume of securities trading by our retail banking customers fell in the face of financial markets that were, at times, extremely volatile. On the other hand, general administrative expenses rose just marginally, increasing to €38.6 million. The segment's poor earnings worsened its ratios. The return on equity, which was calculated on the basis of its profit for the period before tax and the average amount of capital employed in it, slumped to negative 8.9 per cent. Although the cost:income ratio—which increased to 102.7 per cent, providing a snapshot of a difficult banking environment that had also become the focus of public attention—should improve again in the medium term, it was a sign that it is becoming increasingly difficult to stay profitable in the retail banking segment.

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 interest-rate term structure management activities. Diminishing earnings from interest-rate term structure management activities and poorer profits from financial assets reduced the segment's profit for the period by €7.1 million compared with the same period of 2015 to €27.8 million. However, it was still within our expectations. Net interest income fell by €1.2 million to €33.4 million. This was again a consequence of the extremely low interest rates. The allowance for country risk exposure in both comparative periods came to roughly €0.4 million.

The fall in the segment's profit was also due in part to its *Profit/(loss) from financial assets*, which, as we have already mentioned, declined, from positive €3.1 million to negative €1.5 million. Whereas profit in the first three quarters of 2015 had been boosted by the upbeat sentiment in the financial markets, the highly volatile securities markets and the requisite increase in investor caution have made it far harder to make reasonable profits this year.

On the other hand, the contributions to profit made by our investments in entities accounted for using the equity method—*Oberbank AG*, *Bank für Tirol und Vorarlberg Aktiengesellschaft* and *Drei Banken Versicherungsagentur GmbH*—proved to be stable pillars of profit in the financial markets segment. This line item held steady, at €25.7 million, compared with €24.7 million in the same period of 2015. There was little change in general administrative expenses, which came to €4.8 million. As for this segment's ratios, its return on equity fell by 2.6 percentage points to 6.4 per cent, but the cost:income ratio remained healthy at 14.0 per cent. In addition, its risk:earnings ratio remained very low, at 1.1 per cent.

Key Corporate Ratios

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

The risk:earnings ratio developed extremely well during the first three quarters of 2016. Because our bank has so far been spared serious impairments, it was well below the ratio of 29.2 per cent recorded in the same period of 2015, at just 22.0 per cent. On the other hand, the cost:income ratio worsened from 48.7 per cent in 2015 to 54.1 per cent in the period under review. As we have already reported, this was mainly due to an increase in *Other operating expenses*. Under IFRIC 21, our total budgeted expenditure during the year on the national bank resolution mechanism (in the amount of €2.2 million) and on the deposit guarantee scheme (in the amount of €1.6 million) already required recognition in the Income Statement at the beginning of 2016.

Our bank had a solid own funds position. Both the common equity Tier 1 capital ratio of 10.9 per cent and the own funds ratio of 11.9 per cent were well above the legal minima. We reported on this in detail in the section on our *Own Funds* on page 13.

KEY CORPORATE RATIOS

%	2015	30/6/2016	30/9/2016
Return on equity before tax	7.3	6.1	6.1
Return on assets before tax	0.9	0.8	0.8
Cost:income ratio	48.7	55.8	54.1
Risk:earnings ratio (credit risk/net interest income)	29.2	16.0	22.0
Common equity Tier 1 capital ratio	11.8	11.1	10.9
Own funds ratio	12.3	12.1	11.9
Liquidity coverage ratio (minimum liquidity ratio)	130.7	123.0	145.3
Leverage ratio (indebtedness ratio)	7.7	7.7	7.7

Risk Report

BKS Bank's risk and capital management activities in the first nine months of 2016 continued to concentrate on honing the bank's risk profile with the help of a framework of principles, organizational structures and risk management tools and on meeting all the regulatory requirements.

Our business policy credo was to safeguard BKS Bank's autonomy and independence by increasing its profits within the scope of a sustainable growth strategy. The selective assumption of risks was an important feature of our business activities, subject to the requirement that all the relevant operational and other banking risks should be detected early and proactively managed and limited through effective risk management. The aim was to continuously and fully capture every individual risk. Available capital was used as efficiently as possible in the light of our medium-term and long-term strategic goals, and the trade-off between risk and return was constantly optimized. The precept that we only enter into risks that BKS Bank can bear without outside help was anchored in the Risk Strategy as a general principle so as not to jeopardize the bank's autonomy and independence.

Pursuant to the provisions of *§ 39a BWG*, banks are required to have effective plans and procedures in place to ascertain the amount, composition and distribution of the capital available to cover quantitatively and qualitatively all their material operational and other banking risks. The requisite amount of capital must be held on that basis. Such procedures were combined within the Internal Capital Adequacy Assessment Process (ICAAP) and presented and reported on at BKS Bank within the scope of the risk bearing capacity calculation process.

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

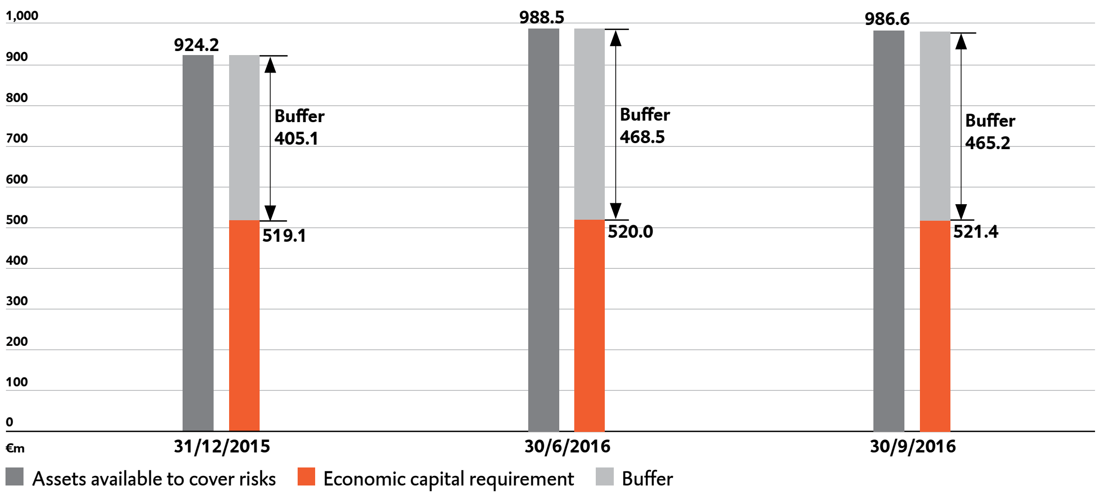
We assess our internal capital adequacy once a quarter on the basis of the risks that have been identified using internal models. The materiality of the respective risks was taken into account when deciding which models to use. The aim is to ensure that BKS Bank will always have sufficient assets available to cover its risks, enabling it to bear the risks assumed by it even if unexpected events occur. All identified and quantified unexpected risks were therefore aggregated to obtain a figure for overall bank risk.

The overall bank risk was the equivalent of the economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit and liquidity risk were factored into the prices charged to customers as risk premiums (standard risk costs, liquidity premiums). The aggregated total potential loss was compared with the assets available to cover such potential losses to weigh up whether the bank was in a position to bear expected and unexpected losses without suffering serious detriment to its business activities.

The individual components of the assets that were available to cover risks were ranked according to their realizability while taking account, above all, of their liquidity and publicity effects. When a capital adequacy target was set on a going concern basis, the potential risk and risk bearing capacity and the limits derived from them were balanced in such a way that the bank was in a position to bear an adverse burden while continuing to conduct business in an orderly manner. The capital adequacy target set on a liquidation basis reflects a regulatory standpoint. It serves to protect creditors. At BKS Bank, unexpected losses were calculated on a liquidation basis for a period of observation of one year and with a confidence interval of 99.9 per cent.

In this reporting quarter, the economic capital requirement for credit risk was again the biggest risk capital requirement within the *Kreditinstitutsgruppe* (credit institution group). Credit risk accounted for about 76.6 per cent of our total potential loss at the end of September 2016 (31 December 2015: 76.1 per cent). Interest rate risk in the banking book inclusive of market risk accounted for 8.9 per cent (31 December 2015: 10.3 per cent), followed by macroeconomic risk, which accounted for 5.1 per cent (31 December 2015: 5.3 per cent) and operational risk, which accounted for 5.0 per cent (31 December 2015: 5.0 per cent). Our economic capital requirement on a liquidation basis was €521.4 million at 30 September 2016, compared with €519.1 million at the end of December 2015. The assets available to cover risks came to €986.6 million (31 December 2015: €924.2 million).

RISK BEARING CAPACITY CALCULATED ON A LIQUIDATION BASIS



Credit Risk

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

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

Collateral requirements were based on the rating class and the product concerned. Fair value valuations of collateral took their bearings from average proceeds from liquidation achieved in the past. Lending in markets outside Austria was regulated by guidelines that were fine tuned to suit the specific features of the country concerned. They depended in particular on the economic landscape and allowed for the heightened risk involved in realizing collateral. BKS Bank employed a 13-class rating system.

At the reporting date of 30 September 2016, roughly 46 per cent of all lending to corporate and business banking customers and about 71 per cent of all lending to retail banking customers was in the top rating classes from AA to 2b. When acquiring new business, our focus was on customers in those rating classes.

The charge for impairment losses in the first three quarters of 2016 came to €25.8 million, compared with €25.2 million in the same period of 2015. Impairments allowances came to €33.7 million, while impairment reversals came to €7.8 million. The charge for impairment losses included individual impairment allowances, collective assessments of impairments carried out in accordance with IAS 39, allowances for country risk exposure and our commission payment to *ALGAR*. Looking at our credit risk at the level of non-performing loans, the NPL ratio fell by 88 basis points compared with 31 December 2015 to 5.7 per cent. The requisite charge for impairment losses at our foreign subsidiaries fell to just 0.8 million.

CHARGE FOR IMPAIRMENT LOSSES

€m	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Impairments allowances	32.4	33.7	3.9
Impairment reversals	(6.9)	(7.8)	12.3
Direct write-offs	0.4	0.7	67.1
Subsequent recoveries on written-off items	(0.7)	(0.8)	17.9
Charge for impairment losses	**25.2**	**25.8**	**2.3**

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying Amount or Max. Default Risk per Category, €m	Financial Instruments that were Neither Past Due nor Impaired		Past Due Financial Instruments		Impaired Financial Instruments		Financial Instruments that were Past Due but Not Yet Impaired	
	31/12/2015	30/9/2016	31/12/2015	30/9/2016	31/12/2015	30/9/2016	31/12/2015	30/9/2016
Receivables from customers	5,189	5,394	514	442	464	350	103	106
Contingent liabilities	212	249	6	11	—	—	—	—
Receivables from other banks	389	246	—	1	—	—	—	—
Securities and fund units	772	750	—	—	—	—	—	—
Equity investments	495	515	—	—	8	—	—	—
Total	**7,057**	**7,154**	**520**	**454**	**472**	**350**	**103**	**106**

Interest Rate Risk in the Banking Book Inclusive of Market Risk

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

Interest rate risk is the risk of adverse changes in the values of interest rate sensitive positions caused by a change in interest rates. Differing maturities and interest rate adjustment periods can lead to interest rate risks on both the assets and the equity and liabilities side of the account. However, they can generally be hedged against by means of on-balance sheet and off-balance sheet transactions or a combination thereof. BKS Bank pursued a strictly conservative interest rate risk strategy and did not engage in any large-volume speculative derivative transactions. BKS Bank engaged in derivative transactions almost exclusively to hedge against market risks. In doing so, it only used instruments whose characteristics were known, the risks associated with which were known and where we had experience based data. In the period under review, the ratio of our interest rate risk to our eligible own funds assuming an interest rate shift of 200 basis points as reportable to *OeNB* fell to 2.6 per cent from 3.3 per cent at the end of 2015. Again, it remained significantly below the critical 20 per cent mark.

Since earning profits from open currency positions is not one of the focuses of our business policy, BKS Bank has always largely avoided foreign exchange risks. Generally, foreign currency loans and foreign currency deposit balances were funded or invested in the same currency. To close foreign exchange positions, BKS Bank sometimes engaged in derivative transactions like cross currency swaps, currency forward and future transactions and currency swaps. Our open foreign exchange positions came to €17.7 million at the end of September. This figure includes the foreign currency portions of fund units held in our treasury portfolio. We were able to keep our foreign exchange value at risk stable at €0.8 million.

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

VALUE AT RISK

€m	31/12/2015	30/9/2016	+/(–) Change, %
Interest rate risk[1]	12.2	8.7	(27.7)
FX risk	0.7	0.8	8.6
Equity price risk	1.3	2.2	70.0
Total (including diversification effects)	12.2	9.2	(29.8)

[1] Includes credit spread risk.

Liquidity Risk

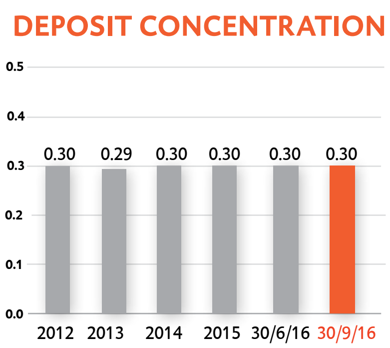
Liquidity risk is associated with the danger of not being able to meet present or future financial obligations in full or in time. This also includes the risk of only being able to raise funds at higher than usual market rates (funding risk) or liquidate assets at lower than usual market rates or prices (market liquidity risk).

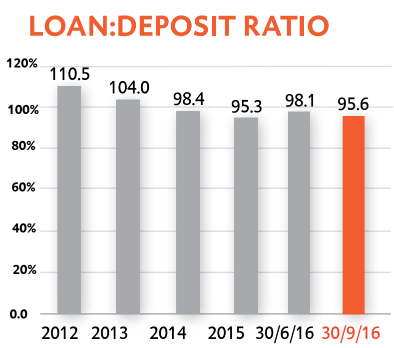
The management of liquidity risk was governed by clearly defined principles that were laid down in our Risk Strategy and in liquidity management manuals. The diversification of our funding profile to achieve a mix of investor categories, products and maturities was an essential part of the liquidity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

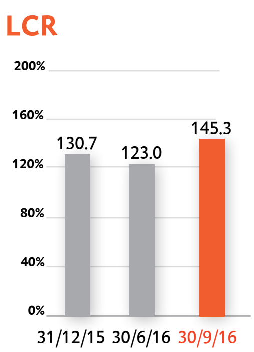
At BKS Bank, short-term liquidity management is undertaken by monitoring intraday liquidity and by means of a daily liquidity gap analysis for the main currencies. Limits were set at the short end to define liquidity risk boundaries. We mainly held as a liquidity buffer highly liquid securities that were eligible for refinancing with the ECB and customer accounts. Material liquidity risk management decisions were made and liquidity risk monitoring was carried out by our Asset Liability Management Committee, which met regularly. BKS Bank had substantial liquidity reserves at 30 September 2016. The available liquidity buffer (counterbalancing capacity) was significantly up on the end of 2015 to €1.2 billion.

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

The loan:deposit ratio is another important liquidity management indicator. It states the relationship between the size of the loan book and primary deposit balances. It came to 95.6 per cent at the end of September. This was below our benchmark target and, therefore, an excellent result. We have set a balanced ratio of 100 per cent as our benchmark target.







The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain solvent for the coming 30 days even in the event of simultaneous market and bank-specific stresses. It compares holdings of highly liquid assets with the expected net cash outflow under stress conditions in the coming 30 days. At 30 September 2016, this regulatory liquidity ratio came to 145.3 per cent. It was thus far above the minimum ratio of 100 per cent that is gradually being phased in between October 2015 and 2018.

Operational Risk

In line with the CRR, we define operational risk as the risk of losses that primarily impinge on BKS Bank's operational domain resulting from inadequate or failed internal processes, people or systems or from external factors. Operational risks at *BKS Bank AG* and all its subsidiaries in Austria and abroad were limited by an appropriate and continually refined internal control system. This system included a raft of organizational measures ranging from the appropriate separation of functions within business processes (separation of front office from back office activities, dual-control or 'four-eyes' principle) to extensive bodies of internal rules and regulations and regular controls to emergency plans and self-auditing systems.

We registered 174 loss events (not including those resulting from credit operations) in the period under review (January through September 2016). After the deduction of compensation received for those loss events, they cost roughly €0.4 million. The nine cases that were recorded in conformity with *§ 19 WAG* (Austrian securities supervision act) caused a total loss of €0.3 million, which was well below our internally set risk tolerance threshold of €1.0 million.

Outlook for the Year as a Whole

Our assessment of the overall state of the economy and of the future situation of the banking industry and *BKS Bank AG* is fundamentally unchanged compared with what we wrote in the 2016 Semi-Annual Financial Report.

The jarring presidential election in the United States has injected world politics with an overdose of uncertainty. It is unlikely to ease before President-Elect Donald Trump takes office on 20 January 2017. The well-respected Washington Post has already given us a presentiment of the future. It asked all of Trump's biographers how they saw the presidency of this political novice. Their answer was unanimous: President Trump will do what Candidate Trump promised. Wall Street and the other big securities markets reacted astonishingly calmly to the election's surprising outcome. The big trends were unaffected, and no major turbulence resulted. However, the Eurozone's key index—the Euro Stoxx 50—dropped back below 3,000 points for the first time in a long period on 4 November, when it stood at 2,954.53 points. At the same time, prices in general were depressed by a drop in crude oil prices.

In any event, the electoral victory of Trump—a declared opponent of free trade—and Republican dominance of the United States Senate and House of Representatives heralded historical changes for the American central bank. Despite improvements in the labour market, the Federal Reserve has adopted a wait and see stance when it comes to monetary policy. It left its monetary policy unchanged during its session at the beginning of November, keeping the Fed funds rate at between 0.25 per cent and 0.5 per cent. Following the Republican Party's electoral victory, which brings into question the Fed's independence, the hike in interest rates that had been mooted as a possibility in December will surely be postponed again or only be very small. This scenario could thwart the ECB's plans for a departure from its relaxed monetary policy in the medium term. A rise in the euro versus the US dollar would weaken both economic growth in the eurozone—the ECB having recently predicted real growth of 1.7 per cent in 2016—and inflation. According to the European Commission's latest forecast[1], the Austrian economy is still heading for economic growth of 1.5 per cent with the likelihood of an increase to 1.6 per cent in 2017.

In view of the still difficult geopolitical and macroeconomic environment, our bank will also be facing a challenging period in the remaining weeks of 2016. The banking industry's business performance continues to suffer from the extremely low interest rates, and a trend reversal is not in sight in the fourth quarter of 2016 or the quarters to come. Although lending is picking up, margins on customer operations will not improve because there is a lot of money in the market and the ECB's actions are still increasing the supply. In addition, the alleviation of the strain on banking books caused by lower impairment charges seems fragile. Low interest rates and the competition we are feeling from online banks and technology driven providers of banking services are making it difficult to develop new profit opportunities. This means that we are compelled to continuously refine and optimize our internal processes, structures and technical platforms. As we do so, BKS Bank is focusing on the areas where we offer our

[1] European Economic Forecast, Autumn 2016.

customers special value added and can thus stand apart from our rivals. We want to continue to reinforce BKS Bank's reputation as a capable 'universal' bank by providing individual advice and offering customers an attractive range of products and services and modern technical solutions. Our ongoing investments and investment plans are geared to the growth path we have chosen. There is a particular focus on digitization and information technology.

In view of our generally satisfactory quarterly numbers, we are cautiously optimistic about 2016 as a whole and are still focusing mainly on continuing our profitable growth. BKS Bank is strategically well prepared to face future challenges. In the absence of any unexpectedly marked departures from the trends we have been observing so far in 2016, we believe that the profit we are hoping for this year will, as in prior periods, permit sufficient additions to our reserves and, as a result, contribute to another increase in enterprise value. As in previous years, we plan to distribute a dividend for the 2016 financial year that adequately reflects our profits.

Klagenfurt
23 November 2016

Herta Stockbauer
Chairwoman of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Overview of the 3 Banken Group

	BKS Bank Group		Oberbank Group		BTV Group	
INCOME ACCOUNT, €m	Q1–Q3 2015	Q1–Q3 2016	Q1–Q3 2015	Q1–Q3 2016	Q1–Q3 2015	Q1–Q3 2016
Net interest income	119.5	117.2	283.5	267.7	128.9	108.6
Impairment charge on loans and advances	(25.2)	(25.8)	(33.7)	(14.1)	(9.5)	(12.9)
Net fee and commission income	39.2	36.6	99.7	96.0	37.9	35.3
General administrative expenses	(79.2)	(80.4)	(181.8)	(198.6)	(124.9)	(131.9)
Other operating income net of other operating expenses	(9.2)	(6.2)	(30.5)	(6.8)	58.9	69.9
Profit for the period before tax	50.2	40.9	146.6	154.7	172.1	72.6
Profit for the period after tax	44.0	36.9	125.9	129.8	150.0	59.9
BALANCE SHEET DATA, €m	31/12/2015	30/9/2016	31/12/2015	30/9/2016	31/12/2015	30/9/2016
Assets	7,063.4	7,256.8	18,243.3	18,913.8	9,426.3	9,845.5
Receivables from customers after impairment charge	4,920.1	5,066.9	12,351.7	13,200.7	6,359.6	6,589.2
Primary deposit balances	5,109.8	5,238.8	12,620.0	13,075.7	7,020.7	7,167.2
– Of which savings deposit balances	1,629.8	1,573.8	2,912.6	2,840.6	1,200.8	1,243.1
– Of which liabilities evidenced by paper	758.1	756.8	2,098.5	2,147.9	1,377.9	1,496.0
Equity	860.2	884.9	1,925.7	2,061.9	1,148.7	1,211.0
Customer assets under management	13,212.1	13,413.5	25,245.1	26,018.6	12,732.4	13,107.6
– Of which in customers' securities accounts	8,102.3	8,174.7	12,625.1	12,942.9	5,711.6	5,940.4
OWN FUNDS FOR THE PURPOSES OF CRR, €m	31/12/2015	30/9/2016	31/12/2015	30/9/2016	31/12/2015	30/9/2016
Basis of assessment of own funds	4,883.4	4,897.9	12,216.7	12,770.8	6,262.7	6,546.7
Own funds	599.9	580.6	2,158.0	2,212.3	977.8	953.2
– Of which common equity Tier 1 capital (CET1)	575.6	532.2	1,650.8	1,721.4	950.9	921.0
– Of which total Tier 1 capital (CET1 and AT1)	575.6	532.2	1,733.3	1,798.0	950.9	921.0
Common equity Tier 1 capital ratio, %	11.8	10.9	13.5	13.5	15.2	14.1
Tier 1 capital ratio, %	11.8	10.9	14.2	14.1	15.2	14.1
Own funds ratio, %	12.3	11.9	17.7	17.3	15.6	14.6
CORPORATE RATIOS, %	31/12/2015	30/9/2016	31/12/2015	30/9/2016	31/12/2015	30/9/2016
Return on equity before tax	7.3	6.1	11.2	10.4	15.9	8.2
Return on equity after tax	6.5	5.3	9.7	8.7	12.8	6.8
Cost:income ratio	48.7	54.1	50.5	54.1	58.6	60.7
Risk:earnings ratio	29.2	22.0	12.4	5.3	9.7	11.9
RESOURCES	31/12/2015	30/9/2016	31/12/2015	30/9/2016	31/12/2015	30/9/2016
Average number of staff	923	925	2,025	1,954	1,354	1,424
Branches	59	60	156	159	36	36

The 3 *Banken Gruppe* (3 Banks Group) has existed since back in 1997. Voluntary collaboration between its members gives it the strength of a major bank. The successes of BKS Bank and its sister banks stem from the fact that each has its own strategy and business policy and from their self-image as independent and capable 'universal' banks servicing export-orientated medium-sized enterprises in their respective regions. All three banks continued to pursue their sustainable business policies in the period from January through September 2016. However, their aggregate profit for the period before tax of €268.2 million was roughly a quarter down on the same period of the year 2015, which had been marked by non-recurring effects (resulting from the restructuring of BTV's securities portfolio). Their aggregate assets stabilized at a level of €36.0 billion, and the loan book net of impairment allowance balances came to €24.9 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 €25.5 billion. At the end of September, the three banks employed 4,303 people, and the branch network consisted of 255 points of contact for both corporate and business banking and retail banking customers.

Consolidated Financial Statements as at and for the Nine Months Ended 30 September 2016

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

INCOME STATEMENT

€k	Note	Q1–Q3/2015	Q1–Q3/2016	+/(–) Change, %
Interest income		136,541	122,727	(10.1)
Interest expenses		(41,805)	(31,230)	(25.3)
Profit/(loss) from investments in entities accounted for using the equity method		24,730	25,665	3.8
Net interest income	**(1)**	**119,466**	**117,162**	**(1.9)**
Impairment charge on loans and advances	(2)	(25,194)	(25,762)	2.3
Net interest income after impairment charge		**94,272**	**91,400**	**(3.0)**
Fee and commission income		41,675	39,341	(5.6)
Fee and commission expenses		(2,468)	(2,710)	9.8
Net fee and commission income	**(3)**	**39,207**	**36,631**	**(6.6)**
Net trading income	(4)	2,017	917	(54.5)
General administrative expenses	(5)	(79,233)	(80,398)	1.5
Other operating income	(6)	3,541	3,775	6.6
Other operating expenses	(6)	(12,731)	(9,975)	(21.6)
Profit/(loss) from financial assets		**3,130**	**(1,478)**	**(>100)**
– Profit/(loss) from financial assets designated as at fair value through profit and loss	(7)	1,293	(2,162)	(>100)
– Profit/(loss) from available-for-sale financial assets	(8)	1,550	531	(65.7)
– Profit/(loss) from held-to-maturity financial assets	(9)	287	153	(46.7)
Profit for the period before tax		**50,203**	**40,872**	**(18.6)**
Income tax expense	(10)	(6,229)	(3,998)	(35.8)
Profit for the period after tax		**43,974**	**36,874**	**(16.1)**
Minority interests in profit for the period after tax		(2)	(2)	0.0
Profit for the period after tax and minority interests		**43,972**	**36,872**	**(16.1)**

OTHER COMPREHENSIVE INCOME (OCI)

€k	Q1–Q3/2015	Q1–Q3/2016	+/(–) Change, %
Profit for the period after tax	**43,974**	**36,874**	**(16.1)**
Items not reclassified to consolidated profit or loss for the year	**(5,147)**	**975**	**(>100)**
+/(–) Actuarial gains less losses in conformity with IAS 19	0	(2,286)	—
+/(–) Deferred taxes in conformity with IAS 19	0	571	—
+/(–) Gains less losses arising from use of the equity method in conformity with IAS 19	(5,147)	2,690	(>100)
Items reclassified to consolidated profit or loss for the year	**(2,240)**	**(2,759)**	**(>100)**
+/(–) Foreign exchange differences	52	485	>100
+/(–) Available for sale reserve	(404)	(1,143)	(>100)
+/(–) Deferred taxes taken to available for sale reserve items	33	276	>100
+/(–) Gains less losses arising from use of the equity method	(1,921)	(2,377)	(>100)
Total income and expenses taken directly to equity	**(7,387)**	**(1,784)**	**(75.8)**
Comprehensive income before minority interests	**36,587**	**35,090**	**(4.1)**
Of which minority interests	(2)	(2)	—
Comprehensive income after minority interests	**36,585**	**35,088**	**(4.1)**

QUARTERLY REVIEW

€k	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Interest income	43,855	39,510	42,319	40,300	40,108
Interest expenses	(13,524)	(10,788)	(10,644)	(10,617)	(9,969)
Profit/(loss) from investments in entities accounted for using the equity method	9,624	18,256	5,726	10,211	9,728
Net interest income	**39,955**	**46,978**	**37,401**	**39,894**	**39,867**
Impairment charge on loans and advances	(12,907)	(23,353)	(8,793)	(3,608)	(13,361)
Net interest income after impairment charge	**27,048**	**23,625**	**28,608**	**36,286**	**26,506**
Fee and commission income	13,133	14,479	13,864	13,301	12,176
Fee and commission expenses	(856)	(704)	(974)	(828)	(908)
Net fee and commission income	**12,277**	**13,775**	**12,890**	**12,473**	**11,268**
Net trading income	1,086	303	199	779	(61)
General administrative expenses	(26,185)	(25,887)	(26,898)	(27,400)	(26,100)
Other operating income	1,209	6,493	1,239	953	1,583
Other operating expenses	(6,810)	(2,977)	(5,039)	(3,424)	(1,512)
Total profit/(loss) from financial assets	**358**	**(4,809)**	**(61)**	**(120)**	**(1,297)**
– Profit/(loss) from financial assets designated as at fair value through profit and loss	565	(1,184)	(195)	(414)	(1,553)
– Profit/(loss) from available-for-sale financial assets	(207)	(3,625)	134	294	103
– Profit/(loss) from held-to-maturity financial assets	—	—	—	—	153
Profit for the period before tax	**8,983**	**10,523**	**10,938**	**19,547**	**10,387**
Income tax expense	3,337	(881)	(2,414)	(3,362)	1,778
Profit for the period after tax	**12,320**	**9,642**	**8,524**	**16,185**	**12,165**
Minority interests in profit for the period after tax	—	(1)	(1)	(1)	(0)
Profit for the period after tax and minority interests	**12,320**	**9,641**	**8,523**	**16,184**	**12,165**

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

ASSETS

€k	Note	31/12/2015	30/9/2016	+/(–) Change, %
Cash and balances with the central bank	(11)	190,310	404,564	>100
Receivables from other banks	(12)	363,862	227,239	(37.5)
Receivables from customers	(13)	5,113,867	5,253,141	2.7
– Impairment allowance balance	(14)	(193,748)	(186,214)	(3.9)
Trading assets	(15)	46	8	(82.6)
Financial assets		1,445,094	1,408,241	(2.6)
– Financial assets designated as at fair value through profit or loss	(16)	114,863	93,665	(18.5)
– Available-for-sale financial assets	(17)	166,721	174,808	4.9
– Held-to-maturity financial assets	(18)	724,891	680,938	(6.1)
– Investments in entities accounted for using the equity method	(19)	438,619	458,830	4.6
Intangible assets	(20)	1,868	1,561	(16.4)
Property and equipment	(21)	58,437	56,411	(3.5)
Investment property	(22)	29,690	29,987	1.0
Deferred tax assets	(23)	25,441	28,442	31.3
Other assets	(24)	28,566	33,393	(0.4)
Total assets		**7,063,433**	**7,256,773**	**2.7**

EQUITY AND LIABILITIES

€k	Note	31/12/2015	30/9/2016	+/(–) Change, %
Payables to other banks	(25)	904,574	932,533	3.1
Payables to customers	(26)	4,351,716	4,482,068	3.0
– Of which savings deposit balances		1,629,833	1,573,790	(3.4)
– Of which other payables		2,721,883	2,908,278	6.8
Liabilities evidenced by paper	(27)	576,346	559,816	(2.9)
Trading liabilities	(28)	46	9	(80.4)
Provisions	(29)	125,973	125,669	(0.2)
Deferred tax liabilities	(30)	9,312	9,824	5.5
Other liabilities	(31)	53,472	64,965	21.5
Subordinated debt capital	(32)	181,752	196,962	8.4
Equity		860,242	884,927	2.9
– Of which total minority interests and equity		860,227	884,909	2.9
– Of which minority interests in equity		15	18	20.0
Total equity and liabilities		**7,063,433**	**7,256,773**	**2.7**

EARNINGS AND DIVIDEND PER SHARE

	30/9/2015	30/9/2016
Average number of ordinary and preference shares in issue	35,430,369	35,300,368
Earnings per share (ordinary and preference shares, in period), €	1.24	1.04
Earnings per share (ordinary and preference shares, annualized), €	1.65	1.39

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

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Foreign Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/(Loss) for the Period	Additional Equity Instruments[1]	Equity
At 1 January 2016	**72,072**	**143,056**	**(1,030)**	**2,388**	**562,416**	**4,312**	**53,613**	**23,400**	**860,227**
Distribution							(8,124)		(8,124)
Taken to retained earnings					45,489		(45,489)		0
Profit for the period after tax							36,872		36,872
Gains and losses taken directly to equity			485	(867)	(1,715)	313			(1,784)
Increase in share capital									
Change arising from use of the equity method					578				578
Change in treasury shares					(748)				(748)
Issues of additional equity instruments (AT 1)[1]									
Coupon payments on additional equity instruments					(1,463)				(1,463)
Other changes					(649)				(649)
At 30 September 2016	**72,072**	**143,056**	**(545)**	**1,521**	**603,908**	**4,625**	**36,872**	**23,400**	**884,909**
Available for sale reserve									2,037
Deferred tax reserve									(517)

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	Additional Equity Instruments[1]	Equity
At 1 January 2015	**72,072**	**143,056**	**(1,107)**	**2,560**	**519,297**	**11,219**	**48,740**	**0**	**795,837**
Distribution							(8,148)		(8,148)
Taken to retained earnings					40,592		(40,592)		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
Change in treasury shares					(1,737)				(1,737)
Issues of additional equity instruments (AT 1)[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**	**43,974**	**8,800**	**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.

Cash Flow Statement

CASH FLOWS

€k	Q1–Q3 2015	Q1–Q3 2016
Cash and cash equivalents at beginning of period (at 31 December)	**215,269**	**190,310**
Change in scope of consolidation		
Profit for the period after tax and before minority interests	43,974	36,874
Non-cash items in profit for the period	14,034	7,527
Changes in assets and liabilities arising from operating activities after correction for non-cash items	(51,703)	123,580
Net cash from operating activities	**6,305**	**167,981**
Cash inflows arising from sales	130,876	103,874
Cash outflows arising from investments	(118,632)	(63,702)
Net cash from investing activities	**12,244**	**40,172**
Other receipts	8,800	0
Dividends paid	(8,148)	(8,124)
Coupon payment on AT 1 note	0	(1,463)
Change in subordinated liabilities and other financing activities	(9,052)	15,958
Net cash from/(used in) financing activities	**(8,400)**	**6,371**
Effect of exchange rate changes on cash and cash equivalents	235	(270)
Cash and cash equivalents at end of reporting period (at 30 September)	**225,653**	**404,564**

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 2016 were prepared in accordance with the provisions of the IFRS standards published by the IASB (International Accounting Standards Board) that were effective at the reporting date and as adopted by the EU. Account was also taken of the relevant interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

II. Recognition and measurement

Scope of consolidation

Besides *BKS Bank AG*, the Consolidated Financial Statements accounted for a total of 19 entities (15 consolidated, three accounted for using the equity method and one accounted for on a proportionate basis). The scope of consolidation was unchanged versus the 31 December 2015 reporting date.

CONSOLIDATED ENTITIES

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
BKS Bank d.d.	Rijeka	100.00	—	30/9/2016
BKS-Leasing Gesellschaft m.b.H	Klagenfurt	99.75	0.25	30/9/2016
BKS-leasing d.o.o.	Ljubljana	100.00	—	30/9/2016
BKS-leasing Croatia d.o.o.	Zagreb	100.00	—	30/9/2016
BKS-Leasing s.r.o.	Bratislava	100.00	—	30/9/2016
IEV Immobilien GmbH	Klagenfurt	100.00	—	30/9/2016
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	Klagenfurt	100.00	—	30/9/2016
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	-	100.00	30/9/2016
BKS Hybrid alpha Gmbh	Klagenfurt	100.00	—	30/9/2016
BKS Hybrid beta GmbH	Klagenfurt	100.00	—	30/9/2016
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00	—	30/9/2016
LVM Beteiligungs Gesellschaft mbH	Klagenfurt	-	100.00	30/9/2016
BKS Immobilien-Service GmbH	Klagenfurt	100.00	—	30/9/2016
BKS Service GmbH	Klagenfurt	100.00	—	30/9/2016
BKS 2000 Beteiligungsverwaltungs GmbH	Klagenfurt	100.00		30/9/2016

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
Oberbank AG	Linz	15.30	—	30/6/2016
Bank für Tirol und Vorarlberg AG	Innsbruck	13.59	—	30/6/2016
Drei Banken Versicherungsagentur GmbH	Linz	20.00	—	30/9/2016

Regarding *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*, we point out that although *BKS Bank AG* had voting interests of less than 20 per cent in those banks at 30 September 2016, namely of 16.52 per cent and 14.95 per cent, respectively, and equity interests of less than 20 per cent, namely of 15.30 per cent and 13.59 per cent, respectively, the exercise of voting rights was regulated by syndicate agreements. These allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them. In the second quarter of 2016, *Drei-Banken Versicherungs-Aktiengesellschaft* was transformed into *Drei Banken Versicherungsagentur GmbH* via a number of intermediate steps.

Entities accounted for on a proportionate basis

In conformity with IFRS 11, since the 2014 financial year, our investment in *ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.* has required classification as a joint operation and, therefore, has had to be accounted for on a proportionate basis.

ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

Entity	Head Office	Direct Equity Interest, %	Date of Financial Statements
ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.	Linz	25.00	30/9/2016

FOREIGN SUBSIDIARIES AND BRANCHES AT 30 SEPTEMBER 2016

€k	Net Interest Income	Operating Profit	Number of Staff (Full Year Equivalents)	Profit/(Loss) for the Period Before Tax
Branches abroad				
Slovenia Branch (banking branch)	8,017	9,914	98.9	4,388
Slovakia Branch (banking branch)	947	1,107	23.0	(932)
Subsidiaries				
BKS Leasing d.o.o., Ljubljana	1,690	1,957	13.4	1,272
BKS-leasing Croatia d.o.o., Zagreb	1,348	1,437	11.2	688
BKS-Leasing s.r.o.,Bratislava	652	1,040	9.8	99
BKS Bank d.d., Rijeka	5,426	6,098	55.8	2,426

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 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* as a component of equity.

Notes on Individual Items on the Balance Sheet

Cash and balances with the central bank

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

Financial instruments

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

– financial assets and liabilities requiring measurement to fair value, subdivided into
- trading assets and trading liabilities: these are financial instrument held for trading, including all derivatives except for those that are designated as hedges (held for trading);
  - financial assets and liabilities designated as at fair value through profit or loss (fair value option)
- available-for-sale financial assets and liabilities (AFS);
- held-to-maturity financial assets and liabilities (HTM);
- loans and receivables (LAR);
- financial liabilities (other liabilities).

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

CLASSIFICATION AND VALUATION OF FINANCIAL INSTRUMENTS

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

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

As in 2015, no reclassifications were carried out in accordance with IFRS 7.12 during the period under review.

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

Certain positions were designated collectively as *at fair value through profit or loss* using the fair value option (FV). Their inclusion in this category was decided by the Asset Liability Management (ALM) Committee. Those positions (asset or liability and associated derivative) were measured at fair value through profit or loss. Any revaluation gains or losses were recognized in the Income Statement in the line item *Profit/(loss) from financial assets designated as at fair value through profit or loss.*

Available-for-sale financial assets

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

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

Held-to-maturity financial assets

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

Investments in entities accounted for using the equity method

Entities in which BKS Bank held a stake of over 20 per cent were accounted for in the Consolidated Financial Statements using the equity method. In addition, *Oberbank AG* and *Bank für Tirol und Vorarlberg AG* were also accounted for in the Consolidated Financial Statements using the equity method even though the stakes held in *Oberbank AG* and *Bank für Tirol und Vorarlberg AG* were smaller than 20 per cent. This is because syndicate agreements were in place. They allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them. If there was objective evidence of impairment of an investment accounted for using the equity method, a value in use was calculated on the basis of the estimated future cash flows that were to be expected from the respective 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 period 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 in accordance with IAS 37 for risks arising from contingent liabilities. An assessment of impairment of the portfolio arising from country risks was recognized at the reporting date, with the exposures outstanding in each country being broken down into risk classes. The total impairment allowance balance is disclosed as a deduction on the assets side of the Balance Sheet (impairment account). The criteria for charging or writing off receivables that were deemed to be irrecoverable were their total irrecoverability and the final realization of all the collateral associated with those receivables.

Investment property

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

Trading assets and trading liabilities

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

Derivatives

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

Property and equipment

The line item *Property and equipment* consists mainly of land, buildings and other property and equipment comprising primarily office furniture and equipment. Property and equipment were recognized at the amortized cost of acquisition or conversion. Ordinary depreciation was linear based on an asset's usual useful life and lay within the following bands:

– immovable assets: 1.5 per cent to 2.5 per cent (i.e. between 40 and 66.7 years):
– office furniture and equipment: 10 per cent to 20 per cent (i.e. between 5 and 10 years).

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

Intangible assets

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

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

– Phase 1: In phase 1, cash flows in the ensuing five years were calculated and discounted on the basis of the Group's budgets.
– Phase 2: In phase 2, a perpetual annuity was calculated on the basis of the cash flow in the most recent plan year.

No goodwill was shown on the Balance Sheet as at 30 September 2016.

Leasing

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

Other assets and other liabilities

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

Liabilities evidenced by paper

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

Subordinated debt capital

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

Deferred tax assets and deferred tax liabilities

The reporting and calculation of income tax expense took place in accordance with IAS 12. The calculation for each taxed entity was carried out applying the tax rates that, according to the applicable legislation, were to be applied in the tax period in which a temporary difference was going to reverse. Deferred taxes were computed on the basis of differences between the tax base and the carrying amounts of assets or liabilities for the purposes of IFRSs. These would cause additional tax burdens or reduce tax burdens in the future.

Provisions

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

Equity

Equity consisted of paid-in and earned capital (capital reserves, retained earnings, revaluation reserve, foreign exchange differences and profit for the period). BKS Bank strives to strengthen its capital base on a sustainable basis by ploughing back its profits. An additional Tier 1 note was issued during the 2015 financial year. Under IAS 31, it required classification as equity.

Notes to Individual Line Items in the Income Statement

Net interest income

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

Impairment charge on loans and advances

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

Net fee and commission income

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

General administrative expenses

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

Net trading income

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

Other operating income net of other operating expenses

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

Other notes

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

The assumptions and estimates included in the Interim Financial Statements were made on the basis of the knowledge and information available at the reporting date of 30 September 2016.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Interest income from:			
Credit operations	99,678	91,372	(8.3)
Fixed-interest securities	17,825	15,943	(10.6)
Lease receivables	6,461	6,401	(0.9)
Shares and investments in other entities	6,008	2,620	(56.4)
Positive interest expenses[1]	4,133	4,187	1.3
Investment property	2,436	2,204	(9.5)
Total interest income	**136,541**	**122,727**	**(10.1)**
Interest expenses on:			
Deposits from customers and other banks[2]	20,254	10,329	(49.0)
Liabilities evidenced by paper	18,559	17,343	(6.6)
Negative interest income[1]	2,354	2,932	24.6
Investment property	638	626	(1.9)
Total interest expenses	**41,805**	**31,230**	**(25.3)**
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	24,730	25,665	3.8
Financing costs of investments in entities accounted for using the equity method[3]	0	0	
Profit from investments in entities accounted for using the equity method	**24,730**	**25,665**	**3.8**
Net interest income	**119,466**	**117,162**	**(1.9)**

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

The line item *Interest income* includes income from unwinding (i.e. resulting from changes in the present values of cash flows from impaired receivables) in the amount of €1.9 million (Q1 – Q3 2015: €1.4 million).

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Impairment allowances	32,409	33,670	3.9
Impairment reversals	(6,947)	(7,801)	12.3
Direct write-offs	425	710	67.1
Recoveries on receivables previously written off	(693)	(817)	17.9
Impairment charge on loans and advances	**25,194**	**25,762**	**2.3**

(3) NET FEE AND COMMISSION INCOME

€k	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Fee and commission income	**41,675**	**39,341**	**(5.6)**
– Of which from payment services	16,129	16,219	0.6
– Of which from securities operations	11,099	10,322	(7.0)
– Of which from credit operations	10,618	9,909	(6.7)
– Of which from money and foreign exchange transactions	2,798	1,959	(30.0)
– Of which from other services	1,031	932	(9.6)

€k	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Fee and commission expenses	**2,468**	**2,710**	**9.8**
– Of which arising from payment services	1,458	1,309	(10.2)
– Of which arising from securities operations	609	628	3.1
– Of which arising from credit operations	279	395	41.6
– Of which arising from money and foreign exchange transactions	18	283	>100
– Of which arising from other services	104	95	(8.7)
Net fee and commission income	**39,207**	**36,631**	**(6.6)**

(4) NET TRADING INCOME

€k	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Price-based contracts	(7)	(7)	0.0
Interest rate and currency contracts	2,024	924	(54.3)
Net trading income	**2,017**	**917**	**(54.5)**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Staff costs	53,105	53,601	0.9
– Of which wages and salaries	38,075	38,621	1.4
– Of which social security costs	8,985	10,063	12.0
– Of which costs of old-age benefits	6,045	4,917	(18.7)
Other administrative expenses	21,041	22,010	4.6
Depreciation/amortization	5,087	4,787	(5.9)
General administrative expenses	**79,233**	**80,398**	**1.5**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Other operating income	3,541	3,775	6.6
Other operating expenses[1]	(12,731)	(9,975)	(21.6)
Other operating income net of other operating expenses	**(9,190)**	**(6,200)**	**(32.5)**

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

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

€k	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Revaluation gains and losses on derivatives	1,218	0	(100.0)
Gain/(loss) as a result of using the fair value option	75	(2,162)	(>100)
Profit/(loss) from financial assets designated as at fair value through profit or loss	**1,293**	**(2,162)**	**(>100)**

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

€k	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Revaluation gains and losses	(38)	29	(>100)
Gains and losses realized on disposal	1,588	502	(68.4)
Profit/(loss) from available-for-sale financial assets	**1,550**	**531**	**(65.7)**

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

€k	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Revaluation gains and losses	0	0	—
Gains and losses realized on disposal	287	153	(46.7)
Profit/(loss) from held-to-maturity financial assets	**287**	**153**	**(46.7)**

(10) INCOME TAX EXPENSE

€k	Q1–Q3 2015	Q1–Q3 2016	+/(–) Change, %
Current taxes	(6,627)	(5,992)	(9.6)
Deferred taxes	398	1,994	>100
Income tax expense	**(6,229)**	**(3,998)**	**(35.8)**

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2015	30/9/2016	+/(–) Change, %
Cash in hand	36,700	33,034	(10.0)
Credit balances with central banks of issue	153,610	371,530	>100
Cash and balances with the central bank	**190,310**	**404,564**	**>100**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Receivables from Austrian banks	153,143	83,250	(45.6)
Receivables from foreign banks	210,719	143,989	(31.7)
Receivables from other banks	**363,862**	**227,239**	**(37.5)**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Corporate and business banking customers	3,974,127	4,078,489	2.6
Retail banking customers	1,139,740	1,174,652	3.1
Receivables from customers	**5,113,867**	**5,253,141**	**2.7**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2015	30/9/2016	+/(–) Change, %
At beginning of period under review	194,161	193,748	(0.2)
+ Added	54,587	33,660	(38.3)
– Reversed	(11,957)	(9,717)	(18.7)
– Used	(43,021)	(31,640)	(26.5)
+ Foreign exchange differences	(22)	163	(>100)
At end of period under review	**193,748**	**186,214**	**(3.9)**

(15) TRADING ASSETS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Bonds and other fixed-interest securities	—		
Positive fair values of derivative financial instruments	46	8	(82.6)
– From currency contracts	—		
– From interest rate contracts	46	8	(82.6)
Trading assets	**46**	**8**	**(82.6)**

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

€k	31/12/2015	30/9/2016	+/(–) Change, %
Bonds and other fixed-interest securities	41,236	32,248	(21.8)
Loans	73,627	61,417	(16.6)
Financial assets designated as at fair value through profit or loss	**114,863**	**93,665**	**(18.5)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Bonds and other fixed-interest securities	67,303	74,039	10.0
Shares and other variable-yield securities	42,811	44,063	2.9
Other equity investments	56,607	56,706	0.2
Available-for-sale financial assets (AFS)	**166,721**	**174,808**	**4.9**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Bonds and other fixed-interest securities	724,891	680,938	(6.1)
Held-to-maturity financial assets	**724,891**	**680,938**	**(6.1)**

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

€k	31/12/2015	30/9/2016	+/(–) Change, %
Oberbank AG	278,308	298,599	7.3
Bank für Tirol und Vorarlberg AG	155,671	157,313	1.1
Drei Banken Versicherungsagentur GmbH	4,640	2,918	(37.1)
Investments in entities accounted for using the equity method	**438,619**	**458,830**	**4.6**

(20) INTANGIBLE ASSETS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Other intangible assets	1,868	1,561	(16.4)
Intangible assets	**1,868**	**1,561**	**(16.4)**

(21) PROPERTY AND EQUIPMENT

€k	31/12/2015	30/9/2016	+/(–) Change, %
Land	7,870	8,106	3.0
Buildings	42,307	39,363	(7.0)
Other	8,260	8,942	8.3
Property and equipment	**58,437**	**56,411**	**(3.5)**

(22) INVESTMENT PROPERTY

€k	31/12/2015	30/9/2016	+/(–) Change, %
Land	8,667	8,678	0.1
Buildings	21,023	21,309	1.4
Investment property	**29,690**	**29,987**	**1.0**

(23) DEFERRED TAX ASSETS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Deferred tax assets	**25,441**	**28,442**	**11.8**

(24) OTHER ASSETS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Positive fair values of derivative financial instruments	10,788	13,303	23.3
Other items	15,405	15,689	1.8
Deferred items	2,373	4,401	85.5
Other assets	**28,566**	**33,393**	**16.9**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Payables to Austrian banks	724,001	803,494	11.0
Payables to foreign banks	180,573	129,039	(28.5)
Payables to other banks	**904,574**	**932,533**	**3.1**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Savings deposit balances	**1,629,833**	**1,573,790**	**(3.4)**
– Of which from corporate and business banking customers	218,263	210,370	(3.6)
– Of which from retail banking customers	1,411,570	1,363,420	(3.4)
Other payables	**2,721,883**	**2,908,278**	**6.8**
– Of which to corporate and business banking customers	1,927,113	2,072,804	7.6
– Of which to retail banking customers	794,770	835,474	5.1
Payables to customers	**4,351,716**	**4,482,068**	**3.0**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2015	30/9/2016	+/(–) Change, %
Issued bonds	485,071	486,964	0.4
Other liabilities evidenced by paper	91,275	72,852	(20.2)
Liabilities evidenced by paper	**576,346**	**559,816**	**(2.9)**

(28) TRADING LIABILITIES

€k	31/12/2015	30/9/2016	+/(–) Change, %
Interest rate contracts	46	8	(82.6)
Trading liabilities	**46**	**8**	**(82.6)**

(29) PROVISIONS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Provisions for post-employment benefits and similar obligations	74,498	78,463	5.3
Provisions for taxes (current tax)	5,739	2,476	(56.9)
Other provisions	45,736	44,730	(2.2)
Provisions	**125,973**	**125,669**	**(0.2)**

(30) DEFERRED TAX LIABILITIES

€k	31/12/2015	30/9/2016	+/(–) Change, %
Deferred tax liabilities	**9,312**	**9,824**	**5.5**

(31) OTHER LIABILITIES

€k	31/12/2015	30/9/2016	+/(–) Change, %
Negative fair values of derivative financial instruments	29,587	29,262	(1.1)
Other items	18,284	30,269	65.6
Deferred items	5,601	5,434	(3.0)
Other liabilities	**53,472**	**64,965**	**21.5**

(32) SUBORDINATED DEPT CAPITAL

€k	31/12/2015	30/9/2016	+/(–) Change, %
Supplementary capital	141,752	156,962	10.7
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**181,752**	**196,962**	**8.4**

(33) SEGMENTAL REPORTING

Our segmental reporting is based on the organizational structure of the Group that underlies its internal management reporting system. Income and expenses associated with corporate and business banking customers and professionals were assigned to the corporate and business banking segment. Income and expenses associated with private individuals and members of the healing professions were included in the retail banking segment. The financial markets segment encompassed our earnings from interbank transactions, proprietary trading activities, interest-rate term structure management activities and derivatives in the banking book.

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

	Corporate and Business Banking		Retail Banking		Financial Markets	
€k	Q1–Q3 2015	Q1–Q3 2016	Q1–Q3 2015	Q1–Q3 2016	Q1–Q3 2015	Q1–Q3 2016
Net interest income	**62,904**	**62,347**	**20,948**	**19,754**	**34,638**	**33,404**
– Of which from investments in entities accounted for using the equity method	—	—	—	—	24,730	25,665
Impairment charge on loans and advances	(23,598)	(23,747)	(1,270)	(1,650)	(326)	(365)
Net fee and commission income	20,944	20,012	17,408	16,444	186	112
Net trading income	0	0	0	0	2,017	917
General administrative expenses	(32,773)	(33,809)	(38,115)	(38,609)	(4,777)	(4,818)
Other operating income net of other operating expenses	717	1,058	447	1,406	(18)	1
Profit/(loss) from financial assets	0	0	0		3,130	(1,478)
Profit/(loss) for the period before tax	**28,194**	**25,861**	**(582)**	**(2,655)**	**34,850**	**27,773**
Average risk-weighted assets	3,144,633	3,070,994	500,491	498,992	835,520	872,803
Average allocated equity	251,571	245,680	40,039	39,919	515,748	576,448
ROE based on profit for the period	**14.9%**	**14.0%**	**(1.9%)**	**(8.9%)**	**9.0%**	**6.4%**
Cost:income ratio	**38.8%**	**40.5%**	**98.2%**	**102.7%**	**13.0%**	**14.0%**
Risk:earnings ratio	**37.5%**	**38.1%**	**6.1%**	**8.3%**	**0.9%**	**1.1%**

	Other		Total	
€k	Q1–Q3 2015	Q1–Q3 2016	Q1–Q3 2015	Q1–Q3 2016
Net interest income	**976**	**1,657**	**119,466**	**117,162**
– Of which from investments in entities accounted for using the equity method	—	—	24,730	25,665
Impairment charge on loans and advances	0	0	(25,194)	(25,762)
Net fee and commission income	669	63	39,207	36,631
Net trading income	0	0	2,017	917
General administrative expenses	(3,568)	(3,162)	(79,233)	(80,398)
Other operating income net of other operating expenses	(10,336)	(8,665)	(9,190)	(6,200)
Profit/(loss) from financial assets	0	0	3,130	(1,478)
Profit/(loss) for the period before tax	**(12,259)**	**(10,107)**	**50,203**	**40,872**
Average risk-weighted assets	49,220	54,280	4,529,864	4,497,070
Average allocated equity	8,868	10,538	816,226	872,584
ROE based on profit for the period	**—**	**—**	**9.0%**	**6.1%**
Cost:income ratio	**—**	**—**	**52.3%**	**54.1%**
Risk:earnings ratio	**—**	**—**	**21.1%**	**22.0%**

The reports used for internal management purposes encompassed the following:

- monthly reporting of results at the profit centre level;
- quarterly reporting of all relevant types of risk;
- *ad-hoc* reports in the event of exceptional occurrences.

The 'Other' segment encompasses everything not directly connected with business segments, items of income and expense that could not be allocated to the other segments and those contributions to profit that could not be attributed to any one segment.

(34) SHAREHOLDERS' EQUITY

€k	31/12/2015	30/9/2016	+/(–) Change, %
Subscribed capital	72,072	72,072	0.0
– Of which share capital	72,072	72,072	0.0
Capital reserves	143,056	143,056	0.0
Retained earnings and other reserves, current profit	621,714	646,399	4.0
Additional equity instruments	23,400	23,400	0.0
Shareholders' equity before minority interests	**860,242**	**884,927**	**2.9**
Minority interests	(15)	(18)	20.0
Shareholders' equity after minority interests	**860,227**	**884,909**	**2.9**

At 30 September 2016, the share capital was represented by 34,236,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. The nominal value of each share was €2.0. *Capital reserves* contains premiums arising from the issuance of shares. *Retained earnings and other reserves* consists essentially of ploughed back profits. The line item *Additional equity instruments* relates to the additional Tier 1 note issued during the 2015 financial year. Under IAS 32, it required classification as equity.

(35) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2015	30/9/2016	+/(–) Change, %
Guarantees	385,094	392,552	1.9
Letters of credit	1,777	1,025	(42.3)
Contingent liabilities	**386,871**	**393,577**	**1.7**
Other commitments	1,057,680	1,236,876	16.9
Commitments	**1,057,680**	**1,236,876**	**16.9**

(36) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

€k	Outstanding Balances at 31/12/2015	Outstanding Balances at 30/9/2016	Guarantees Received at 31/12/2015	Guarantees Received at 30/9/2016	Guarantees Issued at 31/12/2015	Guarantees Issued at 30/9/2016
Unconsolidated subsidiaries			—	—	—	—
Receivables	5,369	3,156	—	—	—	—
Payables	1,108	1,248	—	—	—	—
Associates and joint arrangements			—	—	—	—
Receivables	12,869	3,623	—	—	—	—
Payables	158,949	135,930	—	—	—	—
Key management personnel			—	—	—	—
Receivables	366	400	—	—	—	—
Payables	812	896	—	—	—	—
Other related persons			—	—	109	—
Receivables	14	127	—	—	—	—
Payables	451	736	—	—	—	—

LOANS AND ADVANCES GRANTED

€k	31/12/2015	30/9/2016	+/(–) Change, %
Loans and advances granted to members of the Management Board	92	76	(17.4)
Loans and advances granted to members of the Supervisory Board	274	324	18.2
Loans and advances granted	**366**	**400**	**9.3**

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

On 8 September 2016, the Management Board of *BKS Bank AG* decided with the agreement of the Supervisory Board to issue a total of up 3,603.600 new ordinary no-par shares in the course of a capital increase to be carried out in October—which has now been completed—increasing the company's share capital from €72,072,000 to up to €79,279,200. The subscription period began on 19 September 2016 and ended on 18 October 2016; the public offering lasted until 19 October. All the offered 'young' ordinary no-par shares were successfully placed in the market. An offer price of €15.9 was set as the issue and subscription price of each young share. The young shares carry a full dividend entitlement in respect of the current 2016 financial year. Trade in the young shares began in the official *Amtlicher Handel* segment on the Vienna Stock Exchange on 31 October 2016. The capital increase yielded gross proceeds of roughly €57 million.

In addition, *BKS Bank d.d.* in Croatia was merged into the parent *BKS Bank AG* and transformed into an EU branch. Since 1 October 2016, this EU branch has been continuing the banking operations of *BKS Bank d.d.* Both the existing branches in Rijeka and Zagreb remained in operation and all 54 employees are still working within the BKS Bank Group.

(38) FAIR VALUES

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

Valuation policies and classification

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

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

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

Reclassification

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

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

Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of those financial instruments and their remaining terms to maturity. The change in the period under review in the default risk associated with liabilities measured at fair value was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining term to maturity. In the period under review, the changes in the ratings of the receivables from customers measured to fair value changed their fair value by €0.0 million (31 December 2015: €0.3 million). In the period under review, the change in BKS Bank's rating changed the fair value of the liabilities evidenced by paper that were measured to fair value by €0.7 million (31 December 2015: €0.5 million).

FAIR VALUES

30 September 2016

€k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 30/9/2016	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	—	227,322	—	227,322	227,239	82
Receivables from customers	—	5,323,725	—	5,323,725	5,253,141	70,584
Trading assets	—	8	—	8	8	—
Financial assets designated as at fair value through profit or loss	32,247	—	61,418	93,665	93,665	—
Available-for-sale financial assets	153,815	—	20,993	174,808	174,808	—
Held-to-maturity financial assets	764,700	—	0	764,700	680,938	83,762
Investments in entities accounted for using the equity method	359,391	—	2,918	362,309	458,830	(96,521)[1]
Investment property	—	—	42,579	42,579	29,987	12,592
Other assets (derivatives)	—	13,303	—	13,303	13,303	—
Equity and liabilities						
Payables to other banks	—	934,958	—	934,958	932,533	2,425
Payables to customers	—	4,495,845	—	4,495,845	4,482,068	13,777
Liabilities evidenced by paper	407,380	78,345	95,701	581,426	559,816	21,610
– Of which designated as at fair value through profit or loss	—	—	95,701	95,701	95,701	—
Subordinated debt capital	198,120	2,352	—	200,472	196,962	3,510
Trading liabilities	—	8	—	8	8	—
Other liabilities (derivatives)	—	29.262	—	29.262	29.262	—

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

31 December 2015

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

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

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

€k	Available-for-Sale Financial Assets	Investments in Entities Accounted for Using the Equity Method	Financial Assets Designated as at Fair Value Through Profit or Loss	Liabilities Evidenced by Paper, of which at Fair Value Through Profit or Loss
At 31 December 2015	**20,592**	**4,640**	**73,627**	**103,512**
Reclassified	—	—	—	—
Income Statement[1]	—	(2,142)	523	7,189
Other profit or loss	—	—	—	—
Purchased	—	—	—	—
Contributions	400	420	—	—
Sold/redeemed	—	—	(12,732)	(15,000)
At 30 September 2016	**20,992**	**2,918**	**61,418**	**95,701**

[1] Revaluations through profit or loss.

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

€k	Available-for-Sale Financial Assets	Investments in Entities Accounted for Using the Equity Method	Financial Assets Designated as at Fair Value Through Profit or Loss	Liabilities Evidenced by Paper, of which at Fair Value Through Profit or Loss
At 1 January 2015	**24,965**	**4,264**	**87,061**	**106,316**
Reclassified	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.

m

(39) BALANCE OF DERIVATIVES OUTSTANDING

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

30 SEPTEMBER 2016	Nominal, by Term to Maturity				Fair Values	
€k	< 1 Year	1–5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**1,260,388**	**348,537**	**—**	**1,608,925**	**2,263**	**20,289**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**61,804**	**83,090**	**208,330**	**353,224**	**9,951**	**8,340**
– Of which in trading book	1,304	16,090	1,306	18,700	8	8
Securities contracts	**3,478**	**—**	**—**	**3,478**	**—**	**17**
– Of which in trading book	—	—	—	—	—	—
Total	**1,325,670**	**431,627**	**208,330**	**1,965,627**	**12,214**	**28,646**
– Of which in trading book	1,304	16,090	1,306	18,700	8	8

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

Statement by BKS Bank's Management

'We confirm that, to the best of our knowledge, the Consolidated Interim Financial Statements as at and for the nine months ended 30 September 2016 prepared in accordance with the effective financial reporting standards present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group and that the Consolidated Management Report for the period from 1 January to 30 September 2016 presents fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group with respect to the important events occurring during the first 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
23 November 2016

The Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

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

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

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

Financial Calendar for 2017

4 April 2017:	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2016 in the Internet and in the official *Wiener Zeitung* gazette
9 May 2017:	78th Ordinary General Meeting (AGM)
15 May 2017:	Ex-dividend date
17 May 2017:	Dividend payment date

BKS Bank's Interim Reports

26 May 2017:	Interim Report as at and for the 3 months ended 31 March 2017
25 August 2017:	2017 Semi-Annual Financial Report
29 November 2017:	Interim Report as at and for the 9 months ended 30 September 2017

Publication details:
Published by *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt am Wörthersee, Austria. Phone: +43 463 5858-0.
Internet: http://www.bks.at, http://www.twitter.com/bksbank; e-mail: bks@bks.at or investor.relations@bks.at.
Edited by the Management Board Office of *BKS Bank AG*. Copy deadline date: 23 November 2016.
Translation by Adrian Weisweiller MA (Oxon), London.

201