# 8

HALF-YEAR FINANCIAL REPORT 2018

BKS Bank
3 Banken Gruppe

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## FORWARD-LOOKING STATEMENTS

This interim financial report as at 30 June 2018 contains statements and forecasts that refer to the future development of the BKS Bank Group. Such forecasts are estimates made on the basis of all the information available to us on the copy deadline date, which was 22 May 2018. Should the assumptions on which the forecasts are based fail to materialize or the risks described in the Risk Report occur, the actual results may differ from those currently expected. This interim report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

## DISCLAIMER

The German version of this report is the authentic version and is relevant in all legal aspects. Interim financial reports in English are translations.

Minimal deviations of the values in the tables and charts are due to rounding differences.

# BKS BANK AT A GLANCE

| INCOME STATEMENT in €m | HY1 2017 | HY1 2018 | ± in % |
|---|---|---|---|
| Net interest income | 59.9 | 65.7 | 9.6 |
| Impairment charges on receivables from customers | -14.2 | -9.1 | -36.1 |
| Net fee and commission income | 25.9 | 27.4 | 5.5 |
| General administrative expenses | -52.6 | -58.0 | 10.1 |
| Profit for the period before tax | 36.7 | 36.6 | -0.2 |
| Profit for the period after tax | 33.1 | 32.6 | -1.5 |

| BALANCE SHEET in €m | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Total assets | 7,579.5 | 8,074.2 | 6.5 |
| Receivables from customers after impairment charges | 5,313.2 | 5,686.3 | 7.0 |
| Primary deposits | 5,669.1 | 5,968.2 | 5.3 |
| – thereof savings deposits | 1,475.1 | 1,442.7 | -2.2 |
| – thereof securitized debt incl. subordinated debt capital | 712.6 | 781.1 | 9.6 |
| Equity | 1,046.5 | 1,168.1 | 11.6 |
| Customer funds under management | 14,150.7 | 14,715.6 | 4.0 |
| – thereof on custody accounts | 8,481.6 | 8,747.4 | 3.1 |

| OWN FUNDS PURS. TO CRR in €m | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Total risk exposure amount | 5,016.7 | 5,235.8 | 4.4 |
| Own funds | 701.6 | 789.2 | 12.5 |
| – thereof common equity tier 1 (CET1) capital | 614.5 | 594.9 | -3.2 |
| – thereof total tier 1 capital (CET1 and AT1) | 627.8 | 648.8 | 3.3 |
| Common equity tier 1 capital ratio (in %) | 12.3 | 11.4 | -0.9 |
| Total capital ratio (in %) | 14.0 | 15.1 | 1.1 |

| PERFORMANCE RATIOS | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Return on equity after tax | 6.8 | 6.0 | -0.8 |
| Return on assets after tax | 0.9 | 0.8 | -0.1 |
| Cost/income ratio | 51.9 | 53.6 | 1.7 |
| Risk/earnings ratio | 16.7 | 10.7 | -6.0 |
| NPL ratio | 3.5 | 2.9 | -0.6 |
| Liquidity coverage ratio (LCR) | 145.2 | 157.7 | 12.5 |
| Leverage ratio | 8.0 | 7.8 | -0.2 |

| RESOURCES | 31/12/2017 | HY1 2018 |
|---|---|---|
| Average number of staff | 928 | 926 |
| Number of branches | 63 | 61 |

| THE BKS BANK'S SHARES | 31/12/2017 | 30/06/2018 |
|---|---|---|
| Number of no-par ordinary shares (ISIN AT0000624705) | 37,839,600 | 41,142,900 |
| Number of no-par preference shares (ISIN AT0000624739) | 1,800,000 | 1,800,000 |
| High (ordinary/preference share) in € | 18.5/17.8 | 19.8/18.2 |
| Low (ordinary/preference share) in € | 16.8/15.4 | 17.5/16.9 |
| Close (ordinary/preference share) in € | 17.8/17.7 | 17.8/17.2 |
| Market capitalization in €m | 705.3 | 763.3 |

# HIGHLIGHTS IN FIRST HALF-YEAR 2018

## CAPITAL INCREASE


*We completed a successful capital increase in the first quarter of 2018. The proceeds of the issue were EUR 55.0.*


## WINNER

*'Österreichische Gesellschaft für Verbraucher-studien' (Society for Consumer Studies) and 'trend' magazine named BKS Bank the best provider of real estate advisory services in Austria.*

## CUSTOMER SATISFACTION

*Our customers gave us good marks, rating us at 1.6 on a scale of 1 to 5.*

Photo: Milan Šabić

## NEW BRANCH

*BKS Bank celebrated the opening of a new branch in Split, our third one in Croatia.*

## ACQUISITION

*With the acquisition of 9,000 customers of GBD, we are now the second-largest provider of investment services in Slovenia.*


## HAPPY WINNERS

*Sto, Kärntnermilch and Goerner Formpack were pleased to receive the TRIGOS Kärnten award. The special award "CRS Newcomer" went to Marktplatz Mittelkärnten.*

## PRIME

*The international sustainability agency ISS-oekom awarded our CSR activities prime status again. This ranks us among the best banks worldwide with respect to sustainability.*

## BKS BANK AUDIENCE AWARD

Photo: ORF Kärnten

*Raphaela Edelbauer won the BKS Audience Award at the 'German Literature Days that is endowed with EUR 7,000.*

# DEAR SHAREHOLDERS,




“Learn from yesterday, live for today, hope for tomorrow. The important thing is not to stop questioning,” said Albert Einstein. This quotation is more relevant than ever in our fast-paced times driven by technological progress which is posing enormous challenges to many industries. Only companies that are able to communicate their purpose to employees and investors will survive on the market. BKS Bank has been operating as a bank since 1922 and has supported the regional economy and its customers for over 90 years. In summer we celebrated the 90th anniversary of our branches in Spittal and Wolfsberg, and in October we will celebrate the anniversary of our branch in Villach.

## High customer satisfaction and winner in real estate advisory services

Life-long learning and development are one of the mottos that make our company so successful and secures the excellent quality of our advisory services. I am very pleased that our efforts were so well-received by you. Around 1,500 customers recently participated in a customer satisfaction survey and gave us an excellent rating of 1.6 for the quality of our services. I would like to cordially thank everyone who participated in the survey.

In June, Österreichische Gesellschaft für Verbraucherstudien (ÖGVS, Austrian Society for Consumer Studies) and ‘trend’ magazine designated BKS Bank the best bank in Austria for real estate advisory services. I am also very proud that the BKS Bank ordinary share was included in the sustainability index VÖNIX of the Vienna Stock Exchange at the end of June for the third time. This places us among the top-ranking banks in the area of sustainability worldwide.

## Total assets exceed EUR 8 billion for first time

The high level of customer satisfaction is also reflected in the earnings figures: On 30 June 2018, BKS Bank's total assets exceeded the EUR 8 billion mark for the first time, climbing to EUR 8.07 billion. The volume of primary deposits reached an all-time high at EUR 5.97 billion (+5.3%). The volume of loans to customers expanded in the first half of the year to EUR 5.81 billion. The net profit for the period of EUR 32.6 million was at the preceding year's level. We are also highly satisfied with the development of net interest income (+9.6%), impairment charges on receivables from customers (-36.1%) and the increase in net fee and commission income (+5.5%). However, the result from financial assets/liabilities decreased compared to the preceding year. The steep rise in staff costs triggered by the wage hike under the collective agreement also slightly dampened earnings.

## New branches in Slovenia and Vienna

In the last interim report I informed you of the planned acquisition of some 9,000 asset management and brokerage customers of GBD (Gorenjska borznoposredniška družba d.d) in Slovenia. The acquisition has now been successfully completed. The preparations for opening a new branch in Kranj are also almost finalised. The branch will open for business in a few weeks. At the beginning of October, another branch will open for business on Hernalser Hauptstraße in Vienna.



## BKS Wohnpark (Residential Park): Cornerstone laid

The construction of the BKS Wohnpark, one of the largest projects of our subsidiary BKS Immobilien-Service Gesellschaft m.b.H., is progressing on schedule. In May, the cornerstone was laid for the 50 rental flats of which 23 have been designed in cooperation with 'Hilfswerk Kärnten' as assisted-living residences. Ecological and sustainability aspects were considered in the planning including a photovoltaic plant and environmentally-friendly heating using a groundwater pump. The project is scheduled for completion in September 2019.

## New social bond issue in the autumn

I would also like to briefly mention our plans for the autumn that include the issuance of a further social bond. This is our contribution to satisfying lively demand for sustainable investment opportunities.

Herta Stockbauer
Chairwoman of the Management Board

# GROUP MANAGEMENT REPORT

# ECONOMIC ENVIRONMENT

## Global economy prevailed despite increasing insecurity

The global economy has proven very robust in the past six months - despite political discord. The trade tariffs imposed by the US and the entailing retaliation measures by the countries concerned have not had any major impact on the global economy up to now. Generally, economic forecasters expect the global economy to slow slightly in the coming months. However, the constant threat of a potential trade war with the US, the lack of agreement on an orderly Brexit and the increasing geopolitical tension might accelerate the expected cooling off of the global economy.

The trade dispute between China and the US is heading toward escalation. This has not yet had any major impacts on business sentiment. The moderate slowing of the economy that started emerging in the past few months will therefore probably not turn into a sharp downturn.

The US economy is still on a solid growth path. The latest economic data are pointing to an unusually vigorous increase of GDP in the second quarter. Unlike the euro area, this is not due as much to corporate investment activity, but rather to more robust foreign trade. Thus, imports recently weakened noticeably, while exports grew robustly in the first two months of the quarter. Moreover, the monthly data on inventories points to more capital spending for inventory.

In Europe, some sentiment indicators dimmed recently. This is understandable and hardly surprising considering the high level achieved in the preceding year. Private and public sector consumption as well as gross investment in plant and equipment are still robust and developed similarly to the fourth quarter of 2017. However, unlike Q4 2017, there were no strong impulses from foreign trade in Q1 2018. There were more signs in Q2 that the euro area is likely to grow slightly more strongly than in Q1. It seems that the exceptional dynamic of the economy in the past year will not be achieved in 2018 again. Despite the positive economic sentiment still prevailing in Europe, the political climate has nonetheless become gloomier. This affected both relations among European states as well as the political situation within some countries. Even though no trend reversal is in sight on the economic front, over the medium term, this will have repercussions on the economy and financial markets. The economic recovery also continued in our growth markets of Slovenia, Croatia and Slovakia. For this year, GDP is set to increase in these countries by 2.8% (Slovakia), 3.8% (Croatia) and 4.3% (Slovenia).

Austria is currently in a boom phase of the economy. Economic growth is estimated to reach 2.9% this year according to the Institute for Advanced Studies (IHS). Thus, it is higher than in the euro area – just like in the past quarters. Growth continues to be supported by export demand and private consumption. However, the downside risks have increased significantly compared to the previous year's medium-term forecast – as in all of Europe. The domestic labour market is still profiting from the economic upswing. Robust demand for labour is having a positive effect on the unemployment rate again. At the end of June 2018, the unemployment rate was 6.8% according to national calculations.

## Euro monetary policy changing

At the last meeting of the Governing Council of the European Central Bank (ECB), a cautious change in policy was announced: The bond buying programme supportive of monetary policy is going to be phased out at the end of the year. Key interest rates are stuck for now at zero and there are no expectations of an interest rate hike before September 2019. According to ECB President Draghi, there were no discussions about the exact timing of an interest rate hike. In the US, the Federal Reserve (Fed) raised key lending rates in June 2018 again – thanks to the good development of the economy and of the labour market. The key lending rate at which banks lend money to each other increased by 0.25% to a spread of 1.75 to 2.00%. It also mentioned the possibility of further interest rate hikes in September and December of 2018.

## Stock markets fluctuating widely

After rallying at first, stock markets went on a downtrend as of February. Stock markets recovered by May only to undergo a downwards correction again in June. The main reason for the last correction was the impact of the smoldering trade conflict. Although the earnings figures published are solid and the economic indicators were better than expected, many stock indices – but not all – closed the month of June with losses. The global stock market in euro was slightly positive at +2.2% at the end of June. US stocks also developed well: the S&P 500 Index rose by 4.7% in euro and the NASDAQ Comp. Index even by 12%. European indices such as the German stock index or the Austrian market index closed at -4.7% and -3.1%, respectively.



## Euro lost ground versus principal trade currencies

The euro decreased versus the USD in the first half-year from 1.201 to 1.1684 EUR per US dollar, which is a drop of 2.7%. The euro lost 1.1% versus the Swiss franc (from 1.170 to 1.157) and depreciated versus the British pound from EUR 0.888 to 0.885 (-0.3%). It lost ground versus the Japanese yen by 4.3% (from 135.28 to 129.36 yen per euro). Relative to the Chinese renminbi, the euro also dropped and depreciated by 1.0% from 7.802 to 7.725 per CNY. The Croatian kuna – an important currency for us – appreciated versus the euro by 0.6% and was quoted at the end of June at HRK 7.386 per euro after HRK 7.433 per euro at year-end.

## Divergent trend in commodity prices

Energy commodities gained 23.2% in the first half-year. By contrast, other commodities suffered price losses such as agricultural commodities (-0.4%), precious metals (-1.9%) and industrial metals (-2.9%) On the other hand, the oil price (Brent) rose in the first six months by 18.8% in USD and stood at USD 79.44 per barrel at the end of June. As regards the further course of commodity prices, the increasing fears of market participants over the development of the economy will keep commodity markets in suspense. It may be assumed that most commodity prices will rise further – but with wide fluctuations.

# CONSOLIDATED COMPANIES

**The relevant group of consolidated companies of BKS Bank at the end of June included 19 credit and financial institutions as well as companies that supply banking services including domestic and foreign leasing companies. The overview below shows the companies that belong to the BKS Bank Group pursuant to the International Financial Reporting Standards.**

The inclusion of affiliated companies in the consolidated financial statements is based on the application of uniform materiality principles for the entire Group as well as quantitative and qualitative parameters. Materiality criteria are primarily the net profit of the subsidiaries, the share of equity in associated companies as well as the number of employees at the respective companies.

## GROUP OF CONSOLIDATED COMPANIES

### Credit institutions and financial institutions

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

### Other consolidated companies

| | | |
|---|---|---|
| *BKS Zentrale-Errichtungs u. Vermietungsgesellschaft m.b.H., Klagenfurt* | *Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG, Klagenfurt* | *IEV Immobilien GmbH, Klagenfurt* |
| *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* | | |

*Full consolidation*

*Using the equity method*

*Proportionate consolidation*

The group of consolidated companies of the BKS Bank Group includes, apart from BKS Bank AG, 14 credit and financial institutions and companies that supply banking-related services in which BKS Bank AG holds controlling interests. These consolidated financial statements are based on the uniformly prepared single-entity financial statements of all fully consolidated companies.

For the three companies recognized using the equity method in accordance with IAS 28, the carrying amounts of the investments are adjusted for the changes in the net assets of the respective entities. Apart from Drei Banken Versicherungsagentur GmbH, the sister banks Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft are also recognized using the equity method. On 30 June 2018, BKS Bank held a share of 15.21%, and 14.78% in these credit institutions, respectively, which is less than 20% of voting rights in each case; however, the voting rights are exercised under a syndicate agreement. This agreement makes it possible to participate in the financial and business policy decisions of these credit institutions of the 3 Banken Group, without exercising a controlling interest.

Die ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H. (ALGAR) is recognized in the consolidated financial statements on a proportionate basis. This investment is classified as a joint operation pursuant to IFRS 11.

# ASSETS AND FINANCIAL POSITION

**The total assets of the BKS Bank Group exceeded EUR 8 billion for the first time and were EUR 8.07 billion at the end of the first half-year. This steep increase was driven mainly by substantially higher demand. Primary deposits also expanded again robustly in the first half of the year and were just below the EUR 6 billion mark.**

## Assets

### IFRS 9 CHANGES TO THE PRESENTATION OF THE FINANCIAL STATEMENTS

The BKS Bank Group has been applying the new IFRS 9 standard since 01 January 2018. The changes to classification and measurement policies as well as the impairment rules of IFRS 9 impact the balance sheet and the income statement, financial reporting and risk management processes, internal controls and reporting. The comparative figures for the financial year 2017 have not been adjusted – as permitted under the transitional provisions of IFRS 9 – and therefore reflect the classification and measurement policies of IAS 39 as applied at 31 December 2017. The following section contains our comments on the development of assets from 01 January to 30 June 2018.

CHANGE IN BALANCE SHEET ITEMS PURSUANT TO IFRS 9 AS AT 1 JANUARY 2018

| in €m | 31/12/2017 | 01/01/2018 | 30/06/2018 | ± in % |
|---|---|---|---|---|
| Receivables from other banks | 97.7 | 97.7 | 214.7 | >100 |
| Receivables from customers | 5,450.2 | 5,506.1 | 5,810.6 | 5.5 |
| – Impairment charges on receivables from customers and debt sec. | -137.0 | -123.2 | -124.4 | 1.0 |
| Trading assets | 9.8 | 9.8 | 9.7 | -1.3 |
| Financial assets | 1,043.1 | n/a | n/a | - |
| – Financial assets designated at fair value through profit or loss | 78.3 | n/a | n/a | - |
| – Available-for-sale financial assets | 182.1 | n/a | n/a | - |
| – Held-to-maturity financial assets | 782.8 | n/a | n/a | - |
| Debt securities and other fixed interest securities | n/a | 862.1 | 907.2 | 5.2 |
| Shares and other equity | n/a | 125.3 | 134.8 | 7.6 |

### STRONG RISE IN DEMAND FOR LOANS

Demand for loans went up robustly, especially in the second quarter of 2018. From January to June 2018, we granted a volume of EUR 850.2 million in new loans. We won over many companies and retail customers - especially in our growth regions - on the basis of our finance know-how. Around a quarter of the new volume acquired was generated by the Vienna-Lower Austria-Burgenland Regional Office, while the Slovenia Regional Office contributed some EUR 100 million in new loan volumes. As at 30 June 2018, outstanding receivables from customers were EUR 5.81 billion, which is an increase in lending by 5.5%. Receivables from customers include lending by the parent company BKS Bank AG as well lending by the Austrian and foreign leasing companies.

Impairment charges on receivables from customers have developed very satisfactorily year to date, and amounted to EUR 124.4 million on 30 June 2018. We are constantly taking measures to further improve our portfolio structure.

The success of these measures is seen in the much improved ratios for non-performing loans (NPL ratio) that dropped again from 3.5% to 2.9%.

The trend in the volume and number of foreign currency loans was also encouraging: the FX ratio dropped to only 2.9% on 30 June 2018.

**LEASING BUSINESS ON THE RISE**

Leasing is very popular among our customers in Austria and also in our neighbouring countries. Our domestic and foreign leasing companies benefited from this trend thanks to the excellent advisory services offered and achieved significant increases in the first half of the year 2018. The leasing volume of the Austrian leasing company increased from EUR 175.4 million to EUR 193.3 million, which is a gain of 10.2%. The Slovenian leasing company continued its success story and provided financing for cars, machinery and real estate in the first six months of the year for a volume of EUR 37.4 million. In total, the leasing volume of BKS-leasing d.o.o. was EUR 124.5 million, which is a remarkable rise of 19.1% versus year-end 2017. In Croatia, the leasing business also developed very satisfactorily and expanded by 12.8% to EUR 48.5 million. In Slovakia, our activities to improve business are already reaping benefits. The first half of the year 2018 was very promising and the leasing volume rose by 38.7% to EUR 35.5 million.



**LARGE LIQUIDITY BUFFER**

The initial application of IFRS 9 eliminated financial assets as a balance sheet item. Financial assets have been grouped into two new balance sheet items “Debt securities and other fixed-interest securities” and “Shares and other equity”.

The volume of debt securities and other fixed-income securities increased by 5.2% to EUR 907.2 million. In the first half of the year, we made investments of EUR 72.8 million, as compared to redemptions of only EUR 26.5 million. We hold high quality liquid assets in this position in order to meet the regulatory liquidity standards.

In the first half of the year, the investments in companies recognized using the equity method increased slightly to EUR 565.3 million (+8.6%). The addition of the net profits for the period from our sister banks Oberbank AG and Bank für Tirol and Vorarlberg Aktiengesellschaft is presented in this item.

On account of the still negative interest rates for the deposit facility, we endeavour to keep cash reserves at a reasonable level. We easily achieved this goal in the period due to the strong demand for loans. The level of cash and cash equivalents decreased from EUR 476.6 million to EUR 413.6 million after recording much higher levels at times.

## Equity and liabilities

### PRIMARY DEPOSITS AT RECORD LEVEL AGAIN

The volume of primary deposits reached EUR 5.97 billion, thus rising by 5.3% to a new all-time high. The primary deposits are an important source of refinancing for us. This increase is very gratifying, because it proves the enormous trust our customers have in BKS Bank.

The development of payables to customers was influenced mainly by term and sight deposits, which rose by 7.6% to EUR 3.74 billion. A major share comes from corporate and business banking customers that continue to hold high levels of liquidity. However, a growing number of retail customers are also putting their funds into sight and term deposits. The desire of customers to access their savings easily and flexibly, especially also online, has made the product “Mein Geld-Konto” a popular savings form. Therefore, the volume rose by 4.1% to EUR 301.8 million in the first half of 2018.



Outflows from savings deposits was 2.2% in the first six months of the year. The volume on traditional savings passbooks totalled EUR 1.44 billion.
The issuance business developed very satisfactorily in the first half of the year. Our offers appealed especially to institutional investors. As at 30 June 2018, we had issued private placements for EUR 75.0 million that included EUR 13.0 million in subordinated capital. During the reporting period, securitized liabilities increased by 7.4% to EUR 595.2 million, while subordinated capital increased to EUR 185.9 million.

The item Group equity increased in the first half of the year to EUR 1.17 billion. This increase was due, on the one hand, to the allocation of the proceeds from the capital increase of the first quarter, and on the other, to the addition of the period result. Subscribed capital rose to EUR 85.9 million, which is an increase by 8.3%.

# RESULT OF OPERATIONS

**BKS Bank attained solid results in HY1 2018. Net interest income as well as net commission income developed very positively in the first six months. The flourishing economy also had a benign effect on allowances for credit losses. Earnings were depressed by higher staff costs and by the profit/loss from financial assets/liabilities.**

## Excellent result for the period

The net profit for the period after tax as at 30 June 2018 was EUR 32.6 million which is around the same level as in the preceding year. The profit/loss from financial assets/liabilities and the higher administrative expenses – due to higher wages under a new collective agreement – weighed on the profit for the period. By contrast, the lending business developed much better than expected. Net interest income was EUR 65.7 million, which is a gain of 9.6%. The higher demand for loans is also reflected in the excellent result.

## Net fee and commissions developed well

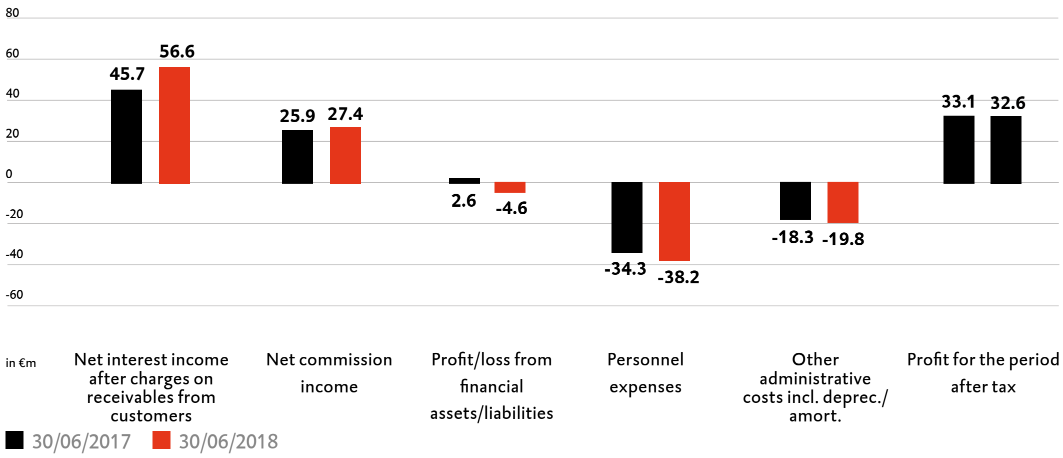
In the first half of the year, net interest income also rose robustly to EUR 27.4 million, which is a gain of 5.5%. Once again, payment services and products developed very encouragingly. Compared to the same period of the preceding year, net profit was EUR 10.3 million or a gain of 4.1%. On the other hand, securities operations did not meet our expectations. Fluctuations on stock markets were wider in the first six months of this year than one year before. Investors are now more cautious in their investment decisions faced with the higher volatility. This defensive stance translated into lower earnings. Additionally, the regulatory framework for securities operations also had a dampening effect on business. As at 30 June 2018, we achieved net fee and commission income in this business line of EUR 6.3 million, which is a decline of 9.0% compared to the first half-year 2017.

Commissions on loans increased on the back of the excellent trend in the financing business from EUR 6.5 million to EUR 8.3 million, while commissions on foreign exchange operations remained constant at the previous year's level at EUR 1.8 million.

## IFRS 9 changes to the breakdown of financial assets

With the introduction of IFRS 9, the composition of the item "Profit/loss from financial assets/liabilities" changed. The two items "Profit/loss from available-for-sale financial assets" and "Profit/loss from held-to-maturity financial assets" have been eliminated. Instead there are now three new items. These developed as follows in the first quarter.

## COMPONENTS OF THE INCOME STATEMENT




The item "Gains/losses on financial assets measured at fair value through profit or loss (mandatory)" was negative at EUR -1.3 million. The item "Profit/loss from the derecognition of financial assets measured at amortized cost" was EUR -94.4 million in the first half of 2018. The new item "Other comprehensive income from financial assets/liabilities" amounted to EUR -0.1 million as at 30 June 2018. The item "Profit/loss from financial instruments designated at fair value" was negative compared to the same period of the preceding year at EUR -3.1 million. This item contains expenses for credit risk on receivables from customers allocated to this category. This was the main cause of the negative measurement result from the fair value option. In total, the profit/loss from financial assets/liabilities was EUR -4.6 million in the first half-year.



### Higher administrative expenses

Administrative expenses increased by 10.1% to EUR 58.0 million year on year. A large share of the administrative expenses is accounted for by staff costs that stood at EUR 38.2 million, which is higher than at the end of June 2017. The increase was due primarily to the hike in wages and salaries by an average of 2.76% under the collective agreement. At the end of the first half of the year, we employed 926 persons (FTE) throughout the Group, which is slightly down versus 31 December 2017. Other administrative costs rose by 7.5% to EUR 16.4 million due to higher investments in digitalization. Depreciation/amortisation also increased to EUR 3.4 million.

### Improvement in other comprehensive income

Other operating income is heavily influenced by regulatory costs. Although income improved by 25% compared to the preceding year, it was still not satisfactory at EUR -3.5 million.  Other comprehensive income contains expenses for contributions to the resolution mechanism and deposit guarantee scheme in amount of EUR 2.8 million and EUR 2.0 million, respectively, as well as the stability tax of EUR 0.5 million.

## Solid trend in performance ratios

Key performance ratios painted the following picture as at 30 June 2018: Return on equity (RoE) after tax changed from 6.8% to 6.0% versus 2017, while return on assets (RoA) after tax decreased from 0.9% to 0.8%.

Although the cost/income ratio increased due to higher administrative expenses from 51.9% to 53.6%, it remained below the internal benchmark of 55.0% and far below the level of the first quarter. The risk/earnings ratio developed excellently considering the very good risk situation and stood at a gratifying 10.7% on 30 June 2018. This is a decline of 6.0%-points compared to year-end 2017.

In the first half-year, we continued to reduce the portfolio of non-performing loans. Our constant efforts to reduce the number risk cases resulted in an improved NPL ratio of 2.9%, which is a reduction by 0.6%-points.

At the end of June, the leverage ratio was 7.8%, and the liquidity coverage ratio increased to 157.7%. The two figures were clearly above the statutory requirements of 3.0% and 100.0% by far.

Capital adequacy at BKS Bank is excellent. The common equity tier 1 capital ratio of 11.4% as well as the total capital ratio of 15.1% are both at solid levels and above the statutory requirements.



## KEY PERFORMANCE INDICATORS

| in % | 31/12/2017 | 30/06/2018 | ± in %-points |
|---|---|---|---|
| ROE after tax | 6.8 | 6.0 | -0.8 |
| ROA after tax | 0.9 | 0.8 | -0.1 |
| Cost/income ratio | 51.9 | 53.6 | 1.7 |
| Risk/earnings ratio | 16.7 | 10.7 | -6.0 |
| NPL ratio | 3.5 | 2.9 | -0.6 |
| Liquidity coverage ratio (LCR) | 145.2 | 157.7 | 12.5 |
| Leverage ratio | 8.0 | 7.8 | -0.2 |
| Common equity tier 1 ratio | 12.3 | 11.4 | -0.9 |
| Total capital ratio | 14.0 | 15.1 | 1.1 |

# SEGMENT REPORT

**Corporate and business banking is the BKS Bank Group's most successful segment by far. A large share of consolidated net profit for the period is earned in the segment corporate and business banking. The financial markets segment also contributes stable earnings despite the challenging market conditions. The retail banking segment achieved profits again thanks to the excellent economic situation.**

### Corporate and Business Banking

As at 30 June 2018, we served almost 20,700 corporate and business customers, which is an increase of 6.6% over the year-end level of 2017. We acquired new corporate customers especially in our growth markets of Vienna, Slovenia and Croatia.

Among the customers are many firms from the industrial sector, commerce and trade, as well as from the free professions, farming and forestry and also municipalities and the public sector.

Corporate and business banking has a long tradition at our bank. Already at the time of the Bank's founding in 1922, the object of our business was primarily to supply banking services to business customers. Today, we are still a reliable partner for the regional economy, and the corporate and business banking segment is our most important operational unit. A large share of the loans we grant go to corporate and business customers.



## EXCELLENT SEGMENT RESULT

In the corporate and business banking segment, we significantly increased earnings by 44.8% to EUR 33.1 million in the first half-year 2018. Especially the solid level of net interest income (EUR 49.9 million; +16.3%) that resulted from the higher demand for loans was responsible for the very gratifying segment results. Commission income also made a major contribution to earnings with EUR 14.9 million, with especially commissions from lending and payment services developing positively.

The excellent commissions on loans of EUR 6.5 million was achieved by the solid development of new business and by rigorously pursuing our policy regarding terms and conditions. Income from payment services (EUR 5.4 million) was boosted by the strategic positioning and the outstanding performance of our customer advisors in the advisory and acquisition business. The substantial decrease in risk provisions of EUR 8.5 million (-27.5%) also had a positive effect on the segment result.

General administrative expenses went up by 2.9% to EUR 23.6 million. This was due to higher IT expenses and also to the higher provisions for anniversary funds and survivor's pensions on account of the higher collective wage agreements.

The much higher segment result is also seen in the segment-specific management benchmarks: return on equity was 17.7%, while the cost/income ratio decreased from 40.0% to 36.1%. The risk-to-earnings ratio reached a solid level at 16.9% and decreased considerably year on year.

## Retail Banking

In retail banking, we provide services to private individuals and members of the healthcare professions. At the end of June 2018, we served some 142,000 customers in this segment. The increase of 6.6% resulted mainly from the takeover of the roughly 9,000 asset management and brokerage customers of GBD in Slovenia. Demand for loans from private households was supported by the robust economy, while allowances for credit losses were significantly reduced.

In retail banking, we have achieved a trend reversal. After years of declining profits, we recorded a significant increase in profits for the first time in the first half of 2018. Although the earnings situation remains challenging considering the sustained low level of interest rates and progressing digitalization, we are nonetheless confident that the trend of declining earnings is over. We have worked hard to return the retail banking segment to profitability by taking numerous measures, including the enlargement of our digital offers and services, by streamlining processes, ensuring rigorous cost management, and engaging in marketing activities in our foreign markets. The fact that this has been achieved already this year is also closely related to the general economic upswing. Demand for loans from private households was supported by the robust economy, while allowances for credit losses were significantly reduced.

### SIGNIFICANTLY IMPROVED RESULTS

We are pleased that the retail segment has returned to profitable territory, attaining a segment result of EUR 0.7 million. The good development of earnings was driven, on the one hand, by higher net interest income (EUR 13.8 million; +11.7%) and, on the other, by the strong increase in net fee and commission income (EUR 11.8 million; +6.4%). However, the significantly lower allowances for expected credit losses, which were only EUR 0.4 million (-72.4%) as at 30 June 2018, were also important for the improved results. Administrative expenses were EUR 25.7 million, thus remaining at the level of the preceding year.

The management benchmarks clearly moved in the right direction driven by the improved segment results. Return on equity stood at 2.2% as at 30 June 2018, while the cost/income ratio reached 96.3% and the risk/earnings ratio dropped to 3.0%.

## Financial Markets

Apart from income earned on the management of the term structures, the main sources of earnings in the financial markets segment are returns on the Treasury portfolio and the contributions of entities consolidated using the equity method.  Proprietary trading is not at the focus of our business activities.

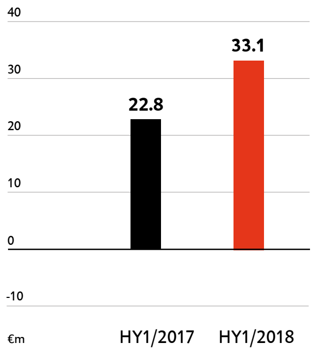
In the financial markets segment, we earned a net profit for the period before tax of EUR 11.4 million following EUR 21.0 million in the preceding year as at 30 June 2018. The decline is due to impairment losses on financial assets. Net interest income dropped by EUR 2.5 million to EUR 19.4 million, because redemptions in the Treasury portfolio can only be replaced by low-yield bonds. The allocation required for the expected credit losses for receivables from banks and securities was EUR -0.2 million. General administrative expenses rose slightly to EUR 3.6 million.

The biggest movement occurred in the item “Profit/loss from financial assets/ liabilities”. After a positive income figure of EUR 2.6 million in the preceding year, we closed on 30 June 2018 at a minus of EUR -4.5 million. The fair value measurement through profit or loss pursuant to IFRS 9 applied to own portfolio investments led to a negative measurement of EUR 1.3 due to market volatility. The hedging of fixed-interest loans through the fair value option led to a negative result of EUR 3.3 million in the measurement, because the lifetime expected credit loss for these loans is also recognized in this item. Additionally, under IFRS 9 measurement results for so-called own credit risk are now no longer reported as up to now in financial assets, but directly in equity. These amounted to EUR 0.2 million. The balance was EUR -3.1 million in the item Profit/loss from financial instruments designated at fair value.

The segment-specific indicators developed as follows: Return on equity changed to 3.5% and the cost/income ratio was 18.5% and the risk/earnings ratio 1.1%.

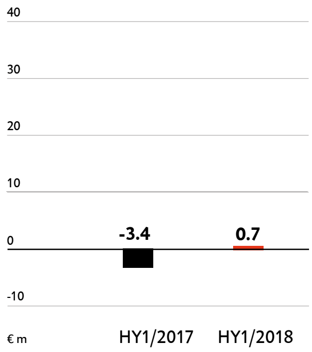
### DEVELOPMENT OF PROFIT/LOSS FOR THE PERIOD BEFORE TAX BY SEGMENT

#### CORPORATE AND BUSINESS BANKING



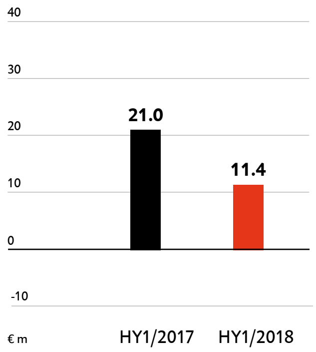

| in % | HY1/2017 | HY1/2018 |
|---|---|---|
| ROE | 16.9 | 17.7 |
| CIR | 40.0 | 36.1 |
| RER | 27.1 | 16.9 |

#### RETAIL BANKING




| in % | HY1/2017 | HY1/2018 |
|---|---|---|
| ROE | -16.0 | 2.2 |
| CIR | 108.0 | 96.3 |
| RER | 12.0 | 3.0 |

#### FINANCIAL MARKETS




| in % | HY1/2017 | HY1/2018 |
|---|---|---|
| ROE | 6.4 | 3.5 |
| CIR | 15.3 | 18.5 |
| RER | 4.9 | 1.1 |

The segments are described in detail in the Notes starting on page 63.

# CONSOLIDATED OWN FUNDS

**BKS Bank calculates the own funds ratios and measurement basis according to the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). We compute the capital requirements for expected credit losses based on the standardized approach.**

As a result of the Supervisory Review and Evaluation Process (SREP) conducted by the Austrian Financial Market Authority (FMA) in the preceding year, BKS Bank must meet the minimum requirement for common equity tier 1 capital (CET1) of 5.66%, and for the total capital ratio of 10.1% as at 30 June 2018.

The consolidated net profit for the period was reviewed by an auditor in accordance with Article 26 CRR. Thus, the profit for the period was allocated to own funds. Common equity tier 1 capital decreased to EUR 594.9 million due to higher deductions that resulted from the phasing out of the transitional provisions. Consequently, common equity tier 1 ratio dropped from 12.3% to 11.4%. Including tier 2 capital of EUR 140.4 million, the bank's own funds came to EUR 789.2, a gain of 12.5%. The own funds ratio was 15.1% as at 30 June 2018.

The leverage ratio was 7.8%, thus exceeding the regulatory requirement of 3% as well as the internal target of >5%.



## BKS BANK GROUP OF CREDIT INSTITUTIONS: OWN FUNDS PURSUANT TO CRR

| in €m | 31/12/2017 | 30/06/2018 |
|---|---|---|
| Share capital | 77.5 | 83.7 |
| Reserves net of intangible assets | 909.3 | 1,028.5 |
| Deductions | -372.3 | -517.3 |
| Common equity tier 1 capital (CET1) | 614.5 | 594.9 |
| Common equity tier 1 ratio | 12.3 % | 11.4% |
| | | |
| Hybrid capital | 20.0 | 16.0 |
| AT 1 note | 36.2 | 37.9 |
| Deductions | -42.9 | - |
| Additional tier 1 capital | 13.3 | 53.9 |
| Tier 1 capital (CET1 + AT1) | 627.8 | 648.8 |
| Tier 1 capital ratio | 12.5 % | 12.4% |
| | | |
| Tier 2 capital items and instruments | 116.5 | 140.4 |
| Deductions | -42.7 | - |
| Tier 2 capital | 73.8 | 140.4 |
| Total own funds | 701.6 | 789.2 |
| Own funds ratio | 14.0 % | 15.1 % |
| | | |
| Total risk exposure amount | 5,016.7 | 5,235.8 |

# RISK REPORT

Our business policy motto is to secure autonomy and independence by increasing profits within the scope of a sustainable growth strategy. A key element of our business is to specifically assume risks based on the premise of recognizing all relevant risks early on that may result from the banking business and banking operations, and to pro-actively manage and mitigate risk through effective risk management. All individual risks are recorded, evaluated and analysed. The capital available is used as efficiently as possible taking into account the medium to long-term strategic goals, with the risk/profit ratio being constantly optimized. As a general principle of our risk strategy, we only assume such risks that we can bear on our own strength in order to avoid risking the autonomy and independence of the bank. The risk strategy of BKS Bank is updated every year and is discussed and accorded with the Supervisory Board.

BKS Bank makes every effort to pro-actively meet the new risk management requirements. The focus in the reporting period was on

- the implementation of the EBA Guidelines on Information and Communication Technology (ICT) Risks, and the FMA Guidelines on ICT security,
- the implementation of the Payment Services Directive (PSD 2),
- amendments derived from the International Financial Reporting Standards, especially from IFRS 9,
- Supervisory Review and Evaluation Process (SREP),
- recovery and resolution planning, and
- the calculation of the MREL ratio.



In accordance with the provisions of § 39a Banking Act, banks must have effective plans and procedures in place to determine the amount, the composition and the distribution of the capital available for the quantitative and qualitative hedging of all material risks relating to the banking business and banking operations.
Based on these factors, banks must maintain capital in the required volumes. These processes are summarized in ICAAP and presented by BKS Bank under the risk-bearing capacity calculation.

ILAAP is the process that must be established by BKS Bank pursuant to § 39 para. 3 Banking Act (BWG) for the purpose of identifying, measuring, managing and monitoring liquidity. The process comprises a description of the systems and methods to be used to measure and manage liquidity and finance risks. BKS Bank measures and monitors compliance with its liquidity goals by producing timely and extensive risk reports.

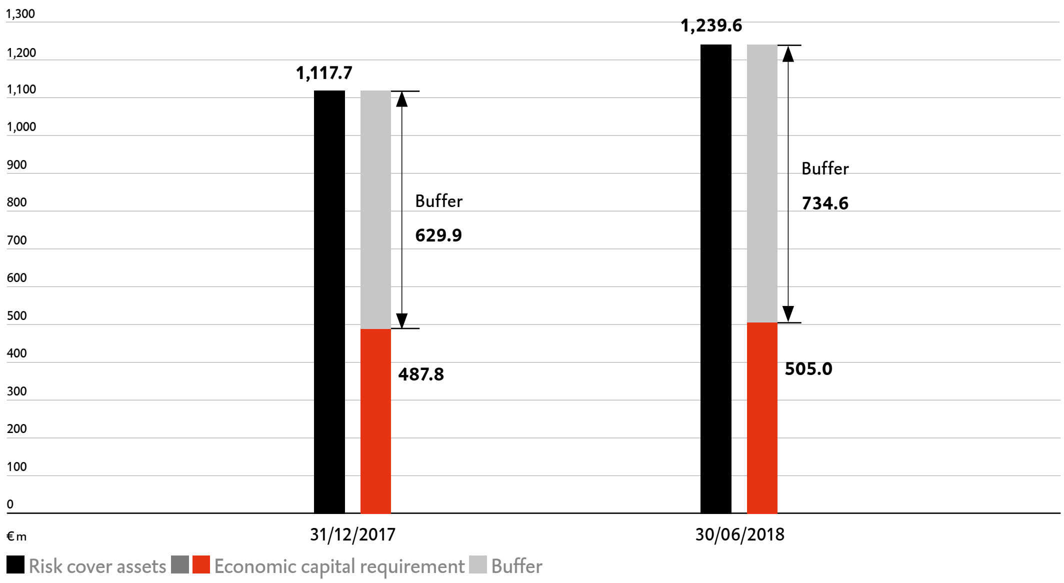
We assess our internal capital adequacy on a quarterly basis by looking at the risks identified using internal models. The aim is to ensure that BKS Bank always has sufficient assets available to cover its risks, enabling it to absorb the risks it had assumed even if unexpected events were to occur. All identified and quantified unexpected risks are aggregated to an overall bank risk.

The overall bank risk is the equivalent of our economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit and liquidity risk are accounted for in the prices charged to customers as risk premiums (standard risk costs, liquidity premiums). The aggregated total loss potential is compared with the assets available to cover such potential loss in order to ascertain whether the bank is in a position to bear unexpected losses without experiencing any severe negative effects on its business activities.

The economic capital requirement for expected credit losses was the largest risk capital requirement within group of credit institutions. As at the end of June 2018, credit risks accounted for about 64.8% of the total loss potential (31/12/2017: 61.8%) under the liquidation approach. Market price-induced risks accounted for a share of 23.3% (31 December 2017: 25.0%).

Based on the liquidation approach, the economic capital requirement as at 30 June 2018 was determined at EUR 505.0 million after EUR 487.8 million at the end of December 2017. The corresponding cover assets were EUR 1,239.6 million (31/12/2017: EUR 1,117.7 million). The free cover assets not needed to cover risks increased by EUR 104.7 million to a gratifying EUR 734.6 million versus year-end 2017. The utilization of the cover risk was 40.6% for the first half-year after 43.6% at 31 December 2017.

## RISK-BEARING CAPACITY BY LIQUIDATION APPROACH






## Credit risk

We define credit risk as the risk of a partial or complete default on contractually-agreed repayments on loans. This risk may be grounded in a counterparty's creditworthiness or indirectly in the country risk of the place where a counterparty has its registered office. Credit risk is by far BKS Bank's most important risk category. Monitoring and analysis is done at the product and individual customer level, at the level of groups of related customers and on a portfolio basis.

The management of credit risk is based on the principle of granting loans only a know-your-customer basis. Thus, loans are granted only after a thorough check of the person and creditworthiness and – if relevant – in compliance with the dual control principle (front office and back office). Collateral requirements are derived from the rating class and the product. Fair value valuations of collateral take their bearings from average proceeds from liquidation achieved in the past. Lending in markets outside of Austria is governed by special guidelines that are specific to the features of the country concerned, in particular, the economic environment and the higher realization risk of the collateral.

BKS Bank uses a rating scale with 13 rating classes. As at 30 March 2018, around 50.9% of all loans to corporate and business customers and around 85.8% of loans to retail customers were assigned a very good rating of AA-2b The focus of new business was on customers in the rating classes up to 3a.

## IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

| in €m | 30/06/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Impairment allowances | 26.0 | 25.7 | -1.1 |
| Impairment reversals | -11.7 | -16.6 | 41.3 |
| Direct write-offs | 0.4 | n/a | - |
| Recoveries in respect of receivables previously written off | -0.4 | n/a | - |
| **Impairment charges on receivables from customers** | **14.2** | **9.1** | **-36.1** |

At the end of March 2018, the balance of additions to impairment charges on receivables from customers was EUR 9.1 million versus EUR 14.2 million in the prior-year period in 2017. New allocations in an amount of EUR 25.7 million were offset by reversals of EUR 16.6 million. At foreign subsidiaries, allocations to impairment charges amounted to EUR 0.4 million on balance. The NPL ratio[1)] decreased again to 2.9%.

## INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

| | Financial instruments that were neither past due nor impaired | | Past due financial instruments | |
|---|---|---|---|---|
| Carrying value/max. default risk per class in EUR m | 31/12/2017 | 30/06/2018 | 31/12/2017 | 30/06/2018 |
| Receivables from customers | 5,702 | 6,050 | 288 | 250 |
| – thereof at fair value | 56 | 53 | - | - |
| Contingent liabilities | 163 | 163 | 4 | 3 |
| Receivables from banks | 110 | 231 | - | - |
| Securities and funds | 817 | 865 | - | - |
| – thereof at fair value | 107 | 127 | - | - |
| Equity investments | 600 | 645 | - | - |
| – thereof at fair value | - | 80 | - | - |
| **Total** | **7,392** | **7,954** | **292** | **253** |

## INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

| | Impaired financial instruments | | Past due but not yet impaired financial instruments | |
|---|---|---|---|---|
| Carrying value/max. default risk per class in EUR m | 31/12/2017 | 30/06/2018 | 31/12/2017 | 30/06/2018 |
| Receivables from customers | 238 | 219 | 50 | 31 |
| – thereof at fair value | - | - | - | - |
| Contingent liabilities | - | - | 4 | 3 |
| Receivables from banks | - | - | - | - |
| Securities and funds | - | - | - | - |
| – thereof at fair value | - | - | - | - |
| Equity investments | 10 | 10 | - | - |
| – thereof at fair value | - | - | - | - |
| **Total** | **248** | **229** | **54** | **34** |

BKS Bank does not use credit derivatives to hedge default risks.

The rise in financial instruments measured at fair value as at 30 March 2018 was due mainly to the changeover to measurement pursuant to IFRS 9.

1) The calculation is based on non-performing loans in the rating classes 5a to 5c of the BKS Bank rating system (default classes), which are compared to gross receivables from loans to customers, contingent liabilities, loans to banks and fixed-interest securities.

## Interest rate risk

Interest rate risk refers to the risk of a negative development in positions sensitive to interest rate fluctuations or in net interest income. Divergent maturities and interest adjustment periods may create the risk of changes to interest rates for both the assets and liabilities sides of the balance sheet. These risks may be generally hedged by a combination of on-balance sheet and off-balance sheet transactions

BKS Bank pursues a conservative strategy regarding interest rate risk and as a general rule does not engage in any significant speculative derivative transactions. BKS Bank engages in derivative transactions almost exclusively to hedge against market risks, using only instruments whose characteristics and related risks are known and for which experience-based data is available.

The quotient, which is reported to OeNB, derived from interest rate risk and eligible own funds based on an interest rate shift of 200 base points was 2.6% at the end of June 2018 after 4.4% at 31 December 2017. We point out that the supervisory authorities classify a bank as an 'outlier bank' as of a ratio of 20%. Our bank is not anywhere near this figure.

The management of market risks and the setting of the relevant limits is based on a combination of indicators and methods such as value-at-risk (VAR), modified duration, volume analysis and stress tests of the economic capital. The limit for market risk in ICAAP is defined once a year when the risk strategy is reviewed by the Management Board together with Risk Controlling. Risk Controlling determines the VAR for the interest rate risk, foreign currency risk and equity price risk. Taking into account the diversification effects, the entire VAR is compared to the defined limit and reported to the ALM Committee.

### VALUE-AT-RISK FIGURES

| in €m | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Interest rate risk[1)] | 28.0 | 22.9 | -18.2 |

1) incl. credit spread risks

## Foreign currency risk

These risks result from entering into foreign currency positions on the assets and liabilities side that are not closed out by a matching opposite position or a derivatives transaction. Foreign currency loans and deposits in foreign currencies are generally refinanced or invested in the same currency. To hedge foreign exchange risks, BKS Bank in some cases enters into derivative transactions such as cross currency swaps, foreign currency forwards and foreign currency swaps.

Traditionally, exposure to currency risks is kept low at BKS Bank, because making profits on open foreign exchange positions is not the focus of our business policy. Therefore, open foreign exchange positions are held only short term and in low volumes.

The open FX position at the end of June was EUR 20.9 million, taking into account foreign currency shares in funds held in the Treasury portfolio. Value-at-risk for the foreign currency risk reached a value of EUR 0.7 million.

VALUE-AT-RISK FIGURES

| in €m | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| FX risk | 0.6 | 0.7 | 16.7 |

## Equity price risk

Equity price risk is the risk of changes in stock market prices that result from the interaction of supply and demand. Investments in equities in our Treasury portfolio are mainly in highly liquid German and Austrian listed securities. The bank complied with all internal limits for shares and equity funds. The volume of positions in sharesand alternative investments that are not equity investments came to EUR 33.9 million in the first quarter. Value-at-risk from equity price risk was EUR 1.4 million compared with EUR 1.2 million at 31 December 2017.

The management of the equity price risk in the banking book is done by the ALM Committee. There was no proprietary trading in shares in the reporting year. Long-term investments in shares and assets in the banking book are done through investment funds in general; we invest in individual stocks only to a minor extent. Equity price risk is limited with respect to volume and value-at-risk, and is monitored by Risk Controlling.

VALUE-AT-RISK FIGURES

| in €m | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Equity price risk | 1.2 | 1.4 | 16.7 |

## Liquidity risk

Liquidity risk is the risk of not being able to meet present or future financial obligations in full or in time. This also includes the risk of only being able to raise funds at higher-than-usual market rates (refinancing risk) or that assets have to be liquidated at lower-than-usual market prices (market liquidity risk).

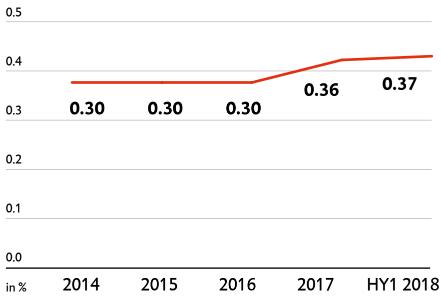
BKS Bank has clearly defined principles for the management of liquidity risk that are set out in the risk strategy and in the ILAAP framework. A key component for long-term liquidity planning is the funding plan of BKS Bank.

Essential for liquidity management is a diversification of the refinancing profile by investor category, product and maturity. Loan terms and conditions are based on the Austrian risk management decreeand the EBA Guidelines it follows. The costs of refinancing financial products are determined under a sophisticated funds transfer pricing model. These costs are allocated in the product and profit centre calculations.

Intraday liquidity management is done by managing daily deposits and withdrawals. This is based on information on transactions with an impact on liquidity. Such transactions include dispositions regarding payment transfers, advance information from Sales on pending customer transactions, information on cash flows resulting from the bank's own issues supplied by the securities back office, and information on securities and money market transactions from Treasury.
Possible liquidity peaks are balanced out by borrowing or investing money with the Austrian central bank, OeNB, or on the interbank market. Intraday liquidity management is done within the limits defined and utilization is reported daily to Risk Controlling and the Chief Risk Officer.

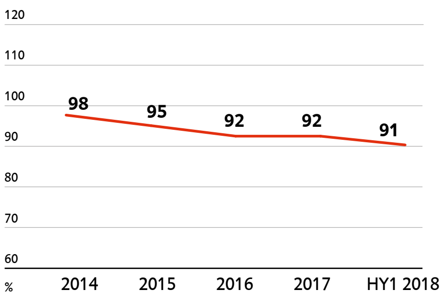
The deposit concentration, which reached a level of 0.37 at the end of the first half-year, served to estimate of the withdrawal risk associated with a run on deposits and indicates, above all, the risk of being dependent on large deposits. All customer deposits are broken down into defined size bands and measured at their respective share and with a weighting factor from 0 to 1.

DEPOSIT CONCENTRATION



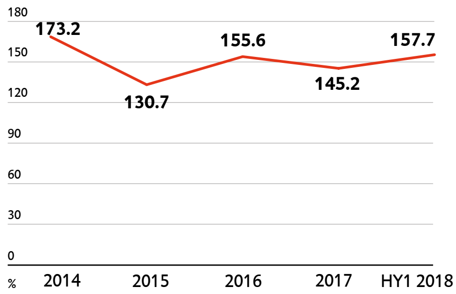

The loan/deposit ratio is a further key indicator for liquidity management and shows the relation between loans and primary deposits. At a ratio of 91.4%, we are clearly below our internal benchmark of 100% and thus in an excellent position.

LOAN-TO-DEPOSIT RATIO



The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain liquid for the next 30 days in the event of simultaneous market and bank-specific stress situations. It compares highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. This regulatory liquidity ratio was 157.7% at 30 June 2018 and therefore fully meets the statutory requirement of 100%.  In the ILAAP report of BKS Bank, we also monitor the NSFR that was 109.0% as at the end of June 2018.

LCR




## Operational risk

As set out in the CRR, we define operational risk as the risk of losses arising primarily in BKS Bank's operations that might result from inadequate or failed internal processes, human or systems errors or from external factors. Further types of risks closely related to operational risk are reputational risks, conduct risks, model risks and information and communications technology risks (ICT risks).

At BKS Bank AG and at all Austrian and foreign subsidiaries, operational risks are limited by means of an appropriate control system that is continually being developed. The system features a number of organisational measures that include the separation of functions within business processes (separation of front office from back office activities, dual-control principle) as well as extensive internal rules and regulations, regular checks and contingency plans and also self-auditing systems.

In the reporting period, 103 loss events (excluding those resulting from credit operations) were reported. The loss amount after deducting amounts recovered was EUR 0.6 million. At EUR 13.0 thousand, the loss events in the investment business were below the internally-defined risk tolerance threshold of EUR 1.0 million. As regards the ICT risk, there were four loss events with a total sum of EUR 2.1 thousand.

A key component for the management of reputational risk is complaints management. During the reporting period, BKS Office of the Ombudsperson processed 489 customer.

# OUTLOOK FOR THE FULL YEAR

## Global economy not expected to contract in 2018

The European Commission lowered its growth outlook for Europe due to the trade dispute with the US. Due to heightening tension, the growth rate for the euro area is forecast at 2.1% for this year. In the preceding year, economic growth in the euro area expanded by 2.3% and therefore stronger than in many years. The slight downwards correction compared to the spring therefore reflects the impact of the tense trade relations, political uncertainty and lack of trust as well as rising energy prices. The International Monetary Fund (IMF) has also lowered the growth forecasts for a number of countries in Europe. The IMF recently revised its estimates for Germany for the year 2018 downwards to 2.2%. There were also downwards revisions for France, Italy and Great Britain, the latter which is about to exit the European Union.

This will not have much of an effect on the global economy. The IMF left its growth estimate for the global economy unchanged at 3.9% for this year and next despite the slightly dimmed prospects for the euro area. Neither did the expectations regarding the two major economic powers US and China change. However, the IMF is more skeptical about other major countries such as Germany, France, Great Britain, Japan and India. “The risk that current trade tensions will escalate is the largest short-term threat to global growth,” warned IMF Chief Economist Maury Obstfeld. In the worst-case scenario – if the trade tariffs undermine the trust of investors – this effect might cost the global economy some 0.5% in growth according to the IMF. Furthermore, the IMF believes it will be especially the US economy that will suffer the most from these negative effects. At present, the IMF expects the growth rate for the US to stay at 2.9% for this year.

## Equities still supported

There are quite a few factors weighing on sentiment on stock markets right now. Apart from political topics such as fears of another euro crisis, the still unresolved problem of Brexit and the political controversies in Germany, it is especially the trade war the US is waging against the rest of the world that is causing unease. This is burdening especially Asian stock markets. The fact that stock markets are still relatively stable despite this sentiment situation is due to the sustained good development of the economy. Fundamentally, the framework conditions are still intact. The corporate earnings outlook is stable in spite of the trade dispute and isolated profit warnings. The high degree of political insecurity is likely to cause further price fluctuations in the coming months though.

## Optimistic outlook for business year 2018

There is no doubt that requirements imposed on the banking business remain demanding. Nonetheless, based on the solid development of business to date, we are confident that the earnings potential of BKS Bank can be expanded. Our uncompromising focus on earnings, customers and growth will help us achieve this goal. Moreover, we hope to finalize some important projects by the end of the year 2018.

Recently, BKS Bank launched its new website which is designed to create a uniform service experience for our customers. The new website not only has a new appearance, but it now runs on the most modern technology.

Our newly developed portal for corporate and business customers also features smart technology and new functionalities. This coming October, we will present BizzNet and the new options for our corporate and business customers.

We will also be opening a new branch in the district of Hernals in Vienna in October. This new bank outlet will implemented our new branch concept: modern design, easy orientation and convenient processes. In Slovenia, we will open our eighth branch in a few weeks that will be dedicated to the newly acquired customers from the GBD deal.

We are also working on the introduction of a new app for retail customers with a specific focus on younger customers as well as on an innovative digital solution for residential loans, the customer acceptance process and account opening.

This project and a number of further one will help keep BKS Bank on the path to success. Therefore, we plan to also pay out a dividend that adequately reflects our profits and own funds for the financial year 2018.

Klagenfurt am Wörthersee, 22 August 2018

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

# CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO IFRS



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# TABLE OF CONTENTS - NOTES

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 30 JUNE 2018

## INCOME STATEMENT

| in €k | Notes | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|---|
| Interest income applying the effective interest rate method | | 72,636 | 75,531 | 4.0 |
| Other interest income | | 4,909 | 6,070 | 23.6 |
| Interest expenses | | -17,597 | -15,888 | -9.7 |
| **Net interest income** | **(1)** | **59,948** | **65,713** | **9.6** |
| Impairment charges on receivables and debt securities | (2) | -14,204 | -9,075 | -36.1 |
| **Net interest income after impairment charges** | | **45,744** | **56,638** | **23.8** |
| Fee and commission income | | 27,785 | 29,505 | 6.2 |
| Fee and commission expenses | | -1,859 | -2,155 | 15.9 |
| **Net fee and commission income** | **(3)** | **25,926** | **27,351** | **5.5** |
| Profit/loss from investments accounted for using the equity method | (4) | 18,631 | 18,817 | 1.0 |
| Net trading income | (5) | 974 | -205 | >-100 |
| General administrative expenses | (6) | -52,623 | -57,960 | 10.1 |
| Other operating income | (7) | 2,234 | 3,115 | 39.4 |
| Other operating expenses | (7) | -6,832 | -6,579 | -3.7 |
| **Profit/loss from financial assets/liabilities** | | **2,615** | **-4,572** | **>-100** |
| - Profit/loss from financial instruments designated at fair value through profit/loss | (8) | 1,297 | -3,112 | >-100 |
| - Profit/loss from available-for-sale financial assets (AfS) | (9) | 1,322 | n/a | - |
| - Profit/loss from held-to-maturity financial assets (HtM) | (10) | -4 | n/a | - |
| - Profit/loss from financial assets measured at fair value through profit/loss (mandatory) | (11) | n/a | -1,259 | - |
| - Gains/losses from derecognition of financial assets measured at amortized cost | (12) | n/a | -94 | - |
| - Other profit/loss from financial assets/liabilities | (13) | n/a | -107 | - |
| **Profit for the period before tax** | | **36,669** | **36,604** | **-0.2** |
| Income tax expense | (14) | -3,542 | -3,980 | 12.4 |
| **Profit for the period** | | **33,127** | **32,624** | **-1.5** |
| Non-controlling interests | | -1 | -2 | 61.2 |
| **Profit for the period after non-controlling interests** | | **33,125** | **32,622** | **-1.5** |

## OTHER COMPREHENSIVE INCOME

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| **Profit for the period** | **33,127** | **32,624** | **-1.5** |
| **Other comprehensive income** | **11,752** | **-405** | **>-100** |
| **Items not reclassified to profit for the period** | **2,582** | **-1,709** | **>-100** |
| ± Actuarial gains/losses in conformity with IAS 19 | 1,244 | -4,209 | >-100 |
| ± Deferred taxes on actuarial gains/losses in conformity with IAS 19 | -311 | 1,052 | >100 |
| ± Changes in the fair value of equity instruments measured at fair value | n/a | 6,621 | - |
| ± Deferred taxes on fair value of equity instruments measured at fair value | n/a | -1,550 | - |
| ± Fair value changes of financial liabilities designated at FV PL attributable to own credit risk | n/a | -148 | - |
| ± Deferred taxes on Fair value changes of financial liabilities designated at FV PL attributable to own credit risk | n/a | 37 | - |
| ± Share of income and expenses of associates accounted for using the equity method taken directly to equity | 1,649 | -3,513 | >-100 |
| **Items reclassified to profit for the period** | **9,170** | **1,304** | **-85.8** |
| ± Exchange differences | 71 | 33 | -54.1 |
| ± Available-for-sale reserve | 6,133 | n/a | - |
| ± Net change in fair value | 6,668 | n/a | - |
| ± Reclassified to profit or loss | -535 | n/a | - |
| ± Deferred taxes taken to AfS reserve items | -1,533 | n/a | - |
| ± Changes in the fair value of debt instruments measured at fair value | n/a | 107 | - |
| ± Net change in fair value | n/a | 3 | - |
| ± Reclassified to profit or loss from derecognition | n/a | - | - |
| ± Reclassified to profit or loss from impairment charges | n/a | 104 | - |
| ± Deferred taxes on changes to the fair value of debt instruments measured at fair value | n/a | -27 | - |
| ± Share of income and expenses of associates accounted for using the equity method taken directly to equity | 4,499 | 1,191 | -73.5 |
| **Total comprehensive income** | **44,879** | **32,219** | **-28.2** |
| Non-controlling interests | -1 | -2 | >100 |
| **Total comprehensive income after non-controlling interests** | **44,878** | **32,217** | **-28.2** |

## EARNINGS AND DIVIDEND PER SHARE

| | 30/06/2017 | 30/06/2018 |
|---|---|---|
| Average number of shares in issue (ordinary and preference shares) | 38,992,364 | 40,842,197 |
| Earnings per ordinary and preference share in EUR (adjusted for period) | 0.85 | 0.80 |
| Earnings per ordinary and preference share in EUR (annualised) | 1.70 | 1.60 |

The indicator "earnings per share" compares consolidated profit for the period with the average number of no-par shares in issue. In the period under review, earnings per share and diluted earnings per share were the same because no financial instruments with a diluting effect on the shares were in circulation.

## QUARTERLY REVIEW

| in €k | Q2/2017 | Q3/2017 | Q4/2017 | Q1/2018 | Q2/2018 |
|---|---|---|---|---|---|
| Interest income | 39,766 | 38,145 | 38,582 | 39,041 | 42,560 |
| Interest expenses | -8,711 | -8,619 | -7,370 | -8,466 | -7,422 |
| **Net interest income** | **31,055** | **29,526** | **31,213** | **30,575** | **35,137** |
| Impairment charges on receivables and debt securities | -5,859 | -2,885 | -9,634 | -2,867 | -6,208 |
| **Net interest income after impairment charges** | **25,196** | **26,640** | **21,579** | **27,708** | **28,929** |
| Fee and commission income | 13,640 | 13,216 | 12,934 | 13,506 | 15,999 |
| Fee and commission expenses | -970 | -1,163 | -1,018 | -1,042 | -1,113 |
| **Net fee and commission income** | **12,670** | **12,054** | **11,916** | **12,464** | **14,886** |
| Profit/loss from investments accounted for using the equity method | 10,499 | 10,407 | 10,029 | 7,488 | 11,329 |
| Net trading income | 591 | 10 | 561 | -13 | -192 |
| General administrative expenses | -26,029 | -26,670 | -28,461 | -27,607 | -30,353 |
| Other operating income | 282 | 934 | 1,457 | 1,271 | 1,844 |
| Other operating expenses | -995 | -2,539 | 995 | -5,075 | -1,504 |
| **Profit/loss from financial assets/liabilities** | **1,015** | **97** | **1,499** | **-932** | **-3,641** |
| - Profit/loss from financial instruments designated at FVPL | 154 | 15 | -12 | -203 | -2,909 |
| - Profit/loss from available-for-sale financial assets | 861 | 82 | 1,511 | n/a | n/a |
| - Profit/loss from held-to-maturity financial assets | - | - | - | n/a | n/a |
| - Profit/loss from financial assets measured at fair value through profit/loss (mandatory) | n/a | n/a | n/a | -1,819 | 561 |
| - Gains/losses from the derecognition of financial assets measured at amortized cost | n/a | n/a | n/a | -143 | 49 |
| - Other profit/loss from financial assets/liabilities | n/a | n/a | n/a | 1,233 | -1,341 |
| **Profit for the period before tax** | **23,229** | **20,933** | **19,574** | **15,305** | **21,299** |
| Income tax expense | -1,358 | -2,425 | -3,170 | -1,889 | -2,091 |
| **Profit for the period** | **21,870** | **18,507** | **16,404** | **13,416** | **19,209** |
| Non-controlling interests | - | -1 | -1 | -1 | -1 |
| **Profit for the period after non-controlling interests** | **21,870** | **18,506** | **16,403** | **13,414** | **19,208** |

# CONSOLIDATED BALANCE SHEET FOR THE PERIOD ENDED 30 JUNE 2018

## ASSETS

| in €k | Notes to the Financial Statements | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|---|
| Cash and balances with the central bank | (15) | 476,589 | 413,629 | -13.2 |
| Receivables from other banks | (16) | 97,711 | 214,675 | >100 |
| Receivables from customers | (17) | 5,450,150 | 5,810,646 | 6.6 |
| – Impairment charges on receivables and debt securities | (18) | -136,992 | -124,380 | -9.2 |
| Trading assets | (19) | 9,837 | 9,708 | -1.3 |
| Financial assets | | 1,043,134 | n/a | - |
| – Financial assets designated at fair value through profit or loss | (20) | 78,300 | n/a | - |
| – Available-for-sale financial assets | (21) | 182,069 | n/a | - |
| – Held-to-maturity financial assets | (22) | 782,765 | n/a | - |
| Debt securities and other fixed interest securities | (23) | n/a | 907,240 | - |
| Shares and other equity | (24) | n/a | 134,844 | - |
| Investments in entities accounted for using the equity method | (25) | 520,354 | 565,290 | 8.6 |
| Intangible assets | (26) | 1,638 | 3,548 | >100 |
| Property, plant and equipment | (27) | 55,174 | 54,323 | -1.5 |
| Investment property | (28) | 30,868 | 33,327 | 8.0 |
| Deferred tax assets | (29) | 7,873 | 5,386 | -31.6 |
| Other assets | (30) | 23,161 | 45,977 | 98.5 |
| **Total assets** | | **7,579,497** | **8,074,213** | **6.5** |



## EQUITY AND LIABILITIES

| in €k | Notes to the Financial Statements | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|---|
| Payables to other banks | (31) | 694,986 | 734,599 | 5.7 |
| Payables to customers | (32) | 4,956,489 | 5,187,093 | 4.7 |
| – thereof savings deposits | | 1,475,137 | 1,442,740 | -2.2 |
| – thereof other payables | | 3,481,352 | 3,744,352 | 7.6 |
| Liabilities evidenced by paper | (33) | 553,952 | 595,193 | 7.4 |
| – thereof at fair value through profit or loss | | 84,688 | 84,600 | -0.1 |
| Trading liabilities | (34) | 14,608 | 17,547 | 20.1 |
| Provisions | (35) | 123,631 | 137,412 | 11.1 |
| Deferred tax liabilities | (36) | 127 | 373 | >100 |
| Other items | (37) | 30,542 | 47,956 | 57.0 |
| Subordinated debt capital | (38) | 158,622 | 185,899 | 17.2 |
| Equity | | 1,046,540 | 1,168,142 | 11.6 |
| – thereof Shareholders´equity | (39) | 1,046,518 | 1,168,118 | 11.6 |
| – thereof non-controlling interests | | 22 | 24 | 9.5 |
| **Total equity and liabilities** | | **7,579,497** | **8,074,213** | **6.5** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| in €k | Subscribed capital | Capital reserves | Exchange differ-ences | Revaluation reserve | Retained reserves | Profit for the period | Additional equity instru-ments[1] | Equity |
|---|---|---|---|---|---|---|---|---|
| **As at 01/01/2018** | **79,279** | **193,032** | **-168** | **31,956** | **638,184** | **68,035** | **36,200** | **1,046,518** |
| Impact of adopting IFRS 9 | | | | -589 | 10,186 | | | 9,596 |
| **Restated as at 1/1/2018** | **79,279** | **193,032** | **-168** | **31,367** | **648,370** | **68,035** | **36,200** | **1,056,114** |
| Distribution | | | | | | -8,935 | | -8,935 |
| Coupon payments on additional equity instruments | | | | | -870 | | | -870 |
| Taken to retained earnings | | | | | 59,100 | -59,100 | | - |
| Profit for the period | | | | | | 32,622 | | 32,622 |
| Other comprehensive income | | | 529 | 2,447 | -3,380 | | | -405 |
| Increase in share capital | 6,607 | 48,384 | | | | | | 54,991 |
| Effect of the equity method | | | | | 34,217 | | | 34,217 |
| Change in Treasury shares | | | | | -1,060 | | | -1,060 |
| Issuance of additional equity instru-ments | | | | | | | 1,700 | 1,700 |
| Other changes | | | | | -256 | | | -256 |
| **As at 30/06/2018** | **85,886** | **241,416** | **361** | **33,813** | **736,121** | **32,622** | **37,900** | **1,168,118** |

| | |
|---|---|
| Status of the fair value OCI reserves (excl. reserves of associates accounted for using the equity method) | 28,274 |
| Deferred tax reserve | -7,069 |

[1] The additional tier 1 bonds issued in 2015, 2017 and 2018 are classified as equity in conformity with IAS 32.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| in €k | Subscribed capital | Capital reserves | Exchange differ-ences | Revaluation reserve | Retained reserves | Profit for the period | Additional equity instru-ments[2] | Equity |
|---|---|---|---|---|---|---|---|---|
| **As at 01/01/2017** | **79,279** | **193,032** | **-361** | **17,017** | **600,220** | **46,180** | **23,400** | **958,767** |
| Distribution | | | | | | -8,965 | | -8,965 |
| Coupon payments on additional equity instruments | | | | | | | | - |
| Taken to retained earnings | | | | | 37,215 | -37,215 | | - |
| Profit for the period | | | | | | 33,125 | | 33,125 |
| Other comprehensive income | | | 151 | 9,019 | 2,582 | | | 11,752 |
| Effect of the equity method | | | | | 6,165 | | | 6,165 |
| Change in Treasury shares | | | | | -1,497 | | | -1,497 |
| Issuance of additional equity instru-ments | | | | | | | 5,600 | 5,600 |
| Other changes | | | | | -29 | | | -29 |
| **As at 30/06/2017** | **79,279** | **193,032** | **-210** | **26,036** | **644,656** | **33,125** | **29,000** | **1,004,919** |

| | |
|---|---|
| Status of available-for-sale reserves (excl. reserves of associates accounted for using the equity method) | 10,253 |
| Deferred tax reserve | -2,564 |

[2] The additional tier 1 bonds issued in 2015 and 2017 were classified as equity in conformity with IAS 32.

The capital increase carried out in the first quarter of 2018 raised the share capital of BKS Bank AG from 79,279,200 to 85,885,800. Based on the offer price of EUR 16.70 per new share, the gross proceeds of the capital increase were EUR 55.0 million. The transaction costs of EUR 0.2 million and were deducted from equity. The new shares have full dividend rights for the current financial year 2018.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## CASH FLOWS

| in €k | HY1 2017 | 1HY 2018 |
|---|---|---|
| **Cash and cash equivalents at the end of preceding period** | **543,542** | **476,589** |
| Profit for the period before non-controlling interests | 33,127 | 32,624 |
| Non-cash items in profit for the period | -55,417 | -41,821 |
| Change in assets and liabilities arising from operating business activities after correction for non-cash items | -51,847 | -70,291 |
| **Cash flow from operating activities** | **-74,137** | **-79,487** |
| Cash inflow from disposals | 78,102 | 34,631 |
| Cash outflow for investments | -112,840 | -91,255 |
| **Cash flow from investing activities** | **-34,738** | **-56,624** |
| Increase in share capital | - | 54,991 |
| Other deposits | 5,600 | 1,700 |
| Dividend distributions | -8,956 | -8,935 |
| Subordinate liabilities and other financing activities | -24,933 | 25,347 |
| **Cash flow from financing activities** | **-28,289** | **73,102** |
| Effect of exchange rate changes on cash and cash equivalents | 16 | 49 |
| **Cash and cash equivalents at the end of the reporting period** | **406,394** | **413,629** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BKS BANK

## MATERIAL ACCOUNTING POLICIES

### I. GENERAL INFORMATION

The interim financial statements of BKS Bank for the period ended 30 June 2018 were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as adopted by the EU. The relevant interpretations originated by the International financial Reporting Interpretations Committee (IFRIC) were taken into account.

### II. EFFECTS OF NEW AND AMENDED STANDARDS

On 24 July 2014, the IASB released the final version of IFRS 9, which replaces IAS 39 'Financial Instruments: Recognition and Measurement' and must be applied for the first time in the first reporting period starting on or after 1 January 2018. The BKS Bank Group applied the accounting and measurement rules of IFRS 9 for the first time as of 1 January 2018.

The changed classification and measurement policies as well as the impairment rules of IFRS 9 have impacts on the balance sheet and the income statement, on financial reporting and risk management processes, internal controls and reporting. The comparative figures for the financial year 2017 were not adjusted – as is possible under IFRS 9 – and therefore correspond to the classification and measurement policies applicable until 31 December 2017 under IAS 39.

The new accounting and measurement policies of IFRS 9 are described in the section "Notes on individual items of the balance sheet". All other standards and amendments to standards that entered into force on 1 January 2018 do not have any material effects on the BKS Bank Group.



### III. RECOGNITION AND MEASUREMENT

**Group of Consolidated Companies**

Besides BKS Bank AG, the consolidated financial statements accounted for a total of 18 entities: 14 consolidated entities, three accounted for using the equity method and one entity accounted for on a proportionate basis. The group of consolidated companies remained unchanged versus 31 December 2017.

#### CONSOLIDATED ENTITIES

| Company | Head office | Direct equity interest | Indirect equity interest | Date of financial statements |
|---|---|---|---|---|
| BKS-Leasing Gesellschaft m.b.H. | Klagenfurt | 99.75% | 0.25% | 30/06/2018 |
| BKS-leasing d.o.o. | Ljubljana | 100.00% | - | 30/06/2018 |
| BKS-leasing Croatia d.o.o. | Zagreb | 100.00% | - | 30/06/2018 |
| BKS-Leasing s.r.o. | Bratislava | 100.00% | - | 30/06/2018 |
| IEV Immobilien GmbH | Klagenfurt | 100.00% | - | 30/06/2018 |
| Immobilien Errichtungs- und Vermietungs GmbH & Co KG | Klagenfurt | 100.00% | - | 30/06/2018 |
| BKS 2000-Beteiligungs- und Verwaltungs GmbH | Klagenfurt | 100.00% | | 30/06/2018 |
| BKS Zentrale-Errichtungs- und Vermietungs GmbH | Klagenfurt | - | 100.00% | 30/06/2018 |
| BKS Hybrid alpha Gmbh | Klagenfurt | 100.00% | - | 30/06/2018 |
| BKS Hybrid beta GmbH | Klagenfurt | 100.00% | - | 30/06/2018 |
| VBG-CH Verwaltungs- und Beteiligungs GmbH | Klagenfurt | 100.00% | - | 30/06/2018 |
| LVM Beteiligungs Gesellschaft m.b.H. | Klagenfurt | - | 100.00% | 30/06/2018 |
| BKS Immobilien-Service GmbH | Klagenfurt | 100.00% | - | 30/06/2018 |
| BKS Service GmbH | Klagenfurt | 100.00% | - | 30/06/2018 |

## ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

| Company | Head office | Direct equity interest in % | Date of financial statements |
|---|---|---|---|
| Oberbank AG | Linz | 14.21 | 31/03/2018 |
| BTV AG | Innsbruck | 13.59 | 31/03/2018 |
| Drei Banken Versicherungsagentur GmbH | Linz | 20.00 | 30/06/2018 |

Regarding Oberbank AG and BTV AG, we would like to point out that although at 30 June 2018 BKS Bank had voting interests of less than 20% in those banks, namely 15.21% and 14.78%, respectively, and equity interests of less than 20%, namely 14.21% and 13.59%, respectively, the exercise of voting rights was governed by syndicate agreements. These allowed participation in those two banks' financial and business policy decisions within the scope of the 3 Banken Group without having a controlling interest in them.

### Entities accounted for on a proportionate basis

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

## ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

| Company | Head office | Direct equity interest | Date of financial statements |
|---|---|---|---|
| ALGAR | Linz | 25.0 % | 30/06/2018 |

## FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 JUNE 2018

| in €k | Net interest income | Operating income | Number of employees (FTE) | Profit for the period before tax |
|---|---|---|---|---|
| **Branches abroad** | | | | |
| Slovenia Branch | 5,500 | 7,111 | 106.5 | 1,035 |
| Croatia Branch | 4,158 | 5,061 | 56.5 | 3,266 |
| Slovakia Branch | 807 | 889 | 26.3 | -411 |
| **Subsidiaries** | | | | |
| BKS-leasing d.o.o., Ljubljana | 1,804 | 2,034 | 19.9 | 1,392 |
| BKS-leasing Croatia d.o.o., Zagreb | 1,168 | 1,259 | 12.3 | 661 |
| BKS-Leasing s.r.o., Bratislava | 546 | 690 | 9.5 | 200 |

## FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 JUNE 2017

| in €k | Net interest income | Operating income | Number of employees (FTE) | Profit for the period before tax |
|---|---|---|---|---|
| **Branches abroad** | | | | |
| Slovenia Branch | 5,383 | 6,777 | 100.0 | 1,533 |
| Croatia Branch | 3,539 | 4,475 | 58.8 | 1,349 |
| Slovakia Branch | 709 | 803 | 23.0 | -1,651 |
| **Subsidiaries** | | | | |
| BKS-leasing d.o.o., Ljubljana | 1,177 | 1,302 | 14.9 | 790 |
| BKS-leasing Croatia d.o.o., Zagreb | 1,010 | 1,132 | 11.0 | 786 |
| BKS-Leasing s.r.o., Bratislava | 374 | 595 | 8.8 | 13 |

### Foreign currency translation

Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates valid at the balance sheet date. The financial statements of subsidiaries that were not prepared in euro were translated using the closing rate method. Within the Group, there is just one Croatian company that did not prepare its financial statements in euro, but in Croatian kuna (HRK). The assets and liabilities were translated at the exchange rates applicable at the balance sheet date, while expenses and income were translated applying the average rate of exchange for the respective period. The resulting currency translation differences are reported in Other comprehensive income and recognized as a component of equity.

## NOTES ON INDIVIDUAL ITEMS OF THE BALANCE SHEET

### Cash and balances with the central bank

These items consist of cash and balances with the central bank. These were recognized at nominal values.

### Financial instruments

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

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

Pursuant to IFRS 9 **financial assets** are measured as follows upon initial recognition:
- at amortized cost
- at fair value through other comprehensive income (FV OCI)
- at fair value through profit or loss (FV PL)

The classification of financial assets is based, on the one hand, on the business model under which the financial assets are managed, and on the other, on the cash flow characteristics of the contractual terms governing the financial assets (cash flow terms - SPPI test).

### At amortized cost

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

### Designated at fair value through other comprehensive income (FVOCI)

A financial asset is classified as at fair value through other comprehensive income (FVOCI) when the following conditions are met: The financial assets are held within a business model whose objective is to hold the financial assets to collect their contractual cash flows or sell the financial assets. In this case as well, the SPPI test requires that for financial assets designated as FVOCI (mandatory), the contractual cash flows consist only of principal and interest payments. Subsequent measurement in other comprehensive income (OCI) may therefore apply to **debt instruments** They are generally measured by applying stock exchange prices. If these are not available, the present value method is used. Changes in the fair value of these instruments are presented in other comprehensive income Only when a financial asset is sold will the cumulated gain or loss be reclassified in other comprehensive income (FV OCI with recycling). At BKS Bank, debt instruments are reported in this category.

Under IFRS 9, **equity instruments** must generally be recognized at fair value through profit or loss (FV PL), as these do not meet the SPPI criterion. Upon initial recognition, an entity may irrevocably elect to recognize changes in the fair value of equity instruments not designated as held for trading in other comprehensive income (fair value OCI option). The BKS Bank Group avails itself of this option and designates equity instruments (shares and other equity) as at fair value through other comprehensive income (FVOCI) without recycling. If there is no market price, various methods are applied to determine the fair value (discounted cash flow method, multiplier method, and net asset value method).

For equity instruments that are designated at fair value through other comprehensive income (FV OCI) based on the election of the fair value OCI option, the fair value changes that occur over the life of the instrument are recognized in other comprehensive income (OCI). When an equity instrument is sold, the cumulated gain or loss in other comprehensive income is not permitted to be reclassified to profit or loss (no recycling). Reclassification as another equity item is admissible.

**Designated at fair value through profit or loss (FV PL)**
Financial assets that cannot be assigned to one of the abovementioned business models or that do not pass the SPPI test are recognized at fair value through profit or loss. As derivatives generally do not meet the SPPI test, these instruments must be designated as at fair value through profit or loss (FV PL mandatory). Apart from derivatives, BKS Bank also recognizes in this measurement class loans that do not meet the SPPI test as well as equity instruments for which the fair value OCI option is not elected.

Irrespective of this, IFRS 9 offers the option of electing to irrevocably designate a financial asset upon initial recognition as at fair value through profit or loss (**fair value option**) A condition for such designation is that it must help eliminate or significantly lower measurement or recognition mismatches. At BKS Bank, the fair value option is applied in individual cases for loans and debt instruments. The designated instruments are recognized as at FVPL. The designation is selected by the Asset/Liability Management Committee (ALM). These items are taken to profit or loss at their fair value (asset or liability and related derivative). Revaluation gains net of revaluation losses are recognized in the Profit/loss from financial instruments (FI) designated as at fair value through profit or loss' subitem of the Profit/loss from financial assets/liabilities item in the income statement.

The presentation of balance sheet items, measurement criterion and category pursuant to IFRS 9 for the assets side may be summarized as follows for BKS Bank AG:

| ASSETS | At fair value | at amortized cost | Other | Category |
|---|---|---|---|---|
| Cash and balances with the central bank | | | Nominal | Not assignable |
| receivables from other banks | | ✓ | - | at amortized cost |
| Receivables from customers | | ✓ | - | at amortized cost |
| | ✓ | | - | Designated at FV PL (fair value option) |
| | ✓ | | - | FV PL mandatory |
| Trading assets | ✓ | | - | FV PL mandatory |
| Bonds and other fixed interest securities | | ✓ | - | at amortized cost |
| | ✓ | | - | FV OCI mandatory (with recycling) |
| | ✓ | | - | Designated at FV PL (fair value option) |
| | ✓ | | | FVPL mandatory |
| Shares and other equity | ✓ | | - | Designated at FV OCI (without recycling) |
| | ✓ | | - | FV PL mandatory |
| Other assets | | | Nominal | Not assignable |

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

Measurement at fair value in profit or loss is done for financial liabilities in the trading portfolio (held for trading). Derivatives are reported in the item trading liabilities at BKS Bank. Furthermore, this measurement includes financial liabilities that are irrevocably designated as at fair value through profit or loss upon initial recognition (fair value option). The explanations on the fair value option for the assets side apply accordingly to the liabilities side. The change in the credit spread for own liabilities is reported in other comprehensive income (OCI).

| LIABILITIES | At fair value | at amortized cost | Other | Category |
|---|---|---|---|---|
| Payables to other banks | | ✓ | - | at amortized cost |
| Payables to customers | | ✓ | - | at amortized cost |
| Liabilities evidenced by paper | | ✓ | - | at amortized cost |
| | ✓ | | - | Designated at FV PL (fair value option) |
| Trading liabilities | ✓ | | - | Held for trading |
| Subordinated debt capital | | ✓ | - | at amortized cost |

**Investments in entities accounted for using the equity method**

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

**Impairment charges on receivables from customers**

At BKS Bank, impairment charges on receivables from customers are recognized for financial assets measured at amortized at cost or designated at fair value through other comprehensive income (FV OCI mandatory) as well as for loans commitments and financial guarantee contracts. The impairment model used pursuant to IFRS 9 is an expected loss model that also allocates impairment charges for expected future losses.

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

– Stage 1: For financial instruments classified to stage 1, an impairment charge equivalent to 12-months expected credit loss (ECL) is recognized. 12-months expected credit loss corresponds to the credit loss a financial instrument might incur during the 12 months following the balance sheet date. Upon acquisition, all financial instruments must be assigned to stage 1; this assignment must then be reviewed at every balance sheet date.

– Stage 2: For financial instruments classified to stage 2, it is required to recognize a lifetime expected credit loss (ECL), which corresponds to the losses expected over the instrument's remaining time to maturity.

– Stage 3: For financial instruments classified in stage 3, it is likewise required to recognize a lifetime expected credit loss corresponding to the losses expected over the instrument's remaining time to maturity.

Instruments will be reclassified from stage 1 to stage 2 where the default risk has increased significantly since initial recognition. A variety of factors may lead to an instrument being classified to stage 2. These factors may be of a strategic, operating, geographical or macroeconomic nature. The BKS Bank Group relies on both quantitative (lower ratings) and qualitative criteria (30 days overdue, warnings) when deciding on reclassification from one stage to another.
Changes in value are generally recognized through profit or loss in the income statement. The reporting of impairment charges on receivables from customers – with the exception of impairment charges for financial assets

designated at fair value in other comprehensive income (FV OCI mandatory) – is disclosed as a deduction on the assets side of the balance sheet (impairment account). For financial assets designated as at FVOCI, reporting of impairment charges on receivables from customers is done in other comprehensive income in equity.

An instrument will be classified to stage 3 if it is credit impaired. Where there is objective evidence on the balance sheet date that a financial instrument is impaired, it will be classified to stage 3.

The criteria for derecognizing or writing off receivables deemed irrecoverable is when these are completely uncollectable and when all the collateral for the receivables has been finally realized. Provisions are recognized for risks arising from contingent liabilities in accordance with IAS 37.

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

**Trading assets/liabilities**
Under Trading assets, primary financial instruments are measured at fair value. Derivative financial instruments are measured at market value. Financial instruments with negative fair values are recognized on the balance sheet in Trading liabilities. Revaluation gains and losses on this line item are recognized in the income statement in Net trading income. Interest expenses incurred in the financing of trading assets are reported in Net interest income.

**Derivatives**
Derivative financial instruments are measured at fair value. Changes in value are generally recognized through profit or loss in the income statement.

**Property, plant and equipment**
Property and equipment consists of land, buildings and other equipment comprising primarily office furniture and business equipment. Property and equipment are recognized at amortized cost. Depreciation is linear based on an asset's usual useful life and lies within the following bands:
– Immovable assets 1.5% to 2.5% (i.e. 66.7 to 40 years)
– Office furniture and business equipment: 10% to 20% (i.e. from 10 to 5 years).

Impairment allowances are recognized in the income statement under General administrative expenses to take account of impairments. If an impairment ceases to exist, a reversal is made up to the asset's amortized costs. No impairments or reversals were recognized during the period under review.

**Intangible assets**
Other intangible assets have been all purchased and have limited useful lives; they consist primarily of software. Amortization is linear based on an asset's usual useful life. The amortization rate for software is 25% (i.e. four years).

**Leasing**
Leased assets within the Group are recognized as assets leased under finance leases (the risks and rewards being with the lessee for the purposes of IAS 17). Leased assets are 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 Other assets and Other liabilities comprise ‘other’ assets and liabilities and the fair values of derivative instruments. These are measured at amortized cost.

**Liabilities evidenced by paper**
Liabilities evidenced by paper comprise bonds in circulation, debt securities and other liabilities evidenced by paper (own issues). As a rule, liabilities evidenced by paper are recognized at amortized cost. In exceptional cases and based on decisions by the ALM Committee, the fair value option is used.

**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, be settled only after the claims of other creditors. As a rule, subordinated debt capital is recognized at amortized cost.

**Deferred tax assets and deferred tax liabilities**
Income tax is reported and calculated in accordance with IAS 12. The calculation for each taxed entity is carried out applying the tax rates that, under applicable legislation, are to be applied in the tax period in which a temporary difference is going to reverse. Deferred taxes are computed on the basis of differences between the tax base and the carrying amounts of assets or liabilities for the purposes of IFRSs. These will probably give rise to additional tax burdens or reduce future tax burdens.

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



**Equity**
Equity consists 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 reinvesting its profits. An additional tier 1 note was issued in 2015, 2017 and 2018 respectively. Under IAS 32, such notes have to be classified as equity.

## NOTES TO INDIVIDUAL LINE ITEMS IN THE INCOME STATEMENT

**Net interest income**
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 are accounted for on an accrual basis. The historically low interest rates led to negative interest earnings. According to the IFRIC Interpretations Committee (IC), these must be presented in an ‘appropriate expense classification’. As a result, negative interest income is presented as an interest expense. Likewise, positive interest expenses are presented as interest income.

**Impairment charges on receivables from customers**
This line item recognizes impairment allowances, impairment reversals and provisions.
See also Note (2) for details.

**Net fee and commission income**
Net fee and commission income comprises income from services rendered to third parties net of the expenses attributed to such services. Fees and commissions connected with newly granted loans with original maturities of more than one year are recognized in the income statement pro rata temporis.

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

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

**Other operating expenses / income**
This item includes fees, charges, damage, damage compensation, proceeds from the sale of properties and similar items and is accounted for on an accrual basis.

**Gains/losses from the derecognition of financial assets measured at amortized cost**
This item reports gains/losses from the derecognition of financial assets measured at amortized cost. Direct write-offs and recoveries on receivables previously written off are also accounted for in this line item.

## OTHER EXPLANATORY NOTES

Forward-looking assumptions and estimates such as yield curves and exchange rates were made to the extent required, and the financial statements were prepared on the basis of the state of knowledge and information at our disposal on the date of record.

The assumptions and estimates entering into the financial statements for the period were made on the basis of the state of knowledge and information at our disposal as at 30 June 2018.

## EXPLANATIONS ON THE INITIAL APPLICATION OF IFRS 9

The following table presents a comparison of the measurement categories and carrying amounts pursuant to IAS 39 with the measurement categories determined pursuant to IFRS 9 and the carrying amounts as at 1 January 2018.

### COMPARISON OF MEASUREMENT CATEGORIES AND CARRYING AMOUNTS PURSUANT TO IAS 39 AND IFRS 9 AS AT 1 JANUARY 2018

| Assets | IAS 39 | | IFRS 9 | |
|---|---|---|---|---|
| in €k | Measurement category | Carrying amount | Measurement category | Carrying amount |
| **Cash and balances with the central bank** | Nominal | 476,589 | Nominal | 476,589 |
| **Receivables from other banks** | at amortized cost (receivables and loans) | 97,711 | at amortized costs | 97,711 |
| **Receivables from customers** | at amortized costs (receivables and loans) | 5,450,150 | at amortized costs | 5,402,199 |
| | | - | Fair value through profit or loss (FVPL) | 48,138 |
| | Designated at fair value through profit or loss (fair value option) | 55,805 | Designated at fair value through profit or loss (fair value option) | 55,805 |
| **Trading assets** | Held for trading | 7 | Fair value through profit or loss (FVPL) | 7 |
| **Debt securities and other interest-bearing securities** | At amortized cost (held to maturity) | 782,765 | at amortized cost | 782,765 |
| | Designated at fair value through profit or loss (fair value option) | 22,495 | Designated at fair value through profit or loss (fair value option) | 22,415 |
| | | - | Fair value through profit or loss (FV PL) | 80 |
| | Available for sale | 56,799 | At fair value through other comprehen-sive income (FV OCI) | 56,799 |
| **Shares and other equity** | Available for sale | 125,270 | At fair value through other comprehensive income (FV OCI) | 83,068 |
| | | | Fair value through profit or loss (FV PL) | 42,203 |

## RECONCILIATION OF CARRYING AMOUNTS PURSUANT TO IAS 39 TO IFRS 9 AS AT 1 JANUARY 2018

| Assets<br>in €k | Carrying amount pursuant to IAS 39 at as 31/12/2017 | Reclassification | Remeasurement | Carrying amount pursuant to IFRS 9 as at 01/01/2018 |
|---|---|---|---|---|
| At amortized cost | | | | |
| **Cash and balances with the central bank** | | | | |
| Opening balance under IAS 39 | 476,589 | | | |
| Closing balance under IFRS 9 | | | | 476,589 |
| **Receivables from other banks** | | | | |
| Opening balance under IAS 39 | 97,711 | | | |
| Closing balance under IFRS 9 | | | | 97,711 |
| **Receivables from customers** | | | | |
| Opening balance under IAS 39 | 5,450,150 | | | |
| - Reclassification: to fair value through profit or loss (FV PL) | | -47,952 | | |
| Closing balance under IFRS 9 | | | | 5,402,199 |
| **Debt securities: at amortized cost** | | | | |
| Opening balance under IAS 39 | - | | | |
| – Reclassification: from held-to-maturity | | 782,765 | | |
| Closing balance under IFRS 9 | | | | 782,765 |
| **Debt securities: held to maturity** | | | | |
| Opening balance under IAS 39 | 782,765 | | | |
| – Reclassification to at amortized cost | | -782,765 | | |
| Closing balance under IFRS 9 | | | | - |
| **Impairment charges on receivables from customers** | | | | |
| Opening balance under IAS 39 | -136,992 | | | |
| – Receivables credit institutions: Remeasurement ECL allowance | | | -153 | |
| – Receivables from customers: Remeasurement ECL allowance | | | -22,459 | |
| – Receivables from customers: Remeasurement ECL allowance (from HtM reclassification) | | | -453 | |
| – Receivables: Reversal IBNR[1)] | | | 36,869 | |
| Closing balance under IFRS 9 | | | | -123,188 |
| **Total financial assets measured at amortized cost** | **6,670,223** | **-47,952** | **13,804** | **6,636,075** |

[1)] The reversal of IBNR (incurred but not reported) in the “Remeasurement” column also includes the reversal of the IBNR for receivables from customers that were reclassified as at fair value through profit or loss (mandatory).

| Assets in €k | Carrying amount pursuant to IAS 39 at as 31/12/2017 | Reclassification | Remeasurement | Carrying amount pursuant to IFRS 9 as at 01/01/2018 |
|---|---|---|---|---|
| **Fair value through profit or loss (FV PL)** | | | | |
| **Trading assets** | | | | |
| Opening balance under IAS 39 | 7 | | | |
| Closing balance under IFRS 9 | | | | 7 |
| **Debt securities: Fair value through profit or loss (designated)** | | | | |
| Opening balance under IAS 39 | 22,495 | | | |
| – Reclassification: at fair value through profit or loss (mandatory) | | -80 | | |
| Closing balance under IFRS 9 | | | | 22,415 |
| **Debt securities: Fair value through profit or loss (mandatory)** | | | | |
| Opening balance under IAS 39 | - | | | |
| – Reclassification: at fair value through profit or loss (designated) | | 80 | | |
| Closing balance under IFRS 9 | | | | 80 |
| **Loans: Fair value through profit or loss (designated)** | | | | |
| Opening balance under IAS 39 | 55,805 | | | |
| Closing balance under IFRS 9 | | | | 55,805 |
| **Loans: Fair value through profit or loss (mandatory)** | | | | |
| Opening balance under IAS 39 | - | | | |
| – Reclassification: from amortized cost | | 47,952 | | |
| –Remeasurement: from amortized cost to fair value | | | 186 | |
| Closing balance under IFRS 9 | | | | 48,138 |
| **Shares and other equity Fair value through profit or loss (mandatory)** | | | | |
| Opening balance under IAS 39 | - | | | |
| – Reclassification: from available-for-sale financial assets | | 42,203 | | |
| Closing balance under IFRS 9 | | | | 42,203 |
| **Total financial assets measured at fair value through profit or loss** | **78,307** | **90,155** | **186** | **168,648** |
| **Fair value through other comprehensive income (FV OCI)** | | | | |
| **Debt instruments - FV OCI (with recycling)** | | | | |
| Opening balance under IAS 39 | - | | | |
| – Reclassification: from available-for-sale financial assets | | 56,799 | | |
| Closing balance under IFRS 9 | | | | 56,799 |
| **Shares and other equity - FV OCI (without recycling)** | | | | |
| Opening balance under IAS 39 | - | | | |
| – Reclassification: from available-for-sale financial assets | | 83,068 | | |
| Closing balance under IFRS 9 | | | | 83,068 |
| **Debt instruments - available for sale** | | | | |
| Opening balance under IAS 39 | 56,799 | | | |
| – Reclassification: to FV OCI | | -56,799 | | |
| Closing balance under IFRS 9 | | | | - |
| **Shares and other equity - available for sale** | | | | |
| Opening balance under IAS 39 | 125,270 | | | |
| – Reclassification: to FV OCI | | -83,068 | | |
| – Reclassification: to FV PL | | -42,203 | | |
| Closing balance under IFRS 9 | | | | - |
| **Total financial assets measured at fair value through other comprehensive income** | **182,069** | **-42,203** | **-** | **139,866** |

The initial application of IFRS 9 on 1 January 2018 had the following effects on the financial assets of BKS Bank: Loans of EUR 47.9 million measured at amortized cost under IAS 39 were classified as at fair value through profit or loss (FVPL) under IFRS 9. These financial assets do not meet the SPPI test as required by IFRS 9 for measurement at amortized cost. The fair value at the time of initial application was EUR 48.1 million, the difference of EUR 0.2 million was reported in retained earnings as an adjustment to the opening value for equity.

The total portfolio of financial assets classified as held to maturity under IAS 39 was reclassified to the 'hold to collect' business model. As these financial assets meet the SPPI test, they will most likely continue to be measured at amortized cost also under IFRS 9.

With respect to most financial instruments reported as available for sale pursuant to IAS 39, measurement was at fair value through other comprehensive income (FV OCI) upon initial application of IFRS 9, because – with the exception of investment fund assets – the fair value OCI option was selected for equity instruments. Investment fund assets are measured at fair value through profit or loss (FV PL).

A debt security with a carrying value of EUR 80 thousand for which the fair value option was used under the IAS 39 was measured at fair value through profit or loss (FV PL) under IAS 9, because the SPPI test for measurement at amortized cost required by IFRS 9 was not met.

The reconciliation of the final amount of impairment charges on receivables from customers as at 31 December 2017 under IAS 39 to the opening balance of 1 January 2018 under IFRS 9 is presented in the table below.

## RECONCILIATION OF IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS UNDER IAS 39 TO IFRS 9 AS AT 1 JANUARY 2018

| Assets in €k | Impairment charges under IAS 39/Provisions under IAS 37 at as 31/12/2017 | Reclassification | Remeasurement | Impairment charges under IFRS 9 as at 01/01/2018 |
|---|---|---|---|---|
| **Loans and receivables (IAS 39) / at amortized cost (IFRS 9)** | | | | |
| Receivables from other banks | - | | | |
| – Remeasurement ECL allowance | | | 153 | |
| Receivables from customers | 136,992 | | | |
| – Remeasurement ECL allowance | | | 22,459 | |
| – Reversal IBNR | | | -36,869 | |
| **Total** | **136,992** | **-** | **-14,257** | **122,735** |
| | | | | |
| **Held to maturity (IAS 39) / at amortized cost (IFRS 9)** | | | | |
| Debt securities | - | | | |
| – Remeasurement ECL allowance | | | 453 | |
| **Total** | **-** | **-** | **453** | **453** |
| | | | | |
| **Available for sale (IAS 39)/FVOCI (IFRS 9)** | | | | |
| Debt securities | - | | | |
| – Remeasurement ECL allowance | | | 44 | |
| **Total** | **-** | **-** | **44** | **44** |
| | | | | |
| **Loan commitments and financial guarantee contracts** | **-** | | **1,265** | **1,265** |
| **Total** | **136,992** | **-** | **-12,495** | **124,497** |

## DETAILS OF THE INCOME STATEMENT

### (1) NET INTEREST INCOME

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| **Interest income applying the effective interest rate method:** | | | |
| Credit operations | 56,706 | 56,639 | -0.1 |
| Fixed-interest bearing securities measured at amortized cost | n/a | 7,482 | - |
| Fixed-interest bearing securities measured ad FV OCI | n/a | 356 | - |
| Fixed-income securities held-to-maturity | 8,337 | n/a | - |
| Leasing receivables | 4,424 | 4,651 | 5.1 |
| Positive interest expenses[1)] | 3,169 | 6,402 | >100 |
| **Interest income based on the effective interest rate method** | **72,636** | **75,531** | **5.2** |
| **Other interest income** | | | |
| Lending transactions | n/a | 866 | - |
| Fixed securities designated at fair value through profit or loss | 223 | 223 | - |
| Fixed securities available for sale | 416 | n/a | - |
| Shares | 2,549 | 3,372 | 32.3 |
| Investment property | 1,721 | 1,609 | -6.5 |
| **Other interest income** | **4,909** | **6,070** | **23.6** |
| **Total interest income** | **77,545** | **81,601** | **5.2** |
| | | | |
| **Interest expenses** | | | |
| Deposits from customers and other banks | 3,885 | 2,683 | -30.9 |
| Liabilities evidenced by paper | 10,639 | 9,483 | -10.9 |
| Negative interest income[1)] | 2,750 | 3,341 | 21.5 |
| Investment property | 322 | 381 | 18.2 |
| **Total interest expenses** | **17,598** | **15,888** | **-9.7** |
| **Net interest income** | **59,948** | **65,713** | **9.6** |

[1)] This consists of interest expenses/income that are positive or negative as a result of the historically low interest rates.



Interest income includes income from unwinding, i.e., from changes in the present values of cash flows from impaired receivables in an amount of EUR 1.8 million (30 June 2018: EUR 1.1 million).

### (2) IMPAIRMENT CHARGES ON RECEIVABLES AND DEBT SECURITIES

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Impairment allowances | 25,953 | 25,677 | -1.1 |
| Impairment reversals | -11,749 | -16,602 | 41.3 |
| Direct write-offs | 421 | n/a | - |
| Recoveries in respect of receivables previously written off | -421 | n/a | - |
| **Impairment Charges on Receivables and debt securities** | **14.204** | **9.075** | **-36,1** |

## (3) FEE AND COMMISSION INCOME

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| **Fee and commission income:** | | | |
| Payment services | 10,857 | 11,312 | 4.2 |
| Securities operations | 7,418 | 6,980 | -5.9 |
| Credit operations | 6,721 | 8,614 | 28.2 |
| Foreign exchange operations | 1,947 | 1,837 | -5.7 |
| Other services | 843 | 762 | -9.5 |
| **Total fee and commission income** | **27,785** | **29,505** | **6.2** |
| **Fee and commission expenses** | | | |
| Payment services | 973 | 1,026 | 5.5 |
| Securities operations | 493 | 682 | 38.4 |
| Credit operations | 242 | 340 | 40.3 |
| Foreign exchange operations | 115 | 85 | -26.2 |
| Other services | 36 | 21 | -40.2 |
| **Total fee and commission expenses** | **1,859** | **2,155** | **15.9** |
| **Net fee and commission income** | **25,926** | **27,351** | **5.5** |

## (4) PROFIT/LOSS FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Profit/loss from investments accounted for using the equity method | 18,631 | 18,817 | 1.0 |
| **Profit/loss from investments accounted for using the equity method** | **18,631** | **18,817** | **1.0** |

## (5) NET TRADING INCOME

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Price-based transactions | -7 | 9 | >100 |
| Interest rate and currency contracts | 981 | -213 | >-100 |
| **Net trading income** | **974** | **-205** | **>-100** |

## (6) GENERAL ADMINISTRATIVE EXPENSES

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Staff costs | 34,300 | 38,167 | 11.3 |
| – Wages and salaries | 25,671 | 28,345 | 10.4 |
| – Social security costs | 6,939 | 7,031 | 1.3 |
| – Costs of retirement benefits | 1,690 | 2,791 | 65.2 |
| Other administrative costs | 15,220 | 16,364 | 7.5 |
| Depreciation/amortization | 3,103 | 3,429 | 10.5 |
| **General administrative expenses** | **52,623** | **57,960** | **10.1** |

## (7) OTHER OPERATING INCOME / EXPENSES

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Other operating income | 2,234 | 3,115 | 39.4 |
| Other operating expenses | -6,832[1)] | -6,579[1)] | -3.7 |
| **Other operating income/expenses** | **-4,598** | **-3,464** | **-24.7** |

[1)] This includes mainly expenses for the resolution mechanism and deposit guarantee scheme.

## (8) PROFIT/LOSS FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Profit/loss from the measurement and disposal of derivatives | - | - | - |
| Profit/loss from the fair value option | 1,297 | -3,112 | >-100 |
| **Profit/loss from financial instruments designated at fair value** | **1,297** | **-3,112** | **>-100** |

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

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Revaluation gains and losses | 10 | n/a | - |
| Gains/losses on disposal | 1,311 | n/a | - |
| **Profit/loss from available-for-sale financial assets** | **1,322** | **n/a** | **-** |

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

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Revaluation gains and losses | 0 | n/a | - |
| Gains and losses on disposal | -4 | n/a | - |
| **Profit/loss from held-to-maturity financial assets** | **-4** | **n/a** | **-** |

## (11) GAINS/LOSSES FROM FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (MANDATORY)

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Revaluation gains and losses | n/a | -1,273 | - |
| Gains and losses on disposal | n/a | 14 | - |
| **Profit/loss from financial assets measured at fair value through profit/loss (mandatory)** | **n/a** | **-1,259** | **-** |

## (12) GAINS/LOSSES FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Receivables from other banks | n/a | 22 | - |
| – thereof profit | n/a | 22 | - |
| – thereof loss | n/a | - | - |
| Receivables from customers | n/a | -116 | - |
| – thereof profit | n/a | 454 | - |
| – thereof loss | n/a | -570 | - |
| Debt instruments | n/a | - | - |
| – thereof profit | n/a | - | - |
| – thereof loss | n/a | - | - |
| **Gains/losses from the derecognition of financial assets measured at amortized cost** | **n/a** | **-94** | **-** |

## (13) OTHER PROFIT/LOSS FROM FINANCIAL ASSETS/LIABILITIES

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Modification gains/losses | n/a | -107 | - |
| – Financial assets measured at amortized cost | n/a | -107 | - |
| –From financial assets measured at FV OCI | n/a | - | - |
| – From financial liabilities measured at amortized cost | n/a | - | - |
| Derecognition gains/losses | n/a | - | - |
| – From financial assets measured at FV OCI | n/a | - | - |
| – From financial liabilities measured at amortized cost | n/a | - | - |
| **Other profit/loss from financial assets/liabilities** | **n/a** | **-107** | **-** |

## (14) INCOME TAX EXPENSE

| in €k | HY1 2017 | 1HY 2018 | ± in % |
|---|---|---|---|
| Current taxes | -3,419 | -4,901 | 43.4 |
| Deferred taxes | -123 | 921 | >100 |
| **Income tax expense** | **-3,542** | **-3,980** | **12.4** |

# DETAILS OF THE BALANCE SHEET

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

| in k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Cash in hand | 85,095 | 79,853 | -6.2 |
| Credit balances with central banks | 391,494 | 333,776 | -14.7 |
| **Cash and balances with the central bank** | **476,589** | **413,629** | **-13.2** |

## (16) RECEIVABLES FROM OTHER BANKS

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Receivables from Austrian banks | 75,741 | 119,794 | 58.2 |
| Receivables from foreign banks | 21,970 | 94,881 | >100 |
| **Receivables from other banks** | **97,711** | **214,675** | **>100** |

## (17) RECEIVABLES FROM CUSTOMERS

### 17.1 RECEIVABLES FROM CUSTOMERS, BY CUSTOMER GROUP

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Corporate and business banking customers | 4,241,104 | 4,559,130 | 7.5 |
| Retail banking customers | 1,209,047 | 1,251,516 | 3.5 |
| **Receivables from customers, by customer group** | **5,450,151** | **5,810,646** | **6.6** |

### 17.2 RECEIVABLES FROM CUSTOMERS, BY MEASUREMENT CATEGORY

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Financial assets measured at amortized cost | 5,450,151 | 5,671,107 | 4.1 |
| Financial assets designated at fair value through profit or loss | n/a | 86,439 | - |
| Financial assets measured at fair value through profit or loss (mandatory) | n/a | 53,100 | - |
| **Receivables from customers, by measurement category** | **5,450,151** | **5,810,646** | **6.6** |

## (18) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS AND DEBT SECURITIES

| in €k | – Stage 1 | – Stage 2 | – Stage 3 | 30/06/2018 |
|---|---|---|---|---|
| At the beginning of the reporting period | 8,749 | 14,315 | 100,123 | 123,187 |
| Increase due to change in credit risk | 1,770 | 6,291 | 14,755 | 22,816 |
| Decrease due to change in credit risk | -2,802 | -4,495 | -6,475 | -13,772 |
| Decrease due to repayment | -911 | -1,919 | - | -2,830 |
| Change due to modifications without derecognition | - | - | - | - |
| Newly acquired or originated financial assets | 2,128 | - | - | 2,128 |
| Derecognition/use | - | - | -7,149 | -7,149 |
| Changes due to updates in the methodology used for estimates | - | - | - | - |
| Exchange rate effects and other | - | - | - | - |
| **At the end of the reporting period** | **8,934** | **14,192** | **101,254** | **124,380** |

## IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS AT 31/12/2017

| in €k | Specific impairment charge | Portfolio impairment pursuant to IAS 39 | 31/12/2017 |
|---|---|---|---|
| At the beginning of the reporting period | 116,746 | 38,390 | 155,136 |
| Additions | 38,272 | 1,341 | 39,613 |
| Reversals | -16,450 | -2,862 | -19,312 |
| Exchange rate effects | 16 | - | 16 |
| Use | -38,461 | - | -38,461 |
| **At the end of the reporting period** | **100,123** | **36,869** | **136,992** |

## (19) TRADING ASSETS

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Positive fair values of derivative financial instruments | 9,837 | 9,708 | -1.3 |
| – Currency contracts | 2,539 | 2,903 | 14.3 |
| – Interest rate contracts | 7 | 4 | -38.6 |
| – Transactions relating to the fair value option | 7,292 | 6,801 | -6.7 |
| **Trading assets** | **9,837** | **9,708** | **-1.3** |

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

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Debt securities and other fixed interest securities | 22,495 | n/a | - |
| Loans | 55,805 | n/a | - |
| **Financial assets designated at fair value through profit or loss** | **78,300** | **n/a** | **-** |

## (21) AVAILABLE FOR SALE FINANCIAL ASSETS

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Debt securities and other fixed interest securities | 56,799 | n/a | - |
| Shares and non-interest bearing securities | 45,268 | n/a | - |
| Other equity investments | 80,003 | n/a | - |
| **Available-for-sale financial assets** | **182,069** | **n/a** | **-** |

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

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Debt securities and other fixed interest securities | 782,765 | n/a | - |
| **Held-to-maturity financial assets** | **782,765** | **n/a** | **-** |

## (23) DEBT SECURITIES AND OTHER FIXED INTEREST SECURITIES

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Financial assets measured at amortized cost | n/a | 815,339 | - |
| Financial assets designated at fair value through profit or loss | n/a | 22,372 | - |
| Financial assets messured at FV OCI | n/a | 69,474 | - |
| Financial assets designated at fair value through profit or loss (mandatory) | n/a | 54 | - |
| **Debt securities and other fixed interest securities** | **n/a** | **907,240** | **-** |

## (24) SHARES AND OTHER EQUITY

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Financial assets designated at fair value through profit or loss (mandatory) | n/a | 42,013 | - |
| Financial assets messured at FV OCI | n/a | 92,831 | - |
| **Shares and other equity** | **n/a** | **134,844** | **-** |

Other equity investments are reported under Shares and other equity measured at FV OCI in amount of EUR 87.5 million.

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

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Oberbank AG | 338,141 | 370,437 | 9.6 |
| Bank für Tirol und Vorarlberg AG | 180,492 | 193,132 | 7.0 |
| Drei Banken Versicherungsagentur GmbH | 1,721 | 1,721 | - |
| **Investments in entities accounted for using the equity method** | **520,354** | **565,290** | **8.6** |

## (26) INTANGIBLE ASSETS

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Other intangible assets | 1,638 | 3,548 | >100 |
| **Intangible assets** | **1,638** | **3,548** | **>100** |

## (27) PROPERTY, PLANT AND EQUIPMENT

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Property | 8,368 | 8,350 | -0.2 |
| Buildings | 38,912 | 37,659 | -3.2 |
| Other property, plant and equipment | 7,894 | 8,314 | 5.3 |
| **Property, plant and equipment** | **55,174** | **54,323** | **-1.5** |

## (28) INVESTMENT PROPERTY

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Property | 8,407 | 8,407 | 0.0 |
| Buildings | 22,461 | 24,921 | 10.9 |
| **Investment property** | **30,868** | **33,327** | **8.0** |

## (29) DEFERRED TAX ASSETS

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| **Deferred tax assets** | **7,873** | **5,386** | **-31.6** |

## (30) OTHER ASSETS

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Other items | 20,826 | 43,215 | >100 |
| Deferred items | 2,334 | 2,761 | 18.3 |
| **Other assets** | **23,161** | **45,977** | **98.5** |

## (31) PAYABLES TO OTHER BANKS

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Payables to Austrian banks | 571,672 | 649,950 | 13.7 |
| Payables to foreign banks | 123,314 | 84,650 | -31.4 |
| **Payables to other banks** | **694,986** | **734,599** | **5.7** |

## (32) PAYABLES TO CUSTOMERS

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| **Savings deposit balances** | **1,475,137** | **1,442,740** | **-2.2** |
| - Corporate and business banking customers | 189,578 | 176,471 | -6.9 |
| - Retail banking customers | 1,285,559 | 1,266,268 | -1.5 |
| **Other payables** | **3,481,352** | **3,744,352** | **7.6** |
| – Corporate and business banking customers | 2,594,792 | 2,697,222 | 3.9 |
| – Retail banking customers | 886,560 | 1,047,131 | 18.1 |
| **Payables to customers** | **4,956,489** | **5,187,092** | **4.7** |

## (33) LIABILITIES EVIDENCED BY PAPER

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Issued bonds | 477,899 | 522,792 | 9.4 |
| Other liabilities evidenced by paper | 76,053 | 72,400 | -4.8 |
| **Liabilities evidenced by paper** | **553,952** | **595,193** | **7.4** |

## (34) TRADING LIABILITIES

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Negative fair values of derivative financial instruments | 14,608 | 17,547 | 20.1 |
| – Currency contracts | 9,272 | 11,299 | 21.9 |
| – Interest rate contracts | 7 | 4 | -40.0 |
| – Transactions relating to the fair value option | 5,329 | 6,244 | 17.2 |
| **Trading liabilities** | **14,608** | **17,547** | **20.1** |

## (35) PROVISIONS

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Provisions for post-employment benefits and similar obligations | 69,693 | 74,827 | 7.4 |
| Provisions for taxes (current taxes) | 4,475 | 6,261 | 39.9 |
| Provisions for guarantees and facilities | - | 1,104 | - |
| Other provisions | 49,463 | 55,219 | 11.6 |
| **Provisions** | **123,631** | **137,412** | **11.1** |

## (36) DEFERRED TAX LIABILITIES

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| **Deferred tax liabilities** | **127** | **373** | **>100** |

## (37) OTHER LIABILITIES

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Other liabilities | 25,799 | 46,347 | 79.6 |
| Deferred items | 4,743 | 1,609 | -66.1 |
| **Other liabilities** | **30,542** | **47,956** | **57.0** |



## (38) SUBORDINATED DEBT CAPITAL

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Tier 2 capital | 118,622 | 145,899 | 23.0 |
| Hybrid capital | 40,000 | 40,000 | - |
| **Subordinated debt capital** | **158,622** | **185,899** | **17.2** |

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 184.0 million after EUR 156.0 million on 31 Dec. 2017.

## (39) EQUITY

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Subscribed capital | 79,279 | 85,886 | 8.3 |
| – Share capital | 79,279 | 85,886 | 8.3 |
| Capital reserves | 193,032 | 241,416 | 25.1 |
| Retained earnings and other reserves | 738,029 | 802,940 | 8.8 |
| Additional equity capital instruments (AT 1 bond) | 36,200 | 37,900 | 4.7 |
| **Equity** | **1,046,540** | **1,168,142** | **11.6** |
| Non-controlling interests | -22 | -24 | 9.5 |
| **Shareholders' equity** | **1,046,518** | **1,168,118** | **11.6** |

The share capital was represented by 41,142,900 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. Each share has a nominal value of EUR 2.0. Capital reserves contain premiums from the issuance of shares. Retained earnings and other reserves consist essentially of reinvested profits. Additional equity instruments consist of the additional tier 1 bonds classified as equity under IAS 32.

## (40) SEGMENT REPORTING

Segment reporting is based on the organisational structure of the Group that underlies its internal management reporting system.

### SEGMENT RESULTS

| | Retail banking | | Corporate and business banking | | Financial markets | |
|---|---|---|---|---|---|---|
| in €k | HY1/2017 | HY1/2018 | HY1/2017 | HY1/2018 | HY1/2017 | HY1/2018 |
| Net interest income | 12,367 | 13,812 | 42,951 | 49,933 | 21,849 | 19,373 |
| – Profit/loss from investments accounted for using the equity method | - | - | - | - | 18,631 | 18,817 |
| Impairment charges on receivables from customers | -1,487 | -410 | -11,655 | -8,453 | -1,063 | -212 |
| Net fee and commission income | 11,125 | 11,833 | 13,925 | 14,947 | 172 | 515 |
| Net trading income | - | - | - | - | 974 | -205 |
| General administrative expenses | -25,968 | -25,717 | -22,950 | -23,617 | -3,518 | -3,635 |
| Other operating income net of other operating expenses | 554 | 1,069 | 562 | 453 | -48 | -28 |
| Profit/loss from financial assets/liabilities | - | 95 | - | -211 | 2,615 | -4,456 |
| **Profit for the period before tax** | **-3,409** | **682** | **22,833** | **33,052** | **20,981** | **11,352** |
| Average risk-weighted assets | 494,277 | 527,529 | 3,138,432 | 3,204,917 | 936,419 | 945,779 |
| Average allocated equity | 42,691 | 61,597 | 270,584 | 374,357 | 656,478 | 657,534 |
| **ROE based on profit for the period** | **-16.0%** | **2.2%** | **16.9%** | **17.7%** | **6.4%** | **3.5%** |
| **Cost/income ratio** | **108.0%** | **96.3%** | **40.0%** | **36.1%** | **15.3%** | **18.5%** |
| **Risk/earnings ratio** | **12.0%** | **3.0%** | **27.1%** | **16.9%** | **4.9%** | **1.1%** |

| | Other | | Total | |
|---|---|---|---|---|
| in €k | HY1/2017 | HY1/2018 | HY1/2017 | HY1/2018 |
| Net interest income | 1,413 | 1,413 | 78,579 | 84,530 |
| – Profit/loss from accounted for using the equity method | - | - | 18,631 | 18,817 |
| Impairment charges on receivables from customers | - | - | -14,204 | -9,075 |
| Net fee and commission income | 704 | 55 | 25,926 | 27,351 |
| Net trading income | - | - | 974 | -205 |
| General administrative expenses | -186 | -4,991 | 52,623 | -57,960 |
| Other operating income net of other operating expenses | -5,667 | -4,959 | -4,598 | -3,464 |
| Profit/loss from financial assets/liabilities | - | - | 2,615 | -4,572 |
| **Profit for the period before tax** | **-3,736** | **-8,482** | **36,669** | **36,604** |
| Average risk-weighted assets | 57,019 | 59,082 | 4,626,146 | 4,737,307 |
| Average allocated equity | 12,109 | 13,853 | 981,863 | 1,107,341 |
| **ROE based on profit for the period** | **-** | **-** | **6.9%** | **6.7%** |
| **Cost/income ratio** | **-** | **-** | **52.2%** | **53.6%** |
| **Risk/earnings ratio** | **-** | **-** | **18.1%** | **10.7%** |

Method: Net interest income is broken down using the market interest rate method. The costs incurred are allocated to the business areas in which these costs originate. Returns on maturity transformation are allocated to the Financial Markets segment. Capital is allocated based on regulatory parameters.

The average allocated equity carries 5% interest and is recognized as return on equity invested in net interest income. The profit for the respective segment is measured based on the profit before tax earned in the segment. Apart from the cost/income ratio, return on equity is one of the principal benchmarks for managing the business segments. Segment reporting is based on our internal management processes. The Management Board as a whole is responsible for the enterprise's management.

In detail, the reports used for internal management purposes comprise the following:
– Monthly reporting of results at the profit centre level
– Quarterly reports for all relevant risk types
– Ad-hoc reports of exceptional events

**Corporate and Business Banking**
At the end of June 2018, 20,700 corporate and business banking customers were served in this segment. BKS Bank was originally conceived as a corporate and business bank, and therefore, this business segment is still the enterprise's most important source of income. Corporate and business banking customers still account for a large share of the loan portfolio and make essential contributions to profit for the period. Besides income and expenses of BKS Bank AG relating to business with corporate and business banking customers, income and expenses of the leasing companies were also allocated to this segment if they are from business with corporate customers.

**Retail Banking**
All income and expense components of BKS Bank AG, BKS-Leasing Gesellschaft m.b.H., BKS-leasing d.o.o., BKS-leasing Croatia d.o.o. and BKS-Leasing s.r.o. from business with retail customers and wage and salary earners are reported summarized in the retail banking segment. A number of 142,000 customers belonged to this segment at the end of June 2018.

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



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

## (41) CONTINGENT LIABILITIES AND COMMITMENTS

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Guarantees | 383,312 | 406,099 | 5.9 |
| Letters of credit | 4,032 | 1,505 | -62.7 |
| **Contingent liabilities** | **387,344** | **407,604** | **5.2** |
| Other credit risks | 1,377,699 | 1,345,084 | -2.4 |
| **Credit risks** | **1,377,699** | **1,345,084** | **-2.4** |

## (42) RELATED PARTY DISCLOSURES

| | Outstanding balances | | Guarantees received | | Guarantees provided | |
|---|---|---|---|---|---|---|
| in €k | At 31/12/2017 | At 30/06/2018 | At 31/12/2017 | At 30/06/2018 | At 31/12/2017 | At 30/06/2018 |
| **Non-consolidated subsidiaries** | | | - | - | - | - |
| Receivables | 2,914 | 2,914 | | | | |
| Liabilities | 1,234 | 1,631 | | | | |
| **Associates and joint arrangements** | | | - | - | - | - |
| Receivables | 2,494 | 13,015 | | | | |
| Liabilities | 65,464 | 45,686 | | | | |
| **Key management personnel** | | | - | - | - | - |
| Receivables | 424 | 251 | | | | |
| Liabilities | 1,151 | 1,284 | | | | |
| **Other related parties** | | | - | - | - | - |
| Receivables | 166 | 154 | | | | |
| Liabilities | 726 | 385 | | | | |

## LOANS AND ADVANCES GRANTED

| in €k | 31/12/2017 | 30/06/2018 | ± in % |
|---|---|---|---|
| Loans and advances granted to members of the Management Board | 57 | 5 | -91.2 |
| Loans and advances granted to members of the Supervisory Board | 367 | 246 | -33.0 |
| **Loans and advances granted** | **424** | **251** | **-40.8** |

Transactions with related parties were on arm's length terms. During the financial year, no provisions for doubtful receivables and no expenses on irrecoverable or doubtful receivables were recognized in connection with related parties.



## (43) EVENTS AFTER THE BALANCE SHEET DATE

After the reporting date of this interim report (30 June 2018), BKS Bank witnessed no activities or events unusual in terms of form or content that had an impact on the view of the assets, financial position and result of operations as presented in this report.

## (44) FAIR VALUES

### Financial assets and liabilities measured at fair value

| 30/06/2018<br>in €k | LEVEL 1 'Market value' | LEVEL 2 'Based on market data' | Level 3 'Internal measurement method' | Total fair value |
|---|---|---|---|---|
| **Assets** | | | | |
| Receivables from customers | | | | |
| - at fair value through profit or loss (mandatory) | - | - | 53,100 | 53,100 |
| - at fair value through profit or loss (designated) | - | - | 86,439 | 86,439 |
| Trading assets (derivatives) | - | 9,708 | - | 9,708 |
| Debt securities and other fixed interest securities | | | | |
| - at fair value through profit or loss (mandatory) | 54 | - | - | 54 |
| - at fair value through profit or loss (designated) | 22,372 | - | - | 22,372 |
| - at FV OCI | 69,474 | - | - | 69,474 |
| Shares and other equity | | | | |
| - at fair value through profit or loss (mandatory) | 42,013 | - | - | 42,013 |
| - at FV OCI | 58,316 | 3,579 | 30,936 | 92,831 |
| **Equity and liabilities** | | | | |
| Liabilities evidenced by paper - at fair value through profit or loss | - | - | 84,600 | 84,600 |
| Trading liabilities | - | 17,547 | - | 17,547 |

| 31/12/2017<br>in €k | LEVEL 1 'Market value' | LEVEL 2 'Based on market data' | Level 3 'Internal measurement method' | Total fair value |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading assets | - | 9,837 | - | 9,837 |
| FA[1] at fair value through profit or loss | 22,495 | - | 55,805 | 78,300 |
| FA[1] available-for-sale | 148,930 | 3,477 | 29,662 | 182,069 |
| **Equity and liabilities** | | | | |
| Liabilities evidenced by paper | - | - | 84,688 | 84,688 |
| Trading liabilities | - | 14,608 | - | 14,608 |

[1] FA = financial assets

## LEVEL 3: MOVEMENTS IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

| in €k | Receivables from customers at fair value through profit or loss (designated) | Receivables from customers at fair value through profit or loss (mandatory) | Shares and other equity - at fair value OCI | Securitized liabilities at fair value through profit or loss |
|---|---|---|---|---|
| **As at 01/01/2018** | **55,805** | **48,138** | **29,662** | **84,688** |
| Reclassification | - | - | - | - |
| Income statement[1] | -2,306 | -60 | - | -88 |
| Other comprehensive income | - | - | 1,274 | - |
| Additions | 35,176 | 10,119 | - | - |
| Sold/redeemed | -2,236 | -5,097 | - | - |
| **At as 30/06/2018** | **86,439** | **53,100** | **30,936** | **84,600** |

[1] Measurement changes in profit/loss; reported in item profit/loss on financial instruments designated at fair value through profit/loss and in the item profit/loss from financial assets measured at fair value through profit/loss (mandatory).

## LEVEL 3: MOVEMENTS IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

| in €k | Financial assets at fair value through profit or loss | Liabilities evidenced by paper – thereof at fair value through profit or loss | Available-for-sale financial assets[2] |
|---|---|---|---|
| **As at 01/01/2017** | **52,675** | **85,130** | **12,992** |
| Income statement[1] | -1,439 | -442 | - |
| Other comprehensive income | - | - | 12,518 |
| Reclassified to level 2 | - | - | -3,477 |
| Purchased/added | 16,700 | - | - |
| Sold/redeemed | -12,131 | - | - |
| **At as 31/12/2017** | **55,805** | **84,688** | **22,033** |

[1] Measurement changes in profit/loss; reported in item profit/loss on financial instruments designated at fair value through profit/loss.

[2] As at 1 January of the reporting year, all equity investments had still been measured at amortized cost.

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

If market values were unavailable, the fair value was ascertained using customary valuation models based on observable input factors and market data and presented in the category Level 2 'Based on market data' (e.g. by discounting future cash flows from financial instruments). In general, fair values shown in this category were ascertained on the basis of market data that were observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). In general, items in Level 2 were measured using the present value method.

In Level 3 'Internal measurement method', the values of individual financial instruments were measured on the basis of special generally accepted valuation methods. In general, liabilities evidenced by paper in Level 3 were measured on the basis of market data that were observable for these liabilities (e.g. yield curves, foreign exchange rates). The factors affecting the values of positions in Level 3 that were not observable in the market were adjustments on the basis of internal rating procedures to the credit ratings of customers and of BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in Level 3 were measured using the present value method.

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

**Changes in the ratings of assets and liabilities measured at fair value**
Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of those financial instruments and their remaining time to maturity. The change in the default risk associated with liabilities measured at fair value in the period under review was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining time to maturity. In HY1 2018, the changes in the ratings of receivables from customers measured at fair value had an effect on the fair value in the amount of EUR 0.0 million (31/12/2017: EUR 0.0 million). In the reporting period HY1 2018, the changes in the ratings of liabilities evidenced by paper had an effect on the fair value in the amount of EUR 0.1 million (31/12/2017: EUR 0.3 million).



**Sensitivity analysis**
The sensitivity analysis of receivables from customers measured at fair value results in an accumulated change in value of EUR 0.2 million (previous year: EUR 0.2 million), assuming an improvement or deterioration in the credit rating of 10 basis points in the credit spread ( 31/12/2017: EUR 0.2 million). An analysis assuming an improvement or deterioration in BKS Bank's rating of 10 basis points in the credit spread would result in an accumulated change in the value of the liabilities evidenced by paper designated at fair value of EUR 0.4 million (31/12/2017: EUR 0.8 million).

## FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT RECOGNIZED AT FAIR VALUE

| 30/06/2018 in €k | LEVEL 1 'Market value' | LEVEL 2 'Based on market data' | Level 3 'Internal measurement method' | Total fair value | Carrying amount 30/06/2018 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Receivables from other banks | - | - | 214,753 | 214,753 | 214,675 |
| Receivables from customers | - | - | 5,750,620 | 5,750,620 | 5,671,107 |
| Debt securities and other fixed interest securities | 868,149 | - | - | 868,149 | 815,339 |
| **Equity and liabilities** | | | | | |
| Payables to other banks | - | - | 735,680 | 735,680 | 734,599 |
| Payables to customers | - | - | 5,194,890 | 5,194,890 | 5,187,093 |
| Liabilities evidenced by paper | 300,869 | 229,958 | 78,051 | 608,878 | 595,193 |
| Subordinated debt capital | 174,483 | 13,129 | 2,332 | 189,945 | 185,899 |

| 31/12/2017 in €k | LEVEL 1 'Market value' | LEVEL 2 'Based on market data' | Level 3 'Internal measurement method' | Total fair value | Carrying amount 31/12/2017 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Receivables from other banks | - | - | 117,300 | 117,300 | 117,227 |
| Receivables from customers | - | - | 5,515,865 | 5,515,865 | 5,451,120 |
| (FA[1]) held-to-maturity | 837,465 | - | - | 837,465 | 782,765 |
| **Equity and liabilities** | | | | | |
| Payables to other banks | - | - | 695,447 | 695,447 | 694,986 |
| Payables to customers | - | - | 4,983,585 | 4,983,585 | 4,975,840 |
| Liabilities evidenced by paper | 226,207 | 178,019 | 82,342 | 486,568 | 469,264 |
| Subordinated debt capital | 161,333 | - | 2,355 | 163,688 | 158,622 |

[1] FA = financial assets



## (45) DERIVATIVES TRANSACTION VOLUME

Derivatives transactions (banking book and trading book) resulted in the following nominal amounts and fair values:

| 30/06/2018 | Nominal amount, by time to maturity | | | | Fair value (negative) | |
|---|---|---|---|---|---|---|
| in €k | < 1 year | 1-5 years | > 5 years | Total | positive | negative |
| **Currency contracts** | **1,408,168** | **-** | **-** | **1,408,168** | **2,907** | **11,286** |
| – thereof trading book | - | - | - | - | - | - |
| **Interest rate contracts** | **-** | **146,370** | **223,512** | **369,882** | **6,083** | **5,638** |
| – thereof trading book | - | 12,858 | 1,072 | 13,930 | 4 | 4 |
| **Securities contracts** | **996** | **-** | **-** | **996** | **-** | **14** |
| – thereof trading book | - | - | - | - | - | - |
| **Total** | **1,409,164** | **146,370** | **223,512** | **1,779,046** | **8,990** | **16,938** |
| – thereof trading book | - | 12,858 | 1,072 | 13,930 | 4 | 4 |

| 31/12/2017 | Nominal amount, by time to maturity | | | | Fair value (negative) | |
|---|---|---|---|---|---|---|
| in €k | < 1 year | 1-5 years | > 5 years | Total | positive | negative |
| **Currency contracts** | **1,277,527** | **-** | **-** | **1,277,527** | **2,542** | **9,274** |
| – thereof trading book | - | - | - | - | - | - |
| **Interest rate contracts** | **332** | **147,236** | **157,138** | **304,706** | **6,693** | **4,997** |
| – thereof trading book | 332 | 13,448 | 1,138 | 14,918 | 6 | 6 |
| **Securities contracts** | **-** | **-** | **-** | **-** | **-** | **-** |
| – thereof trading book | - | - | - | - | - | - |
| **Total** | **1,277,859** | **147,236** | **157,138** | **1,582,233** | **9,235** | **14,271** |
| – thereof trading book | 332 | 13,448 | 1,138 | 14,918 | 6 | 6 |

# MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

"We state to the best of our knowledge that the interim consolidated financial statements as at 30 June 2018 prepared in accordance with the relevant financial reporting standards provide a true and fair view of the assets, financial position and result of operations of the BKS Bank Group, and that the Group management report for the period from 1 January to 30 June 2018 provides a true and fair view of the assets, financial position and result of operations of the BKS Bank Group with respect to the key events having taken place during the first half of the financial year and their effects on the interim consolidated financial statements in terms of material risks and uncertainties over the course of the remaining six months of the financial year."

Klagenfurt am Wörthersee, 22 August 2018

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, Credit Back Office, Treasury Back Office, Business Organisation, IT and Technical Services and 3 Banken IT GmbH; also responsible for Back Office, Risk Management and IT outside of Austria

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, Social Media and Investor Relations, Property, Subsidiaries and Equity Investments; also responsible for Slovenia, Croatia, Hungary and Slovakia

Member of the Management Board with responsibility for Retail Banking, Private Banking and Securities Operations, Custodian Operations and collaboration with sales partners; also responsible for Italy

## FINANCIAL CALENDAR 2018

| Date | Content of the notification |
|---|---|
| 4 April 2018 | Publication of the annual financial statements and the consolidated financial statements 2017 on the internet and in the Official Gazette of the Republic of Austria "Wiener Zeitung" |
| 9 May 2018 | 79th annual general meeting |
| 14 May 2018 | Ex dividend day |
| 15 May 2018 | Record date |
| 16 May 2018 | Dividend payout day |
| 25 May 2018 | Interim report for the period ended 31 March 2018 |
| 24 August 2018 | Half-year financial report 2018 |
| 30 November 2018 | Interim report for the period ended 30 September 2018 |

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