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BKS Bank
3 Banken Gruppe

INTERIM REPORT FOR THE PERIOD ENDED
30 SEPTEMBER 2018

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FORWARD-LOOKING STATEMENTS

This interim financial report for the period ended on 30 September2018 contains statements and forecasts that refer to the future development of the BKS Bank Group. Such forecasts are estimates made on the basis of all the information available to us on the copy deadline date, which was 27 November 2018. Should the assumptions on which the forecasts are based fail to materialize or the risks described in the Risk Report occur, the actual results may differ from those currently expected. This interim report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

DISCLAIMER

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 for the convenience of readers.

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

BKS BANK AT A GLANCE

INCOME STATEMENT in €m	Q1-Q3/2017	Q1-Q3/2018	± in %
Net interest income after impairment charges	72.4	82.5	14.0
Impairment charges on receivables from customers	-17.1	-14.2	-17.1
Net fee and commission income	38.0	40.1	5.7
General administrative expenses	-79.3	-85.0	7.2
Profit for the period before tax	57.6	63.5	10.2
Profit for the period after tax	51.6	55.8	8.1

BALANCE SHEET in €m	31/12/2017	30/09/2018	± in %
Total assets	7,579.5	8,184.4	8.0
Receivables from customers after impairment charges	5,313.2	5,904.9	11.1
Primary deposits	5,669.1	5,997.5	5.8
– thereof savings deposits	1,475.1	1,445.6	-2.0
– thereof securitized debt incl. subordinated debt capital	712.6	763.4	7.1
Equity	1,046.5	1,190.4	13.7
Customer funds under management	14,150.7	14,799.2	4.6
– thereof on custody accounts	8,481.6	8,801.7	3.8

OWN FUNDS PURS. TO CRR in €m	31/12/2017	30/09/2018	± in %
Total risk exposure amount	5,016.7	5,329.7	6.2
Own funds	701.6	777.2	10.8
– thereof common equity tier 1 capital (CET1)	614.5	581.8	-5.3
– thereof total tier 1 capital (CET1 and AT1)	627.8	635.7	1.3
Common equity tier 1 capital ratio (in %)	12.3	10.9	-1.4
Total capital ratio (in %)	14.0	14.6	0.6

PERFORMANCE RATIOS	31/12/2017	30/09/2018	± in %
Return on equity after tax	6.8	6.1	-0.7
Return on assets after tax	0.9	0.8	-0.1
Cost/income ratio	51.9	51.4	-0.5
Risk/earnings ratio	16.7	11.0	-5.7
NPL ratio	3.5	2.8	-0.7
Liquidity coverage ratio (LCR)	145.2	128.9	-16.3
Leverage ratio	8.0	7.6	-0.4

RESOURCES	31/12/2017	30/09/2018
Average number of staff	928	927
Number of branches	63	61

THE BKS BANK'S SHARES	31/12/2017	30/09/2018
Number of no-par ordinary shares (ISIN AT0000624705)	37,839,600	41,142,900
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000
High (ordinary/preference share) in €	18,5/17,8	19,8/18,2
Low (ordinary/preference share) in €	16,8/15,4	17,4/16,9
Close (ordinary/preference share) in €	17,8/17,7	17,5/17,5
Market capitalization in €m	705.3	751.5

DEAR SHAREHOLDERS,

I am pleased to report that we have achieved a major milestone in our digitalization strategy. In mid-October we successfully launched “BizzNet”, a modern portal for corporate and business banking customers. “BizzNet” offers attractive payment service functionalities based on flexible modules. It offers solutions for a number of key functions that entrepreneurs need such as a clear separation of private and business accounts. Up to five persons may be granted individualized access and the data can be easily exported and imported into bookkeeping programmes.

The BKS Bank website has also been completely overhauled. The website is an important touchpoint and a critical point of contact for acquiring new customers and we have introduced interactive elements designed to make communication easier. The new tools include chats functionalities for getting quick answers to questions as well as an easy-to-use appointment scheduling tool.

Alexander Novak joined the Management Board of BKS Bank on 1 September 2018. He is responsible for foreign business, which has been expanding continuously over the past few years. This year, we again took another major step forward in our expansion by acquiring a securities portfolio in Slovenia.

We are well-prepared for the EU’s Action Plan: Financing Sustainable Growth
With great interest, we have been following developments in the past few months relating to the “Action Plan: Financing Sustainable Growth” presented by the European Union. On the one hand, this Action Plan includes standards that define sustainable investments, and on the other, also proposals to motivate the financial industry to create ecologically sustainable financial products, for example, through changes to capital requirements.

We are well-prepared for any new rules that may be introduced. BKS Bank's green bonds and social bonds and the possibility of creating sustainable finance solutions in our IT applications make us a pioneer in sustainability among the listed companies of the Vienna Stock Exchange.

Investor interest in sustainable investments is already very lively as shown by the green bond we issued in mid-September whose proceeds are used to fund the solar power plants of ExklusivReal 4You being built in several provinces of Austria. The placement of the green bond was fully sold out within a very short time , thus reinforcing our intent to continue our sustainable issuance policy.

BKS Bank became a member of the WWF Climate Group in October 2018.
In a joint project with WWF, we are working on a de-carbonisation strategy and the orientation of our lending policy on climate-friendly criteria.

Excellent business performance
At the beginning of October, we opened new branches in the Hernals district of Vienna and in Kranj, Slovenia. While these two branches are very young, our branches in Villach, Spittal and Wolfsberg celebrated their 90th anniversaries this summer.

In 1928, our total assets were less than ATS 10 million, today they amount to around EUR 8.2 billion. We expanded outside the borders of Carinthia for the first time 35 years ago when we opened a branch in Graz. Today, 43 of our 63 branches are located outside of Carinthia. The profit for the period on 30 September 2018 was EUR 55.8 million, thus 8.1% higher year on year. The first three quarters were characterised by an excellent level of demand for loans. Primary deposit balances also increased again and are now at an absolute record high.

The solid earnings and sustained positive economic outlook for our market regions make us very optimistic for the rest of the financial year 2018.

Herta Stockbauer
Chairwoman of the Management Board

GROUP MANAGEMENT REPORT

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ECONOMIC ENVIRONMENT

Slowing growth around the globe

Some first signs of slowing growth in the euro zone are starting to show. After the last interest rate meeting of the European Central Bank (ECB), ECB President Mario Draghi said that the most recently published economic data was slightly below expectations. Nonetheless, the economic data confirms sustained growth across a broad spectrum. Draghi stressed that even though the economic forecasts were pointing to a slight weakening, one cannot speak of an economic downturn. The slight decrease in economic activity in Europe is due to many country-specific factors such as the delivery problems of the German automotive industry and the sluggish export sector.

China's economic growth also slowed in the third quarter of this year more than estimated by economists. The trade dispute with the US is blamed for this. Economic growth in the country decreased by 6.5% according to China's National Bureau of Statistics.

By contrast, the economy continued to grow robustly in the US. In Q3, gross domestic product (GDP) increased by 3.5% versus the same period of the preceding year. The figures for the second and third quarters of 2018 reveal the strongest half-year growth period of the US economy since 2014. One of the main drivers here was private consumption that rose by 4% in the third quarter. However, the effects of the trade conflict with China are starting to show. Exports of US goods dropped by 3.5%. Especially soybean exports decreased. Beijing has imposed high punitive tariffs on soybeans from the US in the trade conflict with Washington. Europe is now a new buyer of US soybeans. This shows that international trade flows have already shifted slightly.

In Austria, economic growth is expected to reach 3% this year, surpassing its last high, according to Wifo (Austrian Institute of Economic Research). For the period from 2019 to 2023, Wifo expects an average annual GDP growth rate of 1.7% over the medium term. This would still be one-quarter percentage point more than the euro area. Austria is also profiting from higher consumption demand from private households. As of 2019, the consumption propensity of private households is expected to be boosted additionally by the new family bonus. According to Wifo, the unemployment rate is thus set to decline to 7.2% (AMS definition).

Inflationary expectations also increased in the euro area. Higher commodity prices, higher collective wages and declining unemployment rates will push inflation towards the ECB target of 2% over the medium term.

Changing monetary policy in the euro area

The European Central Bank (ECB) is slowly phasing out its ultra-loose monetary policy. The bond buying programme will be discontinued at year-end; only the redemption amounts will be reinvested. The ECB recently confirmed its interest rate outlook and will keep key lending rates at the current low level at least “over the summer 2019”. The key lending rate has been at the all-time low of 0.0% since March 2016. The US central bank, the Federal Reserve (Fed), increased the key lending rate at the end of September for the third time in the course of this year. The key lending rate at which banks lend money to each other increased by 0.25% to a spread of 2.00 to 2.25%. The sustained good situation of the US economy and the US labour market makes it possible for the central bank to carry out one more interest rate hike in December 2018, probably again by 0.25%-points.

Stock markets developing along divergent trends

The third quarter exhibited similarly intensive fluctuations as in the preceding quarter. The market painted a mixed picture. A look at the development of global stock markets shows that these rose from the end of June to the end of September 2018 by 5.1% in euro. A closer look, however, reveals that the performance was supported mainly the good development of US stocks. One should bear in mind that the global stock index contains 60% US stocks. The S&P 500 Index rose in euro by 8.3% during the reporting period. Austrian stocks gained 3%, too. German stocks lost 0.5% during the same period. The stocks from so-called emerging markets also lost ground. The Shanghai Stock Exchange declined by 2.7%; stocks from Hong Kong and India by 1.7% and 2.6%, respectively.

Euro depreciates versus US dollar and Swiss franc

The euro depreciated versus the USD in the third quarter of 2018 from 1.168 to 1.160 EUR per USD, which is a drop of 0.7%. Versus the Swiss franc, the euro depreciated from 1.157 to 1.140, which is a minus of 1.5%. By contrast, the euro appreciated slightly versus the British pound from 0.885 to 0.890 (+0.5%). The euro also advanced by 1.5% versus the Japanese yen (from 129.36 per euro to 131.93 yen per euro). Relative to the Chinese renminbi, the euro appreciated by 3.3% from 7.725 to 7.983 per CNY. The Croatian kuna – an important currency for us – depreciated versus the euro by 0.7% and was quoted at the end of September at HRK 7.435 per euro.

Mixed trend in commodity prices

Threats and trade barriers between the US and China negatively impacted commodity markets. Although the prices of energy commodities (+4.9%) and livestock (+3.6%) increased in the last three months, the prices of other commodities such as agricultural goods (4.9%), precious metals (-4.9%) and industrial metals (-6.0%) decreased. The oil price (Brent) rose in the third quarter by 4.1% in USD and reached USD 82.72 per barrel at the end of September. As regards gold, especially rising US interest levels had a negative impact on demand. Moreover, global supply surpassed global demand. Should political crises gain the upper hand again, gold could serve as a good stabilizer.

CONSOLIDATED COMPANIES

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

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

GROUP OF CONSOLIDATED COMPANIES

Credit institutions and financial institutions

BKS Bank AG, Klagenfurt	*BKS-Leasing Gesellschaft m.b.H., Klagenfurt*	*BKS-leasing d.o.o., Ljubljana*
BKS-leasing Croatia d.o.o., Zagreb	*BKS-Leasing s.r.o., Bratislava*	*Drei Banken Versicherungs-agentur GmbH, Linz 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 mbH, Klagenfurt		

Full consolidation

Equity method accounting

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 accounted for by 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 accounted for by the equity method. On 30 September 2018, BKS Bank held a share in these credit institutions of 15.21% and 14.78%, 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 on a proportionate basis. This investment is classified as a joint operation pursuant to IFRS 11.

ASSETS AND FINANCIAL POSITION

On 30 September 2018, total assets of the BKS Bank Group were EUR 8.18 billion, thus higher than at year-end 2017. This steep increase results mainly from much higher demand for loans. Primary deposits also increased significantly reaching EUR 5.99 billion. Both figures are evidence of the great trust customers place in BKS Bank.

Assets

IFRS 9 CHANGES TO THE PRESENTATION OF THE FINANCIAL STATEMENTS

The BKS Bank Group has been applying the new IFRS 9 standard since 1 January 2018. The changes to classification and measurement policies as well as the impairment rules of IFRS 9 impact the balance sheet and the income statement, financial reporting and risk management processes, internal controls and reporting. The comparative figures for the financial year 2017 have not been restated – as permitted under the transitional provisions of IFRS 9 – and therefore reflect the classification and measurement policies of IAS 39 as applied at 31 December 2017. The following section contains our comments on the development of assets from 1 January to 30 September 2018.

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

in €m	31/12/2017	01/01/2018	30/09/2018	± in %
Receivables from other banks	97.7	97.7	216.5	>100
Receivables from customers	5,450.2	5,506.1	6,027.2	9.5
– Impairment charges on receivables from customers and deb. sec.	-137.0	-122.6	-122.3	-0.2
Trading assets	9.8	9.8	8.6	-12.9
Financial assets (FA)	1,043.1	n/a	n/a	-
– FA designated at fair value through profit or loss	78.3	n/a	n/a	-
– Available-for-sale financial assets	182.1	n/a	n/a	-
– Held-to-maturity financial assets	782.8	n/a	n/a	-
Debt securities and other fixed interest securities	n/a	862.1	886.5	2.8
Shares and other equity	n/a	125.3	139.5	11.4

SUSTAINED STRONG CREDIT GROWTH

The financial year has been marked by sustained high demand for loans up to now. From January to September 2018, we generated a substantial volume of new business of approximately EUR 1.3 billion in Austria and in our foreign markets. We are very pleased to report gains across all regions in which we do business. For us, this proves that our advisory approach – outstanding financial know-how paired with personal advisory services – perfectly matches the needs of our corporate and retail banking customers. More than one fourth of the newly granted loans (some EUR 340 million) were accounted for by the growth region of Vienna-Lower Austria-Burgenland. But in our principal market of Carinthia demand was also high. With a volume of approximately EUR 330 million in new loans, we supported businesses with investments and helped families realize their dreams of an own home. Our foreign markets accounted for 20% of new business. Overall, the volume of loans before impairment charges on receivables from customers was EUR 6.03 billion as at 30 September 2018, thus an increase in the lending volume by a gratifying 9.5% as at 1 January 2018. The item Receivables from customers includes lending by the parent company BKS Bank AG as well as lending by the Austrian and foreign leasing companies.

Impairment charges on receivables from customers developed satisfactorily and amounted to EUR 122.3 million on 30 September 2018. Thanks to our determined efforts to steadily reduce the number of risks cases, the ratio of non-performing loans (NPL ratio) improved over the course of the year from 3.5% to 2.8%.

The trend in the volume and number of foreign currency loans also developed in the right direction: The FX ratio decreased to 2.7% as at 30 September 2018.

SUSTAINED DEMAND FOR LEASING

Lease finance is still very popular. The sustained high demand reaps profits for our domestic and foreign leasing companies. The leasing volume of BKS-Leasing GmbH rose to EUR 200.1 million as at 30 September 2018, which is a highly satisfactory gain of 14.1%. The Slovenian leasing company continued its success story and attained a leasing volume of EUR 130.6 million, which is a remarkable rise of 25.0% compared to the end of the year 2017. In Croatia, the leasing business also developed very satisfactorily and rose by 14.4% to EUR 49.1 million. In Slovakia, the activities of the past nine months to improve business resulted in a higher leasing volume up by 49.9% to EUR 38.4 million.

LARGE LIQUIDITY BUFFER

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

The portfolio of debt securities and other fixed-income securities increased by 2.8% to EUR 886.5 million. As at 30 September 2018, we made investments of EUR 85.9 million, as compared to redemptions of only EUR 41.5 million. We hold high quality liquid assets in this position in order to meet regulatory liquidity standards.

In the first nine months of the year, the shares of companies measured using the equity method increased to EUR 577.4 million (+11.0%). The increase was supported by the pro rata net profits for the period from our sister banks Oberbank AG and Bank für Tirol and Vorarlberg Aktiengesellschaft.

Cash reserves, consisting of cash and balances with the central banks, decreased due to higher demand for loans to EUR 308.0 million.

Equity and liabilities

PRIMARY DEPOSITS RISE TO RECORD LEVEL AGAIN

The volume of primary deposits reached EUR 5.99 billion and thus just barely missed the threshold of EUR 6 billion. Compared to December 2017, primary deposit balances gained 5.8%. This renewed increase is very gratifying for us, because it proves the enormous trust our customers have in BKS Bank.

The development of payables to customers was influenced mainly by term and sight deposits, which rose robustly by 8.8% to EUR 3.79 billion. A major share comes from corporate and business banking customers that continue to hold high levels of liquidity. However, a growing number of retail customers are also putting their funds into sight and term deposits. As at 30 September 2018, this volume rose to EUR 1.05 billion, which is a gain of 18.5%. Our customers want to access their savings conveniently, flexibly and also online. This trend is reflected in the development of the volume of our savings product "Mein Geld-Konto" that increased in the reporting period by 7.6% to EUR 311.8 million.

We recorded a slight decline in savings deposits. The volume on traditional savings passbooks totalled EUR 1.44 billion or a minus of 2.0%.

The issuing business was very successful in the past nine months. BKS Bank was a reliable and competent issuer, above all, for institutional investors. We finalized a private placement of EUR 75.0 million, including EUR 13.0 million in subordinate debt capital, by 30 September 2018. The volume of own issues including subordinated capital increased to EUR 763.4 million, which is a gain of 7.1%.

We were particularly pleased about our green bond issue, which we floated in September. The proceeds of the issue will be used exclusively for the construction of photovoltaic power plants. We are very happy that this green bond also met with lively interest. Green bonds are an important way of supporting companies to make investments in environmental and climate protection. The significance of green bonds will continue to rise, because they also play a major role in the European Commission's "Action Plan: Financing Sustainable Growth". We are very proud that BKS Bank with its sustainable issuance policy is one of the pioneers in this area among the listed companies of the Vienna Stock Exchange.

As at 30 September 2018, Group equity rose to EUR 1.19 billion. This increase was due to the allocation of the proceeds from the capital increase of the first quarter and to the addition of the period result. Subscribed capital was EUR 85.9 million, which is an increase by 8.3%.

RESULT OF OPERATIONS

BKS Bank achieved excellent earnings in the first three quarters of 2018. Net interest income as well as net commission income developed very positively in the first nine months. The robust economy also had a benign effect on allowances for credit losses. Only the profit/loss from financial assets/liabilities declined.

Excellent Group earnings despite unchanged interest rates

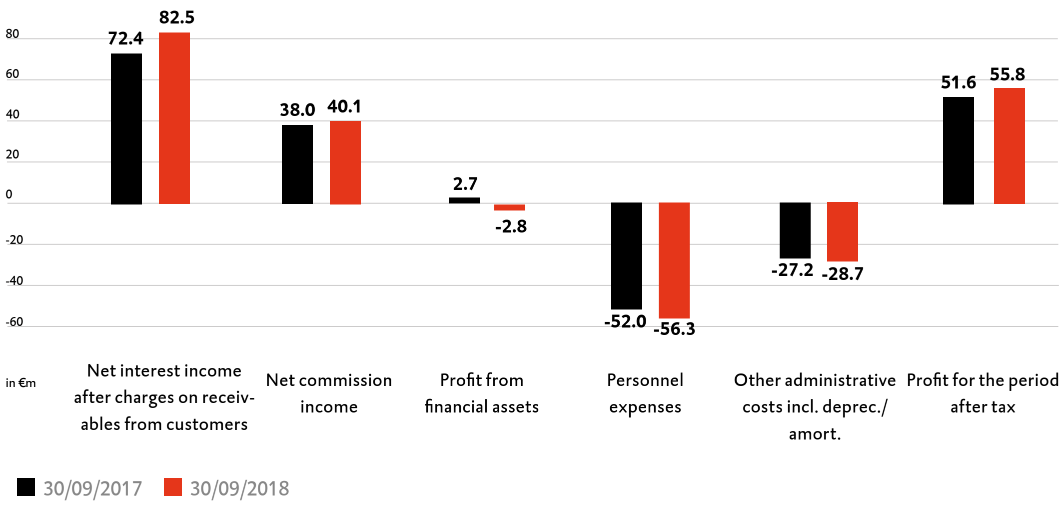
The net profit for the period after tax was EUR 55.8 million as at 30 September and thus 8.1% higher year on year. It has now been many years with interest rates stuck at very low levels. Despite this challenging situation, net interest income increased by 14.0% after impairment charges to a pleasing EUR 82.5 million. The excellent result reflects, above all, the surge in credit volume. Impairment charges for credit losses developed very gratifyingly. Thanks to the sustained good development of the economy and the improved portfolio structure, expenses for impairment charges declined by a remarkable 17.1% to EUR 14.2. Business at our sister banks Oberbank AG and BTV also developed very encouragingly in the first nine months. The results of companies accounted for using the equity method increased by 9.0% to EUR 31.6 million.

Positive trend in payment services and commissions on loans

Net fee and commission income increased substantially by 5.7% to a pleasing EUR 40.1 million as at 30 September 2018. The excellent net fee and commission income was backed by the steeper increase in commissions on payment services (EUR 15.5 million; +4.6%). The business area of payment services developed into a stable and important source of support for earnings over the past years. In order to promote business areas that have little impact on equity, we are working intensely on the restructuring and the repositioning of the business area of payment services. The restructuring process is scheduled to be completed in the course of the coming year.

The excellent level of net fee and commission income was backed by a substantial rise in commissions on loans. These increased steeply by 26.6% to EUR 12.4 million thanks to the excellent performance in lending operations. By contrast, the widely fluctuating stock markets and the tightening regulatory framework caused income from securities operations to drop by -5.9% to EUR 9.7 million. We expect uncertainty to remain high on capital markets in the fourth quarter as well, thus income from the securities business is likely to be lower year on year.

COMPONENTS OF THE INCOME STATEMENT



IFRS 9 changes to the breakdown of financial assets

With the introduction of IFRS 9, the composition of the item "Profit/loss from financial assets/liabilities" changed. The two items "Profit/loss from available-for-sale financial assets" and "Profit/loss from held-to-maturity financial assets" were eliminated. Instead there are now three new items. These developed as follows as at 30 September 2018: The item "Gains/losses on financial assets measured at fair value through profit or loss (mandatory)" was negative at EUR -0.4 million. "Profit/loss from the derecognition of financial assets measured at amortized cost" was EUR 0.4 million as at 30 September 2018. The new item "Other comprehensive income from financial assets/liabilities" was marginally in minus as at 30 September 2018. The item "Profit/loss from financial instruments designated at fair value" was negative compared to the same period of the preceding year at EUR -2.8 million. This item contains expenses for credit risk on receivables from customers allocated to this category. This was the main cause of the negative measurement from the fair value option. In total, the profit/loss from financial assets/liabilities was EUR -2.8 million at the end of September.

Digitalization projects require large volumes of resources

Administrative expenses increased by 7.2% to EUR 85.0 million year on year. A large share of administrative expenses is accounted for by staff costs that stood at EUR 56.3 million, which was much higher year on year (+8.2%). The increase was due primarily to the adjustment in collective wages and salaries by an average of 2.76% and also due to the higher provisions for anniversary funds and survivor's pensions from the application of new mortality tables (AVÖ 2018-P). As at 30 September 2018, we employed – in full time equivalents – 927 persons throughout the Group. Thus, the average number of employees was unchanged year on year. Other administrative costs rose by 4.0% to EUR 23.5 million due to higher investments in our digitalization projects. The costs of our IT services were up by 8.6%. Depreciation/amortisation also increased and was EUR 5.2 million (+11.5%).

High regulatory costs weigh on other operating income

Other operating income is heavily influenced by regulatory costs. Although income improved significantly compared to the preceding year, it was still not satisfactory at EUR -3.7 million. Other comprehensive income contains expenses for contributions to the resolution mechanism and deposit guarantee scheme in amount of EUR 2.8 million and EUR 2.0 million, respectively, as well as the stability tax of EUR 0.8 million.

Solid trend in corporate earnings

Key performance ratios presented the following picture as at 30 September 2018: return on equity (RoE) after tax changed from 6.8% to 6.1% versus 2017 due to the strong rise in equity, while return on assets (RoA) after tax decreased from 0.9% to 0.8%.

The cost/income ratio also achieved a very good level of 51.4% at the end of September. Compared to 2017 this is an improvement by 0.5%-points. The risk/earnings ratio developed excellently considering the relaxed risk situation and was only 11.0% at 30 September 2018, which is a decline of 5.7%-points.

The non-performing loans ratio improved thanks to the steady reduction of risk cases to a satisfactory 2.8%. Compared to year-end 2017, this is a reduction by 0.7%-points.

As at 30 September 2018, the leverage ratio was 7.6%, and therefore, clearly above the required statutory ratio of 3.0%. The liquidity coverage ratio decreased to 128.9% due to significantly lower cash and balances with the central bank. Moreover, we meet the regulatory requirement for LCR 100%.

Capital adequacy at BKS Bank is solid. Both the common equity tier 1 capital ratio of 10.9% as well as the total capital ratio of 14.6% were at solid levels at the end of September and above the statutory requirements.

KEY PERFORMANCE INDICATORS

in %	31/12/2017	30/09/2018	± in %-points
ROE after tax	6.8	6.1	-0.7
ROA after tax	0.9	0.8	-0.1
Cost/income ratio	51.9	51.4	-0.5
Risk/earnings ratio	16.7	11.0	-5.7
NPL ratio	3.5	2.8	-0.7
Liquidity coverage ratio (LCR)	145.2	128.9	-16.3
Leverage ratio	8.0	7.6	-0.4
Common equity tier 1 ratio	12.3	10.9	-1.4
Total capital ratio	14.0	14.6	0.6

SEGMENT REPORT

The segment report breaks down into three parts: Corporate and Business Banking, Retail Banking and Financial Markets. Corporate and Business Banking is the BKS Bank Group's most successful segment by far. The steady rise in earnings shows the result of our excellent advisory know-how and acquisition skills in this segment. The Financial Markets segment developed into a reliable source of contributions to earnings despite market volatility. For a long time, Retail Banking was marked by steeply declining earnings. This is why we are extremely pleased to report profits again in this segment thanks to the stable economic development.

Corporate and Business Banking

At the end of September 2018, we served some 21,000 corporate and business banking customers. Compared to the end of December 2017, this was an increase of 8.0% in the number of customers. We acquired new corporate customers with our diverse range of services especially in our growth markets of Vienna, Slovenia and Croatia.

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

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

ROBUST CREDIT GROWTH BOOSTED SEGMENT RESULTS

Corporate and business banking achieved an excellent development once again in the past nine months. The profit for the period before tax decreased year on year by one third to a pleasing EUR 49.9 million. The good result is based on the extraordinarily good trend in the lending business, which expanded by 15.7% to EUR 77.0 million. The vigorous increase is based on a much higher lending volume driven by the lively investment activity of our corporate and business customers.

The increase in net fee and commission income (+6.5%; EUR 22.5 million) contributed to the excellent segment results. In particular, commissions on payment services (EUR 8.1 million) and higher commissions on loans (EUR 9.7 million) contributed substantially to earnings. Although lending operations are still the main pillar of support for corporate and business banking, we are very pleased with the rising commission income. We plan to promote the expansion of corporate business to non-lending business areas.

The good risk situation is also reflected in the good segment results. At the end of September, the allocation requirements for provisions for credit losses in corporate and business banking was EUR 13.7 million, which is a decline by 14.6% year on year.

Compared to this, administrative expenses were 4.4% higher year on year at EUR 36.4 million. The increase is due, on the one hand, to the higher IT costs resulting from the implementation of our digitalization projects, and on the other, to higher staff costs.

The segment-specific management benchmarks developed highly satisfactorily supported by the good segment results. Return on equity improved to 17.6%. The cost/income ratio decreased despite higher expenses and was a pleasing 36.4% on 30 September 2018. The risk/earnings ratio reached an excellent figure at 17.8%, which is a decrease of 6.2%-points year on year.

Retail Banking

We provide services to private individuals and members of the healthcare professions in retail banking. At the end of September 2018, we served some 143,000 customers in this segment. The increase of 7.1% resulted mainly from the takeover of roughly 9,000 asset management and brokerage customers of GBD in Slovenia.

In the past years, retail banking suffered from heavy declines in earnings. The persistently low interest rates, the progress of digital transformation and enormous cost pressure are posing enormous challenges to us. However, we are not discouraged, but rather made it our goal to return the retail business to profitability. We achieved this due to a number of measures implemented consistently and rigorously. More digital services and products, leaner processes, strict cost management and the strong commitment of our employees helped us initiate and achieve a trend reversal. Not least, it was the good economic situation that provided the necessary breakthrough to return the segment to the profit zone.

GREATLY IMPROVED SEGMENT RESULT

The retail banking business developed positively also in the third quarter of 2018 and achieved a segment result of EUR 0.6 million. Both net interest income (EUR 19.5 million; +3.5%) and net fee and commission income (EUR 18.0 million; +9.0%) developed very satisfactorily. It was especially commissions on payment services that reached a excellent level at EUR 6.8 million, while the securities business developed below expectations also posting EUR 6.8 million. The widely fluctuating stock markets made investors more hesitant about investing in securities.

Credit risk in retail finance abated significantly due to the stable economy. Impairment charges for receivables from customers decreased by 70.9% year on year, and as 30 September 2018, expenses for this item were only EUR 0.4 million. General administrative expenses decreased due to strict cost discipline to EUR 37.6 million (-2.3%).

Thanks to the positive segment results, the management benchmarks developed as follows: return on equity improved to 1.3%; the cost/income ratio moved in the right direction and reached 97.3%. The risk/earnings ratio decreased further and was only 2.1% on 30 September 2018.

Financial Markets

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

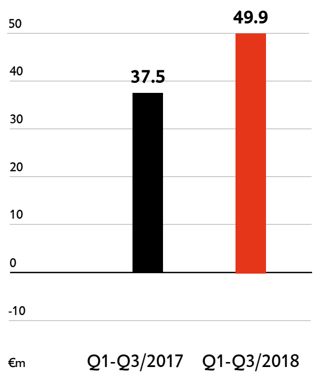
As at 30 September 2018, we earned a net profit for the period before tax of EUR 22.1 million in the financial markets segment compared to EUR 30.2 million in the preceding year. The decline was due to impairment losses on financial assets. Net interest income dropped by EUR 1.2 million to EUR 29.8 million, because redemptions in the treasury portfolio can only be replaced by low-yield bonds. The result of companies measured using the equity method (EUR 31.6 million; +9.0%) partly compensated the decline in net interest income. The allocation required for expected credit losses for receivables from banks and securities was EUR 0.1 million. General administrative expenses rose slightly to EUR 5.3 million.

The biggest movement occurred in the item “Profit/loss from financial assets/liabilities”. After a positive income figure of EUR 2.7 million in the preceding year, we closed on 30 September 2018 at EUR -2.9 million. The hedging of fixed-interest loans through the fair value option led to a negative result of EUR 2.9 million in the measurement, because the lifetime expected credit loss for these loans is now also recognized in this item.

The segment-specific indicators developed as follows: return on equity declined from 6.4% to 4.4% year on year, while the cost/income ratio increased from 15.6% to 17.4%, and the risk/earnings ratio was 0.4%.

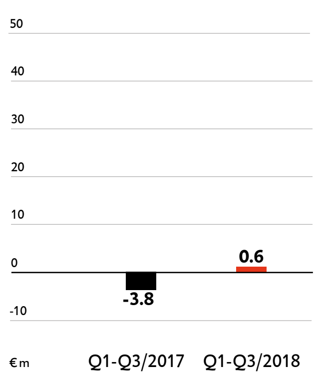
DEVELOPMENT OF PROFIT/LOSS FOR THE PERIOD BEFORE TAX BY SEGMENT

CORPORATE AND BUSINESS BANKING



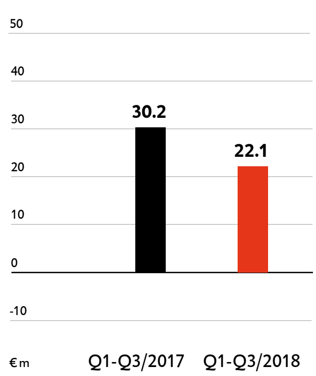
in %	Q1-Q3/2017	Q1-Q3/2018
ROE	16.4	17.6
CIR	39.4	36.4
RER	24.0	17.8

RETAIL BANKING



in %	Q1-Q3/2017	Q1-Q3/2018
ROE	-10.4	1.3
CIR	106.7	97.3
RER	7.4	2.1

FINANCIAL MARKETS



in %	Q1-Q3/2017	Q1-Q3/2018
ROE	6.4	4.4
CIR	15.6	17.4
RER	-	0.4

The segments are described in detail in the Notes starting on page 62.

CONSOLIDATED OWN FUNDS

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

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

The common equity tier 1 capital decreased from EUR 614.5 million to EUR 581.8 million. The decline was due mainly to the higher derecognition items for bank holdings that result from the transitional phasing-out provisions of the CRR. Consequently, the common equity tier 1 ratio dropped from 12.3% to 10.9%. Including additional tier 1 capital and tier 2 capital totaling EUR 195.4 million, total own funds was EUR 777.2 million as at 30 September 2018. The capital ratio increased from 14.0% to 14.6%.

The leverage ratio at the end of September 2018 was 7.6%, thus also clearly higher than the regulatory requirement of 3% and the internal target of >5%.

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

in €m	31/12/2017	30/09/2018
Share capital	77.5	83.7
Reserves net of intangible assets	909.3	1,028.4
Deductions	-372.3	-530.4
Common equity tier 1 capital (CET1)	614.5	581.8
Common equity tier 1 ratio	12.3%	10.9%
Hybrid capital	20.0	16.0
AT 1 note	36.2	37.9
Deductions	-42.9	-
Additional tier 1 capital	13.3	53.9
Tier 1 capital (CET1 + AT1)	627.8	635.7
Tier 1 capital ratio	12.5%	11.9%
Tier 2 capital items and instruments	116.5	141.5
Deductions	-42.7	-
Tier 2 capital	73.8	141.5
Total own funds	701.6	777.2
Own funds ratio	14.0%	14.6%
Total risk exposure amount	5,016.7	5,329.7

RISK REPORT

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

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

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

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

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

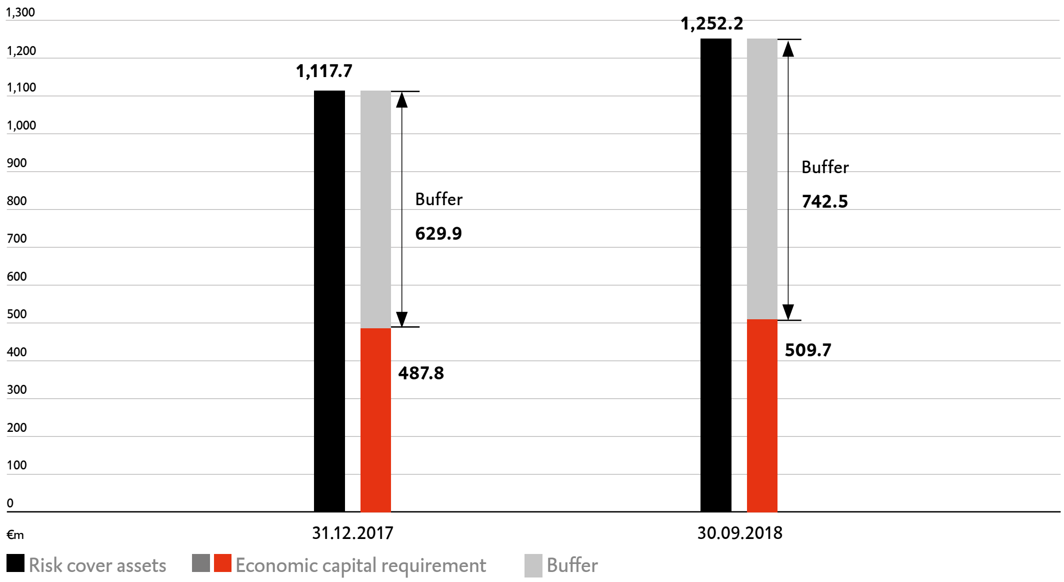
We assess our internal capital adequacy on a quarterly basis by looking at the risks identified using internal models. The aim is to ensure that BKS Bank always has sufficient assets available to cover its risks, enabling it to absorb the risks it assumes even if unexpected events were to occur. All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

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

The economic capital requirement for expected credit losses was the largest risk capital requirement within the BKS Bank group. As at the end of September 2018, credit risks accounted for about 65.6% of the total loss potential (31/12/2017: 61.8%) under the liquidation approach. Market price-induced risks accounted for a share of 21.9% (31 December 2017: 25.0%).

Based on the liquidation approach, the economic capital requirement as at 30 September 2018 was determined at EUR 509.7 million after EUR 487.8 million at the end of December 2017. The corresponding cover assets were EUR 1,252.2 million (31 Dec. 2017: EUR 1,117.70 million). The free cover assets not needed to cover risks increased by EUR 112.6 million to a gratifying EUR 742.5 million year on year. The utilization of the cover risk was 40.7% for the first half-year after 43.6% at 31 December 2017.

RISK-BEARING CAPACITY BY LIQUIDATION APPROACH



Credit risk

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

The management of credit risk is based on the principle of granting loans only 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. Fair value valuations of collateral take their bearings from average liquidation proceeds achieved in the past. Lending in markets outside of Austria is governed by special guidelines that are specific to the features of the country concerned, in particular, the economic environment and the higher realization risk of the collateral.

BKS Bank uses a rating scale with 13 rating classes. As at 30 September 2018, around 52.4% of all loans to corporate and business customers and around 86.4% of loans to retail customers were assigned a very good rating of AA-2b The focus of new business was on customers in the rating classes up to 3a.

IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in € m	Q1-Q3/2017	Q1-Q3/2018	± in %
Impairment charges on receivables from customers for financial instruments measured at amortized cost	17.1	15.0	-12.3
Impairment charges on receivables from customers for financial instruments at fair value OCI	n/a	0.1	-
Loan commitments and financial guarantee contracts (net)	0.03	-0.9	-
Total impairment charges on receivables from customers	17.1	14.2	-17.1

Impairment charges on receivables from customers declined from EUR 17.1 million to EUR 14.2 million. The NPL ratio[1)] decreased again to 2.8%.

INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

	Financial instruments that were neither past due nor impaired		Past due financial instruments	
Carrying value/max. default risk per class in EUR m	31/12/2017	30/09/2018	31/12/2017	30/09/2018
Receivables from customers	5,702	6,205	288	247
– thereof at fair value	56	138	-	-
Contingent liabilities	163	155	4	2
Receivables from banks	110	233	-	-
Securities and funds	817	865	-	-
– thereof at fair value	107	144	-	-
Equity investments	600	658	-	-
– thereof at fair value	-	88	-	-
Total	**7,392**	**8,116**	**292**	**249**

INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

	Impaired financial instruments		Past due but not yet impaired financial instruments	
Carrying value/max. default risk per class in EUR m	31/12/2017	30/09/2018	31/12/2017	30/09/2018
Receivables from customers	238	221	50	26
– thereof at fair value	-	-	-	-
Contingent liabilities	-	-	4	2
Receivables from banks	-	-	-	-
Securities and funds	-	-	-	-
– thereof at fair value	-	-	-	-
Equity investments	10	10	-	-
– thereof at fair value	-	-	-	-
Total	**248**	**231**	**54**	**28**

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

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

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

Interest rate risk

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

BKS Bank pursues a conservative strategy regarding interest rate risk and as a general rule does not engage in any significant speculative derivative transactions. BKS Bank engages in derivative transactions almost exclusively to hedge against market risks, using only instruments whose characteristics and related risks are known and for which experience-based data is available. The quotient, which is reported to OeNB, derived from interest rate risk and eligible own funds based on an interest rate shift of 200 base points was 2.6% at the end of September 2018 after 4.4% at 31 December 2017. We point out that the supervisory authorities classify a bank as an 'outlier bank' as of a ratio of 20%. Our bank is not anywhere near this figure.

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

VALUE-AT-RISK FIGURES

in €m	31/12/2017	30/09/2018	± in %
Interest rate risk[1]	28.0	21.7	-22.4

[1] incl. credit spread risks

Foreign currency risk

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

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

The open FX position at the end of September was EUR 19.2 million, taking into account foreign currency shares in funds held in the Treasury portfolio. Value-at-risk for the foreign currency risk reached a value of EUR 0.6 million.

VALUE-AT-RISK FIGURES

in €m	31/12/2017	30/09/2018	± in %
FX risk	0.6	0.6	0.0

Equity price risk

Equity price risk is the risk of changes in stock market prices that result from the interaction of supply and demand. Investments in equities in our treasury portfolio are mainly in highly liquid German and Austrian listed securities. The bank complied with all internal limits for shares and equity funds. The volume of positions in shares and alternative investments that are not equity investments came to EUR 33.4 million in the first quarter. Value-at-risk from equity price risk was EUR 1.7 million compared with EUR 1.2 million at 31 December 2017.

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

VALUE-AT-RISK FIGURES

in €m	31/12/2017	30/09/2018	± in %
Equity price risk	1.2	1.7	41.7

Liquidity risk

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

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

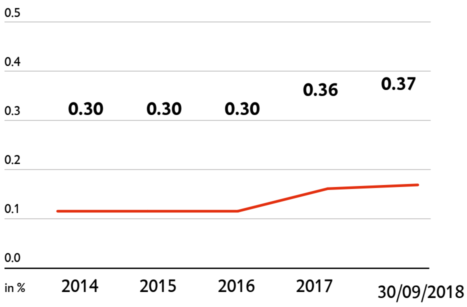
Essential for liquidity management is a diversification of the refinancing profile by investor category, product and maturity. Loan terms and conditions are based on the Austrian risk management decree and the EBA Guidelines it is based on. The costs of refinancing financial products are determined in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

Intraday liquidity management is done by managing daily deposits and withdrawals. This is based on information on transactions with an impact on liquidity. Such transactions include dispositions regarding payment transfers, advance information from Sales on pending customer transactions, information on cash flows resulting from the bank's own issues supplied by the securities back office, and information on securities and money market transactions from treasury.

Possible liquidity peaks are balanced out by borrowing or investing money with the Austrian central bank, OeNB, or on the interbank market. Intraday liquidity management is done within the limits defined and utilization is reported daily to Risk Controlling and the Chief Risk Officer.

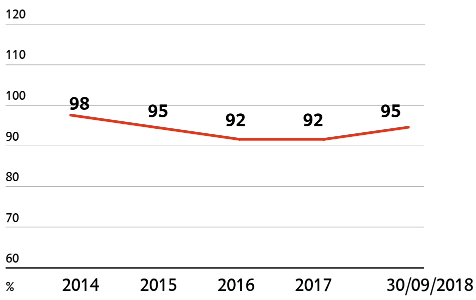
The deposit concentration, which reached a level of 0.37 as at 30 September 2018, served to estimate the withdrawal risk associated with a run on deposits and indicates, above all, the risk of being dependent on large deposits. All customer deposits are broken down into defined size bands and measured at their respective share and with weighting factors from 0 to 1.

DEPOSIT CONCENTRATION



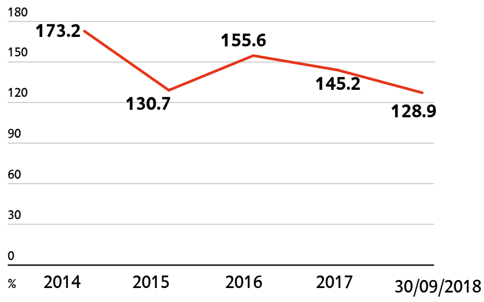
The loan/deposit ratio is a further key indicator for structural liquidity management and shows the relation between loans and primary deposits. At a ratio of 95.0%, we are clearly below our internal benchmark of 100% and thus in an excellent position.

LOAN-TO-DEPOSIT RATIO



The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain liquid for the next 30 days in the event of simultaneous market and bank-specific stress situations. It compares highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. This regulatory liquidity ratio was 128.9% at 30 September 2018 and therefore fully meets the statutory requirement of 100%.
In the ILAAP report of BKS Bank, we also monitor the NSFR that was 107.4% at the end of September 2018.

LCR



Operational risks by risk type

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

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

In the reporting period, 178 loss events (excluding those resulting from credit operations) were reported. The loss after deducting amounts recovered was EUR 1.8 million. At a total of EUR 13,000, the loss events in the investment business were below the internally-defined risk tolerance threshold of EUR 1.0 million. As regards the ICT risk, there were four loss events with a total sum of EUR 3,000.

A key component for the management of reputational risk is complaints management. During the reporting period, the BKS Office of the Ombudsperson processed 587 customer complaints.

OUTLOOK

IMF LOWERS GROWTH FORECAST FOR GLOBAL ECONOMY

The International Monetary Fund (IMF) revised its growth forecast downwards and warned of a “trend reversal” for the global economy. Many countries are faced with problems - some of these self-inflicted. Furthermore, some of the risks mentioned by the IMF in previous economic forecasts are about to materialize. IMF Managing Director Christine Lagarde warned politicians throughout the world with her statement: “Well, it is not pouring yet, but there is a bit of a drizzle.”

In July, the IMF expected the global economy to expand by 3.9% in 2018. This was revised downwards by 0.2% to 3.7%. The IMF believes there is an enormous risk in the economic policy pursued by US President Donald Trump. If the trade disputes continue to escalate, this could trigger a shock for a large number of developing and emerging markets.

Especially the emerging markets are at risk due to the - in some cases - high levels of debt, the strong USD and the capital outflows caused by the higher interest rates in the US. The high degree of indebtedness of many countries and companies is also a problem for many industrialized states. The private and public debt has risen worldwide to USD 182 trillion. This is 60% more than before the financial crisis 2007.

The EU Commission also reduced its growth outlook slightly for the euro zone for 2019 from 2.0% to 1.9%. The growth forecast for Germany and Austria was also reduced slightly. A growth rate of 1.8% is expected for Germany in 2019, while Austria is set to grow by 1.7%.

EQUITIES STILL ATTRACTIVE DESPITE INSECURITY

There are still a number of factors weighing on sentiment on stock markets. Even though Great Britain and the European Union are still likely to agree on an orderly exit from the EU, the economic consequences of Brexit are still an unknown factor. Trade barriers created by the US are causing a shift in international trade routes. Additionally, many market participants are afraid of a new euro crisis prompted by the populist Italian government. The emerging markets are suffering especially from the strong US dollar and rising US interest rates. Despite the importance of these themes, one should not lose sight of a realistic view of economic developments. The environment is still stable despite a slight weakening and should clear the way for rising stocks prices. Moreover, some markets, regions and companies are now quite attractively valued. The high degree of political insecurity is likely to continue to be a concern for markets in the coming months and cause price fluctuations.

We continue to view conservative bonds as lacking the appeal of potential returns. The global trade conflicts and the financial instability of some emerging markets have created higher demand for secure government bonds in the recent past. However, it must be assumed that a continuation of the economic upswing will result in slightly higher yields at the long end of the sovereign bond market over the medium term. This caused price losses in the relevant bonds.

SOLID EARNINGS FOR THE YEAR 2018 EXPECTED

The sound development of business in the first three quarters makes us optimistic about the rest of the business year. Demand for loans will probably remain robust even though economists are already warning of a slowing economy. Although we are never fully free of the risk of unexpected payment difficulties at our customers, we still expect risk provisions to stagnate at a low level supported by the sustained positive trend of the economy. Due to these encouraging prospects, we expect the full year 2018 to be a continuation of the very good achievements of the preceding year.

Even if overall economic conditions are quite positive right now, there are still a number of challenges that banks have to overcome. We never tire to stress that the profusion of regulations, the digital transformation and the persistently low interest rates continue to burden the earnings power of banks. Before this backdrop, we intend to heighten the sales focus of our central organisation in 2019. We have initiated numerous digitalization measures with the aim of transforming our entire organisation for the digital age. We have developed a branch concept fit for the future that connects our bricks-and-mortar sales channels with our customers' digital needs. Now the time has come to implement these structural changes also in the central areas. At the same time, we will continue, of course, to work on strengthening earnings power to remain reliable partners for our customers, business partners and shareholders.

We plan to continue our dividend policy in the business year 2018 bearing in mind the capital requirements.

Klagenfurt am Wörthersee, 27 November 2018

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Alexander Novak
Member of the Management Board
(from 1 September 2018)

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

INCOME STATEMENT

in €k	Notes to the Financial Statements	Q1-Q3/2017	Q1-Q3/2018	± in %
Interest income applying the effective interest rate method		110,000	113,307	3.0
Other interest income		5,690	6,900	21.3
Interest expenses		-26,217	-23,487	-10.4
Net interest income	**(1)**	**89,473**	**96,720**	**8.1**
Impairment charges on receivables from customers	(2)	-17,090	-14,173	-17.1
Net interest income after impairment charges		**72,384**	**82,547**	**14.0**
Fee and commission income		40,786	43,412	6.4
Fee and commission expenses		-2,807	-3,284	17.0
Net fee and commission income	**(3)**	**37,980**	**40,127**	**5.7**
Profit/loss from investments accounted for using the equity method	(4)	29,039	31,643	9.0
Net trading income	(5)	983	709	-28.0
General administrative expenses	(6)	-79,293	-85,004	7.2
Other operating income	(7)	3,168	4,241	33.9
Other operating expenses	(7)	-9,371	-7,962	-15.0
Profit/loss from financial assets/liabilities		**2,712**	**-2,848**	**>-100**
– Profit/loss from financial instruments design. at fair value through profit/loss	(8)	1,312	-2,797	>-100
– Profit/loss from available-for-sale financial assets (AfS)	(9)	1,404	n/a	-
– Profit/loss from held-to-maturity financial assets (HtM)	(10)	-4	n/a	-
– Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	(11)	n/a	-432	-
– Profit/loss from derecognition of financial assets measured at amortized cost	(12)	n/a	407	-
– Other profit/loss from financial assets/liabilities	(13)	n/a	-26	-
Profit for the period before tax		**57,601**	**63,453**	**10.2**
Income tax expense	(14)	-5,967	-7,642	28.1
Profit for the period		**51,634**	**55,811**	**8.1**
Non-controlling interests		-2	-3	36.0
Profit for the period after non-controlling interests		**51,632**	**55,808**	**8.1**

OTHER COMPREHENSIVE INCOME

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Profit for the period	**51,634**	**55,811**	**8.1**
Other comprehensive income	**11,230**	**4,634**	**-58.7**
Items not reclassified to profit for the period	**2,534**	**5,933**	**>100**
± Actuarial gains/losses in conformity with IAS 19	1,244	-1,477	>-100
± Deferred taxes on actuarial gains/losses in conformity with IAS 19	-311	369	>100
± Changes in the fair value of equity instruments measured at fair value	n/a	7,078	-
± Deferred taxes on fair value of equity instruments measured at fair value	n/a	-1,664	-
± Fair value changes of financial liabilities designated at FV PL attributable to own credit risk	n/a	-110	-
± Deferred taxes on fair value changes of financial liabilities designated at FV PL attributable to own credit risk	n/a	28	-
± Share of income and expenses of associates accounted for using the equity method taken directly to equity	1,601	1,709	6.7
Items reclassified to profit for the period	**8,696**	**-1,299**	**>-100**
± Exchange differences	30	2	-94.3
± Available-for-sale reserve	6,552	n/a	-
± Net change in fair value	7,344	n/a	-
± Reclassified to profit or loss	-792	n/a	-
± Deferred taxes taken to AfS reserve items	-1,638	n/a	-
± Changes in the fair value of debt instruments measured at fair value	n/a	-376	-
± Net change in fair value	n/a	-420	-
± Reclassified to profit or loss	n/a	-76	-
± Valuation allowances for credit risk	n/a	121	-
± Deferred taxes on changes to the fair value of debt instruments measured at fair value	n/a	124	-
± Share of income and expenses of associates accounted for using the equity method taken directly to equity	3,752	-1,049	>-100
Total comprehensive income	**62,864**	**60,445**	**-3.8**
Non-controlling interests	-2	-3	41.2
Total comprehensive income after non-controlling interests	**62,862**	**60,442**	**-3.9**

EARNINGS AND DIVIDEND PER SHARE

	30/09/2017	30/09/2018
Average number of shares in issue (ordinary and preference shares)	38,974,455	41,270,530
Earnings per ordinary and preference share in EUR (adjusted for period)	1.32	1.35
Earnings per ordinary and preference share in EUR (annualised)	1.77	1.80

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

QUARTERLY REVIEW

in €k	Q3/2017	Q4/2017	Q1/2018	Q2/2018	Q3/2018
Interest income	38,145	38,582	39,041	42,560	38,606
Interest expenses	-8,619	-7,370	-8,466	-7,422	-7,599
Net interest income	**29,526**	**31,213**	**30,575**	**35,137**	**31,007**
Impairment charges on receivables and debt securities	-2,885	-9,634	-2,867	-6,208	-5,098
Net interest income after impairment charges	**26,640**	**21,579**	**27,708**	**28,929**	**25,909**
Fee and commission income	13,216	12,934	13,506	15,999	13,906
Fee and commission expenses	-1,163	-1,018	-1,042	-1,113	-1,130
Net fee and commission income	**12,054**	**11,916**	**12,464**	**14,886**	**12,776**
Profit/loss from investments accounted for using the equity method	10,407	10,029	7,488	11,329	12,826
Net trading income	10	561	-13	-192	913
General administrative expenses	-26,670	-28,461	-27,607	-30,353	-27,044
Other operating income	934	1,457	1,271	1,844	1,126
Other operating expenses	-2,539	995	-5,075	-1,504	-1,383
Profit/loss from financial assets/liabilities	**97**	**1,499**	**-932**	**-3,641**	**1,725**
– Profit/loss from financial instruments designated at FVPL	15	-12	-203	-2,909	315
– Profit/loss from available-for-sale financial assets (AfS)	82	1,511	n/a	n/a	n/a
– Profit/loss from held-to-maturity financial assets (HtM)	-	-	n/a	n/a	n/a
– Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	n/a	n/a	-1,819	561	826
– Profit/loss from derecognition of financial assets measured at amortized cost	n/a	n/a	-143	49	501
– Other profit/loss from financial assets/liabilities	n/a	n/a	1,233	-1,341	82
Profit for the period before tax	**20,933**	**19,574**	**15,305**	**21,299**	**26,849**
Income tax expense	-2,425	-3,170	-1,889	-2,091	-3,663
Profit for the period	**18,507**	**16,404**	**13,416**	**19,209**	**23,186**
Non-controlling interests	-1	-1	-1	-1	-1
Profit for the period after non-controlling interests	**18,506**	**16,403**	**13,414**	**19,208**	**23,185**

CONSOLIDATED BALANCE SHEET FOR THE PERIOD ENDED 30 SEPTEMBER 2018

ASSETS

in €k	Notes to the Financial Statements	31/12/2017	30/09/2018	± in %
Cash and balances with the central bank	(15)	476,589	308,013	-35.4
Receivables from other banks	(16)	97,711	216,472	121.5
– Impairment charges on receivables from other banks	(17)	-	-317	-
Receivables from customers	(18)	5,450,150	6,027,241	10.6
– Impairment charges on receivables from customers	(19)	-136,992	-122,338	-10.7
Trading assets	(20)	9,837	8,564	-12.9
Financial assets		1,043,134	n/a	-
– Financial assets designated as at fair value through profit or loss	(21)	78,300	n/a	-
– Available-for-sale financial assets	(22)	182,069	n/a	-
– Held-to-maturity financial assets	(23)	782,765	n/a	-
Debt securities and other fixed-interest securities	(24)	n/a	886,490	-
– Impairment charges on debt securities	(25)	-	-275	-
Shares and other equity	(26)	n/a	139,548	-
Investments in entities accounted for using the equity method	(27)	520,354	577,389	11.0
Intangible assets	(28)	1,638	3,659	>100
Property, plant and equipment	(29)	55,174	55,138	-0.1
Investment property	(30)	30,868	33,071	7.1
Deferred tax assets	(31)	7,873	4,195	-46.7
Other assets	(32)	23,161	47,513	>100
Total assets		**7,579,497**	**8,184,364**	**8.0**

EQUITY AND LIABILITIES

in €k	Notes to the Financial Statements	31/12/2017	30/09/2018	± in %
Payables to other banks	(33)	694,986	793,574	14.2
Payables to customers	(34)	4,956,489	5,234,054	5.6
– thereof savings deposits		1,475,137	1,445,628	-2.0
– thereof other payables		3,481,352	3,788,426	8.8
Liabilities evidenced by paper	(35)	553,952	572,027	3.3
– thereof at fair value through profit or loss		84,688	84,790	0.1
Trading liabilities	(36)	14,608	6,527	-55.3
Provisions	(37)	123,631	138,195	11.8
Deferred tax liabilities	(38)	127	371	>100
Other items	(39)	30,542	57,781	89.2
Subordinated debt capital	(40)	158,622	191,399	20.7
Shareholders' equity		1,046,540	1,190,437	13.7
– thereof shareholders’ equity	(41)	1,046,518	1,190,412	13.7
– thereof non-controlling interests		22	24	13.1
Total equity and liabilities		**7,579,497**	**8,184,364**	**8.0**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained reserves	Profit for the period	Additional equity instruments[1]	Equity
As at 01/01/2018	**79,279**	**193,032**	**-168**	**31,956**	**638,184**	**68,035**	**36,200**	**1,046,518**
Impact of adopting IFRS 9				-589	10,186			9,596
Restated as at 01/01/2018	**79,279**	**193,032**	**-168**	**31,367**	**648,370**	**68,035**	**36,200**	**1,056,114**
Distribution						-8,935		-8,935
Coupon payments on additional equity instruments					-2,333			-2,333
Taken to retained earnings					59,100	-59,100		0
Profit for the period						55,808		55,808
Other comprehensive income			44	6,200	-1,610			4,634
Increase in share capital	6,607	48,384						54,991
Effect of the equity method					30,509			30,509
Change in treasury shares					-1,790			-1,790
Issuance of additional equity instruments							1,700	1,700
Other changes					-286			-286
As at 30/09/2018	**85,886**	**241,416**	**-124**	**37,567**	**731,961**	**55,808**	**37,900**	**1,190,412**

Status of the fair value OCI reserve (excl. reserves of associates accounted for by the equity method)	28,231
Deferred tax reserve	-7,058

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained reserves	Profit for the period	Additional equity instruments[2]	Equity
As at 1 January 2017	**79,279**	**193,032**	**-361**	**17,017**	**600,220**	**46,180**	**23,400**	**958,767**
Distribution						-8,965		-8,965
Coupon payments on additional equity instruments					-1,463			-1,463
Taken to retained earnings					37,215	-37,215		0
Profit for the period						51,632		51,632
Other comprehensive income			145	8,551	2,534			11,230
Effect of the equity method					3,101			3,101
Change in treasury shares					-2,220			-2,220
Issuance of additional equity instruments							10,800	10,800
Other changes					-27			-27
As at 30/09/2017	**79,279**	**193,032**	**-216**	**25,568**	**639,360**	**51,632**	**34,200**	**1,022,855**

Status of available-for-sale reserve (excl. reserves of associates accounted for by the equity method)	10,672
Deferred tax reserve	-2,669

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOWS

in €k	Q1-Q3/2017	Q1-Q3/2018
Cash and cash equivalents at end of preceding period	**543,542**	**476,589**
Profit for the period after tax before non-controlling interests	51,634	55,811
Non-cash items in profit for the period and other adjustments	-89,242	-72,992
Change in assets and liabilities arising from operating business activities after correction for non-cash items	60,467	-186,247
Cash flow from operating activities	**22,859**	**-203,429**
Cash inflow from disposals	83,549	72,359
Cash outflow from investments	-134,979	-113,869
Cash flow from investing activities	**-51,430**	**-41,510**
Increase in share capital	0	54,991
Other deposits	0	1,700
Dividend distributions	-8,956	-8,935
Subordinate liabilities and other financing activities	-14,269	28,655
Cash flow from financing activities	**-23,225**	**76,410**
Effect of exchange rate changes on cash and cash equivalents	5	-47
Cash and cash equivalents at the end of the reporting period	**491,751**	**308,013**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BKS BANK

MATERIAL ACCOUNTING POLICIES

I. GENERAL INFORMATION

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

II. EFFECTS OF NEW AND AMENDED STANDARDS

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

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

The new accounting and measurement policies of IFRS 9 are described in the section “Notes on individual items of the balance sheet”.

All other standards and amendments to standards that entered into force on 1 January 2018 do not have any material effects on the BKS Bank Group.

III. RECOGNITION AND MEASUREMENT

Group of Consolidated Companies

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

CONSOLIDATED ENTITIES

Company	Head office	Direct equity interest	Indirect equity interest	Date of financial statements
BKS-Leasing Gesellschaft m.b.H.	Klagenfurt	99.75%	0.25%	30/09/2018
BKS-leasing d.o.o.	Ljubljana	100.00%	-	30/09/2018
BKS-leasing Croatia d.o.o.	Zagreb	100.00%	-	30/09/2018
BKS-Leasing s.r.o.	Bratislava	100.00%	-	30/09/2018
IEV Immobilien GmbH	Klagenfurt	100.00%	-	30/09/2018
Immobilien Errichtungs- und Vermietungs GmbH & Co KG	Klagenfurt	100.00%	-	30/09/2018
BKS 2000-Beteiligungs- und Verwaltungs GmbH	Klagenfurt	100.00%		30/09/2018
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	-	100.00%	30/09/2018
BKS Hybrid alpha GmbH	Klagenfurt	100.00%	-	30/09/2018
BKS Hybrid beta GmbH	Klagenfurt	100.00%	-	30/09/2018
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	-	30/09/2018
LVM Beteiligungs Gesellschaft m.b.H.	Klagenfurt	-	100.00%	30/09/2018
BKS Immobilien-Service GmbH	Klagenfurt	100.00%	-	30/09/2018
BKS Service GmbH	Klagenfurt	100.00%	-	30/09/2018

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Company	Head office	Direct equity interest in %	Date of financial statements
Oberbank AG	Linz	14.21	30/06/2018
BTV AG	Innsbruck	13.59	30/06/2018
Drei Banken Versicherungsagentur GmbH	Linz	20.00	30/09/2018

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

Entities accounted for on a proportionate basis

Pursuant to the provisions of IFRS 11, the investment inALPENLÄNDISCHE GARANTIE-GESELLSCHAFT M.B.H. (ALGAR) REQUIREDclassification 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%	30/09/2018

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 SEPTEMBER 2018

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit for the period before tax
Branches abroad				
Slovenia Branch	8,308	11,053	105.6	3,229
Croatia Branch	6,471	7,191	58.5	3,585
Slovakia Branch	1,310	1,558	27.8	-203
Subsidiaries				
BKS-leasing d.o.o., Ljubljana	2,826	3,117	19.2	1,146
BKS-leasing Croatia d.o.o., Zagreb	1,608	1,597	13.3	601
BKS-Leasing s.r.o., Bratislava	854	995	11.8	89

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 SEPTEMBER 2017

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit for the period before tax
Branches abroad				
Slovenia Branch	8,035	10,185	100.9	3,218
Croatia Branch	5,333	6,254	57.8	1,421
Slovakia Branch	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 currency translation

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

NOTES ON INDIVIDUAL ITEMS OF THE BALANCE SHEET

Cash and balances with the central bank

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

Financial instruments

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

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

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

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

At amortized cost

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

Designated at fair value through other comprehensive income (FVOCI)

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

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

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

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

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

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

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

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

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

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

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

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

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

– Stage 1: For financial instruments classified in stage 1, an impairment charge equivalent to 12-months expected credit loss (ECL) is recognized. 12-months expected credit loss corresponds to the credit loss a financial instrument might incur during the 12 months following the balance sheet date. Upon acquisition, all financial instruments must be assigned to stage 1; this assignment must then be reviewed at every balance sheet date.
– Stage 2: For financial instruments classified to stage 2, it is required to recognize a lifetime expected credit loss (ECL), which corresponds to the losses expected over the instrument's remaining time to maturity.
– Stage 3: For financial instruments classified in stage 3, it is likewise required to recognize a lifetime expected credit loss corresponding to the losses expected over the instrument's remaining time to maturity.

Instruments will be reclassified from stage 1 to stage 2 where default risk has increased significantly since initial recognition. A variety of factors can lead to an instrument being classified in stage 2. These factors may be of a strategic, operating, geographical or macroeconomic nature. The BKS Bank Group relies on both quantitative (lower ratings) and qualitative criteria (30 days overdue, warnings) when deciding on reclassification from one stage to another.

Changes in value are generally recognized through profit or loss in the income statement. The reporting of impairment charges on receivables from customers – with the exception of impairment charges for financial assets designated at fair value in other comprehensive income (FV OCI mandatory) – is disclosed as a deduction on the assets side of the balance sheet (impairment account). For financial assets designated as at FVOCI, reporting of impairment charges on receivables from customers is done in other comprehensive income in equity.

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

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

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

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

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

Property, plant and equipment
Property, plant and equipment consists of land, buildings and other equipment comprising primarily office furniture and business equipment.
Property, plant and equipment is 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. These are measured at amortized cost.

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

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

Deferred tax assets and deferred tax liabilities
Income tax is reported and calculated in accordance with IAS 12. The calculation for each taxed entity is carried out applying the tax rates that, under 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 recognizes mainly provisions for post-employment benefits and similar employee benefit obligations (IAS 19), for taxes and for interest on stepped coupon products. The provision for death benefits is also calculated in accordance with the IFRS principles contained in IAS 19. The AVÖ 2018-P mortality table as published in August 2018 was used for the actuarial calculation of the provision for social capital. As of 31 December 2000, the retirement pension entitlements of all active employees were transferred to VBV-Pensionskasse AG as the legal successor to BVP-Pensionskasse AG.

Equity
Equity consists of paid-in and earned capital (capital reserves, retained earnings, revaluation reserve, foreign exchange differences and profit for the period). BKS Bank strives to strengthen its capital base on a sustainable basis by reinvesting its profits. An additional tier 1 note was issued in 2015, 2017 and 2018 respectively. Under IAS 32, such notes have to be classified as equity.

NOTES TO INDIVIDUAL LINE ITEMS IN THE INCOME STATEMENT

Net interest income
Net interest income contains interest income from credit operations, from securities in the treasury portfolio, from equity investments (in the form of dividend payments), from lease receivables and from investment property less interest expenses on deposits from other banks and from customers, liabilities evidenced by paper and investment property. Interest income and interest expenses are accounted for on an accrual basis. The historically low interest rates led to negative interest earnings. According to the IFRIC Interpretations Committee (IC), these must be presented in an 'appropriate expense classification'. As a result, negative interest income is presented as an interest expense. Likewise, positive interest expenses are presented as interest income.

Impairment charges on receivables from customers
This line item reports income and expenses from recognizing and reversing impairment charges in the amount of the 12-months expected credit loss (stage 1) or lifetime expected credit loss (stages 2 and 3). BKS Bank recognizes such charges for financial assets measured at amortized at cost or designated at fair value through other comprehensive income (FV OCI mandatory) as well as for loans commitments and financial guarantee contracts.
See also Note (2) for details.

Net fee and commission income

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

General administrative expenses

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

Net trading income

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

Other operating expenses / income

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

Profit/loss from the derecognition of financial assets measured at amortized cost

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

OTHER EXPLANATORY NOTES

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

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

EXPLANATIONS ON THE INITIAL APPLICATION OF IFRS 9

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

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

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

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

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

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

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

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

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

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

A debt security with a carrying value of EUR 80,000 for which the fair value option was used under the IAS 39 was measured at fair value through profit or loss (FV PL) under IFRS 9. As the SPPI test as required by IFRS 9 for measurement at amortized cost was not met, it is no longer possible to exercise a fair value option.

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

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

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

DETAILS OF THE INCOME STATEMENT

(1) NET INTEREST INCOME

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Interest income based on the effective interest rate method:			
Lending operations measured at amortized cost	86,118	86,046	-0.1
Fixed-interest securities measured at amortized cost	n/a	11,208	-
Fixed-income securities measured at FV OCI	n/a	539	-
Fixed-income securities held-to-maturity	12,560	n/a	-
Leasing receivables	6,322	6,935	9.7
Positive interest expenses[1)]	5,000	8,579	71.6
Total interest income based on the effective interest rate method	**110,000**	**113,307**	**3.0**
Other interest income:			
Lending operations measured at fair value	n/a	748	-
Fixed-interest securities designated at fair value through profit or loss	338	338	0.0
Fixed-interest securities available for sale	635	n/a	-
Shares and other equity	2,352	3,489	48.3
Investment property	2,365	2,325	-1.7
Total other interest income	**5,690**	**6,900**	**21.3**
Total interest income	**115,690**	**120,207**	**3.9**
Interest expenses:			
Deposits from customers and other banks	6,233	3,861	-38.0
Liabilities evidenced by paper	15,553	14,372	-7.6
Negative interest income[1)]	4,024	4,807	19.5
Investment property	407	446	9.6
Total interest expenses	**26,217**	**23,487**	**-10.4**
Net interest income	**89,473**	**96,720**	**8.1**

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

(2) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Financial instruments measured at amortized cost	17,063	14,971	-12.3
– Allocation (+)/reversal (-) of impairment charges (net)	17,147	14,971	-12.7
– Direct write-offs	581	n/a	-
– Recoveries in respect of receivables previously written off	-665	n/a	-
Financial instruments measured at fair value OCI	n/a	121	-
– Allocation (+)/reversal (-) of impairment charges (net)	n/a	121	-
Loan commitments and financial guarantee contracts	27	-918	>-100
– Allocation (+)/reversal (-) of provisions (net)	27	-918	>-100
Impairment charges on receivables from customers	**17,090**	**14,173**	**-17.1**

(3) FEE AND COMMISSION INCOME

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Fee and commission income:			
Payment services	16,334	17,082	4.6
Securities operations	11,006	10,665	-3.1
Lending operations	10,140	12,960	27.8
Foreign exchange operations	2,236	1,742	-22.1
Other services	1,070	962	-10.1
Total fee and commission income	**40,786**	**43,412**	**6.4**
Fee and commission expenses:			
Payment services	1,549	1,613	4.1
Securities operations	724	986	36.3
Lending operations	315	522	65.4
Foreign exchange operations	174	128	-26.1
Other services	45	35	-21.5
Total fee and commission expenses	**2,807**	**3,284**	**17.0**
Net fee and commission income	**37,980**	**40,127**	**5.7**

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

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Profit/loss from investments accounted for using the equity method	29,039	31,643	9.0
Profit/loss from investments accounted for using the equity method	**29,039**	**31,643**	**9.0**

(5) NET TRADING INCOME

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Price-based transactions	-10	47	>100
Interest rate and currency contracts	993	662	-33.4
Net trading income	**983**	**709**	**-28.0**

(6) GENERAL ADMINISTRATIVE EXPENSES

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Staff costs	52,047	56,314	8.2
– Wages and salaries	38,649	41,667	7.8
– Social security costs	10,320	10,664	3.3
– Costs of retirement benefits	3,079	3,984	29.4
Other administrative costs	22,569	23,475	4.0
Depreciation/amortization	4,676	5,214	11.5
General administrative expenses	**79,293**	**85,004**	**7.2**

(7) OTHER OPERATING INCOME / EXPENSES

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Other operating income	3,168	4,241	33.9
Other operating expenses	-9,371	-7,962[1)]	-15.0
Other operating income/expenses	**-6,204**	**-3,721**	**-40.0**

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

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

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Profit/loss from the measurement and disposal of derivatives	15	-	-
Profit/loss from the fair value option	1,297	-2,797	>-100
Profit/loss from financial instruments designated at fair value	**1,312**	**-2,797**	**>-100**

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

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Revaluation gains and losses	-	n/a	-
Gains and losses on disposal	1,404	n/a	-
Profit/loss from available-for-sale financial assets	**1,404**	**n/a**	**-**

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

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Revaluation gains and losses	-	n/a	-
Gains and losses on disposal	-4	n/a	-
Profit/loss from held-to-maturity financial assets	**-4**	**n/a**	**-**

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

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Revaluation gains and losses	n/a	-437	-
Gains and losses on disposal	n/a	5	-
Profit/loss from financial assets measured at fair value through profit or loss (mandatory)	**n/a**	**-432**	**-**

(12) PROFIT/LOSS FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Receivables from other banks	n/a	-	-
– thereof profit	n/a	-	-
– thereof loss	n/a	-	-
Receivables from customers	n/a	88	-
– thereof profit	n/a	809	-
– thereof loss	n/a	-721	-
Debt securities	n/a	319	-
– thereof profit	n/a	319	-
– thereof loss	n/a	-	-
Profit/loss from the derecognition of financial assets measured at amortized cost	**n/a**	**407**	**-**

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

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Modification gains/losses	n/a	-106	-
– From financial assets measured at amortized cost	n/a	-106	-
– From financial assets measured at FV OCI	n/a	-	-
– From financial liabilities measured at amortized cost	n/a	-	-
Derecognition gains/losses	n/a	80	-
– From financial assets measured at FV OCI	n/a	80	-
– From financial liabilities measured at amortized cost	n/a	-	-
Other profit/loss from financial assets/liabilities	**n/a**	**-26**	**-**

(14) INCOME TAX EXPENSE

in €k	Q1-Q3/2017	Q1-Q3/2018	± in %
Current taxes	-5,739	-8,030	39.9
Deferred taxes	-229	388	>100
Income tax expense	**-5,967**	**-7,642**	**28.1**

DETAILS OF THE BALANCE SHEET

(15) CASH AND BALANCES WITH THE CENTRAL BANK

in €k	31/12/2017	30/09/2018	± in %
Cash in hand	85,095	82,094	-3.5
Credit balances with central banks	391,494	225,920	-42.3
Cash and balances with the central bank	**476,589**	**308,013**	**-35.4**

(16) RECEIVABLES FROM OTHER BANKS

in €k	31/12/2017	30/09/2018	± in %
Receivables from Austrian banks	75,741	157,561	>100
Receivables from foreign banks	21,970	58,911	>100
Receivables from other banks	**97,711**	**216,472**	**>100**

(17) IMPAIRMENT CHARGES ON RECEIVABLES FROM OTHER BANKS

in €k	Stage 1	Stage 2	Stage 3	30/09/2018
At the start of the reporting period	150	2	-	152
Additions due to new business	27	26	-	53
Change within stage:				
– Allocation/reversal	115	-	-	115
– Disposals due to use	-	-	-	-
Reclassification from one stage to another:				
– Decrease due to credit risk	-	-	-	-
– Reclassification from stage 2 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 2	-	-	-	-
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-	-	-	-
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-1	-2	-	-3
At the end of the reporting period	**291**	**26**	**-**	**317**

(18) RECEIVABLES FROM CUSTOMERS

18.1 RECEIVABLES FROM CUSTOMERS, BY CUSTOMER GROUP

in €k	31/12/2017	30/09/2018	± in %
Corporate and Business Banking	4,241,104	4,746,312	11.9
Retail Banking	1,209,047	1,280,929	5.9
Receivables from customers, by customer group	**5,450,151**	**6,027,241**	**10.6**

18.2 RECEIVABLES FROM CUSTOMERS, BY MEASUREMENT CATEGORY

in €k	31/12/2017	30/09/2018	± in %
Financial assets measured at amortized cost	5,450,151	5,889,134	8.1
Financial assets at fair value through profit or loss (designated)	n/a	84,386	-
Financial assets measured at fair value through profit or loss (mandatory)	n/a	53,722	-
Receivables from customers, by measurement category	**5,450,151**	**6,027,241**	**10.6**

(19) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €k	Stage 1	Stage 2	Stage 3	30/09/2018
At the start of the reporting period	8,146	14,313	100,123	122,582
Additions due to new business	2,218	958		3,176
Change within stage:				
– Allocation/reversal	-897	-1,551	11,336	8,888
– Disposals due to use	-	-	-13,819	-13,819
Reclassification from one stage to another:				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	-	-3,662	-	-3,662
– Reclassification from stage 3 to stage 1	-	-	-67	-67
– Reclassification from stage 3 to stage 2	-	-	-98	-98
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-	3,142	-	3,142
– Reclassification from stage 1 to stage 3	-	-	3,942	3,942
– Reclassification from stage 2 to stage 3	-	-	878	878
Disposals due to repayment	-1,582	-1,042		-2,624
At the end of the reporting period	**7,885**	**12,158**	**102,295**	**122,338**

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

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

(20) TRADING ASSETS

in €k	31/12/2017	30/09/2018	± in %
Positive fair values of derivative financial instruments	9,837	8,564	-12.9
– Currency contracts	2,539	1,923	-24.2
– Interest rate contracts	7	6	-11.9
– Transactions relating to the fair value option	7,292	6,635	-9.0
Trading assets	**9,837**	**8,564**	**-12.9**

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

in €k	31/12/2017	30/09/2018	± in %
Debt securities and other fixed-interest securities	22,495	n/a	-
Loans	55,805	n/a	-
Financial assets and liabilities designated as at fair value through profit or loss	**78,300**	**n/a**	**-**

(22) AVAILABLE FOR SALE FINANCIAL ASSETS

in €k	31/12/2017	30/09/2018	± in %
Debt securities and other fixed-interest securities	56,799	n/a	-
Shares and other non-interest bearing securities	45,268	n/a	-
Other equity investments	80,003	n/a	-
Available-for-sale financial assets	**182,069**	**n/a**	**-**

(23) HELD-TO-MATURITY FINANCIAL ASSETS

in €k	31/12/2017	30/09/2018	± in %
Debt securities and other fixed-interest securities	782,765	n/a	-
Held-to-maturity financial assets	**782,765**	**n/a**	**-**

(24) DEBT SECURITIES AND OTHER FIXED-INTEREST SECURITIES

in €k	31/12/2017	30/09/2018	± in %
Financial assets measured at amortized cost	n/a	793,643	-
Financial assets designated at fair value through profit or loss	n/a	22,287	-
Financial assets measured at fair value OCI	n/a	70,514	-
Financial assets measured at fair value through profit or loss (mandatory)	n/a	46	-
Debt securities and other fixed-interest securities	**n/a**	**886,490**	**-**

25) IMPAIRMENT CHARGES ON DEBT SECURITIES

in €k	Stage 1	Stage 2	Stage 3	30/09/2018
At the start of the reporting period	453	-	-	453
Additions due to new business	-	-	-	-
Change within stage:				
– Allocation/reversal	-178	-	-	-178
– Disposals due to use	-	-	-	-
Reclassification from one stage to another:				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 1	-	-	-	-
– Reclassification from stage 3 to stage 2	-	-	-	-
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-	-	-	-
– Reclassification from stage 1 to stage 3	-	-	-	-
– Reclassification from stage 2 to stage 3	-	-	-	-
Disposals due to repayment	-	-	-	-
At the end of the reporting period	**275**	**-**	**-**	**275**

(26) SHARES AND OTHER EQUITY

in €k	31/12/2017	30/09/2018	± in %
Financial assets measured at fair value through profit or loss (mandatory)	n/a	45,877	-
Financial assets measured at fair value OCI	n/a	93,672	-
Shares and other equity	**n/a**	**139,548**	**-**

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

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

in €k	31/12/2017	30/09/2018	± in %
Oberbank AG	338,141	376,320	11.3
Bank für Tirol und Vorarlberg AG	180,492	199,348	10.4
Drei Banken Versicherungsagentur GmbH	1,721	1,721	0.0
Investments in entities accounted for using the equity method	**520,354**	**577,389**	**11.0**

(28) INTANGIBLE ASSETS

in €k	31/12/2017	30/09/2018	± in %
Other intangible assets	1,638	3,659	>100
Intangible assets	**1,638**	**3,659**	**>100**

(29) PROPERTY, PLANT AND EQUIPMENT

in €k	31/12/2017	30/09/2018	± in %
Property	8,368	8,942	6.9
Buildings	38,912	37,139	-4.6
Other	7,894	9,056	14.7
Property, plant and equipment	**55,174**	**55,138**	**-0.1**

(30) INVESTMENT PROPERTY

in €k	31/12/2017	30/09/2018	± in %
Property	8,407	8,407	0.0
Buildings	22,461	24,664	9.8
Property, plant and equipment	**30,868**	**33,071**	**7.1**

(31) DEFERRED TAX ASSETS

in €k	31/12/2017	30/09/2018	± in %
Deferred tax assets	**7,873**	**4,195**	**-46.7**

(32) OTHER ASSETS

in €k	31/12/2017	30/09/2018	± in %
Other items	20,826	44,632	>100
Deferred items	2,334	2,880	23.4
Other assets	**23,161**	**47,513**	**>100**

(33) PAYABLES TO OTHER BANKS

in €k	31/12/2017	30/09/2018	± in %
Payables to Austrian banks	571,672	695,770	21.7
Payables to foreign banks	123,314	97,804	-20.7
Payables to other banks	**694,986**	**793,574**	**14.2**

(34) PAYABLES TO CUSTOMERS

in €k	31/12/2017	30/09/2018	± in %
Savings deposit balances	**1,475,137**	**1,445,628**	**-2.0**
– Corporate and business banking customers	189,578	185,279	-2.3
– Retail banking customers	1,285,559	1,260,349	-2.0
Other liabilities	**3,481,352**	**3,788,426**	**8.8**
– Corporate and business banking customers	2,594,792	2,737,512	5.5
– Retail banking customers	886,560	1,050,913	18.5
Payables to customers	**4,956,489**	**5,234,054**	**5.6**

(35) LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2017	30/09/2018	± in %
Issued bonds	477,899	499,267	4.5
Other liabilities evidenced by paper	76,053	72,759	-4.3
Liabilities evidenced by paper	**553,952**	**572,027**	**3.3**

(36) TRADING LIABILITIES

in €k	31/12/2017	30/09/2018	± in %
Negative fair values of derivative financial instruments	14,608	6,527	-55.3
– Currency contracts	9,272	1,299	-86.0
– Interest rate contracts	7	6	-14.4
– Hedging transactions relating to the fair value option	5,329	5,222	-2.0
Trading liabilities	**14,608**	**6,527**	**-55.3**

(37) PROVISIONS

in €k	31/12/2017	30/09/2018	± in %
Provisions for post-employment benefits and similar obligations	69,693	72,694	4.3
Provisions for taxes (current taxes)	4,475	8,487	89.6
Provision for guarantees and facilities	-	1,147	-
Other provisions	49,463	55,867	12.9
Provisions	**123,631**	**138,195**	**11.8**

(38) DEFERRED TAX LIABILITIES

in €k	31/12/2017	30/09/2018	± in %
Deferred tax liabilities	**127**	**371**	**>100**

(39) OTHER LIABILITIES

in €k	31/12/2017	30/09/2018	± in %
Other items	25,799	56,247	>100
Deferred items	4,743	1,534	-67.7
Other liabilities	**30,542**	**57,781**	**89.2**

(40) SUBORDINATED DEBT CAPITAL

in €k	31/12/2017	30/09/2018	± in %
Tier 2 capital	118,622	151,399	27.6
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**158,622**	**191,399**	**20.7**

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 188.7 million after EUR 156.0 million on 31 Dec. 2017.

(41) EQUITY

in €k	31/12/2017	30/09/2018	± in %
Subscribed capital	79,279	85,886	8.3
– Share capital	79,279	85,886	8.3
Capital reserves	193,032	241,416	25.1
Retained earnings and other reserves	738,029	825,235	11.8
Additional equity capital instruments (AT 1 bond)	36,200	37,900	4.7
Shareholders' equity before non-controlling interests	**1,046,540**	**1,190,437**	**13.7**
Non-controlling interests	-22	-24	13.1
Group equity	**1,046,518**	**1,190,412**	**13.7**

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

(42) SEGMENT REPORT

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-Q3/2017	Q1-Q3/2018	Q1-Q3/2017	Q1-Q3/2018	Q1-Q3/2017	Q1-Q3/2018
Net interest income	18,849	19,502	66,519	76,959	31,026	29,849
– Profit/loss from investments accounted for using the equity method	-	-	-	-	29,039	31,643
Impairment charges on receivables from customers	-1,388	-404	-15,990	-13,662	288	-107
Net fee and commission income	16,549	18,035	21,099	22,478	243	-107
Net trading income	-	-		-	983	709
General administrative expenses	-38,530	-37,634	-34,830	-36,357	-5,009	-5,280
Other operating income net of other operating expenses	711	1,132	718	463	-58	-25
from financial assets/liabilities	-	-		-	2,712	-2,937
Profit for the period before tax	**-3,809**	**631**	**37,515**	**49,881**	**30,186**	**22,102**
Average risk-weighted assets	503,689	536,729	3,155,612	3,238,035	924,591	951,013
Average allocated equity	49,049	62,699	305,310	378,324	624,290	663,615
ROE based on profit for the period	**-10.4%**	**1.3%**	**16.4%**	**17.6%**	**6.4%**	**4.4%**
Cost/income ratio	**106.7%**	**97.3%**	**39.4%**	**36.4%**	**15.6%**	**17.4%**
Risk/earnings ratio	**7.4%**	**2.1%**	**24.0%**	**17.8%**	**-**	**0.4%**

	Other		Total	
in €k	Q1-Q3/2017	Q1-Q3/2018	Q1-Q3/2017	Q1-Q3/2018
Net interest income	2,118	2,053	118,512	128,363
– Profit/loss from investments accounted for using the equity method	-	-	29,039	31,643
Impairment charges on receivables from customers	-	-	-17,090	-14,173
Net fee and commission income	89	-279	37,980	40,127
Net trading income	-	-	983	709
General administrative expenses	-925	-5,733	-79,293	-85,004
Other operating income net of other operating expenses	-7,574	-5,291	-6,204	-3,721
Profit/loss from financial assets/liabilities	-	89	2,712	-2,848
Profit for the period before tax	**-6,291**	**-9,161**	**57,601**	**63,453**
Average risk-weighted assets	57,019	59,081	4,640,912	4,784,858
Average allocated equity	12,182	13,850	990,831	1,118,488
ROE based on profit for the period	**-**	**-**	**6.8%**	**6.8%**
Cost/income ratio	**-**	**-**	**52.4%**	**51.4%**
Risk/earnings ratio	**-**	**-**	**14.4%**	**11.0%**

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

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

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

Corporate and Business Banking

At the end of September 2018, 21,000 corporate and business banking customers were served 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 income and expenses of BKS Bank AG relating to business with corporate and business banking customers, income and expenses of the leasing companies were also allocated to this segment if they are from business with corporate customers.

Retail Banking

All income and expense components of BKS Bank AG, BKS-Leasing Gesellschaft m.b.H., BKS-leasing d.o.o., BKS-leasing Croatia d.o.o. and BKS-Leasing s.r.o. from business with retail customers and wage and salary earners are reported summarized in the retail banking segment.
Some 143,300 customers belonged to this segment at the end of September 2018.

Financial Markets

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 interest-rate term structure management.

Other

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

(43) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2017	30/09/2018	± in %
Guarantees	383,312	408,657	6.6
Letters of credit	4,032	7,367	82.7
Contingent liabilities	**387,344**	**416,024**	**7.4**
Other credit risks	1,377,699	1,327,343	-3.7
Credit risks	**1,377,699**	**1,327,343**	**-3.7**

(44) RELATED PARTY DISCLOSURES

in €k	Outstanding balances At 31/12/2017	Outstanding balances At 30/09/2018	Guarantees received At 31/12/2017	Guarantees received At 30/09/2018	Guarantees provided At 31/12/2017	Guarantees provided At 30/09/2018
Non-consolidated subsidiaries			-	-	-	-
Receivables	2,914	2,916				
Liabilities	1,234	1,527				
Associates and joint arrangements			-	-	-	-
Receivables	2,494	1,455				
Liabilities	65,464	3,538				
Key management personnel			-	-	-	-
Receivables	424	253				
Liabilities	1,151	1,356				
Other related parties			-	-	-	-
Receivables	166	119				
Liabilities	726	531				

LOANS AND ADVANCES GRANTED

in €k	31/12/2017	30/09/2018	± in %
Loans and advances granted to members of the Management Board	57	27	-52.6
Loans and advances granted to members of the Supervisory Board	367	226	-38.4
Loans and advances granted	**424**	**253**	**-40.3**

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

(45) EVENTS AFTER THE BALANCE SHEET DATE

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

(46) FAIR VALUES

Financial assets and liabilities measured at fair value

30/09/2018 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value
Assets				
Receivables from customers				
- at fair value through profit or loss (mandatory)	-	-	53,722	53,722
- at fair value through profit or loss (designated)	-	-	84,386	84,386
Trading assets (derivatives)	-	8,564	-	8,564
Debt securities and other fixed-interest securities				
- at fair value through profit or loss (mandatory)	46	-	-	46
- at fair value through profit or loss (designated)	22,287	-	-	22,287
– at fair value OCI	70,514	-	-	70,514
Shares and other equity				
- at fair value through profit or loss (mandatory)	45,877	-	-	45,877
– at fair value OCI	58,779	3,579	31,315	93,672
Equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss	-	-	84,790	84,790
Trading liabilities	-	6,527	-	6,527

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

[1] FA = financial assets

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

in €k	Receivables from customers at fair value through profit or loss (designated)	Receivables from customers at fair value through profit or loss (mandatory)	Shares and other equity at fair value OCI	Securitized liabilities at fair value through profit or loss
As at 01/01/2018	**55,805**	**48,138**	**29,662**	**84,688**
Reclassification	-	-	-	-
Income statement 1)	-2,666	-224	-	102
Other comprehensive income	-	-	1,277	-
Added	35,178	13,343	700	-
Sold/redeemed	-3,931	-7,535	-325	-
As at 30/09/2018	**84,386**	**53,722**	**31,314**	**84,790**

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

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

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

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

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

Measurement and classification

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

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

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

Reclassification

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

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

Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from credit risk were calculated on the basis of the internal ratings of those financial instruments and their remaining term to maturity. The change in the credit 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 Q3 2018, 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 -0.6 million (31/12/2017: EUR 0.0 million). In the reporting period Q3 2018, the changes in the ratings of liabilities evidenced by paper had an effect on the fair value in the amount of EUR 0.1 million (31/12/2017:EUR 0.3 million).

Sensitivity analysis

The sensitivity analysis of receivables from customers measured at fair value results in an accumulated change in value of EUR 0.3 million (previous year: EUR 0.2 million), assuming an improvement or deterioration in the credit rating of 10 basis points in the credit spread (31/12/2017: EUR 0.2 million). An analysis assuming an improvement or deterioration in BKS Bank's rating of 10 basis points in the credit spread would result in an accumulated change in the value of the liabilities evidenced by paper designated at fair value of EUR -0.4 million (31/12/2017: EUR 0.8 million).

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

30/09/2018 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value	Carrying amount 30/09/2018
Assets[1]					
Receivables from other banks	-	-	216,218	216,218	216,155
Receivables from customers	-	-	5,862,999	5,862,999	5,766,795
Debt securities and other fixed-interest securities	837,659	-	-	837,659	793,368
Equity and liabilities					
Payables to other banks	-	-	790,912	790,912	793,574
Payables to customers	-	-	5,241,103	5,241,103	5,234,054
Liabilities evidenced by paper	180,103	240,513	79,310	499,925	487,237
Subordinated debt capital	180,869	13,242	2,334	196,445	191,399

[1] The relevant impairment charges were deducted from the carrying amounts shown on the assets side.

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

[1] FA = Financial assets

(47) DERIVATIVES TRANSACTION VOLUME

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

30/09/2018	Nominal amount, by time to maturity				Fair value	
in €k	< 1 year	1-5 years	> 5 years	Total	Positive	Negative
Currency contracts	**1,209,919**	**-**	**-**	**1,209,919**	**1,935**	**1,280**
– thereof trading book	-	-	-	-	-	-
Interest rate contracts	**6,200**	**139,820**	**220,568**	**366,588**	**5,586**	**4,735**
– thereof trading book	1,200	11,446	1,038	13,684	6	6
Securities contracts	**784**	**-**	**-**	**784**	**-**	**19**
– thereof trading book	-	-	-	-	-	-
Total	**1,216,903**	**139,820**	**220,568**	**1,577,291**	**7,521**	**6,034**
– thereof trading book	1,200	11,446	1,038	13,684	6	6

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

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

Klagenfurt am Wörthersee, 27 November 2018

The Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Alexander Novak
Member of the Management Board
(from 1 September 2018)

FINANCIAL CALENDAR 2019

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

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