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# Interim report to 30 September 2017

BKS Bank
3 Banken Gruppe

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**Forward-looking statements**
This interim financial report as at 30 September 2017 contains statements and forecasts that refer to the future development of the BKS Bank Group. The forecasts are our estimates based on the information at our disposal on the copy deadline date 22 November 2017. Should the assumptions regarding such forward-looking statements prove incorrect or should risks materialize, the actual results may vary from those currently expected. This interim report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

**Disclaimer**
As auditing is not mandatory for this interim report, it has not been audited or reviewed by an auditor. 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 in the values in the tables and charts are due to rounding differences.

# BKS BANK GROUP AT A GLANCE

| INCOME STATEMENT in €m | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| Net interest income | 117.2 | 118.5 | 1.2 |
| Charges for losses on loans and advances | -25.8 | -17.1 | -33.7 |
| Net fee and commission income | 36.6 | 38.0 | 3.7 |
| General administrative expenses | -80.4 | -79.3 | -1.4 |
| Profit/loss for the period before tax | 40.9 | 57.6 | 40.9 |
| Profit for the period after tax | 36.9 | 51.6 | 40.0 |

| BALANCE SHEET in €m | 31.12.2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Total assets | 7,581.1 | 7,545.3 | -0.5 |
| Receivables from customers after impairment charges | 5,175.3 | 5,210.0 | 0.7 |
| Primary deposits | 5,568.0 | 5,506.1 | -1.1 |
| of which savings deposits | 1,529.0 | 1,503.5 | -1.7 |
| – of which securitized debt incl. subordinated debt capital | 743.2 | 697.7 | -6.1 |
| Shareholders' equity | 958.8 | 1,022.9 | 6.7 |
| Customer funds under management | 13,723.20 | 13,885.6 | 1.2 |
| – of which on custody accounts | 8,155.1 | 8,379.5 | 2.8 |

| OWN FUNDS PURS. TO CRR in €m | 31/12/2016 | 30/09/2017 | ± in % (points) |
|---|---|---|---|
| Total risk exposure amount | 4,974.1 | 5,013.7 | 0.8 |
| Own funds | 670.0 | 668.9 | -0.2 |
| – of which CET1 capital | 625.9 | 582.2 | -7.0 |
| – of which total Tier 1 capital (CET1 and AT1) | 625.9 | 593.9 | -5.1 |
| Common equity tier 1 capital ratio (in %) | 12.6 | 11.6 | -1.0 |
| Total capital ratio (in %) | 13.5 | 13.3 | -0.2 |

| PERFORMANCE RATIOS | 31/12/2016 | 30/09/2017 | ± in % (points) |
|---|---|---|---|
| Return on equity after tax | 5.1 | 6.1 | 1.0 |
| Return on assets after tax | 0.6 | 0.8 | 0.2 |
| Cost/income ratio | 56.2 | 52.4 | -3.8 |
| Risk/earnings ratio | 20.1 | 14.4 | -5.7 |
| NPL ratio | 4.8 | 3.9 | -0.9 |
| Liquidity coverage ratio (LCR) | 155.6 | 141.4 | -14.2 |
| Leverage ratio | 8.5 | 7.6 | -0.9 |

| RESOURCES | 31/12/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| Average number of staff | 926 | 928 | 2 |
| Number of branches | 60 | 62 | 2 |

| THE BKS BANK'S SHARES | 31/12/2016 | 30/09/2017 |
|---|---|---|
| Number of no-par ordinary shares (ISIN AT0000624705) | 37,839,600 | 37,839,600 |
| Number of no-par preference shares (ISIN AT0000624739) | 1,800,000 | 1,800,000 |
| High (ordinary/preference share) in € | 17.3/15.4 | 18.5/17.5 |
| Low (ordinary/preference share) in € | 15.8/13.9 | 16.8/15.4 |
| Close (ordinary/preference share) in € | 16.8/15.4 | 17.5/17.5 |
| Market capitalization in €m | 662.7 | 693.6 |

# DEAR SHAREHOLDERS,

We are very pleased to report on the excellent first three quarters of the financial year 2017. We continued on our path of sustainable growth despite the undiminished challenges facing the banking industry.

## EXCELLENT RESULT FOR THE PERIOD

BKS Bank reported an excellent profit after tax for the period of EUR 51.6 million as at 30 September 2017. The remarkable increase in profit was driven, on the one hand, by income on financial assets and the much lower charges for losses on loans and advances, and on the other, by gains in net fee and commission income. Developments were also very gratifying as regards costs: Administrative expenses decreased thanks to our strict cost management to EUR 79.3 million, which is a decline of EUR 1.1 million year on year.

The BKS Bank Group's total assets at the close of the third quarter were EUR 7.55 billion, and therefore, at the level of 31 December 2016. Loans and advances to customers after impairment charges remained stable at EUR 5.21 billion. The solid level of primary deposits of EUR 5.51 billion reflects the high degree of trust customers place in our credit institution.

## GREEN BOND[1)] ISSUED FOR FIRST TIME

In the past, we have proven time and again that we view sustainability as a very serious topic and do not engage in "green washing". Sustainability supports our innovative capacities and is a powerful stimulant for the development of new products and services. I am very proud of our first green bond issue since October. The bond's maturity is 5.5 years, the interest 0.85% p.a. The bond offers investors an opportunity to invest their capital specifically in environmental projects in our region. The proceeds of the issue will be used to finance a small hydropower plant in Upper Carinthia. As in the case of our social bond, we commissioned an external sustainability audit, which was conducted by rfu – Mag. Reinhard Friesenbichler Unternehmensberatung.

## EXPANSION IN FOREIGN MARKETS CONTINUES

We have been engaged in banking in Croatia for the past ten years. Since the acquisition of Kvarna banka d.d. in 2007, our profits there have quadrupled. Croatia continues to be an attractive growth region and at the beginning of October we opened our third branch in Split. The new branch will serve both retail customers and corporates. Slovenia has also been an important growth market for years. In the first quarter of 2017, the seventh branch opened for business there. A few weeks ago, we held the opening ceremony at the new branch location in Ljubljana together with customers and business partners.

The solid development of business of the past few months make us optimistic about the remaining months of the year 2017. We are well aware that the massive changes in the banking sector will continue in the future. The enormous potential, such as in the advance of digitization, means that we need to think about many things in a completely new way. Our bank is well prepared to master this major transformation. I would especially like to take this opportunity to thank our management staff and all of our employees for never losing faith despite the constant changes, and continuing their dedicated work on path to growth.

Herta Stockbauer
Chairwoman of the Management Board

[1)] The information provided in this text serves only as non-binding information and does not replace in any way advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bond mentioned here, and neither is it a buy or sell recommendation. The offer for the product described is based on the base prospectus published by BKS Bank AG on 6 April 2017 including all documents to which a reference is made and all supplementary information to the base prospectus as well as the final terms published on 21 September 2017. The base prospectus including supplementary information and the final terms are available free of charge on the website of the issuer at http://www.bks.at, under Investor Relations > BKS Bank Anleiheemissionen and also at the offices of BKS Bank AG, 9020 Klagenfurt, St. Veiter Ring 43 during regular office hours.

# GROUP MANAGEMENT REPORT

# ECONOMIC ENVIRONMENT

## GLOBAL ECONOMY ON STEADY GROWTH PATH

The global economy continues on uptrend. At present, it is also in the comfortable situation of rising growth rates and moderate inflation. This scenario is referred to as the "Goldilocks" market in the industry.

The US is always good for positive surprises – at least with respect to the economy. For the second consecutive time, gross domestic product in the US rose by 3% quarter on quarter. After a plus of 3.1% in the spring, the US economy expanded in the third quarter by 3% based on projections for the full year. This was last achieved in 2014 and is probably supportive of President Donald Trump. He promised Americans a permanent rise in the pace of economic growth from an average of 2% to 3% to 4%. Hurricanes Harvey and Irma apparently hardly made a dent on the economy in Q3, as in some areas it paralyzed production, but in others it also drove it up - such as in new car sales. The further course of development of the EU economy remains to be seen. Experts believe that GDP growth will tend to move back in the direction of 2% in the coming year rather than 4%.

The economy in China expanded by 6.8% in the third quarter, and thus, 0.1% slower than in the first half of the year The robust growth was driven by the sustained high level of lending. This growth fueling the boom in the construction sector, for example. Moreover, it is keeping many (state) enterprises artificially alive. Recently though, we have been seeing some warning signs. The IMF, for example, criticizes that China is buying strong growth with higher debt levels.

Growth is very stable in the euro area. This year, it is heading for strongest increase since 2007. Sentiment indicators in the monetary union have also been indicating growth in the third quarter. Not only is sentiment positive among businesses, but also private households are upbeat and this is being seen in consumption. It is apparent that sentiment is bright not only in the four major economies, but also in the countries of the periphery such as Italy, Greece and Spain, which had been experienced some harsh times in the past. However, the worsening dispute over the independence of Catalonia is a risk factor for the Spanish economy.

Austria can look ahead at further years of growth. According to Wifo's medium-term forecast until 2022, the domestic economy is expected to grow by over 2% p.a. Therefore, in the coming five years is clearly set to outperform the growth rates of the past five years. The expanding global economy is expected to boost exports. Higher incomes should stimulate consumption. Wifo demands reforms from the new government, but is also warning about expensive quick fixes without any offsetting funding.

## CHANGE TO MONETARY POLICY IN THE EURO AREA COMING SOON

The US is ahead of Europe with respect to the normalization of monetary policy. But the European Central Bank (ECB) is gradually preparing to end its ultra loose money policy. Even though monetary policy remains expansive, the ECB will start throttling the pace of its billion euro bond purchases at the beginning of 2018. As of January 2018, the central bank will pump EUR 30 billion in to the market instead the 60 billion as up to now. The purchasing programme is expected to run at least until the end of September 2018, and therefore, nine months longer than planned. Thus, the ECB signaled the start of phasing out of its ultra loose monetary policy. The key lending rate at which commercial banks can borrow money from the central bank remains, as expected, at the record low of 0.0%. As things stand today, no hike in key lending rates is expected before the end of September 2019.

## STOCK MARKETS PERFORMED WELL IN THIRD QUARTER

European stocks continued to develop well. The EuroStoxx 300 gained 4.3% in the last quarter. The EuroStoxx Europe 600 rose by 2.3%. The German stock index gained 4.1%. Austrian stocks also developed excellently. The Austrian stock market (ATX) gained 6.7% in Q3. American stocks also contributed positively. S&P 500 rose in euro by 0.5%. The Dow Jones Industrial Index gained 1.5%. The technology market NASDAQ rose by 2.3% in euro. Japanese stocks by contrast lost 2.0% especially due to currency depreciation.

## EURO APPRECIATED IN THIRD QUARTER

The euro remained firm also in the last quarter with respect to the key trade partners. The strongest appreciation of the euro took place versus the Swiss franc up from 1.095 to 1.144 (+4.5%) auf. The euro also advanced versus the Japanese yen. The exchange rate EUR/JPY rose from 128.4 to 132.92, which is a appreciation of 3.5%. Versus the US dollar, the euro appreciated from 1.143 to 1.181 EUR per USD, a gain of 3.3%. Compared to the British pound, the euro appreciated from 0.877 to 0.882 EUR per GBP (+0.6%). Compared to the Chinese renminbi, the euro appreciated by 1.7% up from 7.737 to 7.865 EUR per CNY. The Croatian kuna, an important currency for us, depreciated versus the euro and was trading at 7.491 HRK per EUR at the end of September after 7.415 per EUR at the close of the mid-year period (-1%).

## DIVERGENT DEVELOPMENT OF COMMODITY PRICES

Precious metals posted losses in the preceding quarter (-0.6%), and also agricultural commodities (-11.2 %) and livestock (-8.7%). By contrast, energy commodities (+10.3%) and industrial metals (+5.7%) became more expensive. The price of oil (Brent) rose 16.1% in Q3 and at the end of September it stood at USD 57.54/barrel (all performance figures in euro). Over the long term, it may be assumed that commodity prices will rebound. Currently, the rise in demand is coinciding with higher production. Therefore, we expect a volatile sideways movement in commodity prices. Gold might come under pressure in the coming quarters when the central bank shifts away from its ultra loose monetary policy. This means that we expect higher interest rates, which would generally have a negative impact on gold prices.

# CONSOLIDATED COMPANIES

**At the end of September, the relevant group of consolidated companies of BKS Bank included 19 credit and financial institutions as well as companies that supply banking-related 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, above all, the net profit of the subsidiaries, the pro rata 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*

*Recognized 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. As at 30 September 2017, 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.

The other fully consolidated companies, which are mostly real estate companies, provide mainly banking-related services. All other consolidated entities are recognized as available-for-sale assets.

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# ASSETS AND FINANCIAL POSITION

**The BKS Bank Group's total assets as at 30 September 2017 were EUR 7.55 billion, and therefore, at the level of 31 December 2016. The sound economy has substantially boosted demand for loans. On the liabilities side, we again boast an excellent balance of primary deposits.**

## ASSETS

### Strong demand for loans

In the first three quarters, demand for loans increased noticeably. Companies took advantage of the economic upswing for investments in capital goods. There was also more demand for loans from retail customers. Overall, the volume of new business attained from January to September 2017 was an excellent EUR 1.09 billion. However, many corporate and business banking customers used the high liquidity situation to repay credit lines prematurely. Therefore, the overall gain in lending volume was only slight at 0.4% as compared to year-end 2016. Customer loans amounted to EUR 5.35 billion at the end of September 2017. Receivables from customers comprise the lending volume of the parent company BKS Bank AG as well lending by domestic and foreign leasing companies. Foreign markets account for 25.4% of receivables from customers.

Charges for receivables from customers developed very well due to the much improved the portfolio structure and the good economic situation. At the end of September 2017, charges for loans and advances to customers was EUR 142.7 million. Compared to year-end 2016, this is a decrease by 8.0%. The improved portfolio structure is also reflected in the ratio of non-performing loans which decreased in the course of the year from 4.8% to 3.9%.

The volume and number of foreign currency loans also developed in the right direction: by 30 September 2017, the FX ratio had dropped to a very gratifying 3.5%. At year-end 2016, it had been 4.5%.

### Leasing business on the rise

Business at our domestic and foreign leasing companies has developed very well year-to-date with the exception of our Slovak leasing company. In Slovakia, we had to find a replacement for the position of sales director at the start of September. We hope to see much stronger gains in volumes and new business with this change in staff.

At the Austrian leasing company, we completed the reorganization of the leasing business in the previous year. We are very pleased that the expansion of our direct sales channels, swifter application and approval procedures as well as the new IT solution are already yielding improved earnings. The leasing volume increased in the past nine months from EUR 159.7 million to EUR 169.4 million or by 6.1%. The Slovene leasing company has already surpassed the excellent earnings it achieved at year-end 2016, with the leasing volume of EUR 99.9 million gaining a remarkable 9.7%. We believe this a clear sign that we are highly appreciated as a reliable leasing partner by our customers on the Slovenian market. In Croatia, the leasing business also developed satisfactorily. From the beginning of January until the end of September 2017, EUR 9.2 million in new business was recorded.

**Financial assets developing well**
As at the end September 2017, financial assets had risen to EUR 1.57 billion, which is an increase of 6.0% versus 31 December 2017. All financial assets items posted solid increases. Financial assets measured at fair value through profit or loss rose by EUR 3.4 million to EUR 78.9 million, a gain of 4.5%. The increase was the result of newly granted fixed-interest loans, which were hedged using interest rate swaps with matching maturities. Available-for-sale assets increased by 12.7% to EUR 213.3 million mainly due to additions of fixed-income securities. The held-to-maturity assets also increased from EUR 747.8 million to EUR 767.8 million (+2.7%) through additions. The liquid assets in this position are mainly high quality assets.

The share of companies measured using the equity method increased versus year-end 2016 by 9.0% to EUR 513.3 million. The rise was due to the addition of the net profits for the period of our sister banks Oberbank AG and Bank für Tirol and Vorarlberg Aktiengesellschaft.

Cash balances which comprise cash in hand and balances with the central bank decreased by 9.5% to EUR 491.8 million. The decrease resulted from investments in financial assets and lower volumes of funds raised on the money market.

## LIABILITIES

**Primary deposits remain at high level**
Primary deposit balances amounted to a pleasing EUR 5.51 billion at the end of September 2017. The largest share was accounted for once again by other payables, which at EUR 3.30 billion even surpassed the exceptionally high level reached at the close of December 2016. As regards savings deposits, we saw some slight outflows with a volume of EUR 25.5 million due to the sustained difficult low interest environment. Nonetheless, the savings deposit balance of EUR 1.50 billion impressively shows that our customers remain loyal to classical savings schemes despite the low interest rates. Placing own issues very difficult due to the extremely low interest rates. Liabilities evidenced by paper have declined year-to-date by 4.2% to EUR 521.9 million, while subordinated debt capital dropped by 11.5% to EUR 175.7 million.

After we successfully placed a social bond on the market as the first Austrian credit institution, we worked on the issuance of a green bond over the summer of 2017. Since the start of October 2017, the green bond[1)] has been available for subscription. With the proceeds of the issue, we are financing the small hydro-powerplant, HASSLACHER Energie GmbH in Spittal an der Drau.

Our strategic goal is to constantly strengthen our capital base. At the end of May 2017, we issued an Additional Tier 1 note to this end of which EUR 10.8 million had been placed by the end of September 2017. Consolidated equity has increased since the beginning of the year by 6.7% to EUR 1.02 billion, while subscribed share capital did not change at EUR 79.3 million.

[1)] The information provided in this text serves only as non-binding information and does not replace in any way advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bond mentioned here, and neither is it a buy or sell recommendation. The offer for the product described is based on the base prospectus published by BKS Bank AG on 6 April 2017 including all documents to which a reference is made and all supplementary information to the base prospectus as well as the final terms published on 21 September 2017. The base prospectus including supplementary information and the final terms are available free of charge on the website of the issuer at http://www.bks.at, under Investor Relations > BKS Bank Anleiheemissionen and also at the offices of BKS Bank AG, 9020 Klagenfurt, St. Veiter Ring 43 during regular office hours.

# RESULT OF OPERATIONS

**BKS Bank achieved an excellent profit after tax for the period ended on 30 September 2017 of EUR 51.6 million, which is an increase of 40.0% year on year. The excellent result was backed by income from financial assets and lower charges for impairment losses, but also by the slight increase in net income and commission fees.**

## SOLID DEVELOPMENT OF BUSINESS DRIVES UP EARNINGS

At a consolidated net profit after tax of EUR 51.6 million, we achieved a marked increase in profit. Net interest income before impairment charges rose to EUR 118.5 million. Net interest income decreased again due to the low interest rates by EUR 7.0 million to EUR 115.7 million. At the same time, net interest expenses decreased by 16.1% to EUR 26.2 million. As the contribution from companies measured using the equity method was higher at EUR 29.0 million, overall growth of this item was moderately up by 1.2%.

Thanks to the excellent risk situation, charges for losses on loans and advances decreased year on year by one third to a very satisfactory EUR 17.1 million. This helped improve net interest income after charges for losses on loans and advances by EUR 10.0 million to EUR 101.4 million, a gain of 11.0% compared to the figure for 2016.

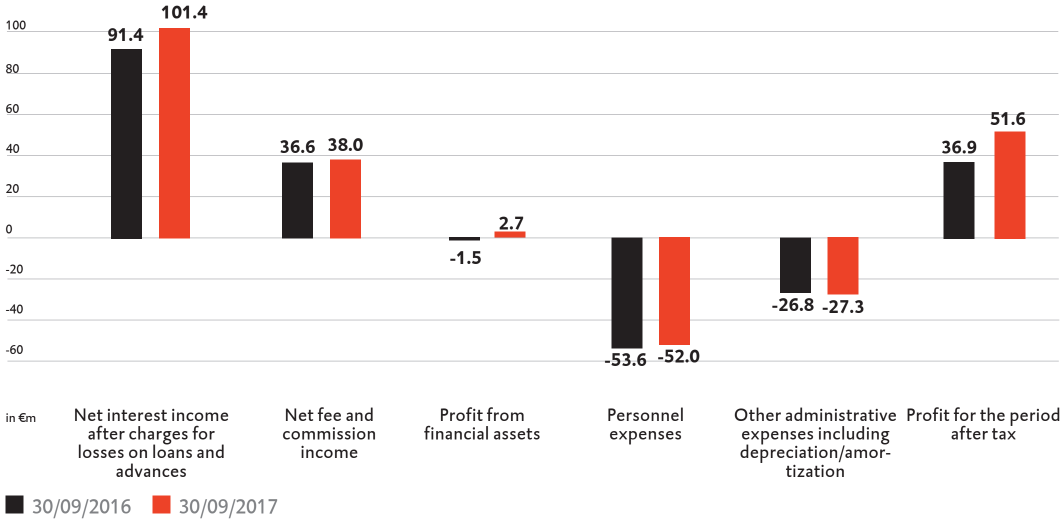
## MARKED RISE IN COMMISSION INCOME

Net fee and commission income is developing very positively up to now and was up by 3.7% to EUR 38.0 million. Particularly pleasing is the fact that the securities business has livened up again in the past few months. The benign sentiment on the stock markets is inspiring investors and has resulted in higher trading volumes in securities. As at 30 September 2017, we achieved a net fee and commission income from securities operations of EUR 10.3 million, which is a gain of 6.1% year on year.

By comparison, income from payment services was slightly down and amounted to EUR 14.8 million, a decline of 0.8%. Nonetheless, we believe there is enormous potential in the expansion of payment services, even though the challenges are formidable - digitization, Payment Services Directive II, heightened competitive pressure from alternative payment service providers. We have already set the main course for this important business area, including the introduction of sales specialists. In the coming months, we will intensify work to reorganize the business area of payment services and make it 'fit for the future'.

Fees and commissions from lending developed very well on account of the strict billing discipline. At the end of the third quarter of 2017, commissions on loans attained a level of EUR 9.8 million versus EUR 9.5 million in September 2016. We also improved results year on year in the foreign exchange business at EUR 2.1 million.

## COMPONENTS OF THE INCOME STATEMENT




### FINANCIAL ASSETS PERFORM EXCELLENTLY

The profit on financial assets climbed to EUR 2.7 million, an excellent level and much higher than in the preceding year. This solid performance was driven, among other things, by the rally on stock markets that we used for profit-taking. Moreover, positive measurement effects under the fair value option also contributed to the good result.

### ADMINISTRATIVE EXPENSES DECLINE SLIGHTLY

Strict cost discipline and prudent investment policies are key elements of our strategy. This successful approach is reflected in the year-on-year decline in general administrative expenses, by EUR 1.1 million to EUR 79.3 million. A large share of the administrative expenses is accounted for by staff costs. Staff costs decreased year on year by 2.9% due to lower expenses for 'social capital'. Despite a hike in collective wages by 1.3% effective as of April 2017, payroll expenses remained unchanged versus the preceding year. As at 30 September 2017, our bank employed 928 persons (in FTEs). Other administrative expenses increased by 2.5% to EUR 22.6 million due to higher IT costs in the reporting period. Depreciation and amortisation, however, decreased by 2.3% to EUR 4.7 million.

## OTHER OPERATING INCOME WEIGHED DOWN BY HIGH TAXES

Other operating income was impacted, above all, by regulatory costs. The result of EUR -6.2 million takes account of expenses for the deposit guarantee and resolution mechanism of EUR 2.3 million, respectively, EUR 1.6 million and also for the stability tax of EUR 0.7 million. Additionally, we have set aside provisions for potential imminent losses.

## PERFORMANCE RATIOS ON A STEADY COURSE

The excellent result has also had a positive effect on the key management ratios. Return on equity (RoE) after tax improved from 5.1% to 6.1% and return on assets (RoA) after tax from 0.6% to 0.8%.

The higher result for the period is also reflected in the improved cost-to-income ratio, which was 52.4% on 30 September. The trend was also positive for the risk-earnings-ratio at 14.4%. The NPL ratio improved by 0.9%-Points to 3.9%.

At 7.6%, the leverage ratio was clearly higher than the regulatory requirement of 3%. The same is true for the liquidity coverage ratio: As at 30 September 2017, the ratio was 141.4% and thus substantially higher than the ratio of 100% which must be met by 2018.

Our bank has a solid capital base. With a Common Equity Tier 1 capital ratio of 11.6% and an own funds ratio of 13.3%, our figures are well above the statutory requirements.

## KEY PERFORMANCE INDICATORS

| in % | 31/12/2016 | 30/09/2017 | ± in %-points |
|---|---|---|---|
| ROE after tax | 5.1 | 6.1 | 1.0 |
| ROA after tax | 0.6 | 0.8 | 0.2 |
| Cost/income ratio | 56.2 | 52.4 | -3.8 |
| Risk/earnings ratio | 20.1 | 14.4 | -5.7 |
| NPL ratio | 4.8 | 3.9 | -0.9 |
| Liquidity coverage ratio (LCR) | 155.6 | 141.4 | -14.2 |
| Leverage ratio | 8.5 | 7.6 | -0.9 |
| Common Equity Tier 1 ratio | 12.6 | 11.6 | -1.0 |
| Own funds ratio | 13.5 | 13.3 | -0.2 |

# SEGMENT REPORTS

**Corporate and business banking is our most successful segment and accounts for the largest share in the consolidated profit for the period. The financial markets segment achieved stable earnings in spite of the volatility on markets. Retail banking again fell short of a positive result in the third quarter.**

## CORPORATE AND BUSINESS BANKING

As at 30 September 2017, the corporate and business banking customers segment served some 19,300 customers. This customer segment includes 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 its founding in 1922, the object of our business was primarily to supply banking services to business customers. Today, this segment is still the most important operational business unit. A large share of the loans we grant are extended to corporate and business customers.

### Excellent segment profits

The first nine months developed very well again for our corporate and business banking segment. The profit for the period before tax came to EUR 37.5 million, thus surpassing the previous year's already very solid profits. Contributing elements include a rise in net interest income (EUR 66.5 million; +6.7%) and higher net fee and commission income (EUR 21.1 million; +5.4%). The outstanding segment results confirm our strategy of sustainable growth, especially, in the Corporate and Business Banking segment.

The good results are also evidence of the positive risk situation at our corporate and business customers. Compared to the preceding year, we lowered allocations to charges for loans and advances to customers by EUR 7.8 million or 32.7%. General administrative expenses increased by 3.0% to EUR 34.8 million.

Management benchmarks by segment reveal a positive development in all respects: Return on equity increased by 14.0% to 16.4%. The cost-income-ratio declined from 40.5% to 39.4% and the risk-to-earnings ratio was at a the solid level of 24.0%.

## RETAIL BANKING

In retail banking, we provide services to private individuals and members of the healthcare professions. At the end of September 2017, we served around 133,400 customers in this segment.

We have been faced with insufficient profitability in retail banking for some time now. The tense earnings situation is further aggravated by the extremely low interest rates, however, there are other factors that also exert pressure on the retail banking segment. First and foremost, technological change is a factor that is increasingly shifting the banking business to the internet. This is one reason, but also decreasing demand for cash are reducing the frequency of visits to bank branches and self-service zones at banks. Still, we believe branches are the most suitable place for obtaining personal and competent advisory services. Nonetheless, we are also looking more closely at the issues that will affect the branches in the future.

Retail banking continues to be an important segment for us despite the massive upheavals in this field and we will have to implement changes in the coming months and years. Thus, after careful deliberation we have reached the decision to discontinue individual locations that are no longer profitable and to integrate these into other locations in the vicinity. Moreover, we will continue to work on streamlining workflows at the branches, on speedier processes and digitization. We want to achieve greater efficiency in the deployment of resources and in personnel expenses and are therefore proceeding very defensively as regards filling vacant positions. At the same time, we are also working on the enlargement of our digital range of offerings. We are pleased that our modern customer portal has been so well received by our customers. In the first three quarter of 2017, we registered some 2,300 new users on our portal, which is an increase of 6.5%.

**Pressure on earnings still on**

The development of business in retail banking has not been satisfactory in the past nine months. Segment profit before tax worsened to EUR -3.8 million at the end of September. Net interest income dropped by 4.6% to EUR 18.8 million, while net fee and commission income increased slightly to EUR 16.5 million (+0.6%). Risks costs developed positively, dropping by 15.9% year on year and only required allocations of EUR 1.4 million. Administrative expenses remained more or less unchanged year on year at EUR 38.5 million.

The segment loss also had a negative impact on management benchmarks: Return on equity changed to -10.4% versus -8.9% on 30 September 2016. The cost/income ratio stood at 106.7% at the end of September. The risk/earnings ratio improved from 8.3% to 7.4%.

## FINANCIAL MARKETS

The main pillars of the financial markets segment are income from the management of the term structure of interest rates, returns on securities in the own portfolio, and the contributions of entities consolidated using the equity method. Proprietary trading is not at the focus of our business activities.

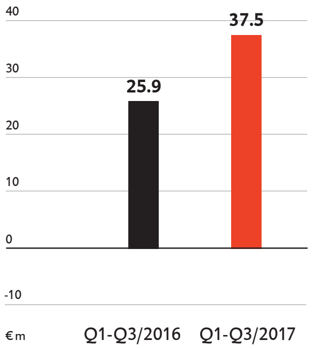
Profit for the period before tax in the segment financial markets as at 30 September 2017 was EUR 30.2 million, a gain of 8.7%. The solid results of EUR 29.0 million (+13.1%) were backed once again by the stable contributions of the companies measured using the equity method. Net interest income declined year on year by EUR 2.4 million to EUR 31.0 million due to the low interest environment. Impairment charges in an amount of EUR 0.7 million were released due to the improved country rating for Slovenia. On the other hand, we recognized collective impairment charges pursuant to IFRS 39.64 for payables to other banks and for securities in an amount of EUR 0.4 million. This resulted in a positive balance at the end of September 2017 of EUR 0.3 million.
Administrative expenses increased by 4.0% to EUR 5.0 million.

The financial markets segment also includes net income from financial assets. On account of the good performance of stock markets and the measurement gains under the fair value option, we achieved a good result in financial assets: At EUR 2.7 million, net income from this position was clearly higher than in the preceding year, which had been slightly negative at EUR -1.5 million.

Segment-specific benchmarks developed as follows: Return on equity remained at the prior-year level of 6.4%. The cost/income ratio increased slightly from 14.0% to 15.6%.

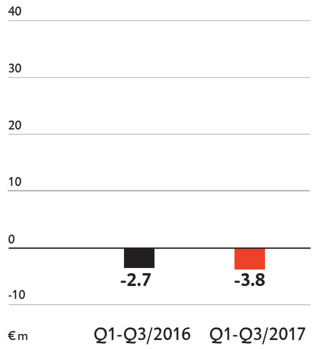
## THE DEVELOPMENT OF PROFIT/LOSS FOR THE PERIOD BEFORE TAX BY SEGMENT

CORPORATE AND BUSINESS BANKING



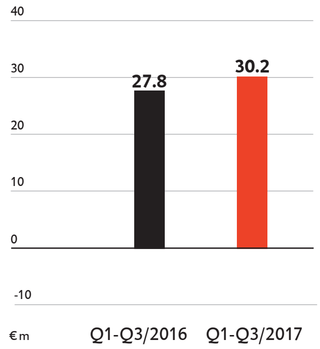

| in % | Q1-Q3/2016 | Q1-Q3/2017 |
|---|---|---|
| ROE | 14.0 | 16.4 |
| CIR | 40.5 | 39.4 |
| RER | 38.1 | 24.0 |

RETAIL BANKING




| in % | Q1-Q3/2016 | Q1-Q3/2017 |
|---|---|---|
| ROE | -8.9 | -10.4 |
| CIR | 102.7 | 106.7 |
| RER | 8.3 | 7.4 |

FINANCIAL MARKETS




| in % | Q1-Q3/2016 | Q1-Q3/2017 |
|---|---|---|
| ROE | 6.4 | 6.4 |
| CIR | 14.0 | 15.6 |
| RER | 1.1 | - |

A detailed presentation of segment data is provided on page 54 of the Notes.

# CONSOLIDATED OWN FUNDS

**BKS Bank calculates the own funds ratio and assessment basis in accordance with the provisions of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD). The capital requirements for credit risk is based on the standardized approach.**

As at 30 September 2017, BKS Bank reported a minimum capital ratio of 6.9% for common equity tier 1 capital (CET 1) and an own fund's ratio of 11.4% as the result of the Supervisory Review and Evaluation Process (SREP) by the Financial Market Authority (FMA) in the preceding year. The capital ratios as at the end of September 2017 were clearly higher than the statutory requirements.

CET 1 capital decreased from EUR 625.9 million to EUR 582.2 million. This decline is due mainly to higher loss items for holdings in other banks resulting from the transitional provisions under the CRR.

Therefore, the CET 1 ratio dropped from 12.6% to 11.6%. Taking additional Tier 2 capital in the amount of EUR 86.7 million into account, the bank's own funds came to EUR 668.9 million as at 30 September 2017. The own funds ratio stood at 13.3% at the end of September.

The leverage ratio at the end of September 2017 was 7.6%, which is clearly higher than the regulatory minimum ratio of 3% and the internal target of >5%.

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

| in €m | 31/12/2016 | 30/09/2017 |
|---|---|---|
| Share capital | 77.8 | 77.5 |
| Reserves net of intangible assets | 831.4 | 873.3 |
| Deductions | -283.3 | -368.5 |
| Common equity tier 1 capital (CET 1) | 625.9 | 582.2 |
| Common equity tier 1 ratio | 12.6% | 11.6% |
| | | |
| Hybrid capital | 24.0 | 20.0 |
| AT 1 bond | 23.4 | 34.2 |
| Deductions | -47.4 | -42.5 |
| Additional Tier 1 capital | - | 11.7 |
| Tier 1 capital (CET1 + AT1) | 625.9 | 593.9 |
| Tier 1 capital ratio | 12.6% | 11.9% |
| | | |
| Tier 2 capital items and instruments | 120.6 | 117.3 |
| Deductions | -76.5 | -42.3 |
| Tier 2 capital | 44.1 | 75.0 |
| Total own funds | 670.0 | 668.9 |
| Own funds ratio | 13.5% | 13.3 % |
| | | |
| Total risk exposure amount | 4,974.1 | 5,013.7 |

# RISK REPORT

Our business policy motto is to secure the autonomy and independence of BKS Bank by increasing profits by pursuing a sustainable growth strategy. A key element of our business is to specifically assume risk 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 must be permanently and fully identified. 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 discussed and accorded with the Supervisory Board.

BKS Bank makes every effort to pro-actively meet the new risk management requirements. In doing so, we focus on
– Data transmission and calibration for risk reporting,
– Implementation of the Guidelines on Non-performing Loans for Banks,
– Amendments derived from the International Financial Reporting Standards, especially from IFRS 9,
– Supervisory Review and Evaluation Process (SREP), and
– Review of CRR/CRD IV, referred to as Basel 3.5.

In accordance with the provisions of § 39a Banking Act (BWG), banks must have effective plans and processes to determine the amount, the composition and distribution of the capital used for the quantitative and qualitative hedging of all risks arising from the banking business and banking operations. Based on these factors, banks must maintain capital in the required volume. These processes are summarized by 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. It 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.

The appropriateness of internal capital adequacy is assessed quarterly based on the risks identified by the internal models. The aim is to ensure that BKS Bank always has sufficient assets to cover its risks and is able to absorb the risks taken also in the case of unexpected events. All identified and quantified unexpected risks are aggregated to an overall bank risk.

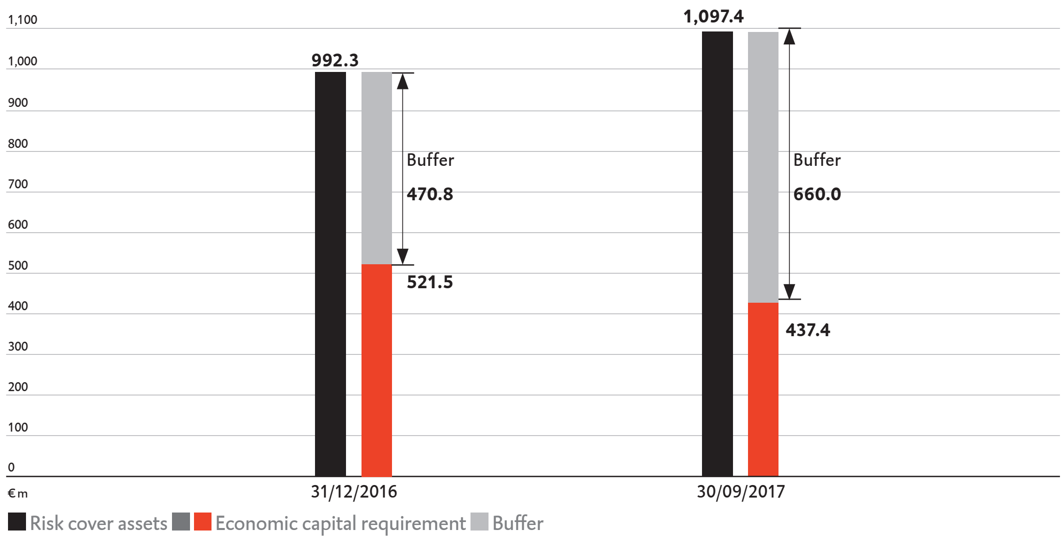
The overall bank risk is the equivalent of our economic capital requirement, which is the amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit and liquidity risk are accounted for in the prices charged to customers as risk premiums (standard risk costs, liquidity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

The individual positions of the risk cover assets are ranked according to their realization capacity, taking into account, above all, their liquidation capacity and publicity effects. The capital adequacy goal of a going concern balances the risk potential, risk-bearing capacity and the limits derived therefrom in such a way so as to ensure that the bank is in a position to withstand an adverse event and continue orderly business operations.

The capital adequacy target defined on a liquidation basis is a regulatory requirement. It serves to protect creditors. The methods to measure and analyze material risks are continuously being developed and refined.

The economic capital requirement for credit risk was the largest risk capital requirement within the Group. Based on the liquidation approach, credit risks accounted for about 67.8% of the total loss potential (31 December 2016: 76.8%) as at the end of September 2017. Market and interest rate risks accounted for a share of 18.3% (31 December 2016: 10.3%). Based on the liquidation approach, the economic capital requirement was determined at EUR 437.4 million as at 30 September 2017, compared with EUR 521.5 million as at 31 December 2016. Risk cover assets amounted to EUR 1,097.4 million (31 December 2016: EUR 992.3 million).

## RISK-BEARING CAPACITY BASED ON THE 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 a counterparty's domicile. Credit risk is by far BKS Bank's most important risk category. The 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 on 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. The valuations at fair value of the collateral are oriented on the average liquidation proceeds obtained 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 September 2017, around 50.2% of all loans by corporate and business customers and around 85.9% of retail customers were assigned an excellent rating of AA-2b. The focus of new business was on customers in the rating classes up to 3a.

## IMPAIRMENT CHARGES ON LOANS AND ADVANCES

| in €m | 31/09/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Impairment allowances | 33.7 | 30.4 | -9.8 |
| Impairment reversals | -7.8 | -13.2 | 69.3 |
| Direct write-offs | 0.7 | 0.6 | -18.2 |
| Recoveries of receivables previously written off | -0.8 | -0.7 | -18.6 |
| **Impairment allowance balance** | **25.8** | **17.1** | **-33.7** |

As at the end of September 2017, the balance of additions to impairment allowances was EUR 17.1 million, down from EUR 25.8 million in the same period of 2016. New allocations in the amount of EUR 30.4 million were balanced by reversals in the amount of EUR 13.2 million, with additions to individual impairment allowances, collective impairment allowances under IAS 39 and allowances for country risk being taken into account. The non-performing loans ratio decreased again[1)] by 90 base points and has thus dropped to 3.9% since the beginning of 2017. Foreign subsidiaries reversed provisions in the amount of EUR 0.3 million.

## 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 €m | 31/12/2016 | 30/09/2017 | 31/12/2016 | 30/09/2017 |
| Receivables from customers | 5,490 | 5,617 | 385 | 314 |
| – of which, measured at fair value | 52 | 51 | - | - |
| Contingent liabilities | 233 | 111 | 3 | 2 |
| Receivables from banks | 262 | 134 | 1 | 1 |
| Securities and funds | 815 | 852 | - | - |
| – of which, measured at fair value | 149 | 164 | - | - |
| Equity investments | 521 | 564 | - | - |
| **Total** | **7,321** | **7,277** | **389** | **317** |

## 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 €m | 31/12/2016 | 30/09/2017 | 31/12/2016 | 30/09/2017 |
| Receivables from customers | 318 | 255 | 105 | 61 |
| – of which, measured at fair value | - | - | - | - |
| Contingent liabilities | - | - | 3 | 2 |
| Receivables from banks | 1 | 1 | - | - |
| Securities and funds | - | - | - | - |
| – of which, measured at fair value | - | - | - | - |
| Equity investments | 8 | 8 | - | - |
| **Total** | **327** | **264** | **108** | **63** |

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

1) The calculation of the NPL ratio 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 other banks and fixed-interest securities.

## MARKET RISK INCLUDING INTEREST RATE RISK IN THE BANKING BOOK

BKS Bank defines market risk as the potential risk of loss that might arise from movements in market prices or exchange rates (e.g. equity and bond prices, foreign exchange rates, interest rates) or other parameters that influence prices or rates (e.g. volatilities and credit spreads). Market risk affects all interest rate and price-sensitive positions in the banking and trading books of BKS Bank and the individual institutions within the group of credit institutions. Therefore, for internal risk management, the BKS Bank Group includes the risk of potential changes in interest rates for positions in the banking book in market risk. BKS groups market risk into the following categories:

- Interest rate risk (including credit spread risk)
- Equity price risk
- Foreign currency risk

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.

Interest rate risk refers to the risk of a negative developments 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 rates 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 3.8% at the end of September 2017 versus 0.7% on 31 December 2016. 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.

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.

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.

At the end of September, the open FX position came to EUR 15.9 million, taking into account foreign currency shares in funds held in the treasury portfolio. The value at risk from the foreign exchange position declined to EUR 0.6 million.

The volume of equity positions and alternative investments that are not equity investments came to EUR 33.6 million in the third quarter of 2017. The value at risk from the equity price risk was EUR 1.1 million, compared with EUR 1.2 million on 31 December 2016.

### VALUE-AT-RISK FIGURES

| in €m | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Interest rate risk[1)] | 6.7 | 16.4 | >100 |
| FX risk | 0.9 | 0.6 | -33 |
| Equity price risk | 1.2 | 1.1 | -8 |
| **Total (incl. diversification effects)** | **7.1** | **16.7** | **>100** |

[1)] incl. credit spread risks

## 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 liquidation 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. The policies guiding the terms and conditions of the lending business are based on the Austrian Regulation on Credit Institution Risk Management and the EBA Guidelines. The costs of refinancing financial products are determined within the scope of 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 the Treasury department.

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.

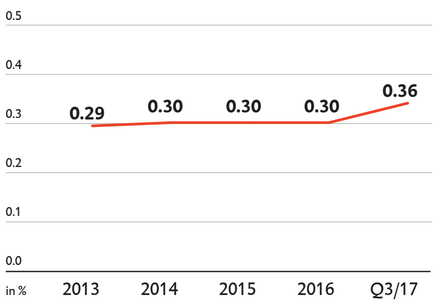
The chart below shows the deposit concentration, which reached a level of 0.36 at the end of the third quarter. This value is an estimate of the withdrawal risk associated with a run on deposits and indicates, above all, the risk of being dependent on large deposits. All customer deposits are broken down into defined size bands and measured with their respective share and a weighting factor from 0 to 1.

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 93.1%, we are clearly below our internal benchmark of 100% and thus in an excellent position.

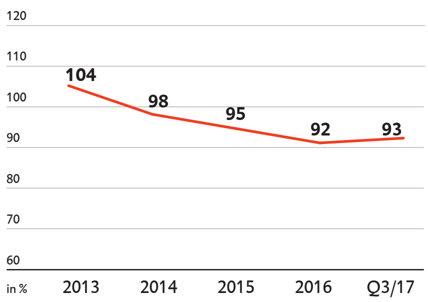
The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain liquid for the next 30 days in the event of simultaneous market and bank-specific stress situations. It compares highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. This regulatory liquidity ratio was 141.4% at 30 September 2017 and was therefore far above the minimum ratio of 100% which was to be achieved in phases from October 2015 to 2018.

In the ILAAP report of BKS Bank, we now monitor NSFR on an ongoing basis. At the end of March 2017, NSFR was 103.2%.

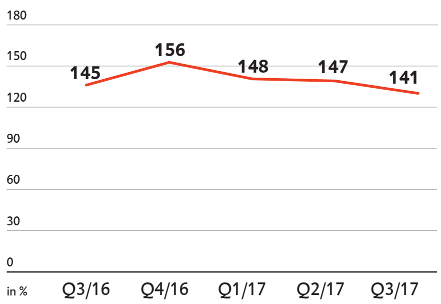
DEPOSIT CONCENTRATION




LOAN/DEPOSIT RATIO




LCR



## OPERATIONAL RISK

As set out in the CRR, we define operational risk as the risk of loss arising primarily in BKS Bank's operations that might result from inadequate or failed internal processes, human or systems errors or from external factors.

At BKS Bank AG and at all Austrian and foreign subsidiaries, operational risks are limited by an appropriate control system that is continually being developed. The system features a number of organizational 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, 156 loss events (excluding those resulting from credit operations) were reported. The average loss after deducting amounts recovered was EUR 893 k. At a total of EUR 718 million, the loss events recorded pursuant to § 19 Austrian Securities Supervision Act (WAG) remained below the internally set risk tolerance threshold of EUR 1.0 million.

# OUTLOOK

## IMF RAISES FORECASTS FOR GLOBAL ECONOMIC GROWTH

Growth forecasts for this year were recently raised by most economists. The International Monetary Fund (IMF) also took this step. For this year, the IMF estimates global growth of 3.6% and for Germany of 2.0%. The forecasts for the entire euro area were also raised. In this case, the IMF expects a growth rate of 2.1% for the current year. Analysts expect gross domestic product (GDP) for the US and China to increase slightly more than in the previous forecast. According to the IMF forecasts, the US is estimated to grow this year by 2.2%, while China is expected to see a slight decline in growth to 6.7%.

In Europe, the most positive example at present is Austria. Economic growth in Austria is set to accelerate this year to over 2.5% according to Wifo and IHS. Therefore, economic growth has outpaced the euro area for the first time since 2013. The IMF also raised GDP estimates substantially for 2017 from 1.4 to 2.3%. However, the unemployment rate remains high. Although it is steadily declining, at just below 8% it is still higher than the level before the outbreak of the financial crisis 2008. Austria's export activity is one of the factors boosting growth. Both Wifo and IHS prognosticate an increase in exports by around 5.5% for this year.

## POSITIVE BUSINESS SENTIMENT

Global growth developed much more robustly year to date than had been estimated. Sustained positive sentiment in the business sector indicates that the pace of growth will remain high in the second half of the year as well. Geopolitical disruptions such as the verbal attacks from North Korea and the US have not had any negative effects on stock markets yet. As long as there is no dramatic deterioration in the geopolitical risk factors, the overall conditions point to the continued recovery of stock markets until the end of 2017.

The European Central Bank (ECB) announced that it would start throttling its securities purchasing programme. Statements on the development of inflation, however, do not indicate any rapid exit from "cheap money". A rapid exit would also put pressure on bond yields.

## WE ARE OPTIMISTIC ABOUT THE FINANCIAL YEAR 2017

We expect the positive development of business to continue in the remaining weeks of the year. Based on the robust economic upswing, we believe that the already higher demand for loans will continue to rise. The sound economic development is also visible in the improved risk situation of our customers. We assume that the easing of the risk situation will continue for a longer period. The positive outlook, which had already started at the beginning of the year, is expected to be sustained also beyond the financial year 2017. Therefore, we believe that the year 2017 will close with higher earnings year on year. Despite the good economic conditions, the other challenges are still there such as the regulatory requirements, digital change, low interest rates, etc.

Before this backdrop, we focused on the further development of our corporate strategy at this year's strategy retreat and defined a course to secure the future of the bank. Apart from the implementation of many digitization projects, we also resolved to overhaul certain business areas. In this context, we will also address the issue of what bank branches of the future should look like. In the coming months, we will implement changes to our network of branches. While we are still planning further branches in Vienna and in our foreign markets, in Carinthia we intend to discontinue certain branches that are no longer profitable and integrate them into other branches.

An important strategic goal is to continuously strength our own funds. We are satisfied with the current level of adequacy of our own funds (own fund's ratio: 13.3%; CET 1 ratio: 12.6%). Nonetheless, we plan to carry out a capital increase in Q1 2018. The proceeds will be used to support our further growth and especially to invest in digitization. In the coming year, for example, we plan to launch a separate internet portal and completely new website for corporate and business customers.

The positive development of business in the past nine months makes us confident that will be able to continue our business policy guided by the principle of sustainability. We do not plan to change our dividend policy in the financial year 2017, bearing in mind the capital requirements.

Klagenfurt am Wörthersee, 22 November 2017

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

# STATEMENT OF COMPREHENSIVE INCOME OF THE BKS BANK GROUP FOR THE PERIOD 1 JANUARY TO 30 SEPTEMBER 2017

## INCOME STATEMENT

| in €k | Notes | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|---|
| Interest income | | 122,727 | 115,690 | -5.7 |
| Interest expenses | | -31,230 | -26,217 | -16.1 |
| Profit/loss from equity-method accounted investments | | 25,665 | 29,039 | 13.1 |
| **Net interest income** | **(1)** | **117,162** | **118,512** | **1.2** |
| Impairment charge on loans and advances | (2) | -25,762 | -17,090 | -33.7 |
| **Net interest income after impairment charges** | | **91,400** | **101,422** | **11.0** |
| Fee and commission income | | 39,341 | 40,786 | 3.7 |
| Fee and commission expenses | | -2,710 | -2,807 | 3.6 |
| **Net fee and commission income** | **(3)** | **36,631** | **37,980** | **3.7** |
| Net trading income | (4) | 917 | 983 | 7.2 |
| General administrative expenses | (5) | -80,398 | -79,293 | -1.4 |
| Other operating income | (6) | 3,775 | 3,168 | -16.1 |
| Other operating expenses | (6) | -9,975 | -9,371 | -6.1 |
| **Profit/loss from financial assets (FV)** | | **-1,478** | **2,712** | **>-100** |
| – Profit/(loss) from financial assets designated as at fair value through profit or loss (FV) | (7) | -2,162 | 1,312 | >-100 |
| – Profit/(loss) from available-for-sale financial assets (AfS) | (8) | 531 | 1,404 | >100 |
| – Profit/loss from held-to-maturity financial assets (HtM) | (9) | 153 | -4 | >-100 |
| **Profit for the period before tax** | | **40,872** | **57,601** | **40.9** |
| Income tax expense | (10) | -3,998 | -5,967 | 49.3 |
| **Profit for the period after tax** | | **36,874** | **51,634** | **40.0** |
| Minority interests in profit for the period | | -2 | -2 | 3.8 |
| **Profit for the period after minority interests** | | **36,872** | **51,632** | **40.0** |

## INCOME AND EXPENSES TAKEN DIRECTLY TO EQUITY

| in €k | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| **Profit for the period after tax** | **36,874** | **51,634** | **40.0** |
| **Items not reclassified to profit or loss for the period** | **975** | **2,534** | **>100** |
| ± Actuarial gains/losses in conformity with IAS 19 | -2,286 | 1,244 | >-100 |
| ± Deferred taxes in conformity with IAS 19 | 571 | -311 | >-100 |
| ± Gains less losses arising from use of the equity method in conformity with IAS 19 | 2,690 | 1,601 | -40.5 |
| **Items reclassified to profit or loss for the period** | **-2,759** | **8,696** | **>-100** |
| ± Exchange differences | 485 | 30 | -93.7 |
| ± Available-for-sale reserve | -1,143 | 6,552 | >-100 |
| ± Deferred taxes taken to AfS reserve items | 276 | -1,638 | >-100 |
| ± Gains/losses arising from use of the equity method | -2,377 | 3,752 | >-100 |
| **Total income and expenses taken directly to equity** | **-1,784** | **11,230** | **>-100** |
| **Comprehensive income before minority interests** | **35,090** | **62,864** | **79.2** |
| of which minority interests | -2 | -2 | 0.0 |
| **Comprehensive income after minority interests** | **35,088** | **62,862** | **79.2** |

## QUARTERLY REVIEW

| in €k | Q3/2016 | Q4/2016 | Q1/2017 | Q2/2017 | Q3/2017 |
|---|---|---|---|---|---|
| Interest income | 40,108 | 38,240 | 37,780 | 39,766 | 38,145 |
| Interest expenses | -9,969 | -9,246 | -8,887 | -8,711 | -8,619 |
| Profit/loss from equity-method accounted investments | 9,728 | 8,031 | 8,132 | 10,499 | 10,407 |
| **Net interest income** | **39,867** | **37,025** | **37,025** | **41,554** | **39,933** |
| Impairment charge on loans and advances | -13,361 | -5,245 | -8,345 | -5,859 | -2,885 |
| **Net interest income after impairment charges** | **26,506** | **31,780** | **28,680** | **35,695** | **37,047** |
| Fee and commission income | 12,176 | 13,245 | 13,930 | 13,640 | 13,216 |
| Fee and commission expenses | -908 | -1,046 | -674 | -970 | -1,163 |
| **Net fee and commission income** | **11,268** | **12,199** | **13,256** | **12,670** | **12,054** |
| Net trading income | -61 | 800 | 383 | 591 | 10 |
| General administrative expenses | -26,100 | -26,030 | -26,594 | -26,029 | -26,670 |
| Other operating income | 1,583 | 2,816 | 1,952 | 282 | 934 |
| Other operating expenses | -1,512 | -12,037 | -5,837 | -995 | -2,539 |
| **Profit/loss from financial assets (FV)** | **-1,297** | **-598** | **1,600** | **1,015** | **97** |
| – Profit/(loss) from financial assets designated as at fair value through profit or loss (FV) | -1,553 | 299 | 1,143 | 154 | 15 |
| – Profit/(loss) from available-for-sale financial assets (AFS) | 103 | -897 | 460 | 861 | 82 |
| – Profit/loss from held-to-maturity financial assets (HtM) | 153 | 0 | -4 | 0 | 0 |
| **Profit for the period before tax** | 10,387 | 8,929 | 13,440 | 23,229 | 20,933 |
| Income tax expense | 1,778 | 381 | -2,183 | -1,358 | -2,425 |
| **Profit for the period after tax** | **12,165** | **9,310** | **11,256** | **21,870** | **18,507** |
| Minority interests in profit for the period | 0 | -2 | -1 | 0 | -1 |
| **Profit for the period after minority interests** | **12,165** | **9,308** | **11,256** | **21,870** | **18,506** |

# BALANCE SHEET OF BKS BANK FOR THE PERIOD ENDED ON 30 SEPTEMBER 2017

## ASSETS

| in €k | Annex / Notes | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|---|
| Cash and balances with the central bank | (11) | 543,542 | 491,751 | -9.5 |
| Receivables from other banks | (12) | 242,347 | 122,657 | -49.4 |
| Receivables from customers | (13) | 5,330,395 | 5,352,679 | 0.4 |
| - Impairment allowance balance | (14) | -155,136 | -142,723 | -8.0 |
| Trading assets | (15) | 10 | 7 | -25.5 |
| Financial assets | | 1,483,583 | 1,573,284 | 6.0 |
| - Financial assets designated as at fair value through profit or loss | (16) | 75,568 | 78,948 | 4.5 |
| - Available-for-sale financial assets | (17) | 189,335 | 213,309 | 12.7 |
| - Held-to-maturity financial assets | (18) | 747,773 | 767,772 | 2.7 |
| – Investments in entities accounted for using the equity method | (19) | 470,907 | 513,255 | 9.0 |
| Intangible assets | (20) | 1,735 | 1,534 | -11.6 |
| Property and equipment | (21) | 56,274 | 55,565 | -1.3 |
| Investment property | (22) | 30,720 | 30,099 | -2.0 |
| Deferred tax assets | (23) | 17,288 | 17,502 | 1.2 |
| Other assets | (24) | 30,298 | 42,913 | 41.6 |
| **Total assets** | | **7,581,056** | **7,545,270** | **-0.5** |

## EQUITY AND LIABILITIES

| in €k | Annex / Notes | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|---|
| Payables to other banks | (25) | 867,494 | 823,591 | -5.1 |
| Payables to customers | (26) | 4,824,760 | 4,808,450 | -0.3 |
| – of which savings deposits | | 1,528,994 | 1,503,521 | -1.7 |
| – of which other payables | | 3,295,766 | 3,304,928 | 0.3 |
| Liabilities evidenced by paper | (27) | 544,656 | 521,926 | -4.2 |
| Trading liabilities | (28) | 10 | 8 | -24.8 |
| Provisions | (29) | 126,902 | 125,393 | -1.2 |
| Deferred tax liabilities | (30) | 261 | 2,690 | >100 |
| Other items | (31) | 59,602 | 64,602 | 8.4 |
| Subordinated debt capital | (32) | 198,585 | 175,736 | -11.5 |
| Shareholders' equity | | 958,786 | 1,022,876 | 6.7 |
| – of which total minority interests and equity | | 958,767 | 1,022,855 | 6.7 |
| – of which minority interests in equity | | 19 | 21 | 10.8 |
| **Total equity and liabilities** | | **7,581,056** | **7,545,270** | **-0.5** |

## EARNINGS AND DIVIDEND PER SHARE

| | 30/09/2016 | 30/09/2017 |
|---|---|---|
| Average number of shares in issue (ordinary and preference shares) | 35,300,368 | 38,974,455 |
| Earnings per ordinary and preference share (allocated to period) | 1.04 | 1.32 |
| Earnings per ordinary and preference share (annualized) | 1.39 | 1.77 |

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 outstanding.

# STATEMENT OF CHANGES IN EQUITY

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| in €k | Subscribed capital | Capital reserves | Exchange differences | Revaluation reserve | Retained earnings | Adjustment for Associates 1) | Net profit/loss for the year | Additional equity instru-ments | Equity |
|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2017** | **79,279** | **193,032** | **-59** | **3,090** | **608,138** | **5,707** | **46,180** | **23,400** | **958,767** |
| Distribution | | | | | | | -8,956 | | -8,956 |
| Taken to retained earnings | | | | | 37,224 | | -37,224 | | 0 |
| Profit/loss for the period | | | | | | | 51,632 | | 51,632 |
| Income and expenses taken directly to equity | | | 30 | 4,914 | 933 | 5,353 | | | 11,230 |
| Issuance of additional equity instruments | | | | | | | | 10,800 | 10,800 |
| Effect of the equity method | | | | | 3,101 | | | | 3,101 |
| Change in treasury shares | | | | | -2,220 | | | | -2,220 |
| Coupon payments on additional equity capital components | | | | | -1,463 | | | | -1,463 |
| Other changes | | | | | -36 | | | | -36 |
| **As at 30 September 2017** | **79,279** | **193,032** | **-29** | **8,004** | **645,677** | **11,060** | **51,632** | **34,200** | **1,022,855** |

| | |
|---|---|
| Available-for-sale reserve | 10,672 |
| Deferred tax reserve | -2,669 |

1) This column shows the cumulated pro rata OCI of entities recognized using the equity method.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| in €k | Subscribed capital | Capital reserves | Exchange differences | Revaluation reserve | Retained earnings | Adjustment for Associates 1) | Net profit/loss for the year | Additional equity instru-ments | Equity |
|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2016** | **72,072** | **143,056** | **-1,030** | **2,388** | **562,416** | **4,312** | **53,613** | **23,400** | **860,227** |
| Distribution | | | | | | | -8,124 | | -8,124 |
| Taken to retained earnings | | | | | 45,489 | | -45,489 | | - |
| Profit/loss for the period | | | | | | | 36,872 | | 36,872 |
| Income and expenses taken directly to equity | | | 485 | -867 | -1,715 | 313 | | | -1,784 |
| Effect of the equity method | | | | | 578 | | | | 578 |
| Change in treasury shares | | | | | -748 | | | | -748 |
| Coupon payments on additional equity capital components | | | | | -1,463 | | | | -1,463 |
| Other changes | | | | | -649 | | | | -649 |
| **As at 30 September 2016** | **72,072** | **143,056** | **(545)** | **1,521** | **603,908** | **4,625** | **36,872** | **23,400** | **884,909** |

| | |
|---|---|
| Available-for-sale reserve | 2,037 |
| Deferred tax reserve | -517 |

1) This column shows the cumulated pro rata OCI of entities recognized using the equity method.

# STATEMENT OF CASH FLOWS

## CASH FLOWS

| in €k | Q1-Q3/2016 | Q1-Q3/2017 |
|---|---|---|
| **Cash and cash equivalents at the end of previous period** | **190,310** | **543,542** |
| Profit for the period after tax before minority interests | 36,874 | 51,634 |
| Non-cash positions in profit for the period | 7,527 | -5,736 |
| Change in assets and liabilities arising from operating business activities after correction for non-cash items | 123,580 | -23,039 |
| **Net cash from/used in operating activities** | **167,981** | **22,859** |
| Proceeds from sales | 103,874 | 83,549 |
| Outlay on purchases | -63,702 | -134,979 |
| **Net cash from/used in investing activities** | **40,172** | **-51,430** |
| Dividend distributions | -8,124 | -8,956 |
| Subordinated liabilities and other financing activities | 14,495 | -14,269 |
| **Net cash from/used in financing activities** | **6,371** | **-23,225** |
| Effect of exchange rate changes on cash and cash equivalents | -270 | 5 |
| **Cash and cash equivalents at the end of the reporting period** | **404,564** | **491,751** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BKS BANK

## MATERIAL ACCOUNTING POLICIES

### I. GENERAL INFORMATION

The financial statements of BKS Bank for the period ended 30 September 2017 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

#### Effects of new standards

The Amendments to IAS 7 – Statement of Cash Flows and IAS 12 – Income taxes have been applicable since 1 January 2017. However, as these two standards have not been adopted by the EU yet, they cannot be taken into account in the interim report for the period ended 30 September 2017.

Various amendments will enter into force as of 1 January 2018. IFRS 9 is particularly important in this context and will be discussed in more detail below. The BKS Bank Group does not expect any of the other amendments to have material effects on its operations.

**IFRS 9:** On 24 July 2014, the IASB released the final version of IFRS 9, which replaces IAS 39: Recognition and Measurement. EU endorsement was given on 22 November 2016. IFRS 9 must applied for the first time in the first reporting period of a financial year starting on or after 1 January 2018, with early application being permitted. The BKS Bank Group intends to apply IFRS 9 for the first time as of 1 January 2018.
The new standard requires the Group to adjust its accounting processes and internal controls relating to the reporting and measurement of financial instruments. The standard can be divided into three main areas, namely classification and measurement, impairment, and hedge accounting. At present, the BKS Bank Group does not engage in hedge accounting, therefore, the focus is on project implementation for classification and impairment.

#### Classification and Measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are held as well as the characteristics of its cash flows. The new approach to the classification and measurement of financial instruments provides for two totally new criteria for classification, namely classification driven by business models and classification driven by the 'SPPI' criteria. These only allow instruments with cash flows that consist solely of payments of principal and interest. Based on what we have learned from the project, receivables from other banks and receivables from customers as well as financial assets, which are currently classified as "held-to-maturity" assets pursuant to IAS 39, must now be classified in the business model "hold to collect". Securities and funds, which under IAS 39 are classified as available-for-sale, are mostly assigned to the business model "hold to sell". Derivatives are assigned to the business model "sell".

With respect to the SPPI criterion, at present we anticipate that a large share of the loans to customers and to other banks meet the SPPI criterion, thus guaranteeing that a large part of portfolio positions of receivables from other banks and receivables from customers can continue to be measured at amortized cost under IFRS 9. This also applies to the current portfolio of financial assets classified as "held to maturity". The AfS securities in the portfolio at present also largely meet the SPPI criterion and therefore will be recognized under IFRS 9 at fair value through other comprehensive income (FVOCI). Under IFRS 9, investment funds and shares are to be recognized at fair value through profit or loss (FVPL). For the time being, BKS Bank does not plan to designate equity instruments as at fair value through other comprehensive income (FVOCI).

Under IAS 9, investments classified as available-for-sale are measured at market value. Investments with a carrying value of around EUR 20 million are measured at cost, as a mandatory fair value measurement must be carried out.

As regards the classification of financial liabilities, there are generally no changes compared to IAS 39. In the case of measurement at fair value, only the changes in fair value arising from own credit risk have to be reported in equity in the future.

**Impairment**

IFRS 9 replaces the IAS 39 incurred loss model by a forward-looking expected loss impairment model. Therefore, an impairment allowance must also be recognized for customers with performing loans rated AA -4b. The currently applicable provisions for determining impairment charges for the event of default remain more or less unchanged. There are two stages for determining the impairment charge for customers in the rating classes of performing loans. If credit risk has not increased significantly since initial recognition, 12-month expected-loss (stage 1) must be determined and recognized. However, if credit risk has increased significantly, it is necessary to determine the lifetime expected-loss (stage 2). The standard does not specify how to measure expected loss. The BKS Bank Group will use the formula "Probability of Default (PD) x Loss Given Default (LGD) x Exposure At Default (EAD) for determining the impairment charge. The Markov chain process will very likely be used for determining the multi-year parameters for lifetime expected losses. Pursuant to IFRS 9, also forward-looking information must be included when calculating the expected loss, and in this context we will rely on estimates provided by recognized institutions.

**Current status of implementation**

Implementing IFRS 9 involves enormous technical resources, time and costs. Relying on a software acquired specifically for IFRS 9, we have already made first ECL calculations, which are currently being analyzed. As things currently stand in the project, we proceed on the assumption that implementing IFRS 9 will not have any material effects on impairment charges. The current focus of project work is on the technical side of configuring benchmark tests and changes in contracts. Both work packages are very likely to be completed on schedule.

## 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, three accounted for using the equity method and one accounted for on a proportionate basis). The scope of consolidation was unchanged compared with the reporting date of 31 December 2016.

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% | 30/09/2017 |
| BKS-leasing d.o.o. | Ljubljana | 100.00% | - | 30/09/2017 |
| BKS-leasing Croatia d.o.o. | Zagreb | 100.00% | - | 30/09/2017 |
| BKS-Leasing s.r.o. | Bratislava | 100.00% | - | 30/09/2017 |
| IEV Immobilien GmbH | Klagenfurt | 100.00% | - | 30/09/2017 |
| Immobilien Errichtungs- und Vermietungs GmbH & Co KG | Klagenfurt | 100.00% | - | 30/09/2017 |
| BKS 2000-Beteiligungs- und Verwaltungs GmbH | Klagenfurt | 100.00% | | 30/09/2017 |
| BKS Zentrale-Errichtungs- und Vermietungs GmbH | Klagenfurt | - | 100.00% | 30/09/2017 |
| BKS Hybrid alpha Gmbh | Klagenfurt | 100.00% | - | 30/09/2017 |
| BKS Hybrid beta GmbH | Klagenfurt | 100.00% | - | 30/09/2017 |
| VBG-CH Verwaltungs- und Beteiligungs GmbH | Klagenfurt | 100.00% | - | 30/09/2017 |
| LVM Beteiligungs Gesellschaft m.b.H. | Klagenfurt | - | 100.00% | 30/09/2017 |
| BKS Immobilien-Service GmbH | Klagenfurt | 100.00% | - | 30/09/2017 |
| BKS Service GmbH | Klagenfurt | 100.00% | - | 30/09/2017 |

## ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

| Company | Head Office | Direct equity interest in % | Date of financial statements |
|---|---|---|---|
| Oberbank AG | Linz | 14.21 | 30/06/2017 |
| BTV AG | Innsbruck | 13.59 | 30/06/2017 |
| Drei Banken Versicherungsagentur GmbH | Linz | 20.00 | 30/09/2017 |

Regarding Oberbank AG and BTV AG, we point out that although, as at 30 September 2017, 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 the financial and business policy decisions of the two banks 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% | 30/09/2017 |

## FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 SEPTEMBER 2017

| in €k | Net interest income | Operating income | Number of employees (FTE) | Profit/loss for the period before tax |
|---|---|---|---|---|
| **Branches abroad** | | | | |
| Head Office Slovenia | 8,035 | 10,185 | 100.9 | 3,218 |
| Head Office Croatia[1)] | 5,333 | 6,254 | 57.8 | 1,421 |
| Head Office Slovakia | 1,065 | 1,258 | 24.0 | -1,606 |
| **Subsidiaries** | | | | |
| BKS-leasing d.o.o., Ljubljana | 1,822 | 1,997 | 14.9 | 1,266 |
| BKS-leasing Croatia d.o.o., Zagreb | 1,194 | 1,175 | 11.0 | 453 |
| BKS-Leasing s.r.o., Bratislava | 542 | 992 | 9.8 | 64 |

## FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 SEPTEMBER 2016

| in €k | Net interest income | Operating income | Number of employees (FTE) | Profit/loss for the period before tax |
|---|---|---|---|---|
| **Branches abroad** | | | | |
| Head Office Slovenia | 8,017 | 9,914 | 98.9 | 4,388 |
| Head Office Slovakia | 947 | 1,107 | 23.0 | -932 |
| **Subsidiaries** | | | | |
| BKS-leasing d.o.o., Ljubljana | 1,690 | 1,957 | 13.4 | 1,272 |
| BKS-leasing Croatia d.o.o., Zagreb | 1,348 | 1,437 | 11.2 | 688 |
| BKS-Leasing s.r.o., Bratislava | 652 | 1,040 | 9.8 | 99 |
| BKS Bank d.d., Rijeka [1)] | 5,426 | 6,098 | 55.8 | 2,426 |

[1)] On 30 September 2016, the subsidiary BKS Bank d.d. was retroactively merged with BKS Bank AG effective 1 January 2016. The banking operations at the locations Rijeka and Zagreb have been run through an EU subsidiary since 1 October 2016.

### Foreign currency translation

Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates ruling at the balance sheet date. The financial statements of subsidiaries that were not prepared in 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 ruling at the balance sheet date, while expenses and income were translated applying the average rate of exchange for the respective period. The resulting exchange differences were recognized in Other comprehensive income; Exchange differences are recognized as a component of equity.

## NOTES ON INDIVIDUAL ITEMS ON 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. Financial assets and liabilities are initially measured at their fair value, which is, as a rule, at cost. They are subsequently measured in conformity with the provisions of IAS 39 and according to their category:

- Financial assets requiring measurement at fair value, subdivided into
  - Trading assets and trading liabilities: these are financial instrument held for trading, inclusive of all derivatives with the exception of those designated as hedges (held for trading);
  - Financial assets and liabilities designated as at fair value through profit or loss (fair value option)
- Available-for-sale financial assets (AfS)
- Held-to-maturity financial assets (HtM)
- Loans and receivables (LAR)
- Financial liabilities (other liabilities)

On each reporting date, financial assets are tested to determine whether there is objective evidence of impairment. Such objective evidence includes, for instance, a borrower in financial difficulties, default or delay in interest payments or repayments and concessions granted by BKS Bank AG or the consolidated subsidiaries to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would otherwise not consider. Subsequent measurement of financial instruments is either at fair value or at amortized cost. BKS Bank classified and measured financial instruments in conformity with IAS 39 and IFRS 7 as follows:

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS[1)]

| ASSETS | At fair value | At (amortized) cost | Other, Note | IAS 39 category |
|---|---|---|---|---|
| Cash and balances with the central bank | | | Nominal | Not assignable |
| Receivables from other banks | | ✓ | - | Loans and receivables |
| Receivables from customers | | ✓ | - | Loans and receivables |
| Trading assets | ✓ | | - | Held for trading |
| Financial assets at FV through profit or loss | ✓ | | - | Fair value option |
| Available-for-sale financial assets | ✓ | ✓ | - | Available for sale |
| Held-to-maturity financial assets | | ✓ | - | Held to maturity |
| Investments in entities accounted for using the equity method | | | Equity method | Not assignable |
| Investment property | | ✓ | - | Not assignable |
| Other assets | | | | |
| – of which derivatives | ✓ | | - | Held for trading |
| – of which other items | | | Nominal | Not assignable |

[1)] No reclassifications pursuant to IFRS 7.12 were carried out in the reporting period.

| LIABILITIES | At fair value | At (amortized) cost | Other, Note | IAS 39 category |
|---|---|---|---|---|
| Payables to other banks | | ✓ | - | Other liabilities |
| Payables to customers | | ✓ | - | Other liabilities |
| Liabilities evidenced by paper | | | | |
| – of which at fair value through profit or loss | ✓ | | - | Fair value option |
| – of which other liabilities evidenced by paper | | ✓ | - | Other liabilities |
| Trading liabilities | ✓ | | - | Held for trading |
| Other items | | | | |
| – of which derivatives | ✓ | | - | Held for trading |
| – of which other items | | | Nominal | Not assignable |
| Subordinated debt capital | | ✓ | - | Other liabilities |

**Financial assets and liabilities designated as at fair value through profit or loss**
Selected items are summarized under assets in the position at fair value through profit or loss (FV) by applying the fair value option.The designation is done by the ALM Committee. 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 income statement in Profit/loss from financial assets designated as at fair value through profit or loss.

**Available-for-sale financial assets**
Available-for-sale (AFS) securities are a separate category of financial instrument. They are what remains when a financial asset is accounted for neither as held-to-maturity nor an designated as at fair value through profit or loss. They are generally measured by applying stock exchange prices. If these are not available, interest rate products are measured using the present value method. Market value fluctuations resulting from the measurement are recognized in the AFS reserve and not through profit or loss. When such securities are sold, the corresponding part of the AFS reserve is released through profit or loss.

In the event of impairment (e.g. a borrower in severe financial difficulties or a measurable decline in the expected future cash flows), a charge is recognized in the income statement. If the reason for such a charge no longer exists, a write-back is recognized. In the case of equity instruments, it is taken to equity through the AFS reserve and in the case of debt instruments, to income. Investments in entities to which IFRS 10, IFRS 11 and IFRS 28 do not apply are deemed to be part of the AfS portfolio. Where market prices are unavailable, equity investments are measured at cost.

**Held-to-maturity financial assets**
In this line item, we account for financial instruments that are to be held to maturity (HtM).
Premiums and discounts are spread over their term using the effective interest rate method. Impairment charges are recognized in the profit or loss.

**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 the control of BKS Bank, 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.

**Receivables and payables**

This category includes all non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At BKS Bank, this category corresponds to the line items Receivables from other banks and Receivables from customers. These are measured at amortized cost. Impairments were allowed for by recognizing impairment allowances. Premiums and discounts, if any, are distributed over the life of the asset and recognized in profit or loss. Other liabilities refer to Payables to other banks and Payables to customers. These liabilities are recognized in the amounts payable.

**Impairment allowance balance**

Account was taken of the risks identifiable at the time of balance sheet preparation by recognizing individual impairment charges (in the case of material exposures, these were calculated on the basis of the discounted cash flow method), by recognizing individual impairment charges applying group-specific criteria and by way of collective impairment assessments carried out in accordance with IAS 39.64. The latter includes incurred but not yet identifiable losses. These losses are calculated using the formula Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) x Loss Identification Period (LIP). Provisions are recognized for risks arising from contingent liabilities in accordance with IAS 37. A collective assessment of impairment for country risks is recognized at the reporting date, with the exposures outstanding in each country being broken down into risk classes. The total impairment allowance balance is disclosed as a deduction on the assets side of the balance sheet (impairment account). The criteria for charging or writing off receivables deemed to be irrecoverable is when they are completely uncollectable and the final realization of all collateral associated with the receivables.

**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 mainly based on estimates (by certified appraisers). Depreciation rates were between 1.5% and 2.5%. Depreciation is linear.

**Trading assets/liabilities**

Within the Trading assets, primary financial instruments are measured at fair value. Derivative financial instruments are measured at fair 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. Spot transactions were accounted for and charged off at their settlement dates.

**Derivatives**

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

**Property and equipment**

Property and equipment consists of land, buildings and other property and equipment comprising primarily office furniture and business equipment. Property and equipment was 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 cost. 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. They are recognized at amortized cost or measured at fair value.

**Liabilities evidenced by paper**
The line item Liabilities evidenced by paper comprises bonds in circulation, debt securities and other liabilities evidenced by paper (own 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 for securitized liabilities.

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

**Deferred tax assets and deferred tax liabilities**
The reporting and calculation of income tax is done in accordance with IAS 12. The calculation for each taxed entity is carried out applying the tax rates that, under the 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 tax burdens in the future.

**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 mainly recognizes 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. The proceeds from the issue of Additional Tier 1 notes are classified as equity in conformity with IAS 32. Interest paid on such bonds is taken directly to 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. Income from investments in entities accounted for using the equity method is disclosed in Net interest income net of financing costs. The historically low interest rates led to negative interest earnings. According to the IFRIC Interpretations Committee (IC), these should not be presented as income within the meaning of IAS 18. Instead, they must be presented in an 'appropriate expense classification'. As a result, negative interest income is presented as interest expense. Likewise, positive interest expenses are presented as interest income.

### Impairment charge on loans and advances

This line item recognizes impairment allowances, impairment reversals and provisions. Recoveries on receivables previously written off are also accounted for in this line item.
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. Positions in the trading book are marked to market. Net trading income also includes revaluation gains and losses.

### Other operating income net of other operating expenses

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.

### 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 recording date.

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 September 2017.

## DETAILS OF THE INCOME STATEMENT

### (1) NET INTEREST INCOME

| in €k | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| **Interest income from:** | | | |
| Lending transactions | 91,372 | 86,118 | -5.7 |
| Fixed-income securities | 15,943 | 13,533 | -15.1 |
| Leasing receivables | 6,401 | 6,322 | -1.2 |
| Shares, equity investments in other companies | 2,620 | 2,352 | -10.2 |
| Positive interest expenses[1)] | 4,187 | 5,000 | 19.4 |
| Investment property | 2,204 | 2,365 | 7.3 |
| **Total net interest income** | **122,727** | **115,690** | **-5.7** |
| | | | |
| **Interest expenses for:** | | | |
| Deposits from customers and other banks | 10,329 | 6,233 | -39.7 |
| Liabilities evidenced by paper | 17,343 | 15,553 | -10.3 |
| Negative interest income[1)] | 2,932 | 4,024 | 37.2 |
| Investment property | 626 | 407 | -35.0 |
| **Total interest expenses** | **31,230** | **26,217** | **-16.1** |
| | | | |
| **Profit from entities accounted for using the equity method** | | | |
| Income from entities accounted for using the equity method | 25,665 | 29,039 | 13.1 |
| **Profit from entities accounted for using the equity method** | **25,665** | **29,039** | **13.1** |
| **Net interest income** | **117,162** | **118,512** | **1.2** |

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

Interest income includes income from unwinding (i.e. from changes in the present values of cash flows) in the amount of EUR 1.8 million (30 September 2016: EUR 1.9 million).

### (2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

| in €k | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| Impairment allowances | 33,670 | 30,382 | -9.8 |
| Impairment reversals | -7,801 | -13,208 | 69.3 |
| Direct write-offs | 710 | 581 | -18.2 |
| Recoveries in respect of receivables previously written off | -817 | -665 | -18.6 |
| **Impairment allowance balance** | **25,762** | **17,090** | **-33.7** |

### (3) NET FEE AND COMMISSION INCOME

| in €k | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| **Fee and commission income from:** | | | |
| Payment services | 16,219 | 16,334 | 0.7 |
| Securities operations | 10,322 | 11,006 | 6.6 |
| Foreign exchange operations | 1,959 | 2,236 | 14.1 |
| Credit operations | 9,909 | 10,140 | 2.3 |
| Other services | 932 | 1,070 | 14.8 |
| **Total fee and commission income** | **39,341** | **40,786** | **3.7** |
| **Fee and commission expenses from:** | | | |
| Payment services | 1,309 | 1,549 | 18.4 |
| Securities operations | 628 | 724 | 15.2 |
| Foreign exchange operations | 283 | 174 | -38.7 |
| Credit operations | 395 | 315 | -20.1 |
| Other services | 95 | 45 | -53.1 |
| **Total fee and commission expenses** | **2,710** | **2,807** | **3.6** |
| **Net fee and commission income** | **36,631** | **37,980** | **3.7** |

## (4) NET TRADING INCOME

| in €k | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| Price-based transactions | -7 | -10 | 40.3 |
| Interest rate and currency contracts | 924 | 993 | 7.5 |
| **Net trading income** | **917** | **983** | **7.2** |

## 5) GENERAL ADMINISTRATIVE EXPENSES

| in €k | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| Staff costs | 53,601 | 52,047 | -2.9 |
| – Wages and salaries | 38,621 | 38,649 | 0.1 |
| – Social security costs | 10,063 | 10,320 | 2.5 |
| – Costs of retirement benefits | 4,917 | 3,079 | -37.4 |
| Other administrative costs | 22,010 | 22,569 | 2.5 |
| Depreciation/amortisation | 4,787 | 4,676 | -2.3 |
| **General administrative expenses** | **80,398** | **79,293** | **-1.4** |

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

| in €k | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| Other operating income | 3,775 | 3,168 | -16.1 |
| Other operating expenses | -9,975[1)] | -9,371[1)] | -6.1 |
| **Other operating income net of other operating expenses** | **-6,200** | **-6,204** | **0.1** |

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

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

| in €k | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| Revaluation gains and losses, and gains and losses on disposals of derivatives | - | 15 | >100 |
| Gain/loss as a result of using the fair value option | -2,162 | 1,297 | >100 |
| **– Profit/loss from financial assets designated as at fair value through profit or loss (FV)** | **-2,162** | **1,312** | **>100** |

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

| in €k | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| Result of valuations | 29 | - | >-100 |
| Gains and losses realized on disposal | 502 | 1,404 | >100 |
| **Profit/loss from available-for-sale financial assets** | **531** | **1,404** | **>100** |

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

| in €k | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| Gains and losses realized on disposal | 153 | -4 | >-100 |
| **Profit/loss from held-to-maturity financial assets** | **153** | **-4** | **>-100** |

## (10) TAXES

| in €k | Q1-Q3/2016 | Q1-Q3/2017 | ± in % |
|---|---|---|---|
| Current taxes | -5,992 | -5,739 | -4.2 |
| Deferred taxes | 1,994 | -229 | >-100 |
| **Income tax expense** | **-3,998** | **-5,967** | **49.3** |

## DETAILS OF THE BALANCE SHEET

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

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Cash in hand | 35,727 | 81,698 | >100 |
| Credit balances with central banks | 507,815 | 410,052 | -19.3 |
| **Cash and balances with the central bank** | **543,542** | **491,751** | **-9.5** |

### 12) RECEIVABLES FROM OTHER BANKS

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Receivables from Austrian banks | 93,766 | 91,632 | -2.3 |
| Receivables from foreign banks | 148,581 | 31,026 | -79.1 |
| **Receivables from other banks** | **242,347** | **122,657** | **-49.4** |

### (13) RECEIVABLES FROM CUSTOMERS

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Corporate and Business Banking | 4,148,430 | 4,148,492 | 0.0 |
| Retail Banking | 1,181,965 | 1,204,186 | 1.9 |
| **Receivables from customers, by customer group** | **5,330,395** | **5,352,679** | **0.4** |

### (14) IMPAIRMENT ALLOWANCE BALANCE

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| At the start of the reporting period | 193,748 | 155,136 | -19.9 |
| + Additions | 43,113 | 30,355 | -29.6 |
| - Reversals | -16,574 | -15,582 | -6.0 |
| - Use | -65,208 | -27,171 | -58.3 |
| + Exchange differences | 57 | -15 | >-100 |
| **At the end of the reporting period** | **155,136** | **142,723** | **-8.0** |

### (15) TRADING ASSETS

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Positive fair values of derivative financial instruments | 10 | 7 | -25.5 |
| – of which interest rate contracts | 10 | 7 | -25.5 |
| **Trading assets** | **10** | **7** | **-25.5** |

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

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Bonds and other fixed interest securities | 22,893 | 22,914 | 0.1 |
| Loans | 52,675 | 56,035 | 6.4 |
| **Financial assets designated as at fair value through profit or loss** | **75,568** | **78,948** | **4.5** |

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

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Bonds and other fixed interest securities | 83,093 | 95,018 | 14.4 |
| Shares and other non-interest bearing securities | 47,882 | 51,805 | 8.2 |
| Other equity investments | 58,360 | 66,486 | 13.9 |
| **Available-for-sale financial assets** | **189,335** | **213,309** | **12.7** |

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

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Bonds and other fixed interest securities | 747,773 | 767,772 | 2.7 |
| **Held-to-maturity financial assets** | **747,773** | **767,772** | **2.7** |

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

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Oberbank AG | 308,778 | 334,055 | 8.2 |
| Bank für Tirol und Vorarlberg AG | 159,514 | 177,484 | 11.3 |
| Drei-Banken Versicherungs-AG | 2,615 | 1,715 | -34.4 |
| **Investments in entities accounted for using the equity method** | **470,907** | **513,254** | **9.0** |

## (20) INTANGIBLE ASSETS AND GOODWILL

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Other intangible assets | 1,735 | 1,534 | -11.6 |
| **Intangible assets** | **1,735** | **1,534** | **-11.6** |

## (21) PROPERTY AND EQUIPMENT

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Land | 8,072 | 8,060 | -0.1 |
| Buildings | 40,238 | 38,591 | -4.1 |
| Other | 7,964 | 8,914 | 11.9 |
| **Property and equipment** | **56,274** | **55,565** | **-1.3** |

## (22) INVESTMENT PROPERTY

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Land | 8,643 | 8,688 | 0.5 |
| Buildings | 22,077 | 21,411 | -3.0 |
| **Investment property** | **30,720** | **30,099** | **-2.0** |

## (23) DEFERRED TAX ASSETS

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| **Deferred tax assets** | **17,288** | **17,502** | **1.2** |

## (24) OTHER ASSETS

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Positive fair values of derivative financial instruments | 12,950 | 11,186 | -13.6 |
| Other items | 14,801 | 29,365 | 98.4 |
| Deferred items | 2,547 | 2,362 | -7.3 |
| **Other assets** | **30,298** | **42,913** | **41.6** |

## (25) PAYABLES TO OTHER BANKS

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Payables to Austrian banks | 733,479 | 682,133 | -7.0 |
| Payables to foreign banks | 134,015 | 141,458 | 5.6 |
| **Payables to other banks** | **867,494** | **823,591** | **-5.1** |

## (26) PAYABLES TO CUSTOMERS

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| **Savings deposit balances** | **1,528,994** | **1,503,521** | **-1.7** |
| - Corporate and business banking customers | 199,001 | 204,098 | 2.6 |
| - Retail banking customers | 1,329,993 | 1,299,423 | -2.3 |
| **Other liabilities** | **3,295,766** | **3,304,928** | **0.3** |
| - Corporate and business banking customers | 2,414,114 | 2,365,224 | -2.0 |
| - Retail banking customers | 881,652 | 939,704 | 6.6 |
| **Payables to customers** | **4,824,760** | **4,808,449** | **-0.3** |

## (27) LIABILITIES EVIDENCED BY PAPER

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Issued bonds | 475,842 | 459,091 | -3.5 |
| Other liabilities evidenced by paper | 68,814 | 62,835 | -8.7 |
| **Liabilities evidenced by paper** | **544,656** | **521,926** | **-4.2** |

## (28) TRADING LIABILITIES

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Interest rate contracts | 10 | 8 | -24.8 |
| **Trading liabilities** | **10** | **8** | **-24.8** |

## (29) PROVISIONS

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Provisions for post-employment benefits and similar obligations | 72,480 | 70,008 | -3.4 |
| Provisions for taxes (current taxes) | 2,238 | 6,655 | >100 |
| Other provisions | 52,184 | 48,730 | -6.6 |
| **Provisions** | **126,902** | **125,393** | **-1.2** |

## ACTUARIAL ASSUMPTIONS

| in % | 31/12/2016 | 30/09/2017 | ± in %-points |
|---|---|---|---|
| **Financial assumptions** | | | |
| Interest rate | 1.77 | 2.00 | 0.23 |
| Salary trend | 1.24 | 1.28 | 0.04 |
| Career dynamic | 0.25 | 0.25 | 0.00 |
| **Demographic assumptions** | | | |
| Increase in retirement age (men/women) to | 65 years | 65 years | - |
| Mortality table | AVÖ 2008 | AVÖ 2008 | - |

The interest rate was determined pursuant to IAS 19.83 on the basis of yields for first-ranking fixed interest industrial bonds. As in the preceding year, the table published by Mercer (Austria) GmbH was used.

## (30) DEFERRED TAX LIABILITIES

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| **Deferred tax liabilities** | **261** | **2,690** | **>100** |

## (31) OTHER LIABILITIES

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Negative fair values of derivative financial instruments | 30,821 | 18,023 | -41.5 |
| Other items | 23,566 | 42,557 | 80.6 |
| Deferred items | 5,215 | 4,021 | -22.9 |
| **Other liabilities** | **59,602** | **64,602** | **8.4** |

## (32) SUBORDINATED DEBT CAPITAL

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Tier 2 capital | 158,585 | 135,736 | -14.4 |
| Hybrid capital | 40,000 | 40,000 | 0.0 |
| **Subordinated debt capital** | **198,585** | **175,736** | **-11.5** |

Subordinated debt capital is reported with accrued interest. The nominal value is EUR 172.9 million, down from EUR 195.0 million on 31 December 2016.

## (33) SEGMENT REPORTS

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

### SEGMENT RESULTS

| | Retail Banking | | Corporate and Business Banking | | Financial Markets | |
|---|---|---|---|---|---|---|
| in €k | Q1-Q3/2016 | Q1-Q3/2017 | Q1-Q3/2016 | Q1-Q3/2017 | Q1-Q3/2016 | Q1-Q3/2017 |
| Net interest income | 19,754 | 18,849 | 62,347 | 66,519 | 33,404 | 31,026 |
| – of which from investments in entities accounted for using the equity method | | | | | 25,665 | 29,039 |
| Impairment charge on loans and advances | -1,650 | -1,388 | -23,747 | -15,990 | -365 | 288 |
| Net fee and commission income | 16,444 | 16,549 | 20,012 | 21,099 | 112 | 243 |
| Net trading income | - | - | - | | 917 | 983 |
| General administrative expenses | -38,609 | -38,530 | -33,809 | -34,830 | -4,818 | -5,009 |
| Other operating income Other expenses | 1,406 | 711 | 1,058 | 718 | 1 | -58 |
| Profit/loss from financial assets | - | - | - | | -1,478 | 2,712 |
| **Profit for the period before tax** | **-2,655** | **-3,809** | **25,861** | **37,515** | **27,773** | **30,186** |
| Average risk-weighted assets | 498,992 | 503,689 | 3,070,994 | 3,155,612 | 872,803 | 924,591 |
| Average allocated equity | 39,919 | 49,049 | 245,680 | 305,310 | 576,448 | 624,290 |
| **ROE based on profit for the period before tax** | **-8.9%** | **-10.4%** | **14.0%** | **16.4%** | **6.4%** | **6.4%** |
| **Cost/income ratio** | **102.7%** | **106.7%** | **40.5%** | **39.4%** | **14.0%** | **15.6%** |
| **Risk/earnings ratio** | **8.3%** | **7.4%** | **38.1%** | **24.0%** | **1.1%** | **-** |

| | Other | | Total | |
|---|---|---|---|---|
| in €k | Q1-Q3/2016 | Q1-Q3/2017 | Q1-Q3/2016 | Q1-Q3/2017 |
| Net interest income | 1,657 | 2,118 | 117,162 | 118,512 |
| – of which from investments in entities accounted for using the equity method | - | - | 25,665 | 29,039 |
| Impairment charge on loans and advances | 0 | - | -25,762 | -17,090 |
| Net fee and commission income | 63 | 89 | 36,631 | 37,980 |
| Net trading income | - | - | 917 | 983 |
| General administrative expenses | -3,162 | -925 | -80,398 | -79,293 |
| Other operating income net of other operating expenses | -8,665 | -7,574 | -6,200 | -6,204 |
| Profit/loss from financial assets | - | - | -1,478 | 2,712 |
| **Profit for the period before tax** | **-10,107** | **-6,291** | **40,872** | **57,601** |
| Average risk-weighted assets | 54,280 | 57,019 | 4,497,069 | 4,640,912 |
| Average allocated equity | 10,538 | 12,182 | 872,585 | 990,831 |
| **ROE based on profit for the period before tax** | | **-** | 6.10% | **6.8%** |
| **Cost/income ratio** | | **-** | 55.8% | **52.4%** |
| **Risk/earnings ratio** | | **-** | 16.0% | **14.4%** |

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 segments. 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 company'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 segment**
As at the end of September, 19,262 corporate and business banking customers were serviced in this segment. BKS Bank having originally been conceived as a corporate and business bank, this business segment is still the enterprise's most important pillar. 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 all the income and expenses of BKS Bank AG that arose from business with corporate and business banking customers, the income and expenses of the leasing companies were also allocated to this segment, provided they arose from business done with corporate customers.

**Retail banking segment**
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 retail customers and wage and salary earners are reported summarized in the retail banking segment. Some 133,358 customers belonged to this segment at the end of September 2017.

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

**'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.

## (34) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Subscribed capital | 79,279 | 79,279 | 0.0 |
| – Share capital | 79,279 | 79,279 | 0.0 |
| Capital reserves | 193,032 | 193,032 | 0.0 |
| Retained earnings and other reserves | 663,075 | 716,364 | 8.0 |
| Additional equity instruments (AT 1 bond) | 23,400 | 34,200 | 46.2 |
| **Shareholders' equity before minority interests** | **958,786** | **1,022,876** | **6.7** |
| Minority interests | -19 | -21 | 10.8 |
| **Shareholders' equity after minority interests** | **958,767** | **1,022,855** | **6.7** |

The share capital was represented by 37,839,600 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 Additional Tier 1 notes which must be classified as equity pursuant to IAS 32.

## (35) CONTINGENT LIABILITIES AND COMMITMENTS

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Guarantees | 387,962 | 403,707 | 4.1 |
| Letters of credit | 2,583 | 2,782 | 7.7 |
| **Contingent liabilities** | **390,545** | **406,489** | **4.1** |
| Other commitments | 1,243,552 | 1,273,949 | 2.4 |
| **Commitments** | **1,243,552** | **1,273,949** | **2.4** |

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

| | Outstanding balances | | Guarantees received | | Guarantees provided | |
|---|---|---|---|---|---|---|
| in €k | At 31/12/2016 | At 30/09/2017 | At 31/12/2016 | At 30/09/2017 | At 31/12/2016 | At 30/09/2017 |
| **Non-consolidated subsidiaries** | | | - | - | - | - |
| Receivables | 3,213 | 3,263 | | | | |
| Payables | 1,379 | 1,437 | | | | |
| **Associates and joint arrangements** | | | - | - | - | - |
| Receivables | 17,799 | 182 | | | | |
| Payables | 67,767 | 69,008 | | | | |
| **Key management personnel** | | | - | - | - | - |
| Receivables | 458 | 447 | | | | |
| Payables | 859 | 1,293 | | | | |
| **Other related persons** | | | - | - | - | - |
| Receivables | 124 | 160 | | | | |
| Payables | 753 | 700 | | | | |

## LOANS AND ADVANCES GRANTED

| in €k | 31/12/2016 | 30/09/2017 | ± in % |
|---|---|---|---|
| Loans and advances granted to members of the Management Board | 72 | 60 | -16.2 |
| Loans and advances granted to members of the Supervisory Board | 386 | 383 | -0.8 |
| **Loans and advances granted** | **458** | **443** | **-3.2** |

Transactions with related entities and persons were on arm's length terms. During the reporting period, there were no provisions for doubtful receivables and there was no expenditure on irrecoverable or doubtful receivables from related entities or persons.

## (37) EVENTS AFTER THE REPORTING DATE

In the mid-year report, we mentioned that a law was passed in Croatia under which certain loan agreements with retail banking customers and small enterprises might be declared null and void. We have not yet estimated imminent risk in number, as to date there has been only one lawsuit from an insolvent client which we do not believe will be successful.

After the cutoff date of the interim report (30 Sept. 2017), no unusual activities or events occurred as regards form or content at BKS Bank that would have had an influence on the presentation of the assets, financial position and earnings in this report.

## (38) FAIR VALUES

### Financial assets and debt measured at fair value

| 30/09/2017<br>in €k | LEVEL 1 'Market value' | LEVEL 2 'Based on market data' | LEVEL 3 "Internal measurement method" | Total fair value |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading assets | - | 7 | - | 7 |
| FA[1] at fair value through profit or loss | 22,914 | - | 56,034 | 78,948 |
| Available-for-sale financial assets | 192,688 | - | 20,621[1] | 213,309 |
| Other assets (derivatives) | - | 11,186 | - | 11,186 |
| **Equity and liabilities** | | | | |
| Liabilities evidenced by paper | - | - | 84,261 | 84,261 |
| Trading liabilities | - | 8 | - | 8 |
| Other liabilities (derivatives) | - | 18,023 | - | 18,023 |

[1] FA = Financial assets
[2] These are equity investments that are recognized at cost, because it is not possible to determine a reliable fair value. The presentation in Level 3 is given for the sake of completeness.

| 31/12/2016<br>in €k | LEVEL 1 'Market value' | LEVEL 2 'Based on market data' | Level 3 "Internal measurement method" | Total fair value |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading assets | - | 10 | - | 10 |
| FA[1] at fair value through profit or loss | 22,893 | - | 52,675 | 75,568 |
| Available-for-sale financial assets | 169,215 | - | 20,120[2] | 189,335 |
| Other assets (derivatives) | - | 12,950 | - | 12,950 |
| **Equity and liabilities** | | | | |
| Liabilities evidenced by paper | - | - | 85,130 | 85,130 |
| Trading liabilities | - | 10 | - | 10 |
| Other liabilities (derivatives) | - | 30,821 | - | 30,821 |

[1] FA = Financial assets
[2] These are equity investments that are recognized at cost, because it is not possible to determine a reliable fair value. The presentation in Level 3 is done for the sake of completeness.

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

| in €k | Financial assets designated as at fair value through profit or loss | Liabilities evidenced by paper of which, at fair value through profit or loss |
|---|---|---|
| As at 1 January 2017 | 52,675 | 85,130 |
| Reclassified | - | - |
| Income Statement [1] | -1,458 | -869 |
| Other profit or loss | - | - |
| Purchased | 16,700 | - |
| Sold/redeemed | -11,883 | - |
| **At 30 September 2017** | **56,034** | **84,261** |

[1] Valuation changes in profit/loss; reported in item Profit/loss from FA at fair value through profit or loss

## LEVEL 3: MOVEMENTS 01/01/ TO 31/12/2016

| in €k | Financial assets designated as at fair value through profit or loss | Liabilities evidenced by paper of which, at fair value through profit or loss |
|---|---|---|
| At 1 January 2016 | 73,627 | 103,512 |
| Reclassified | - | - |
| Income Statement[1] | -1,047 | 1,618 |
| Other profit or loss | - | - |
| Purchased | - | - |
| Sold/redeemed | -19,905 | -20,000 |
| **At 31 December 2016** | **52,675** | **85,130** |

[1] Valuation changes in profit/loss; reported in item Profit/loss from FA at fair value through profit or loss

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

If market values were unavailable, fair value was ascertained using customary valuation models based on observable input factors and market data 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. If their fair value could not be reliably ascertained, available-for-sale equity investments were recognized at their carrying amounts. 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. initial public offering).

**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 term 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 term to maturity. In the third quarter of 2017, the changes in the ratings of receivables from customers measured at fair value had an effect on their fair value in the amount of EUR 0.04 million (previous year: EUR -0.03 million). The changes in the ratings of liabilities of BKS Bank evidenced by paper had an effect in on their fair value in the amount of EUR -0.04 million (previous year: EUR -0.7 million) in the third quarter 2017 reporting period.

**Sensitivity analysis**
The result of the sensitivity analysis of receivables from customers assuming an improvement or deterioration in ratings of 10 basis points in the credit spread was an accumulated change in value of EUR 0.2 million (previous year: 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 -0.5 million (previous year: EUR -0.6 million).

## FAIR VALUE OF FINANCIAL ASSETS AND DEBT NOT MEASURED AT FAIR VALUE

| 30/09/2017 in €k | LEVEL 1 'Market value' | LEVEL 2 'Based on market data' | LEVEL 3 'Internal measurement method' | Total fair value | Carrying value 30/09/2017 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Receivables from other banks | - | - | 122,742 | 122,742 | 122,657 |
| Receivables from customers | - | - | 5,421,156 | 5,421,156 | 5,352,679 |
| FA[1] Held-to-maturity | 823,692 | - | - | 823,692 | 767,772 |
| **Equity and liabilities** | | | | | |
| Payables to other banks | - | - | 824,426 | 824,426 | 823,591 |
| Payables to customers | - | - | 4,816,611 | 4,816,611 | 4,808,450 |
| Liabilities evidenced by paper | 379,214 | 70,784 | - | 449,998 | 437,665 |
| Subordinated debt capital | 179,237 | 2,355 | - | 181,592 | 175,736 |

[1] FA = Financial assets

| 31/12/2016 in €k | LEVEL 1 'Market value' | LEVEL 2 'Based on market data' | LEVEL 3 'Internal measurement method' | Total fair value | Carrying value 31/12/2016 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Receivables from other banks | | | 242,392 | 242,392 | 242,347 |
| Receivables from customers | | | 5,397,186 | 5,397,186 | 5,330,395 |
| FA[1] Held-to-maturity | 816,054 | | | 816,054 | 747,773 |
| **Equity and liabilities** | | | | | |
| Payables to other banks | | | 870,217 | 870,217 | 867,494 |
| Payables to customers | | | 4,835,759 | 4,835,759 | 4,824,760 |
| Liabilities evidenced by paper | 448,488 | 79,353 | | 527,841 | 459,526 |
| Subordinated debt capital | 200,510 | 2,355 | | 202,865 | 198,585 |

[1] FA = Financial assets

## (39) DERIVATIVES TRANSACTION VOLUME

Derivatives transactions (Banking Book and Trading Book) accounted for the following nominal amounts and fair values:

| 30/09/2017 | Nominal amount, by time to maturity | | | | Fair values | |
|---|---|---|---|---|---|---|
| in €k | <1 year | 1-5 years | > 5 years | Total | Positive | Negative |
| **Currency contracts** | **1,318,885** | **-** | **-** | **1,318,885** | **3,695** | **12,203** |
| – of which Trading Book | - | - | - | - | - | - |
| **Interest rate contracts** | **504** | **85,746** | **227,822** | **314,072** | **6,469** | **5,378** |
| – of which Trading Book | 504 | 13,824 | 1,172 | 15,500 | 8 | 8 |
| **Securities contracts** | 1,554 | - | - | 1,554 | - | 24 |
| – of which Trading Book | - | - | - | - | - | - |
| **Total** | **1,320,943** | **85,746** | **227,822** | **1,634,508** | **10,164** | **17,605** |
| – of which Trading Book | 504 | 13,824 | 1,172 | 15,500 | 8 | 8 |

| 31/12/2016 | Nominal amount, by time to maturity | | | | Fair values | |
|---|---|---|---|---|---|---|
| in €k | <1 year | 1-5 years | > 5 years | Total | Positive | Negative |
| **Currency contracts** | **1,321,594** | **350,883** | **-** | **1,672,477** | **4,494** | **23,629** |
| – of which Trading Book | - | - | - | - | - | - |
| **Interest rate contracts** | **15,120** | **78,542** | **208,164** | **301,826** | **7,880** | **6,831** |
| – of which Trading Book | 870 | 15,542 | 1,272 | 17,684 | 10 | 10 |
| **Securities contracts** | - | - | - | - | - | - |
| – of which Trading Book | - | - | - | - | - | - |
| **Total** | **1,336,714** | **429,425** | **208,164** | **1,974,303** | **12,374** | **30,460** |
| – of which Trading Book | 870 | 15,542 | 1,272 | 17,684 | 10 | 10 |

# MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

"We state to the best of our knowledge that the interim consolidated financial statements for the period ended 30 September 2017 have been prepared in accordance with the relevant financial reporting standards and 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 September 2017 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 nine months of the financial year and their effects on the interim consolidated financial statements in terms of material risks and uncertainties for the course of the remaining three months of the financial year."

Klagenfurt am Wörthersee, 22 November 2017

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 and Service Companies, Treasury Back Office, Business Organization, IT and Technical Services and DREI-BANKEN-EDV Gesellschaft m.b.H.; he is also responsible for the 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; she is 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; he is 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 | Dividend ex-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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