9

HALF-YEAR FINANCIAL REPORT 2019

BKS Bank
3 Banken Gruppe

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FORWARD-LOOKING STATEMENTS

This half-year financial report as at 30 June 2019 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, which was 28 August 2019. Should the risiks or assumptions on which the forecasts are based fail to materialize, 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 for the convenience of readers.

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

BKS BANK AT A GLANCE

INCOME STATEMENT in €m	HJ 1 2018	HJ 1 2019	± in %
Net interest income	65.7	70.5	7.2
Impairment charges	9.1	13.2	45.4
Net fee and commission income	27.4	29.2	6.8
General administrative expenses	-58.0	-61.4	5.9
Profit for the period before tax	36.6	46.6	27.3
Profit for the period year after tax	32.6	42.1	29.1

BALANCE SHEET in €m	31/12/2018	30/06/2019	± in %
Total assets	8,434.9	8,700.4	3.1
Receivables from customers after impairment charges	5,918.0	6,058.6	2.4
Primary deposits	6,218.2	6,542.1	5.2
– thereof savings deposits	1,429.4	1,432.1	0.2
– thereof liabilities evidenced by paper incl. subordinated debt capital	750.7	775.0	3.2
Equity	1,210.7	1,255.3	3.7
Customer funds under management	14,518.4	18,656.1	28.5
– thereof on custody accounts	8,300.2	12,114.0	45.9

OWN FUNDS PURSUANT TO CRR in € m	31/12/2018	30/06/2019	± in % (ppt)
Total risk exposure amount	5,283.1	5,360.8	1.5
Own funds	779.2	811.9	4.2
– thereof common equity tier 1 (CET1) capital	593.7	610.1	2.8
– thereof total tier 1 capital (CET1+AT1)	645.2	670.8	4.0
Common equity tier 1 capital ratio (in %)	12.2	12.5	0.3
Total capital ratio (in %)	14.8	15.1	0.3

PERFORMANCE RATIOS	31/12/2018	30/06/2019	± in %
Return on equity after tax	6.8	6.3	-0.5
Return on assets after tax	1.0	0.9	-0.1
Cost/income ratio	50.3	52.3	2.0
Risk/earnings ratio	10.5	14.5	4.0
Non-performing loan ratio (NPL ratio)[1)]	3.3	2.7	-0.6
Net stable funding ratio (NSFR)	110.2	107.8	-2.4
Liquidity coverage ratio (LCR)	137.7	135.6	-2.1
Leverage ratio	8.0	7.6	-0.4

RESOURCES	31/12/2018	30/06/2019
Average number of staff	932	961
Number of branches	63	63

THE BKS BANK'S SHARE		
Number of no-par ordinary shares (ISIN AT0000624705)	41,142,900	41,142,900
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000
High (ordinary/preference share) in €	19.8/18.2	17.2/17.0
Low (ordinary/preference share) in €	16.5/16.9	16.1/14.0
Close (ordinary/preference share) in €	16.8/17.0	16.4/14.0
Market capitalisation in €m	721.8	699.9

[1)] *The calculation method of the NPL ratio was changed to the risk dashboard calculation method of the European Banking Authority (EBA) effective as of 30 June 2019. The value as at 31 December 2018 was adjusted.*

HIGHLIGHTS IN FIRST HALF-YEAR 2019

STATE AWARD FOR BUSINESS EXCELLENCE

BKS Bank is the first universal bank to win the State Award for Business Excellence.

BEST SERVICE

'Österreichische Gesellschaft für Verbraucherstudien' (Society for Consumer Studies) and 'trend' magazine named BKS Bank the best provider of real estate advisory services in Austria. 216 companies were evaluated.

LARGEST INVESTMENT SERVICES PROVIDER

The successful takeover of approximately 25,000 customers of ALTA Invest, investicijske storitve d.d. has made BKS Bank the largest investment services provider in Slovenia.

EXCELLENT NET PROFIT FOR THE PERIOD

42.1

In the first half of 2019, net profit for the period after tax rose by 29.1% to EUR 42.1 million.

JUBILANT WINNERS

Breitenfeld Edelstahl, Weizer Schafbauern, Saubermacher and dahir GmbH are the jubilant winners of the TRIGOS Steiermark award. The special award "CSR-Newcomer" went to the companies art & event Theaterservice Graz and Cooltours.

SUSTAINABLY IN VÖNIX

The BKS Bank's ordinary share was included in the sustainability index VÖNIX of the Vienna Stock Exchange for the fourth time in a row.

HEALTHY EMPLOYEES

Betriebliche Gesundheitsförderung Gütesiegel BGF 2019 – 2021

BKS Bank was again awarded the quality label for workplace health promotion (Gütesiegel für Betriebliche Gesundheitsförderung) which is valid until 2021.

DEAR SHAREHOLDERS,

I am very pleased to look back at an eventful first half-year 2019 highlighted by the achievement of a special milestone in our company's history. In June, BKS Bank was the first universal bank to win the State Award for Business Excellence 2019. The jury commented on its decision by saying "The management staff of BKS Bank including the management board systematically address and engage personally with all stakeholders. The goals, methods and positions defined in the strategy are part of the everyday fabric of work at BKS Bank. Noteworthy are also the numerous distinctions the company has received for its sustainability strategy." We are very proud of this award, because it represents public recognition for all the years of hard work to achieve excellence in all business areas.

We are also very happy that the BKS Bank's ordinary share has been included in the VÖNIX Sustainability Index of the Vienna Stock Exchange again. This makes us one of the most sustainable exchange-listed companies in Austria.

GREEN BOND ISSUED

With a focus on defending our position as an industry leader in sustainability, we are working intensely to meet the new requirements of the EU Action Plan for Financing Sustainable Growth. One of the key objectives of the EU Action Plan is to achieve transparency about ecological sustainability and to promote financing for investments that proactively counteract climate change. At the focus are also sustainable investment products such as green bonds. In this context, BKS Bank is a pioneer on the Vienna Stock Exchange. We issued our third green bond with an outstanding volume of EUR 5 million.

EXCELLENT PERIOD RESULTS

I would like to briefly discuss the development of business at our company that performed excellently in the first half of 2019. We succeeded in increasing total assets to EUR 8.7 billion. At EUR 42.1 million, the profit for the period was a very gratifying 29.1% above the previous year's level. This excellent development shows that our outstanding advisory services and our modern digital banking services serve all of our customers' needs. We will soon be launching our digital home loan services – another step forward in our digitalisation strategy. Our user-friendly platform on www.bks.at can be used by advisors and customers together. In Corporates and Business Banking, we launched an online module for the guarantee business ("Digitales Garantiegeschäft") – another milestone of our digitalisation strategy.

UNFOUNDED LAWSUITS

At the last annual general meeting, all proposals presented by the Management Board and Supervisory Board were approved unanimously or by a large majority. UniCredit Bank Austria and CABO Beteiligungsgesellschaft m.b.H. filed a statement of claim contesting some of the resolutions passed by the annual general meeting. UniCredit Bank Austria and CABO also filed a petition with a court of law requesting a special audit of the capital increase carried out in 2018.

I would like to point out once again that all allegations are unfounded. This has been confirmed by numerous expert opinions. The actions of the two shareholders are incomprehensible to us, as also to most of you apparently. The support we received from many of you personally, by letter, e-mail and naturally by your votes at the annual general meeting has been an important motivation for us in these times and I would like to say thank you. The independence of BKS Bank has always been – and continues to be – a guarantee for the success of our business development, and for preserving and creating jobs in Austria and in our core markets.

Herta Stockbauer
Chairwoman of the Management Board

GROUP MANAGEMENT REPORT

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ECONOMIC ENVIRONMENT

ECONOMIC GROWTH SLOWS IN FIRST HALF OF THE YEAR

The pace of growth in the euro area slowed in the second quarter. Following a growth rate of 0.4% in the first quarter, the economy in the euro area expanded by only 0.2% in the second quarter according to Eurostat. It is, above all, economies like Germany and Austria that are feeling the impact of the problems in global trade. In France, sentiment recovered again after the severe distortions in the winter of 2018 caused by the 'gilets jaunes' protests. The economic slowdown has not yet had any effects on the European labour market. In June 2019, the unemployment rate in the euro area was 7.5%, the lowest since June 2008.

In the US, gross domestic product (GDP) expanded in the second quarter by 2.1% (projected to the full year) according to preliminary estimates. Both consumer and government spending developed positively, only corporate spending remained below average. It is hard to forecast developments in the near future, because it is not yet possible to estimate the extent to which the measures decided in the trade dispute with China will affect the US economy.

CENTRAL BANKS ABANDON PLANS TO REVERSE INTEREST RATE POLICY

Aggressive interest rate hikes by central banks were often the reason for the end to economic upswings. This habitual response of central bankers to high inflation rates that threaten stability are not relevant right now, because inflation rates in industrialized countries are developing only moderately. Therefore, neither European central banks nor the US Fed feel any pressure to unnecessarily tighten monetary policy.

For the first time in ten years, the US Fed lowered the federal funds rate at the end of July by 0.25%-points to within a bandwidth of 2.0% to 2.25%. Economists expect the European Central Bank to also ease its monetary policy in the current year. The assumption is of lower rates on deposits or a change to the monetary policy outlook. At present, everything indicates that the phase of low interest rates will remain intact for some time.

FINANCIAL MARKETS CONTINUE TO RECOVER

The recovery phase of global markets that started at the beginning of the year has been sustained, despite a brief correction in May. The sustained recovery of capital markets can be attributed mainly to the more cautious interest rate policy of central banks.

A look at the development of the most important stock indices shows a robust performance in the second quarter. Global stocks in euro advanced by around 1.9%, while German stocks even rose by around 7.6%. Austrian stock trends remained constant by contrast. US stocks (S&P 500) calculated in euro went up by around 3.0%. Bond markets also recovered again. Yields on euro government bonds with top credit ratings narrowed and hit new lows. This led to rising bond prices.

ASSETS, EQUITY AND LIABILITIES

On 30 June 2019, total assets of the BKS Bank Group were EUR 8.7 billion and thus much higher than at year-end 2018. Receivables from customers as well as primary deposits posted highly satisfactory gains.

ASSETS

Demand for loans was subdued at the start of the year, but picked up considerably in the second quarter. We recorded very pleasing increases in demand for retail and corporate loans in both Austria and in our foreign markets. Total outstanding loans before impairment charges stood at EUR 6.2 billion as at 30 June 2019. This is an increase in growth of EUR 2.2% in both customer segments compared to year-end 2018. The item Receivables from customers includes lending by the parent company BKS Bank AG as well lending by the domestic and foreign leasing companies.

Impairment charges for loan losses declined from EUR 107.9 million to EUR 101.3 million. The decrease results from a steady reduction in the number of risk events, which is also due to the improved ratio of non-performing loans (NPL ratio). The NPL ratio decreased compared to year-end 2018 to 2.7%[1)].

The volume of Swiss franc loans also declined in the first six months. Following EUR 132.7 million at the end of the year, the volume was only EUR 123.1 million by mid-year, which is 2.3% of total receivables from customers.

ROBUST DEMAND FOR LEASING

The business of our domestic and foreign leasing companies has developed very robustly year to date. As at 30 June 2019, the leasing volume of BKS-Leasing GmbH increased by 3.6% to EUR 216.9 million compared to year-end 2018. The Slovenian leasing company posted significant gains in the first half-year again (+12.5 %), attaining a leasing volume of EUR 153.8 million. We are also very pleased with the development of business of the Croatian leasing subsidiary. Compared to year-end 2018, the business of the leasing company expanded by 20% to EUR 60.0 million. In Slovakia, the leasing volume was EUR 47.4 million, which is an increase by 10.5%.

LARGE LIQUIDITY BUFFER

The portfolio of debt securities and other fixed-income securities decreased by 3.4% to EUR 873.3 million due to redemptions. We hold high quality liquid assets in this position as liquidity reserve in order to meet regulatory liquidity standards.

[1)] *The calculation method of the NPL ratio was changed effective 30 June 2019 to the risk dashboard calculation method of the European Banking Authority (EBA). The value as at 31 December 2018 was adjusted.*

In the first half of the year, the shares of companies recognized using the equity method increased to EUR 613.9 million (+2.4%). Additions of net profit for the period from our partner banks Oberbank AG and Bank für Tirol and Vorarlberg Aktiengesellschaft are reported in this item.

The new IFRS 16 standard for leasing was applied for the first time with the start of the financial year 2019. In accordance with the requirements of the new standard, BKS Bank now reports right-of-use assets including the related payment obligations as leasing liabilities at their respective present value instead of reporting rental expenses. Capitalised right-of-use assets are recognized under property, plant and equipment and depreciated over their useful life. At a carrying amount of EUR 24.5 million, this item increased by 48.3%.

LIABILITIES

VOLUME OF PRIMARY DEPOSITS BREAKS NEW RECORD Primary deposit balances climbed to new record highs in HY1 2019. By mid-year, primary deposits had exceeded the prior year's high by 5.2% resulting in a total of EUR 6.5 billion in customer deposits. The new record shows the high degree of trust domestic and foreign customers place in BKS Bank as well as the surplus liquidity in the market caused by the European Central Bank's interest rate policy.

For some time now, the predominant position within primary deposits has been sight deposits, which increased steeply by 11.7% to EUR 3.5 billion. It is especially pleasing that we enjoy an excellent reputation on the Slovene market as a reliable and stable banking partner. Around EUR 1.1 billion of the total volume of sight and term deposits are from Slovenian retail and corporate customers.

The volume on classical savings passbooks has been declining steadily for several years. We were not able to avoid this trend either, even though in the first half-year the level of savings deposits was unchanged at EUR 1.4 billion, thus temporarily stopping the downtrend. The development of sight deposits was different on 'Mein Geld' accounts though. More and more retail customers want to access their savings conveniently, flexibly and online. Year on year, the volume on 'Mein Geld' accounts rose from EUR 326.8 million to EUR 369.4 million, which is an increase of around 13.0% compared to year-end 2018.

The issuance business developed very satisfactorily in the first half of the year. Own issues including subordinated debt capital rose by 3.2% to EUR 775.0 million. We issued an AT 1 bond at the end of the year 2018 to strengthen our equity. In the first half of 2019, we floated a further EUR 11.2 million.

The item Other liabilities includes leasing liabilities of EUR 24.6 million due to the adoption of IFRS 16 which is also the reason for the considerable year-on-year increase.

Shareholders' equity was strengthened by the addition of the result for the period and the issuance of an AT 1 bond, reaching EUR 1.3 billion. Subscribed capital was unchanged at EUR 85.9 million.

RESULT OF OPERATIONS

BKS Bank continued its successful development in the first half of 2019 and reported excellent earnings again. The steep rise in profits may be attributed mainly to the good results of operations, but also to the performance of the capital markets.

SIGNIFICANT RISE IN EARNINGS AGAIN

Consolidated profit for the period after tax as at 30 June 2019 was a gratifying EUR 42.1 million, which is a gain of 29.1% compared to the first half-year 2018. Net interest income before impairment charges increased to EUR 70.5 million (+7.2%). The positive trend in interest income was hampered by higher impairment charges for loan losses (EUR 13.2 million). Higher risks cost resulted from the application of the expected credit loss model, which among other things, stipulates that macro-economic factors must be taken into account in the calculation. As the economy in our market area slowed further, the parameters were adjusted accordingly and this resulted in a higher expected credit loss (ECL). Net interest income after impairment charges was EUR 57.3 million, which is a gain of 1.1%.

We aim to decrease our dependence on the lending business by expanding our service business areas. In the first half of the year, we worked rigorously to implement this strategic shift and attained a much higher net fee and commission income of EUR 29.2 million (+6.8%). We achieved an outstanding performance especially in the dynamic business area of payment services based on our know-how and the excellent quality of our advisory services. Net commission income from payment services increased again, this time by 4.4% to EUR 10.7 million.

The securities business also picked up significantly in the past six months. The successful acquisition of around 25,000 customers of the Slovenian investment firm ALTA Invest, investicijske storitve, d.d. and the sustained recovery on international financial markets led to higher income from the securities business of EUR 7.7 million, which is a highly satisfactory increase by 21.8%. Commissions from credit operations also developed very positively and reached EUR 8.4 million, a gain of 1.5%. In the first half-year 2019, we also posted strong gains on commissions from the insurance business. Compared to the same period of 2018, the increase was 16.6% up to EUR 0.9 million.

Our partner banks, Oberbank AG and Bank für Tirol und Vorarlberg, also reported a solid development of business. The result of companies accounted for using the equity method increased by 9.3% to EUR 20.6 million.

EXCELLENT RESULT FROM FINANCIAL ASSETS/LIABILITIES

The good performance on international stock markets had a very positive impact on the net profit from financial assets/liabilities, which improved significantly year on year (EUR -4.6 million) to EUR 3.7 million as at 30 June 2019.

HIGHER STAFF EXPENSES

General administrative expenses increased year on year by 5.9% to EUR 61.4 million. The largest item under general administrative expenses are staff costs, which rose by 6.0% to EUR 40.5 million. The increase was due, on the one hand, to the average rise in wages and salaries of 3.1% under the collective agreement, and on the other hand, to the takeover of investment customers in Slovenia that required staff capacities to be enlarged. The number of employees (FTE) increased throughout the Group to 961 persons. Furthermore, the development of interest rates resulted in higher allocations to jubilee funds and survivor's pensions.

Depreciation/amortisation increased to EUR 4.9 million due to the first-time application of IFRS 16, because right-of-use assets from leasing contracts are now capitalised and written off over the residual time to maturity. The acquisition of investment customers in Slovenia raised depreciation/amortisation accordingly.

REGULATORY COSTS REMAIN HIGH

Regulatory costs have an especially severe impact on other operating income. The result of other operating income and expenses at the end of June 2019 was EUR -3.5 million and thus slightly higher than the level of the preceding year. This item contains expenses for contributions to the resolution fund and deposit insurance scheme of EUR 2.7 million and EUR 2.2 million, respectively, as well as the stability charge of EUR 0.6 million.

SOLID TREND IN PERFORMANCE RATIOS

The key performance ratios developed as follows in the first half of 2019: return on equity (RoE) after tax was 6.3%; return on assets (RoA) after tax was 0.9%.

The cost/income ratio of 52.3% continues to be better than the average of the banking industry. The risk/earnings ratio increased and was 14.5% at the close of the first half-year, and reflects the effects of the ECL model. The calculation of the non-performing loans ratio (NPL ratio) was changed effective 30 June 2019 to the calculation method of the European Banking Authority (EBA). The NPL ratio according to EBA was 2.7%.

At the end of June, the leverage ratio was 7.6% and therefore clearly above the required statutory ratio of 3.0%. The liquidity coverage ratio (LCR) reached 135.6% and also met the regulatory requirement of 100%.

Capital adequacy at BKS Bank is solid. Both the tier 1 capital ratio of 12.5% as well as the total capital ratio of 15.1% were excellent as at 30 June 2019. We exceeded the minimum regulatory requirements also in this area.

SEGMENT REPORT

The segment report has three parts: Corporate and Business Banking, Retail Banking and Financial Markets. Corporate and Business Banking is BKS Bank Group's most successful segment by far. The Financial Markets segment has developed into a reliable source of contributions to earnings despite market volatility, while the retail business is still struggling with profitability.

CORPORATE AND BUSINESS BANKING

HIGHER IMPAIRMENT CHARGES FOR CREDIT LOSSES DEPRESS PROFITS

The development of business in Corporate and Business Banking was highly successful in the past six months. Net interest income (EUR 52.8 million; +5.7%) as well as net fee and commission income (EUR 16.1 million; +7.6%) developed robustly. The profit for the period before tax decreased nonetheless to EUR 30.8 million (-6.9%), because we allocated much a higher volume to impairment charges for credit losses of EUR 13.1 million (+54.5%) due to changes in macro-economic factors. The general administrative expenses increased from EUR 23.6 million to EUR 25.5 million due to higher staff costs on account of slight changes in the cost segmentation.

In the first half-year 2019, we recorded a steep rise of 6.7% in the number of corporate and business banking customers. The successful takeover of the customers of ALTA is also reflected in this figure. However, it is also the excellent advisory services and trust placed in our domestic and foreign account managers that attracted many new customers. We served around 22,800 customers throughout the entire Group at the end of June.

The segment-specific benchmark indicators developed as follows in the first half of 2019: Return on equity decreased to 15.1%. The cost/income ratio hardly changed at 36.8%. The risk/earnings ratio increased due to the higher risk costs to 24.7% after 16.9% in the preceding year.

RETAIL BANKING

SEGMENT RESULT STILL UNDER PRESSURE

In the first half of 2019, we achieved a major milestone in the implementation of our growth strategy for retail banking. The takeover of some 23,700 retail banking customers in Slovenia from ALTA Invest, investicijske storitve d.d. was finalised successfully in mid-March. The number of retail customers throughout the Group went up to 167,100, which is a gain of 17.0%.

We are still struggling to achieve profitability in retail banking. The sustained low level of interest rates and the high volume of investments in digitalisation are exerting pressure on earnings. In the first half of 2019, we reported a slightly negative segment result of EUR -0.2 million. Net interest income dropped by 3.9% to EUR 13.3 million. The trend in the services business was better. The acquisitions in Slovenia helped us attain significant earnings growth in the securities business (+13.2%).

In payment services as well, we achieved higher earnings up by 9.6%. In total, we earned net fee and commission income of EUR 12.4 million – a gain of 4.6%. The risk situation for retail loans is generally relaxed. Compared to the first half-year 2018, we lowered impairment charges for credit losses by half to EUR 0.2 million as at 30 June 2019. General administrative expenses went up to EUR 26.7 million.

The trend in segment-specific ratios for the period ended 30 June 2019 was as follows: Return on equity was -0.6%, the cost/income ratio 100.0%, and the risk/earnings ratio decreased from 3.0% to 1.7%.

FINANCIAL MARKETS

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

As at 30 June 2019, we earned a net profit for the period before tax in the Financial Markets segment of EUR 22.7 million, which is twice as high as in the preceding year. The steep rise in earnings resulted from the higher net interest income, which was EUR 23.3 million and influenced by the slightly higher returns from investees. At EUR 2.7 million, the segment result also reflects the much-improved income from financial assets/ liabilities. The higher income earned by companies accounted for by the equity method (EUR 20.6 million; +9.3%) also contributed to the rise in earnings.

All of our banking partners have first-class ratings. Therefore, the allocations to impairment charges were accordingly low. In the first half-year, we reversed EUR 0.1 million. The general administrative expenses rose from EUR 3.6 million to EUR 4.1 million.

The management indicators developed as follows in the financial markets segment: Return on equity improved from 3.5% to 6.3% and the cost/income ratio decreased to 16.9%.

CONSOLIDATED OWN FUNDS

BKS Bank calculates the own funds ratio and assessment basis according to the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). The standardised approach is applied to the calculation of the own funds requirements with respect to credit risk, market risk and operational risk.

As a result of the Supervisory Review and Evaluation Process (SREP) conducted by the Austrian Financial Market Authority (FMA), BKS Bank must meet the minimum requirements for common equity tier 1 capital (CET1) of 5.5%, and for the own funds ratio of 9.7% as at 30 June 2019. The capital ratios at the end of June 2019 were significantly above these requirements.

The consolidated net profit for the period was reviewed by an auditor in accordance with Article 26 CRR. Therefore, the profit for the period was allocated to own funds.

Common equity tier 1 capital (CET1) increased due to the allocation of the consolidated profit for the period to EUR 610.1 million. Compared to the same period of 2018, the common equity tier 1 capital ratio increased by 0.2%-points to 11.4%. Including tier 2 capital of EUR 141.1 million, the bank's own funds came to EUR 811.9, an increase of 4.2%. The total capital ratio improved to a very satisfactory 15.1% as at 30 June 2019.

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

in Mio. EUR	31.12.2018	30.06.2019
Share capital	83.7	83.4
Reserves net of intangible assets	1,061.8	1,094.3
Deductions	-551.8	-567.6
Common equity tier 1 capital (CET1)	**593.7**	**610.1**
Common equity tier 1 capital ratio	11.2%	11.4%
Hybrid capital	8.0	6.0
AT1 note	43.5	54.7
Additional tier 1 capital	**51.5**	**60.7**
Tier 1 capital (CET1 + AT1)	**645.2**	**670.8**
Tier 1 capital ratio	12.2%	12.5%
Tier 2 capital	134.0	141.1
Total own funds	**779.2**	**811.9**
Total capital ratio	14.8%	15.1%
Total risk exposure amount	5,283.1	5,360.8

The MREL ratio stands for minimum requirement for own funds and eligible liabilities. It was newly introduced in the second quarter as an additional measure for own funds requirements and will be a fixed element of the regulatory framework in the future.

The MREL ratio is designed to ensure the orderly winding down of banks if necessary. The minimum requirement for the MREL ratio is made up of the loss-absorbing amount (LAA) and the recapitalisation amount (RCA), and is supplemented by the premium for maintaining market confidence (MCC).

For BKS Bank, the Austrian Financial Market Authority (FMA) defined a minimum amount for own funds and eligible liabilities of 15.69% of total liabilities and own funds (total liabilities and own funds, TLOF) on a consolidated level. The MREL ratio was met by BKS Bank on the reporting date 30 June 2019, therefore, no transitional rules apply.

RISK MANAGEMENT

Quantitative information on risk management is given in the Notes; it is based on the internal reporting for overall bank risk management.

OUTLOOK

ECONOMIC OUTLOOK SLIGHTLY GLOOMIER

The unresolved trade dispute between the US and China as well as the problems of the European automotive industry are casting a shadow on future developments. An unregulated Brexit has also become more likely. Therefore, it is hardly surprising that sentiment indicators and global growth expectations are becoming increasingly gloomier.

The European Commission revised its forecast downwards again to account for this development. The economic growth forecast for the euro area is estimated at 1.2% for the full year 2019. Many analysts already expect a recession for Germany, which is highly dependent on global trade due to its high export ratio. The Austrian economy is also in a phase of moderate growth. The fast pace of the preceding years has slowed. Growth is being hampered by foreign trade – similar to the situation in Germany. The solid trend of the domestic economy continues to be supportive. Therefore, the GDP forecast for 2019 is 1.5%. The economy is doing better in the countries of Southeast and Central Europe, therefore, in our foreign markets. GDP in Slovakia, Slovenia and Croatia is expected to rise by 3.5%, 3.2% and 2.5%, respectively.

CAPITAL MARKETS STILL APPEALING

Driven by hopes of a more accommodative monetary policy, stock markets are still developing positively. Short term though, we expect repeated phases of turbulence and high volatility. By contrast, the environment for bond investors remains unattractive. Returns on government bonds decreased further. The situation is similar in the corporate bond segment. Returns are now close to a two-year low.

BUSINESS EXPECTED TO DEVELOP WELL

Despite the challenging market environment, we expect business to continue developing soundly in the second half of 2019. In the lending business, we expect demand for loans to slow due to the cooling economy. We believe the prospects of higher earnings are good for the securities business, especially due to our stronger market position in Slovenia. In the area of payment services, we expect to achieve our projected growth targets.

We have initiated a number of projects to attain our strategic goals, and several of these projects are scheduled to be completed in the second half of the year. In the coming weeks, especially the implementation of our digitalisation strategy will progress rapidly.

As mentioned in another section, we recently launched a new module for guarantee transactions for our corporate and business customers. We have also developed a digital platform for home loans for retail banking customers and greatly improves ease-of-use and digital advisory services. Additionally, customers can open salary and wage accounts online. Both services will be available soon.

The further development of the BKS app is also quite advanced. Since mid-August, our customers have had the option of modifying the thresholds of their credit lines individually and autonomously – provided the creditworthiness criteria are met. The new BKS security app will replace the online banking authentication procedure in use up to now. Many customers have already been convinced of the high degree of security and convenience of the new security app. The changeover will be completed over the summer.

At the same time as we are working to enlarge our range of digital products and services, we are also working hard to expand our market presence in our growth markets. In Croatia, we plan to open another branch and in Slovenia we will introduce a new customer service center. The two projects serve the purpose of achieving proximity to customers and ensuring excellent advisory services through all channels.

The positive development of business in the past six months and the advances achieved in implementing our corporate strategy make us optimistic about the future. We believe we will continue our sustainability-based corporate policy in the financial year 2019.

Klagenfurt am Wörthersee, 28. August 2019

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer, CIA
Member of the Management Board

Alexander Novak
Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO IFRS

Consolidated Statement of Comprehensive Income for the period 1 January to 30 June 2019 **–22–**
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STATEMENT OF COMPREHENSIVE INCOME FOR THE FOR THE PERIOD 1 JANUARY TO 30 JUNE 2019

INCOME STATEMENT

in €k	Notes	HY1/2018	HY1/2019	± in %
Interest income applying the effective interest rate method		70,149	70,232	0.1
Other interest income and other similar income		11,452	15,185	32.6
Interest expenses and other similar expenses		-15,888	-14,955	-5.9
Net interest income	**(1)**	**65,713**	**70,463**	**7.2**
Impairment charges	(2)	-9,075	-13,191	45.4
Net interest income after impairment charges		**56,638**	**57,271**	**1.1**
Fee and commission income		29,505	31,475	6.7
Fee and commission expenses		-2,155	-2,260	4.9
Net fee and commission income	**(3)**	**27,351**	**29,215**	**6.8**
Profit/loss from investments accounted for using the equity method	(4)	18,817	20,573	9.3
Net trading income	(5)	-205	715	>100
General administrative expenses	(6)	-57,960	-61,404	5.9
Other operating income	(7)	3,115	3,321	6.6
Other operating expenses	(7)	-6,579	-6,827	3.8
Profit/loss from financial assets/liabilities		**-4,572**	**3,747**	**>100**
– Profit/loss from financial instruments designated at fair value through profit/loss	(8)	-3,112	-1,306	58.0
– Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	(9)	-1,259	4,147	>100
– Profit/loss from derecognition of financial assets measured at amortised cost	(10)	-94	818	>100
– Other profit/loss from financial assets/liabilities	(11)	-107	88	>100
Profit for the period before tax		**36,604**	**46,610**	**27.3**
Income tax expense	(12)	-3,980	-4,496	13.0
Profit for the period		**32,624**	**42,114**	**29.1**
Non-controlling interests		-2	-3	23.7
Profit for the period after non-controlling interests		**32,622**	**42,112**	**29.1**

OTHER COMPREHENSIVE INCOME

in €k	HY1/2018	HY1/2019	± in %
Profit for the period	**32,624**	**42,114**	**29.1**
Other comprehensive income	**-405**	**2,842**	**>100**
Items not reclassified to profit for the period	**-1,709**	**660**	**>100**
± Actuarial gains/losses in conformity with IAS 19	-4,209	-2,315	45.0
± Deferred taxes on actuarial gains/losses in conformity with IAS 19	1,052	579	-45.0
± Changes in the fair value of equity instruments measured at fair value	6,621	2,147	-67.6
± Deferred taxes on changes in fair value of equity instruments measured at fair value	-1,550	-536	65.4
± Fair value changes of financial liabilities designated at FV PL attributable to own credit risk	-148	79	>100
± Deferred taxes on fair value changes of financial liabilities designated at FV PL attributable to own credit risk	37	-20	>-100
± Share of income and expenses of associates accounted for using the equity method taken directly to equity	-3,513	725	>100
Items reclassified to profit for the period	**1,304**	**2,182**	**67.4**
± Exchange differences	33	12	-64.0
± Changes in the fair value of debt instruments measured at fair value	107	2,368	>100
± Net change in fair value	107	2,368	>100
± Reclassified to profit or loss	-	-	-
± Deferred taxes on changes to the fair value of debt instruments measured at fair value	-27	-589	>100
± Share of income and expenses of associates in OCI accounted for using the equity method taken to equity	1,191	392	-67.1
Total comprehensive income	**32,219**	**44,956**	**39.5**
Non-controlling interests	-2	-3	23.7
Total comprehensive income after non-controlling interests	**32,217**	**44,954**	**39.5**

EARNINGS AND DIVIDEND PER SHARE

	30/06/2018	30/06/2019
Average number of shares in issue (ordinary and preference shares)	40,842,197	42,074,277
Earnings per ordinary and preference share in EUR (adjusted for period)	0.80	0.99
Earnings per ordinary and preference share in EUR (annualised)	1.60	1.97

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 dilution effect on the shares were in circulation.

QUARTERLY REVIEW

in €k	Q2/2018	Q3/2018	Q4/2018	Q1/2019	Q2/2019
Interest income and similar income	42,560	38,606	39.940	43.383	42.034
Interest income and similar income	-7,422	-7,599	-6,968	-7,554	-7,401
Net interest income	**35,137**	**31,007**	**32,973**	**35,829**	**34,634**
Impairment charges	-6,208	-5,098	-4,119	-8,194	-4,997
Net interest income after impairment charges	**28,929**	**25,909**	**28,853**	**27,635**	**29,636**
Fee and commission income	15,999	13,906	16,494	15,225	16,250
Fee and commission expenses	-1,113	-1,130	-1,155	-1,029	-1,230
Net fee and commission income	**14,886**	**12,776**	**15,339**	**14,196**	**15,020**
Profit/loss from investments accounted for using the equity metod	11,329	12,826	13,205	8,773	11,800
Net trading income	-192	913	-429	229	486
General administrative expenses	-30,353	-27,044	-29,573	-29,324	-32,080
Other operating income	1,844	1,126	2,226	1,471	1,850
Other operating expenses	-1,504	-1,383	-1,030	-6,108	-720
Profit/loss from financial assets/liabilities	**-3,641**	**1,725**	**-5,004**	**2,985**	**761**
– Profit/loss from financial instruments designated at FV	-2,909	315	-44	-206	-1,100
– Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	561	826	-4,693	3,238	909
– Profit/loss from derecognition of financial assets measured at amortised cost	49	501	-228	-38	856
– Other profit/loss from financial assets/liabilities	-1,341	82	-39	-9	97
Profit for the period before tax	**21,299**	**26,849**	**23,588**	**19,857**	**26,753**
Income tax expense	-2,091	-3,663	-1,979	-2,544	-1,951
Profit for the period	**19,209**	**23,186**	**21,609**	**17,312**	**24,802**
Non-controlling interests	-1	-1	-	-2	-1
Profit for the period after non-controlling interests	**19,208**	**23,185**	**21,609**	**17,311**	**24,801**

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2019

ASSETS

in €k	Notes	31/12/2018	30/06/2019	± in %
Cash and balances with the central bank	(13)	571,963	697,967	22.0
Receivables from other banks	(14)	177,248	154,898	-12.6
– Impairment charges on receivables from other banks	(15)	-322	-205	-36.3
Receivables from customers	(16)	6,025,858	6,159,925	2.2
– Impairment charges on receivables from customers	(17)	-107,879	-101,354	-6.0
Trading assets	(18)	8,045	8,910	10.7
Debt securities and other fixed-interest securities	(19)	904,421	873,276	-3.4
– Impairment charges on debt securities	(20)	-258	-294	13.8
Shares and other non-interest-bearing securities	(21)	135,609	137,742	1.6
Investments in entities accounted for using the equity method	(22)	599,668	613,875	2.4
Intangible assets	(23)	3,859	10,649	>100
Property, plant and equipment	(24)	53,336	79,115	48.3
Investment property	(25)	34,530	35,482	2.8
Deferred tax assets	(26)	6,363	6,410	0.7
Other assets	(27)	22,497	23,959	6.5
Total assets		**8,434,938**	**8,700,354**	**3.1**

EQUITY AND LIABILITIES

in €k	Notes	31/12/2018	30/06/2019	± in %
Payables to other banks	(28)	836,489	691,708	-17.3
Payables to customers	(29)	5,467,463	5,767,063	5.5
– thereof savings deposits		1,429,395	1,432,142	0.2
– thereof other payables		4,038,068	4,334,921	7.4
Liabilities evidenced by paper	(30)	571,052	602,147	5.4
– thereof at fair value through profit or loss		84,744	85,896	1.4
Trading liabilities	(31)	8,362	9,937	18.8
Provisions	(32)	134,485	140,145	4.2
Other liabilities	(33)	26,699	61,197	>100
Subordinated debt capital	(34)	179,667	172,880	-3.8
Equity		1,210,721	1,255,276	3.7
– Shareholders' equity	(35)	1,210,696	1,255,249	3.7
– Non-controlling interests		25	27	10.3
Total equity and liabilities		**8,434,938**	**8,700,354**	**3.1**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained earnings	Profit for the period	Additional equity instruments[1]	Equity
As at 01/01/2019	**85,886**	**241,416**	**-335**	**21,338**	**741,475**	**77,417**	**43,500**	**1,210,696**
Distribution						-9,677		-9,677
Coupon payments on additional equity instruments					-870			-870
Taken to retained earnings					67,739	-67,739		-
Profit for the period						42,112		42,112
Other comprehensive income			178	4,978	-2,314			2,842
Capital increase								-
Effect of the equity method					-577			-577
Change in treasury shares					-477			-477
Issuance of additional equity instruments							11,200	11,200
Other changes					-			-
As at 30/06/2019	**85,886**	**241,416**	**-157**	**26,315**	**804,977**	**42,112**	**54,700**	**1,255,249**

Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity method)	16,554
Deferred tax reserve	-4,198

[1] All additional tier 1 bonds issued were classified as equity in conformity with IAS 32.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained reserves	Profit for the period	Additional equity instruments[1]	Equity
As at 01/01/2018	**79,279**	**193,032**	**-168**	**31,956**	**638,184**	**68,035**	**36,200**	**1,046,518**
Effects of adopting IFRS 9				-589	10,186			9,596
As at 01/01/2018 after adoption of IFRS 9	**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
Capital increase	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 instruments							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 reserve (excl. reserves of associates accounted for using the equity method)	28,274
Deferred tax reserve	-7,069

[1] All additional tier 1 bonds issued were classified as equity in conformity with IAS 32.

The capital increase carried out in the preceding year raised the share capital to EUR 85,885,800. Based on the offer price of EUR 16.70 per new share, the gross proceeds of the capital increase were EUR 55.2 million. The transaction costs of EUR 0.2 million were deducted from equity.

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOWS

in €k	HY1/2018	HY1/2019
Cash and cash equivalents at the end of previous period	**476,589**	**571,963**
Profit for the period after tax before non-controlling interests	32,624	42,114
Non-cash items in profit for the period and other valuation adjustments	-49,585	-70,858
Change in assets and liabilities from operating business activities after correction for non-cash items	-111,532	100,282
Cash flow from operating activities	**-128,493**	**71,538**
Cash inflow from sales and redemptions	34,631	53,199
Cash outflow for capital expenditure	-91,255	-29,026
Dividends from entities accounted for using the equity method	5,777	6,909
Cash flow from investing activities	**-50,847**	**31,082**
Capital increase	54,991	-
Other deposits	1,700	11,200
Dividend distributions	-8,935	-9,677
Subordinated liabilities and other financing activities	68,575	21,697
Cash flow from financing activities	**116,331**	**23,220**
Effect of exchange rate changes on cash and cash equivalents	49	164
Cash and cash equivalents at the end of the reporting period	**413,629**	**697,967**

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 on 30 June 2019 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 effective on the reporting date. The relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were taken into account.

II. EFFECTS OF NEW AND AMENDED STANDARDS

The accounting policies applied in the financial year 2018 also applied in the first half-year 2019 with the exception of the new standard IFRS 16 Leasing, which took effect in the first half-year 2019.

The BKS Bank Group applied IFRS 16 for the first time as of 1 January 2019. IFRS 16 specifies how lessors and lessees must recognize and measure the information given in the Notes. The introduction of IFRS 16 resulted in a number of new rules for lessees. The rules applicable to lessors for lease accounting that applied under IAS 17 up to now remain in effective and are now contained in IFRS 16.

The differentiation pursuant to IAS 17 between finance lease and operating Lease has been abolished for lessees; IFRS 16 only specifies the ‘right-of-use“’ model. Therefore, the lessee must recognise upon lease commencement an asset for the right of use and the related lease liability at their present value.

However, IFRS 16 grants the option of waiving mandatory recognition in the case of short-term lease contracts (term < 1 year) and lease contracts for low-value assets (< 5,000 EUR). BKS Bank uses of both options.

IFRS 16 furthermore includes several options that can only be applied during the transition period. With respect to the option granted by IFRS 16 regarding the definition of lease contracts, the BKS Bank Group will take advantage of the so-called grandfathering option for legacy contracts. This means that the assessment of legacy contracts made in the past under IAS 17 will be retained. At the BKS Bank Group, most capitalised right-of-use assets to be recognised on the balance sheet refer to right-of-use assets under leases for real estate. The number of right-of-use assets for movables is very low. The application of the new definition of leases pursuant to IFRS 16 therefore only applies to new contracts entered into after the date of initial application.

At the date of transition, lessees can also elect which method of transition to IFRS 16 to apply. IFRS 16 differentiates between the retrospective method and the modified retrospective method. While the first approach requires full retrospective application to all prior reporting periods that were presented in accordance with IAS 8, the second method requires retrospective application as of the time initial application with recognition of the changeover effects in equity at the beginning of the current period. Prior-year figures are therefore not adjusted. The BKS Bank Group uses the modified retrospective approach for the transition.

This method also includes electing how to measure the right of use to be recognised at the time of initial application. The right of use is recognised either at the carrying amount, i.e. as if IFRS 16 had been applied since the start of the lease contract, discounted at the incremental borrowing interest rate at the date of initial application, or in the amount of the lease liability adjusted for lease payments made in advance or deferred lease payments BKS Bank has opted to recognise the right of use in the same amounts as the corresponding leasing liability at the time of initial application of IFRS 16. Therefore, there are no transition effects in equity upon initial application.

Furthermore, IFRS 16 permits applying a uniform discount rate to similar lease portfolios and also classifying lease contracts as short-term based on their remaining time to maturity at the time of transition. BKS Bank makes use of both options. The other options available under IFRS 16 at the date of transition are not of relevance for the BKS Bank Group.

Right of use assets are recognised under property, plant and equipment, and lease liabilities under Other liabilities.

All other IFRIC interpretations and improvements as well as amendments to standards that entered into force on 1 January 2019 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 14 entities: 11 consolidated entities, two 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 2018.

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 JUNE 2019

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit for the year before tax
Branches abroad				
Slovenia Branch	5,665	9,118	127.5	3,955
Croatia Branch	5,209	5,789	59.5	3,196
Slovakia Branch	1,149	1,436	29.3	319
Subsidiaries				
BKS-leasing d.o.o., Ljubljana	2,440	2,551	18.9	1,211
BKS-leasing Croatia d.o.o., Zagreb	1,095	1,176	13.3	448
BKS-Leasing s.r.o., Bratislava	769	846	11.9	-264

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 JUNE 2018

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit for the year 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

IV. 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 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 2019.

DETAILS OF THE INCOME STATEMENT

(1) NET INTEREST INCOME

in €k	HY1/2018	HY1/2019	± in %
Interest income applying the effective interest rate method:			
Lending operations measured at amortised cost	55,908	58,941	5.4
Fixed-interest securities measured at amortised cost	7,482	6,769	-9.5
Fixed-income securities measured at FV OCI	356	284	-20.3
Positive interest expenses[1)]	6,402	4,239	-33.8
Total interest income applying the effective interest rate method	**70,149**	**70,232**	**0.1**
Other interest income and other similar income			
Lending operations measured at fair value	1,597	1,687	5.7
Fixed-interest securities at fair value through profit or loss	223	223	-
Leasing receivables	4,651	5,400	16.1
Shares and other non-interest-bearing securities	3,372	6,261	85.6
Investment property	1,609	1,614	0.3
Total other interest income and other similar income	**11,452**	**15,185**	**32.6**
Total interest income	**81,601**	**85,417**	**4.7**
Interest expenses and other similar expenses			
Deposits from other banks and customers	2,683	3,118	16.2
Liabilities evidenced by paper	9,483	8,751	-7.7
Negative interest income[1)]	3,341	2,598	-22.2
Investment property	381	365	-4.3
Leasing liabilities	n/a	124	-
Total interest expenses and other similar expenses	**15,888**	**14,955**	**-5.9**
Net interest income	**65,713**	**70,463**	**7.2**

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

(2) IMPAIRMENT CHARGES

in €k	HY1/2018	HY1/2019	± in %
Financial instruments measured at amortised cost			
– Allocation (+)/reversal (-) of impairment charges (net)	9,777	13,594	39.0
Financial instruments measured at fair value OCI			
– Allocation (+)/reversal (-) of impairment charges (net)	104	11	-89.6
Loan commitments and financial guarantee contracts			
– Allocation (+)/reversal (-) of provisions (net)	-806	-414	48.7
Impairment charges	**9,075**	**13,191**	**45.4**

(3) NET FEE AND COMMISSION INCOME

in €k	HY1/2018	HY1/2019	± in %
Fee and commission income:			
Payment services	11,312	11,844	4.7
Securities operations	6,980	8,513	22.0
Lending operations	8,614	8,573	-0.5
Foreign exchange operations	1,837	1,763	-4.0
Other services	762	783	2.7
Total fee and commission income	**29,505**	**31,475**	**6.7**
Fee and commission expenses:			
Payment services	1,026	1,106	7.8
Securities operations	682	844	23.7
Lending operations	340	179	-47.4
Foreign exchange operations	85	95	11.4
Other services	21	36	68.6
Total fee and commission expenses	**2,155**	**2,260**	**4.9**
Net fee and commission income	**27,351**	**29,215**	**6.8**

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

in €k	HY1/2018	HY1/2019	± in %
Profit/loss from investments accounted for using the equity method	18,817	20,573	9.3
Profit/loss from entities accounted for using the equity method	**18,817**	**20,573**	**9.3**

(5) NET TRADING INCOME

in €k	HY1/2018	HY1/2019	± in %
Price-based transactions	9	-11	>-100
Interest rate and currency contracts	-213	726	>100
Net trading income	**-205**	**715**	**>100**

(6) GENERAL ADMINISTRATIVE EXPENSES

in €k	HY1/2018	HY1/2019	± in %
Staff costs	38,167	40,471	6.0
– Wages and salaries	28,345	29,110	2.7
– Social security costs	6,366	6,464	1.5
– Costs of retirement benefits	2,791	3,542	26.9
– Other social expenses	665	1,355	>100
Other administrative costs	16,364	16,016	-2.1
Depreciation/amortisation	3,429	4,917	43.4
General administrative expenses	**57,960**	**61,404**	**5.9**

The initial application of IFRS 16 raised depreciation/amortisation by EUR 1.4 million, while other administrative costs decreased accordingly.

(7) OTHER OPERATING INCOME/EXPENSES

in €k	HY1/2018	HY1/2019	± in %
Other operating income	3,115	3,321	6.6
Other operating expenses[1)]	-6,579	-6,827	3.8
Other operating income/expenses	**-3,464**	**-3,507**	**1.2**

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

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

in €k	HY1/2018	HY1/2019	± in %
Profit/loss from using the fair value option	-3,112	-1,306	58.0
Profit/loss from financial instruments designated at fair value	**-3,112**	**-1,306**	**58.0**

(9) PROFIT/LOSS FROM FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (MANDATORY)

in €k	HY1/2018	HY1/2019	± in %
Profit/loss from measurement	-1,273	4,012	>100
Profit/loss on disposal	14	134	>100
Profit/loss from financial assets measured at fair value through profit or loss (mandatory)	**-1,259**	**4,147**	**>100**

(10) PROFIT/LOSS FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

in €k	HY1/2018	HY1/2019	± in %
Receivables from other banks	22	-	-
– thereof profit	22	-	-
– thereof loss	-	-	-
Receivables from customers	-116	818	>100
– thereof profit	454	1,628	>100
– thereof loss	-570	-810	42.2
Debt securities	-	-	-
– thereof profit	-	-	-
– thereof loss	-	-	-
Profit/loss from the derecognition of financial assets measured at amortised cost	**-94**	**0**	**>100**

(11) OTHER COMPREHENSIVE INCOME FROM FINANCIAL ASSETS/LIABILITIES

in €k	HY1/2018	HY1/2019	± in %
Modification gains/losses	-107	88	>100
– From financial assets measured at amortized cost	-107	88	>100
– From financial assets measured through FV OCI	-	-	-
– From financial liabilities measured at amortized cost	-	-	-
Derecognition gains/losses	-	-	-
– From financial assets measured through FV OCI	-	-	-
– From financial liabilities measured at amortised cost	-	-	-
Other profit or loss from financial assets/liabilities	**-107**	**88**	**>100**

(12) INCOME TAX EXPENSE

in €k	HY1/2018	HY1/2019	± in %
Current taxes	-4,901	-5,106	4.2
Deferred taxes	921	610	-33.7
Income tax expense	**-3,980**	**-4,496**	**13.0**

DETAILS OF THE BALANCE SHEET

(13) CASH AND BALANCES WITH THE CENTRAL BANK

in €k	31/12/2018	30/06/2019	± in %
Cash in hand	85,576	84,079	-1.7
Credit balances with central banks	486,387	613,888	26.2
Cash and balances with the central bank	**571,963**	**697,967**	**22.0**

(14) RECEIVABLES FROM OTHER BANKS

in €k	31/12/2018	30/06/2019	± in %
Receivables from domestic banks	123,532	74,537	-39.7
Receivables from foreign banks	53,716	80,361	49.6
Receivables from other banks	**177,248**	**154,898**	**-12.6**

(15) IMPAIRMENT CHARGES ON RECEIVABLES FROM OTHER BANKS

in €k	Stage 1	Stage 2	Stage 3	30/06/2019
At the start of the reporting period	318	4	-	322
Additions due to new business	1	-	-	1
Change within stage:				
– Allocation/reversal	30	13	-	43
– Disposals due to use	-	-	-	-
Reclassification from one stage to another:				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 2	-	-	-	-
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-	-	-	-
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-161	-	-	-161
At the end of the reporting period	**188**	**17**	**-**	**205**

(16) RECEIVABLES FROM CUSTOMERS

(16.1) RECEIVABLES FROM CUSTOMERS BY CUSTOMER GROUP

in €k	31/12/2018	30/06/2019	± in %
Corporate and business customers	4,727,697	4,833,523	2.2
Retail banking	1,298,161	1,326,402	2.2
Receivables from customers by customer group	**6,025,858**	**6,159,925**	**2.2**

(16.2) RECEIVABLES FROM CUSTOMERS BY MEASUREMENT CATEGORY

in €k	31/12/2018	30/06/2019	± in %
Financial assets measured at amortised cost	5,885,821	6,019,052	2.3
Financial assets designated at fair value through profit or loss	85,287	84,502	-0.9
Financial assets measured at fair value through profit or loss (mandatory)	54,750	56,372	3.0
Receivables from customers by measurement category	**6,025,858**	**6,159,925**	**2.2**

(17) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €k	Stage 1	Stage 2	Stage 3	30/06/2019
At the start of the reporting period	8,670	13,763	85,445	107,879
Additions due to new business	2,325	501	-	2,826
Change within stage:				
– Allocation/reversal	2,653	-75	1,726	4,304
– Disposals due to use	-	-	-17,967	-17,967
Reclassification from one stage to another:				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	524	-2,895	-	-2,371
– Reclassification from stage 3 to stage 1	136	-	-281	-145
– Reclassification from stage 3 to stage 2	-	66	-521	-455
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-293	2,584	-	2,291
– Reclassification from stage 1 to stage 3	-31	-	2,228	2,197
– Reclassification from stage 2 to stage 3		-403	5,204	4,801
Disposals due to repayment	-568	-897	-540	-2,005
At the end of the reporting period	**13,416**	**12,644**	**75,294**	**101,355**

(18) TRADING ASSETS

in €k	31/12/2018	30/06/2019	± in %
Positive fair values of derivative financial instruments	8,045	8,910	10.7
– Currency contracts	1,464	694	-52.6
– Interest rate contracts	2	-	-
– Fair value option	6,580	8,215	24.9
Trading assets	**8,045**	**8,910**	**10.7**

(19) DEBT SECURITIES AND OTHER FIXED-INTEREST SECURITIES

in €k	31/12/2018	30/06/2019	± in %
Financial assets measured at amortised cost	813,421	779,627	-4.2
Financial assets measured at fair value through profit or loss (designated)	21,978	22,198	1.0
Financial assets measured at fair value OCI	68,977	71,391	3.5
Financial assets measured at fair value through profit or loss (mandatory)	45	60	34.1
Debt securities and other fixed-interest securities	**904,421**	**873,276**	**-3.4**

(20) IMPAIRMENT CHARGES ON DEBT SECURITIES

in €k	Stage 1	Stage 2	Stage 3	30/06/2019
At the start of the reporting period	258	-	-	258
Additions due to new business	32	-	-	32
Change within stage:				
– Allocation/reversal	5	-	-	5
– Disposals due to usage	-	-	-	-
Reclassification from one stage to another:				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 2	-	-	-	-
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-	-	-	-
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-1	-	-	-1
At the end of the reporting period	**294**	**-**	**-**	**294**

(21) SHARES AND OTHER NON-INTEREST-BEARING SECURITIES

in €k	31/12/2018	30/06/2019	± in %
Financial assets measured at fair value through profit or loss (mandatory)	45,780	43,814	-4.3
Financial assets measured at fair value OCI	89,829	93,928	4.6
Shares and other non-interest-bearing securities	**135,609**	**137,742**	**1.6**

(22) INVESTMENTS IN ENTITIES ACCOUNTED FOR USING THE EQUIT METHOD

in €k	31/12/2018	30/06/2019	± in %
Oberbank AG	385,277	393,134	2.0
Bank für Tirol und Vorarlberg AG	214,391	220,741	3.0
Investments in entities accounted for using the equity method	**599,668**	**613,875**	**2.4**

(23) INTANGIBLE ASSETS

in €k	31/12/2018	30/06/2019	± in %
Intangible assets	3,859	10,649	>100
Intangible assets	**3,859**	**10,649**	**>100**

(24) PROPERTY, PLANT AND EQUIPMENT

in €k	31/12/2018	30/06/2019	± in %
Property	8,024	8,353	4.1
Buildings	37,647	37,675	0.1
Other property, plant and equipment	7,665	8,539	11.4
Right of use for leased real estate	n/a	24,548	-
Property, plant and equipment	**53,336**	**79,115**	**48.3**

(25) INVESTMENT PROPERTY

in €k	31/12/2018	30/06/2019	± in %
Property	8,422	8,405	-0.2
Buildings	26,108	27,076	3.7
Investment property	**34,530**	**35,482**	**2.8**

(26) DEFERRED TAX ASSETS

in €k	31/12/2018	30/06/2019	± in %
Deferred tax assets	**6,363**	**6,410**	**0.7**

(27) OTHER ASSETS

in €k	31/12/2018	30/06/2019	± in %
Other assets	19,037	21,027	10.4
Deferred items	3,459	2,932	-15.2
Other assets	**22,497**	**23,959**	**6.5**

(28) PAYABLES TO OTHER BANKS

in €k	31/12/2018	30/06/2019	± in %
Payables to domestic banks	732,544	631,407	-13.8
Payables to foreign banks	103,945	60,302	-42.0
Payables to other banks	**836,489**	**691,708**	**-17.3**

(29) PAYABLES TO CUSTOMERS

in €k	31/12/2018	30/06/2019	± in %
Savings deposit balances	**1,429,395**	**1,432,142**	**0.2**
– Corporate and business banking customers	178,506	176,530	-1.1
– Retail banking customers	1,250,889	1,255,612	0.4
Other liabilities	**4,038,068**	**4,334,921**	**7.4**
– Corporate and business banking customers	2,940,119	3,125,177	6.3
– Retail banking customers	1,097,949	1,209,744	10.2
Payables to customers	**5,467,463**	**5,767,063**	**5.5**

(30) LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2018	30/06/2019	± in %
Bonds issued	499,690	530,098	6.1
Other liabilities evidenced by paper	71,362	72,050	1.0
Liabilities evidenced by paper	**571,052**	**602,147**	**5.4**

(31) TRADING LIABILITIES

in €k	31/12/2018	30/06/2019	± in %
Negative fair values of derivative financial instruments	8,362	9,937	18.8
– Currency contracts	2,369	1,005	-57.6
– Interest rate contracts	2	-	-
– Fair value option	5,991	8,931	49.1
Trading liabilities	**8,362**	**9,937**	**18.8**

(32) PROVISIONS

in €k	31/12/2018	30/06/2019	± in %
Provisions for post-employment benefits and similar obligations	72,702	76,558	5.3
Provisions for taxes (current taxes)	5,233	4,030	-23.0
Provision for guarantees and credit facilities	1,384	1,732	25.1
Other provisions	55,166	57,825	4.8
Provisions	**134,485**	**140,145**	**4.2**

ACTUARIAL ASSUMPTIONS

in %	31/12/2018	30/06/2019
Financial assumptions		
Interest rate	2.01%	1.32%
Salary trend of active staff	2.76%	2.99%
Pensions development	2.10%	2.00%
Career development	0.25%	0.25%
Demographic assumptions		
Retirement age	65 years	65 years
Mortality table	AVÖ 2018	AVÖ 2018

(33) OTHER LIABILITIES

in €k	31/12/2018	30/06/2019	± in %
Other liabilities	21,960	33,015	50.3
Deferred items	4,739	3,582	3,410
Leasing liabilities	n/a	24,600	-
Other liabilities	**26,699**	**61,197**	**>100**

(34) SUBORDINATED DEBT CAPITAL

in €k	31/12/2018	30/06/2019	± in %
Tier 2 capital	159,667	152,880	-4.3
Hybrid capital	20,000	20,000	-
Subordinated debt capital	**179,667**	**172,880**	**-3.8**

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 170.6 million after EUR 176.9 million on 31 December 2018.

(35) SHAREHOLERS' EQUITY

in €k	31/12/2018	30/06/2019	± in %
Subscribed capital	85,886	85,886	-
– Share capital	85,886	85,886	-
Capital reserves	241,416	241,416	-
Retained earnings and other reserves	839,919	873,275	4.0
Additional equity instruments (AT 1 bond)	43,500	54,700	25.7
Shareholders' equity before non-controlling interests	**1,210,721**	**1,255,276**	**3.7**
Non-controlling interests	-25	-27	10.3
Shareholders' equity	**1,210,696**	**1,255,249**	**3.7**

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 had 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 classsified as equity under IAS 32.

RISK REPORT

The quantitative information in the reports pursuant to IFRS 7.31 to 7.42 is based on the internal reporting for overall bank risk management.

(36) LOAN QUALITY BY CLASS OF RECEIVABLE AS AT 30 JUNE 2019

Risk position by rating in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating	Total
Receivables from customers	53,037	1,633,712	2,261,040	2,100,945	343,497	187,981	1,617	**6,581,829**
Credit lines promised	6,300	54,126	62,069	37,361	4,201	1,622	9	**165,688**
Receivables from banks	72,709	62,050	22,219	12,217	-	-	-	**169,195**
Securities and funds	725,253	110,915	12,015	3,164	60	-	-	**851,407**
Equity investments	674,582	13,905	9,659	281	-	-	3,063	**701,490**
Total	**1,531,881**	**1,874,708**	**2,367,002**	**2,153,968**	**347,758**	**189,603**	**4,689**	**8,469,609**

LOAN QUALITY BY CLASS OF RECEIVABLE AS AT 31 DECEMBER 2018

Risk position by rating in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating	Total
Receivables from customers	51,945	1,692,770	2,031,945	2,082,867	372,246	221,890	850	**6,454,514**
Credit lines promised	7,058	54,424	59,944	30,569	4,751	2,068	9	**158,822**
Receivables from banks	99,264	60,997	22,318	7,457	1	-	-	**190,037**
Securities and funds	762,805	103,579	16,525	-	-	-	4,904	**887,814**
Equity investments	663,800	11,373	6,804	281	45	-	3,005	**685,307**
Total	**1,584,873**	**1,923,142**	**2,137,536**	**2,121,174**	**377,042**	**223,959**	**8,768**	**8,376,493**

BKS Bank's default definition corresponds to the definition given in CRR Article 178. Receivables were therefore deemed to be in default if they were more than 90 days overdue and the overdue amount was at least 2.5 per cent of the agreed line and at least € 250. Furthermore, BKS Bank also classified receivables as in default if it assumed that the debtor would not be able to repay the full amount of the loan to the bank.

The non-performing loan ratio[1)] at the end of June was 2.7% (31/12/2018: 3.3%). The calculation is based on non-performing loans in the rating classes 5a to 5c of the BKS Bank rating system (default classes).
We calculate the NPL ratio according to the risk dashboard template of the EBA. The reference values represent receivables on the balance sheet from the public sector, central banks, credit institutions and customers.

Cover for the loss potential of non-performing loans is indicated by the coverage ratio. Coverage Ratio I represents risk provisions set aside in relation to the total risk position. It was 40.1% on 30 June 2019 (31/12/2018: 38.3%). Additionally, we use Coverage Ratio III as an internal benchmark which also includes internal collateral in the calculation. This ratio was 88.2% on 30 June (31/12/2018: 85.5%).

(37) REGULATORY INTEREST RATE RISK IN % OF OWN FUNDS

Currency	31/12/2018	30/06/2019
EUR	3.43%	3.80%
CHF	0.02%	0.00%
USD	0.00%	0.03%
JPY	0.00%	0.00%
Other	0.03%	0.05%
Total	**3.48 %**	**3.88 %**

[1)] The calculation method of the NPL ratio was changed effective as of 30 June 2019 to the risk dashboard calculation method of the European Banking Authority (EBA). The value as of 31 December 2018 was adjusted.

(37.1) VALUE-AT-RISK FIGURES - INTEREST RATE RISK[1)]

in €K	31/12/2018	30/06/2019
Value-at-risk figures - interest rate risk	**24,944**	**25,034**

[1)] incl. credit spread risks

Value-at-risk with respect to interest rate risk is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

(38) VALUE-AT-RISK FIGURES - EQUITY PRICE RISK

in €K	31/12/2018	30/06/2019
Value-at-risk figures - equity price risk	**1,366**	**3,077**

Value-at-risk with respect to equity price risk is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

(39) VALUE-AT-RISK FIGURES - FOREIGN CURRENCY RISK

in €K	31/12/2018	30/06/2019
Value-at-risk figures - foreign currency risk	**673**	**535**

Value-at-risk with respect to foreign currency positions is measured on the basis of a historical simulation of the changes in market prices observed in the preceding 1,000 days and computed on a holding period of 90 days with a confidence level of 95%.

(40) INDICATORS FOR MANAGING LIQUIDITY RISK

	31/12/2018	30/06/2019
Deposit concentration	0.38	0.38
Loan-to-deposit ratio (LDR)	91.7%	89.9%
Liquidity coverage ratio (LCR)	137.8%	135.6%
Net stable funding ratio (NSFR)	110.2%	107.8%

(41) OPERATIONAL RISK AND ICT RISKS BY EVENT CATEGORY[1)]

in €k	31/12/2018	30/06/2019
Fraud	60	51
Employment practices and workplace safety	47	7
Customers, products, business practices	1,576	582
Property damage	9	20
System failures	33	7
Settlement, sales and process management	142	210

[1)] excl. credit risk, after refunds

ADDITIONAL INFORMATION

(42) SEGMENT REPORT

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

SEGMENT RESULTS HY1 2019

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	13,277	52,789	23,340	1,629	91,035
– thereof investments in entities accounted for using the equity method			20,573		20,573
Impairment charges	-225	-13,061	95	-	-13,191
Net fee and commission income	12,371	16,088	-48	804	29,215
Net trading income	-	-	715	-	715
General administrative expenses	-26,712	-25,527	-4,066	-5,099	-61,404
Balance of other operating income/expenses	1,068	483	-12	-5,046	-3,507
Profit/loss from financial assets/liabilities	-	-	2,659	1,088	3,747
Profit/loss for the period before tax	**-221**	**30,772**	**22,683**	**-6,624**	**46,610**
Average risk-weighted assets	639,103	3,375,672	841,837	109,100	4,965,711
Average allocated equity	77,346	408,123	720,337	27,192	1,232,998
ROE based on profit for the period	**-0.6%**	**15.1%**	**6.3%**	**-**	**7.2%**
Cost/income ratio	**100.0%**	**36.8%**	**16.9%**	**-**	**52.3%**
Risk/earnings ratio	**1.7%**	**24.7%**	**-0.4%**	**-**	**14.5%**

SEGMENT RESULTS HY1 2018

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	13,812	49,933	19,373	1,413	84,530
– thereof investments in entities accounted for using the equity method			18,817		18,817
Impairment charges	-410	-8,453	-212	-	-9,075
Net fee and commission income	11,833	14,947	515	55	27,351
Net trading income	0	0	-205	0	-205
General administrative expenses	-25,717	-23,617	-3,635	-4,991	-57,960
Other operating income/expenses	1,069	453	-28	-4,959	-3,464
Profit/loss from financial assets/liabilities	95	-211	-4,456	-	-4,572
Profit/loss for the period before tax	**682**	**33,052**	**11,352**	**-8,482**	**36,604**
Ø Average risk-weighted assets	527,529	3,204,917	945,779	59,082	4,737,307
Ø Average allocated equity	61,597	374,357	657,534	13,853	1,107,341
ROE based on profit for the period	**2.2%**	**17.7%**	**3.5%**	**-**	**6.7%**
Cost/income ratio	**96.3%**	**36.1%**	**18.5%**	**-**	**53.6%**
Risk/earnings ratio	**3.0%**	**16.9%**	**1.1%**	**-**	**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 recognised in net interest income as return on equity invested. 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
In the Corporate and Business Banking segment some 22,800 corporate and business banking customers were served as of the end of June 2019. 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 the larger part of the loan portfolio and make an essential contribution 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 are 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, wage and salary earners, and members of the health professions are reported summarised in the retail banking segment. A number of 167,100 customers belonged to this segment at the end of June 2019.

Financial Markets
The financial markets segment includes the profits from BKS Bank AG's proprietary trading activities, from treasury securities, from equity investments, from derivatives in the banking book and from interbank transactions as well as from income from interest-rate term structure management.

'Other' encompasses items of income and expenses that cannot be allocated to the other segments or to any one business area.

(43) RELATED PARTY DISCLOSURES

	Outstanding balances		Guarantees received		Guarantees provided	
in €k	At 31/12/2018	At 30/06/2019	At 31/12/2018	At 30/06/2019	At 31/12/2018	At 30/06/2019
Non-consolidated subsidiaries			-	-	-	-
Receivables	2,927	24,562				
Liabilities	2,287	4,913				
Associates and joint arrangements			-	-	-	-
Receivables	2,451	1,603				
Liabilities	669	6,716				
Key management staff			-	-	-	-
Receivables	235	223				
Liabilities	1,417	1,469				
Other related parties			-	-	-	-
Receivables	117	116				
Liabilities	827	743				

LOANS AND ADVANCES GRANTED

in €k	31/12/2018	30/06/2019	± in %
Loans and advances granted to members of the Management Board	25	22	-11.3
Loans and advances granted to members of the Supervisory Board	210	201	-4.3
Loans and advances granted	**235**	**223**	**-5.1**

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

(44) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2018	30/06/2019	± in %
Guarantees	426,642	446,934	4.8
Letters of credit	1,381	656	-52.5
Contingent liabilities	**428,023**	**447,590**	**4.6**
Other credit risks	1,337,235	1,355,011	1.3
Credit risks	**1,337,235**	**1,355,011**	**1.3**

(45) EVENTS AFTER THE BALANCE SHEET DATE

After the reporting date of this interim report as at 30 June 2019, 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.

(46) FAIR VALUES

Financial assets and debt measured at fair value

30/06/2019

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)	-	-	56,372	56,372
– at fair value through profit or loss (designated)	-	-	84,502	84,502
Trading assets (derivatives)	-	8,910	-	8,910
Debt securities and other fixed-interest securities	-	-	-	-
– at fair value through profit or loss (mandatory)	60	-	-	60
– at fair value through profit or loss (designated)	22,198	-	-	22,198
– at fair value OCI	70,384	-	1,007	71,391
Shares and other variable-yield securities	-	-	-	-
– at fair value through profit or loss (mandatory)	43,814	-	-	43,814
– at fair value OCI	6,314	3,593	84,021	93,928
Equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss (designated)	-	-	85,896	85,896
Trading liabilities	-	9,937	-	9,937

In HY1 2019, equity instruments measured at fair value in OCI with a carrying amount of EUR 14.6 million were transferred from Level 2 to Level 3, because the stocks are not quoted on a regulated market.

31/12/2018

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)	-	-	54,750	54,750
– at fair value through profit or loss (designated)	-	-	85,287	85,287
Trading assets (derivatives)	-	8,045	-	8,045
Debt securities and other fixed-interest securities				
– at fair value through profit or loss (mandatory)	45	-	-	45
– at fair value through profit or loss (designated)	21,978	-	-	21,978
– at fair value OCI	68,977	-	-	68,977
Shares and other non-interest-bearing securities				
– at fair value through profit or loss (mandatory)	45,780	-	-	45,780
– at fair value OCI	4,191	3,665	81,973	89,829
Equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss (designated)	-	-	84,744	84,744
Trading liabilities	-	8,362	-	8,362

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 non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper at fair value through profit or loss
As at 1 January 2019	85,287	54,750	81,973	84,744
Income Statement[1]	1,287	65	-	1,152
Reclassification	-	-	-	-
Other comprehensive income	-	-	2,048	-
Purchased/added	-	5,295	-	-
Sold/redeemed	-2,072	-3,738	-	-
As at 30/06/2019	**84,502**	**56,372**	**84,021**	**85,896**

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

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 non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper at fair value through profit or loss
At 1 January 2018	55,805	48,138	29,662	84,688
Income Statement[1]	-1,515	181	-	56
Reclassification	-	-	50,309	-
Other profit or loss	-	-	-1,788	-
Purchased/added	35,391	15,821	4,115	-
Sold/redeemed	-4,394	-9,390	-325	-
At 31/12/2018	**85,287**	**54,750**	**81,973**	**84,744**

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

Measurement principles 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, fair value is 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 observable for the assets or liabilities (e.g. yield curves, foreign exchange rates). Generally, 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 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 the category 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. an 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 the financial instrument and the remaining time to maturity. The change in the default risk associated with liabilities measured at fair value in the reporting period was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument’s remaining time to maturity. In the reporting period HY1 2019, the changes in the credit ratings of receivables from customers measured at fair value had an effect on their fair value in the amount of EUR -0.1 million (31/12/2018: EUR -1.1 million). In the reporting period HY1 2019, the change to BKS Bank’s credit rating had an effect on the fair value of the liabilities evidenced by paper in the amount of EUR -0.1 million (31/12/2018: EUR 0.1 million).

Sensitivity analysis

The sensitivity analysis of receivables from customers measured at fair value results in an accumulated change in value of EUR 0.4 million (31/12/2018: EUR 0.5 million), assuming an improvement or deterioration of 10 basis points in the credit spread. 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 fair value of the liabilities evidenced by paper designated at fair value of EUR 0.4 million (31/12/2018: EUR 0.4 million).

For level 3 shares (equity investments) in an amount of EUR 20.4 million, the material non-observable parameter is the interest rate. An interest rate increase by 50 basis points reduces the fair value by EUR 1.3 million. An interest rate decrease by 50 basis points raises the fair value by EUR 1.5 million. For level 3 shares (equity investments) in an amount of EUR 52.9 million, the material non-observable parameter is the interest rate. A change in the price by 10% changes the fair value by EUR 4.3 million, a change in the price by -10% reduces the fair value by EUR 3.8 million. For level 3 shares (equity investments) in an amount of EUR 9.2 million, the material non-observable parameter is the carrying amount of equity. The remainder refers to immaterial minority investments for which no fair value measurement was applied.

FINANCIAL ASSETS AND LIABILITIES NOT RECOGNISED AT FAIR VALUE

30/06/2019

in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value	Carrying amount 30/06/2019
Assets					
Receivables from other banks[1]	-	-	154,835	154,835	154,676
Receivables from customers[1]	-	-	5,969,758	5,969,758	5,917,715
Debt securities and other fixed-interest securities	846,094	-	-	846,094	779,627
Equity and liabilities					
Payables to other banks	-	-	689,979	689,979	691,708
Payables to customers	-	-	5,769,183	5,769,183	5,767,063
Liabilities evidenced by paper	170,960	280,718	82,714	534,392	516,251
Subordinated debt capital	152,545	-	26,365	178,910	172,880

[1] reduced by spec. impair. allow./ECL

31/12/2018

in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value	Carrying amount 31/12/2018
Assets					
Receivables from other banks[1]	-	-	177,116	177,116	176,926
Receivables from customers[1]	-	-	5,850,304	5,850,304	5,777,942
Debt securities and other fixed-interest securities	861,721	-	-	861,721	813,421
Equity and liabilities					
Payables to other banks	-	-	833,011	833,011	836,489
Payables to customers	-	-	5,467,571	5,467,571	5,467,463
Liabilities evidenced by paper	169,344	251,349	79,874	500,566	486,308
Subordinated debt capital	167,178	13,354	2,340	182,872	179,667

[1] reduced by spec. impair. allow./ECL

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 2019 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 2019 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, 28 August 2019

The Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Alexander Novak
Member of the Management Board

FINANCIAL CALENDAR 2019

Date	Content of the notification
2 April 2019	Publication of the single-entity financial statements and the consolidated financial statements 2018 on the website and in the Official Gazette of the Republic of Austria “Wiener Zeitung”
8 May 2019	80th annual general meeting
14 May 2019	Dividend ex-day
15 May 2019	Record date
16 May 2019	Dividend payout day
24 May 2019	Interim report for the period ended 31 March 2019
30 August 2019	Half-year financial report 2019
29 November 2019	Interim report for the period ended 30 September 2019

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