

9

INTERIM REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2019

BKS Bank
3 Banken Gruppe

TABLE OF CONTENTS

BKS BANK AT A GLANCE	3
Preface by the Chairwoman of the Management Board	4
GROUP MANAGEMENT REPORT	7
Economic Environment	8
Assets, Equity and Liabilities	9
Result of Operations	11
Segment Report	13
Consolidated Own Funds	15
Risk Management	16
Outlook	17
CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 SEPTEMBER 2019 ...	19
Consolidated Statement of Comprehensive Income 1 January to 30 September 2019 ...	20
Consolidated Balance Sheet for the Period Ended 30 September 2019	23
Consolidated Statement of Changes in Equity	24
Consolidated Statement of Cash Flows	25
Notes to the Consolidated Financial Statements of BKS Bank	28
MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS ...	44
Financial Calendar 2020	45

FORWARD-LOOKING STATEMENTS

This report for the first three quarters of 2019 contains statements and forecasts that refer to the future development of the BKS Bank Group. Such forecasts are estimates made on the basis of all the information available to us on the copy deadline, which was 26 November 2019. Should the assumptions on which the forecasts are based fail to materialize or risks occur, the actual results may differ from those currently expected. This interim report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

DISCLAIMER

The German version of this report is the authentic version and is relevant in all legal aspects. Interim financial reports in English are translations 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	Q3/2018	Q3/2019	± in %
Net interest income	96.7	101.9	5.4
Impairment charges	-14.2	-16.5	16.1
Net fee and commission income	40.1	43.9	9.3
General administrative expenses	-85.0	-92.7	9.0
Profit for the period before tax	63.5	74.2	17.0
Profit for the period year after tax	55.8	66.6	19.3
BALANCE SHEET in €m	31/12/2018	30/09/2019	± in %
Total assets	8.434.9	8.795.4	4.3
Receivables from customers after impairment charges	5.918.0	6.193.5	4.7
Primary deposits	6.218.2	6.544.6	5.3
– thereof savings deposits	1.429.4	1.421.4	-0.6
– thereof liabilities evidenced by paper incl. subordinated debt capital	750.7	810.6	8.0
Equity	1.210.7	1.281.9	5.9
Customer funds under management	14.518.4	18.674.1	28.6
– thereof on custody accounts	8.300.2	12.129.5	46.1
OWN FUNDS PURSUANT TO CRR in €m	31/12/2018	30/09/2019	± in % (Pkt.)
Total risk exposure amount	5.283.1	5.499.5	4.1
Own funds	779.2	826.3	6.0
– thereof common equity tier 1 (CET1) capital	593.7	591.4	-0.4
– thereof total tier 1 capital (CET1+AT1)	645.2	652.4	1.1
Common equity tier 1 capital ratio (in %)	12.2	11.9	-0.3
Total capital ratio (in %)	14.8	15.0	0.2
PERFORMANCE RATIOS	31/12/2018	30/09/2019	± in %
Return on equity after tax	6.8	6.4	-0.4
Return on assets after tax	1.0	0.9	-0.1
Cost/income ratio	50.3	51.8	1.5
Risk/earnings ratio	10.5	12.0	1.5
Non-performing loan ratio (NPL ratio) ¹⁾	3.3	2.7	-0.5
Net stable funding ratio (NSFR)	110.2	109.6	-0.6
Liquidity coverage ratio (LCR)	137.7	142.5	4.8
Leverage ratio	8.0	7.3	-0.7
RESOURCES	31/12/2018	30/09/2019	
Average number of staff	932	961	
Number of branches	63	63	
THE BKS BANK'S SHARE	31/12/2018	30/09/2019	
Number of no-par ordinary shares (ISIN AT0000624705)	41,142,900	41,142,900	
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000	
High (ordinary/preference share) in €	19.8/18.2	17.2/17.0	
Low (ordinary/preference share) in €	16.5/16.9	15.4/13.4	
Close (ordinary/preference share) in €	16.8/17.0	15.4/13.8	
Market capitalisation in €m	721.8	658.4	

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

DEAR SHAREHOLDERS,



I am very pleased that hardly a quarter goes by in which I do not have new award for BKS Bank to report about. In 2019, Österreichische Gesellschaft für Verbraucherstudien (ÖGVS) (Society for Consumer Studies) and the magazine “trend” investigated six supraregional and 14 regional branches as to the quality of their advisory services for private retirement provisioning. BKS Bank was the winner of the test conducted among banks with supraregional operations. ÖGVS had already named BKS Bank best bank for investment advisory services in 2019 for which it received the Service Award. In 2018, our bank was honored to be named winner in advisory services in real estate financing. This series of awards highlights the excellent quality of our advisory services for which BKS Bank is well known in all of its markets. Together with our innovative digital offers, we are outstanding among our peers.

DIGITALLY INNOVATIVE

In the year 2019, BKS Bank focused on the enlargement of its range of digital products and services. In the first half of the year, I had the pleasure of reporting our new digital platform for bank guarantees “Garantien online” and the BKS security app. Now I am proud to announce that in September we launched one of our most important products for retail customers, the digital home loan option. In October, the digital consumer loan functionality went online, and by the end of the year, we plan to go live with our online account opening offer and digital onboarding process.

HEADQUARTERS WITH NEW STRUCTURE

As a bank with branch operations, we still focus on serving customers in person. We are happy that our largest branch at Neuer Platz in Klagenfurt has already been converted into a “bank branch of the future”. Further branches will be successively be refurbished to the new standard. The new distribution of tasks at headquarters has also been completed. The central sales organisation concentrates on providing products and services that satisfy customer needs throughout the entire value chain which is also supportive of our endeavour to pursue growth in line with our sustainability goals.

GREEN SAVINGS PASSBOOK SUPPLEMENTS SUSTAINABLE PRODUCT LINE

Regarding sustainability, right on time on World Savings Day, we launched our new sustainable product, the “green savings passbook”. Money invested in this product is used exclusively for financing environmentally-friendly projects. Investors that open a new “green savings passbook” thus contribute to climate protection. The “green savings passbook” is offered in two variants: as a fixed-interest long-term savings account and as a savings plan in which small amounts are continuously paid in. We believe the “green savings passbook” is the optimal supplement to the already well-known green bonds, the BKS portfolio strategy “nachhaltig”, and the sustainable investment products of 3 Banken-Generali Investment-Gesellschaft m.b.H.

EXCELLENT DEVELOPMENT OF BUSINESS

A few words about our economic development in the third quarter: business is developing very well and is right on course. Profit for the period after tax was EUR 66.6 million, which is a plus of 19.3% over the same period of the prior year. Despite the persistently low interest rates, our net interest income after impairment charges went up by 3.5% to EUR 85.5 million. Our strategy of focusing on modern payment services solutions is bearing fruit. Net commission income in this business line has risen again, specifically by 3.7% since the start of the year.

TOTAL ASSETS AT RECORD LEVEL

The economic downturn prognosticated for Austria has not yet had any effect on demand for loans and lending volumes are still expanding. As at 30 September 2019, BKS Bank had an outstanding lending volume of EUR 6.3 billion (+4.5%). Primary deposits remained at a record level of EUR 6.5 billion (+5.3%). We are also pleased to report a record volume of total assets. These increased by 4.3% to EUR 8.8 billion compared to year-end 2018. We are confident of being able to continue on this successful course in the last months of the year 2019 as well.



Herta Stockbauer
Vorstandsvorsitzende

GROUP MANAGEMENT REPORT

Economic Environment -08-

Assets, Equity and Liabilities -09-

Result of Operations -11-

Segment Report -13-

Consolidated Own Funds -15-

Risk Management -16-

Outlook -17-

ECONOMIC ENVIRONMENT

ECONOMIC SLOWDOWN WORLDWIDE

Global growth continued to weaken also in the third quarter. Nonetheless, the probability of a global recession is still low. The US economy, for example, developed surprisingly well in the third quarter and shrunk less than expected. As the Department of Commerce stated in a first estimate, gross domestic product (GDP) rose by 1.9% – projected to the full year. The economy in the euro area grew in the third quarter by 0.2%. Therefore, the growth rate remained unchanged versus the prior quarter. Calculated for the full year, the rate of increase in the euro area is 1.1%. It is gradually approaching the 1.0% mark. In China, the economy expanded in the third quarter by 6.0%, which, which compared to the prior year, is a nearly 30-year low.

Characteristic for the current phase of a cooling economy is that especially countries with a strong exporting sector – such as Germany – are looking ahead at a recession, while countries that are more dependent on the domestic market – such as the US – are still expanding.

CENTRAL BANK POLICY BACK TO EXPANSIVE BIAS

Central banks have left their restrictive path for good and are now pursuing a more expansive policy. The European Central Bank (ECB) ended its bond buying programme at the end of 2018, however, since November 2019 it has been buying bonds again – for the time being in monthly volumes of EUR 20 billion. Furthermore, deposit rates at which banks can deposit surplus liquidity with the ECB were lowered from minus 0.4% to minus 0.5%. The goal of the two actions is to stimulate the European economy. The US Fed also lowered interest rates at the end of July for the first time in 10 years by 0.25% ppt and repeated the move in September. The market expects a further interest rate cut by the end of the year.

FINANCIAL MARKETS CONTINUE TO RECOVER

The recovery phase of global markets that began at the start of 2019 – despite a short correction phase in August – also continued in the third quarter. Global stocks calculated in euro went up by around 4.5% in the third quarter. German stocks gained some 0.2% and Austrian stocks rose by around 1.5%. US stocks (S&P 500) calculated in euro even climbed by around 6.0%. Yields on euro government bonds with top credit ratings narrowed again and hit new lows in August. Ten-year Austrian government bonds were yielding -0.464% at the end of August. At the end of September, the yield was -0.325%. Due to the yield declines, prices of euro government bonds rose by around 3.5% in the third quarter, and the prices of corporate bonds by around 1.3%.

ASSETS, EQUITY AND LIABILITIES

Total assets of the BKS Bank Group were EUR 8.8 billion on 30 September 2019 and gained 4.3% compared to year-end 2018. Growth was driven, on the one hand, by the sustained solid demand for loans, and on the other, by robust growth in primary deposits.

ASSETS

The finance and advisory services of our bank are appreciated by both corporate and retail customers, a key factor for the positive trend in the finance business. From January to September 2019, we granted EUR 1.3 billion in new loans. The total volume of outstanding loans before impairment charges was EUR 6.3 billion as at 30 September 2019, which is an increase in lending by 4.5%. Receivables from customers include lending by the parent company BKS Bank AG as well lending by the domestic and foreign leasing companies. A share of 26.7% of new business was accounted for by our foreign markets.

Impairment charges for customer receivables developed very positively due to the improved portfolio structure and was EUR 101.6 million (-5.8%) as at the end of September. The NPL ratio also developed in the right direction and was 2.7%¹⁾.

The share of Swiss franc loans in total receivables from customers is steadily decreasing and was only 1.9% at the end of September. The volume shrunk to EUR 121.2 million, which is a drop of 8.6%.

DEMAND FOR LEASING UNBROKEN

We are highly satisfied with the course of business at our domestic and foreign leasing companies up to now. We recorded substantial increases at all leasing subsidiaries. The leasing volume of BKS Leasing GmbH increased to EUR 224.9 million as at 30 September 2019, a rise of 7.5% versus year-end 2018. In Slovenia as well, many customers rely on our long years of experience and high competence in the area of lease finance. Volumes are rising continuously. At the end of September, the leasing volume of our Slovenian leasing subsidiary was EUR 154.8 million which is an increase by 13.2%. In Croatia, we even achieved a rise in the leasing volume by 28.5% to EUR 64.4 million. In Slovakia, we manage a leasing volume of EUR 51.4 million, which is one-fifth higher than at year-end 2018.

HIGH LIQUIDITY BUFFER

The portfolio of debt securities and other fixed-income securities decreased by 4.3% to EUR 865.9 million due to redemptions. We hold high quality liquid assets in this position as a liquidity reserve in order to meet the regulatory liquidity requirements.

As at 30 September 2019, the shares in companies accounted for using the equity method increased to EUR 630.8 million (+5.2%). The additions of the proportionate net profits for the period from our partner banks Oberbank AG and Bank für Tirol and Vorarlberg Aktiengesellschaft are reported in this item.

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

The new IFRS 16 standard for leasing was applied for the first time with the start of the financial year 2019. In accordance with the requirements of the new standard, we now report right-of-use assets including the related payment obligations as leasing liabilities at their respective present value instead of reporting rental expenses. Capitalised right-of-use assets are recognized under property, plant and equipment and depreciated over their useful life. Therefore, this position increased by 47.9%. The carrying amount of the right-of-use assets was EUR 22.9 million on the reporting date.

LIABILITIES

VOLUME OF PRIMARY DEPOSITS INCREASES AGAIN

Since the start of the year, we have seen a substantial increase in primary deposits. Primary deposits were EUR 6.5 billion, up by 5.3%, as at 30 September 2019. The high volume of primary deposits shows the high degree of trust domestic and foreign customers place in BKS Bank. A disadvantage is that we pay negative interest on short-term investments of customer funds with central banks. In September, the ECB changed the interest rate for the deposit facility from -0.4% to -0.5%.

Predominant among payables to customers were once again sight deposits, which rose steeply by 8.4% to EUR 3.4 billion. A large share is attributable to corporate and business banking customers whose high levels of liquidity are unchanged. Retail customers are also opting more frequently for sight deposits. The product “Mein Geld-Konto” is developing into a popular savings form. Customers can access their savings conveniently, flexibly and online. As at the end of September, deposits on “Mein Geld-Konto” accounts amounted to EUR 377.2 million, which was a gain of 15.4% since the start of the year. The volume on classical savings passbooks declined slightly (-0.6%) and was EUR 1.4 billion.

The issuance business was very satisfactory in the past nine months, but above all in the third quarter. Own issues including subordinated debt capital rose by 8.0% to EUR 810.6 million. We issued another green bond in August for investors that appreciate responsible investing. The proceeds of the issue are used to fund several sustainability projects with a focus on renewal energy.

Other liabilities include leasing liabilities of EUR 23.0 million due to the adoption of IFRS 16 which was the reason for the considerable year-on-year increase.

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

RESULT OF OPERATIONS

The financial year 2019 has developed very positively up to now and we are pleased to report a robust rise in profits. The strong earnings were achieved on the basis of an excellent development of business operations, especially in the fee and commission business. Additionally, the good performance of the capital markets also strengthened results from financial assets/liabilities.

ROBUST RISE IN CONSOLIDATED PROFIT FOR THE PERIOD

As at 30 September 2019, BKS Bank earned a consolidated profit for the period after tax in an amount of EUR 66.6 million, which is a rise by 19.3% versus the same period of 2018. Our two key business lines – net fee and commission income and net interest income – gained substantial ground in the past nine months. Net interest income before impairment charges increased by 5.4% to EUR 101.9 million. Impairment charges increased – due to the effects of the expected-credit-loss model – to EUR 16.5 million (+16.1%). Net interest income after impairment charges was EUR 85.5 million, which is a gain of 3.5%.

Net fee and commission income also developed very well. We made solid gains in all important service divisions. Our well-designed and innovative offer for payment service solutions meets the needs of our customers and is behind the rise in earnings by 3.6% to EUR 16.0 million.

We are also very pleased with the development of the securities business, especially in Slovenia. In March of this year, we successfully took over approximately 25,000 customers of the Slovenian investment services provider ALTA Invest, investicijske storitve, d.d. – a major milestone in our growth strategy. Furthermore, the excellent performance on international financial markets improved investment sentiment among our customers and led to higher revenues from the securities business. In total, net fee and commission income from securities operations was EUR 11.6 million, which is a very gratifying increase by 20.0%. Commissions on lending operations also increased and reached EUR 13.1 million, a rise of 4.9%.

In the past few years, we have steadily worked to increase our advisory competence in insurance matters. Our efforts were recently honored by Österreichische Gesellschaft für Verbraucherstudien (ÖGVS) (Society for Consumer Studies). We were named the best advisory service provider among banks with branch operations for private retirement matters. The high quality of our advisory services is also reflected in the high number of policies sold. Compared to 2018, we achieved a gain of 19.9% in net fee and commission income from the brokerage of insurance products.

Profit from entities accounted for using the equity method developed very positively and came to a pleasing EUR 35.5 million (+12.3%) as at 30 September 2019. The increase in profit reflects the good development of business at our partner banks, Oberbank and Bank für Tirol and Vorarlberg.

FINANCIAL ASSETS AND LIABILITIES BENEFIT FROM STRONG STOCK MARKET PERFORMANCE

Overall, international stock markets performed very well in the past months despite higher volatility. Profits from financial assets reached an excellent level of EUR 4.4 million at the end of September and well above the negative figure of the preceding year (EUR -2.8 million).

HIGHER STAFF COSTS

General administrative expenses increased year on year by 9.0% to EUR 92.7 million. The largest item under general administrative expenses is staff costs, which rose by 8.9% to EUR 61.3 million. The reason for the steep increase was the hike in wages and salaries by an average of 3.1% under the collective bargaining agreement. Furthermore, the development of interest rates resulted in higher allocations to jubilee funds and survivor's pensions. The number of employees (FTE) increased throughout the group to 961 persons.

Depreciation/amortisation increased to EUR 7.6 million due to the first-time application of IFRS 16, because right-of-use assets from leasing contracts are now capitalised and written off over the residual time to maturity. The acquisition of investment customers in Slovenia raised depreciation/amortisation accordingly.

REGULATORY COSTS STILL HIGH

Regulatory costs have an especially severe impact on other operating income. The result of other operating income and expenses as at 30 September 2019 was EUR -3.6 million (-3.8%). This item contains expenses for contributions to the resolution fund and deposit insurance scheme in amount of EUR 2.7 million and EUR 2.2 million, respectively, as well as the stability charge of EUR 0.9 million.

PERFORMANCE RATIOS DEVELOPED VERY WELL

The key management ratios presented the following picture as at the end of September: return on equity (RoE) after tax was 6.4% and return on assets (RoA) after tax was 0.9%.

The cost/income ratio of 51.8% is still better than the average of the banking industry. The risk/earnings ratio improved quarter on quarter to 12.0% and is very low compared to earlier years.

The calculation method of the NPL ratio was changed effective as of 30 June 2019 to the risk dashboard calculation method of the European Banking Authority (EBA). The NPL ratio measured by the EBA method was 2.7%. At the end of September, the leverage ratio was 7.3% and therefore clearly above the required statutory ratio of 3.0%. The liquidity coverage ratio (LCR) reached 142.5% and also clearly met the regulatory requirement of 100%.

Capital adequacy at BKS Bank is solid. The tier 1 capital ratio at the end of September was 11.9% and the total capital ratio was 15.0%. At these capital ratios, we also surpassed the minimum statutory requirements.

SEGMENT REPORT

The segment report has three parts: Corporate and Business Banking, Retail Banking and Financial Markets. Corporate and Business Banking is by far the most successful segment in the BKS Bank Group. The Financial Markets segment has developed into a reliable source of contributions to earnings despite market volatility, and the retail business has made it back to profitable territory.

CORPORATE AND BUSINESS BANKING

HIGHER IMPAIRMENT CHARGES LOWER SEGMENT RESULT

Corporate and Business Banking developed very well in the past nine months. Net interest income increased by 2.6% to EUR 78.9 million despite the historically low interest rates. At EUR 24.1 million, we also made substantial gains in net fee and commission income, which is an increase of 7.4%. The segment's net profit before tax of EUR 48.8 million (-2.1%) was slightly lower than in the same period of 2018. The reason for the decrease in net profit is the higher amount of impairment charges for losses on loans and advances (EUR 16.7 million) which is also due to the effects of the ECL calculation.

As at 30 September 2019, some 23,200 customers were served in the Corporate and Business Banking segment, which is a rise of 8.3% year on year. The steep increase was driven, among other things, by the successful acquisition of ALTA customers in Slovenia.

The development of the segment-specific benchmark indicators as at 30 September 2019 was as follows: return on equity reached a very pleasing 15.7% and the cost/income ratio was 37.7%. The risk/earnings ratio declined to 21.2% versus the first half of the year.

RETAIL BANKING

POSITIVE SEGMENT RESULT ACHIEVED

We are happy to report a positive segment result before tax of EUR 1.1 million as at 30 September 2019. The improvement in earnings was due to a number of factors. Compared to the same period of 2018, net interest income increased by 4.3% (EUR 20.3 million). The net fee and commission income also expanded robustly reaching EUR 19.1 million (+5.9%), especially in securities operations. Moreover, the eased risk situation among retail banking customers resulted in the release of impairment charges and this had a positive effect on the segment result. General administrative expenses were higher year on year by 6.7% at EUR 40.1 million, with both higher staff costs and administrative costs.

We are also very happy with the development of customer numbers in the retail banking segment. Compared to year-end 2018, we gained some 24,700 new customers in the past nine months, which corresponds to an increase of 17.3%. The majority of new customers came from the acquisition of the customers of the Slovenian investment services provider ALTA Invest, investicijske storitve, d.d.

The segment-specific benchmark indicators as at 30 September 2019 developed as follows due to the improved results: return on equity improved to 1.8% and the cost/income ratio reached 98.4%.

FINANCIAL MARKETS

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

EXCELLENT PERFORMANCE OF STOCK MARKETS

BOOSTS SEGMENT RESULT In the financial markets segment, we earned a net profit for the period before tax of EUR 33.8 million as at 30 September 2019, which is a considerable increase by 53.1%. The excellent segment result of EUR 3.2 million reflects the strong trend in net interest income (EUR 35.6 million; +19.4%) as well as the good performance of financial assets and liabilities. Our banking partners have first-class ratings. Therefore, allocations to impairment charges were accordingly low (EUR 40k). Administrative expenses increased from EUR 5.3 million to EUR 5.9 million.

The key benchmark indicators in the financial markets segment developed as follows: return on equity improved from 4.4% to 6.2% and the cost/income ratio decreased from 17.4% to 16.2%.

CONSOLIDATED OWN FUNDS

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

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

Common equity tier 1 ratio at the end of September was EUR 591.4 million and the common equity tier 1 ratio was 10.8%. Additional tier 1 equity was strengthened by the issuance of an AT 1 bond and amounted to EUR 61.0 million as at 30 September 2019. Including tier 2 capital of EUR 173.9 million, the bank's own funds came to EUR 826.3, which is an increase of 6.0%. The total capital ratio improved to 15.0%.

It is pointed out that this short interim report has not been audited by an auditor. Therefore, we did not include the Q3 proportionate net profit for the period in own funds.

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

in Mio. EUR	31/12/2018	30/09/2019
Share capital	83.7	83.4
Reserves net of intangible assets	1.061.8	1.095.5
Deductions	-551.8	-587.5
Common equity tier 1 capital (CET1)	593.7	591.4
Common equity tier 1 capital ratio	11.2 %	10.8 %
Hybrid capital	8.0	6.0
AT1 note	43.5	55.0
Additional tier 1 capital	51.5	61.0
Tier 1 capital (CET1 + AT1)	645.2	652.4
Tier 1 capital ratio	12.2 %	11.9 %
Tier 2 capital	134.0	173.9
Total own funds	779.2	826.3
Total capital ratio	14.8 %	15.0 %
Total risk exposure amount	5.283.1	5.499.5

The MREL ratio stands for minimum requirement for own funds and eligible liabilities and its purpose is to ensure the proper winding up of banks if this becomes necessary. The minimum requirement for the MREL ratio is made up of the loss-absorbing amount (LAA) and the recapitalisation amount (RCA), and is supplemented by the premium for maintaining market confidence (MCC).

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

RISK- MANAGEMENT

Quantitative information on risk management is given in the Notes starting on page 36 and is based on the internal reporting for overall bank risk management. Quantitative information is given in the Annual Report and in the Disclosure Report (CRR) as at 31 December 2018.

OUTLOOK

ECONOMY SLOWING WORLDWIDE

The forecast for the financial year 2019 is still subdued. The International Monetary Fund (IMF) forecasts global economic growth for this year at 3.0%. This would be the lowest growth rate for the global economy since the crisis years 2008 and 2009. According to the IMF, the principal reasons behind the trend are the trade conflict between the US and China, the unresolved Brexit issue and the global climate crisis.

The IMF expects a 1.2% growth rate for the euro area, and forecasts economic growth at 1.4% for next year. As an export-oriented economy, Germany is having a hard time living up to its reputation as the driver of economic growth in Europe. The GDP growth rate for 2019 is expected to come in at 0.5%. The IMF forecasts weaker growth for the US and estimates it at 2.4%.

Neither will Austria's economy be able to withstand the pull of the global economic slowdown. The economy is growing at a subdued pace – but is far from a recession. Domestic consumption is still supportive of growth. Both demand from private households and the public sector expanded, while the industrial and construction sectors slowed. For the full year 2019, WIFO and IHS estimate 1.7% and 1.5% in real GDP growth, respectively, and for 2020 the estimates are 1.4% and 1.3%, respectively. The economy in our foreign markets of Slovakia, Slovenia and Croatia is doing better. The European Commission currently forecasts 2019 growth in these countries at 3.6%, 3.2% and 3.1%, respectively.

STOCK MARKETS REMAIN ATTRACTIVE

The slowing economy had investors worried in the recent past. However, decisive for stock markets is the expansive monetary policy pursued by central banks. It is becoming clear that monetary policy will keep its expansive bias also over the medium term. This is expected to continue to boost stock markets – despite temporary bouts of weakness in the global economy – even though higher volatility is expected.

The appeal of bonds – especially of euro sovereign and corporate bonds – decreased again along with the most recent drop in yields. Even though slight declines cannot be ruled out, yield levels in both segments continue to lack appeal.

SOLID OVERALL RESULT FOR 2019 EXPECTED

We expect business to continue to develop solidly in the remaining months of the year – despite the challenging market environment. Demand for loans is expected to be slower than a few months ago due to the economic downswing. Although we can never rule out unexpected payment difficulties at our customers, we expect to see a moderate development of impairment charges for losses on loans and advances in the coming months. On the liabilities side, we continue to expect rising volumes of primary deposits, and we hope to grow especially in the issuance business. We expect the good development of the past few months in the fee and commission business to continue, and estimate a rise in profits also in the financial year 2019. Based on this promising outlook, we expect the solid trend of the preceding year to continue.

CHALLENGES FOR BANKS REMAIN HUGE

The stable economic development of our business and our ability to see change as an opportunity help us master the enormous challenges facing the banking industry. The banking industry has been in upheaval for several years now, and classical banking is changing fundamentally. Service providers from other sectors are entering the market and the digital transformation is changing customer behaviour permanently, while interest rates have been stagnating for years at 0.0%. We have established a mature strategy process at our bank that makes it possible for us to proactively address the changes facing us. This year as well, we worked on the strategic orientation of our bank. We developed an ambitious strategy portfolio that we intend to work on consistently in the coming months. The initiatives aim primarily to further improve our bank's positioning on the market as a reliable and modern financial partner and continue on our course of offering excellent advisory services with innovative digital offers. Furthermore, we will also continue to work intensely on retaining our number one ranking in sustainability. We will keep you updated on the progress achieved in the coming months.

Klagenfurt am Wörthersee, 26 November 2019



Herta Stockbauer
Chairwoman of the Management Board



Dieter Kraßnitzer, CIA
Member of the Management Board



Alexander Novak
Member of the Management Board

**CONSOLIDATED FINANCIAL STATEMENTS
PURSUANT TO IFRS**

Consolidated Statement of Comprehensive Income for the period 1 January to 30 September 2019 **~~-20-~~**
Consolidated Balance Sheet for the Period Ended 30 September 2019 **~~-23-~~**
Consolidated Statement of Changes in Equity **~~-24-~~**
Consolidated Statement of Cash Flows **~~-25-~~**
Notes to the Consolidated Financial Statements of BKS Bank **~~-26-~~**
Management's Responsibility for the Financial Statements **~~-44-~~**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 30 SEPTEMBER 2019

INCOME STATEMENT

in €k	Notes	Q3/2018	Q3/2019	± in %
Interest income applying the effective interest rate method		104,584	105,156	0.5
Other interest income and other similar income		15,623	19,398	24.2
Interest expenses and other similar expenses		-23,487	-22,632	-3.6
Net interest income	(1)	96,720	101,922	5.4
Impairment charges	(2)	-14,173	-16,450	16.1
Net interest income after impairment charges		82,547	85,472	3.5
Fee and commission income		43,412	47,411	9.2
Fee and commission expenses		-3,284	-3,551	8.1
Net fee and commission income	(3)	40,127	43,860	9.3
Profit/loss from investments accounted for using the equity method	(4)	31,643	35,522	12.3
Net trading income	(5)	709	1,177	66.2
General administrative expenses	(6)	-85,004	-92,659	9.0
Other operating income	(7)	4,241	4,528	6.8
Other operating expenses	(7)	-7,962	-8,106	1.8
Profit/loss from financial assets/liabilities		-2,848	4,444	>100
– Profit/loss from financial instruments designated at fair value through profit/loss	(8)	-2,797	-1,513	45.9
– Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	(9)	-432	4,990	>100
– Profit/loss from derecognition of financial assets measured at amortised cost	(10)	407	1,117	>100
– Other profit/loss from financial assets/liabilities	(11)	-26	-150	>-100
Profit for the period before tax		63,453	74,238	17.0
Income tax expense	(12)	-7,642	-7,640	0.0
Profit for the period		55,811	66,597	19.3
Non-controlling interests		-3	-3	-
Profit for the period after non-controlling interests		55,808	66,594	19.3

OTHER COMPREHENSIVE INCOME

in €k	Q3/2018	Q3/2019	± in %
Profit for the period	55,811	66,597	19.3
Other comprehensive income	4,634	3,874	-16.4
Items not reclassified to profit for the period	5,933	419	-92.9
± Actuarial gains/losses in conformity with IAS 19	-1,477	-3,373	>-100
± Deferred taxes on actuarial gains/losses in conformity with IAS 19	369	843	>100
± Changes in the fair value of equity instruments measured at fair value	7,078	3,129	-55.8
± Deferred taxes on changes in fair value of equity instruments measured at fair value	-1,664	-782	53.0
± Fair value changes of financial liabilities designated at FV PL attributable to own credit risk	-110	123	>100
± Deferred taxes on fair value changes of financial liabilities designated at FV PL attributable to own credit risk	28	-31	>-100
± Share of income and expenses of associates accounted for using the equity method taken directly to equity	1,709	509	-70.2
Items reclassified to profit for the period	-1,299	3,456	>100
± Exchange differences	2	1	-41.7
± Changes in the fair value of debt instruments measured at fair value	-376	3,229	>100
± Net change in fair value	-300	3,229	>100
± Reclassified to profit or loss	-76	-	-
± Deferred taxes on changes to the fair value of debt instruments measured at fair value	124	-804	>-100
± Share of income and expenses of associates in OCI accounted for using the equity method taken to equity	-1,049	1,030	>100
Total comprehensive income	60,445	70,471	16.6
Non-controlling interests	-3	-3	-
Total comprehensive income after non-controlling interests	60,442	70,469	16.6

EARNINGS AND DIVIDEND PER SHARE

	30/09/2018	30/09/2019
Average number of shares in issue (ordinary and preference shares)	41,270,530	42,068,109
Earnings per ordinary and preference share in EUR (adjusted for period)	1.35	1.54
Earnings per ordinary and preference share in EUR (annualised)	1.80	2.06

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	Q3/2018	Q4/2018	Q1/2019	Q2/2019	Q3/2019
Interest income and similar income	38,606	39,940	43,383	42,034	39,137
Interest expenses and other similar expenses	-7,599	-6,968	-7,554	-7,401	-7,677
Net interest income	31,007	32,973	35,829	34,634	31,459
Impairment charges	-5,098	-4,119	-8,194	-4,997	-3,259
Net interest income after impairment charges	25,909	28,853	27,635	29,636	28,200
Fee and commission income	13,906	16,494	15,225	16,250	15,936
Fee and commission expenses	-1,130	-1,155	-1,029	-1,230	-1,291
Net fee and commission income	12,776	15,339	14,196	15,020	14,645
Profit/loss from investments accounted for using the equity method	12,826	13,205	8,773	11,800	14,949
Net trading income	913	-429	229	486	462
General administrative expenses	-27,044	-29,573	-29,324	-32,080	-31,255
Other operating income	1,126	2,226	1,471	1,850	1,207
Other operating expenses	-1,383	-1,030	-6,108	-720	-1,279
Profit/loss from financial assets/liabilities	1,725	-5,004	2,985	761	697
– Profit/loss from financial instruments designated at fair value	315	-44	-206	-1,100	-207
– Profit/loss from financial assets measured at fair value through profit/loss (mandatory)	826	-4,693	3,238	909	843
– Profit/loss from derecognition of financial assets measured at amortised cost	501	-228	-38	856	299
– Other profit/loss from financial assets/liabilities	82	-39	-9	97	-238
Profit for the period before tax	26,849	23,588	19,857	26,753	27,628
Income tax expense	-3,663	-1,979	-2,544	-1,951	-3,145
Profit for the period	23,186	21,609	17,312	24,802	24,483
Non-controlling interests	-1	-	-2	-1	-
Profit for the period after non-controlling interests	23,185	21,609	17,311	24,801	24,483

CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2019

ASSETS

in €k	Notes	31/12/2018	30/09/2019	± in %
Cash and balances with the central bank	(13)	571,963	589,527	3.1
Receivables from other banks	(14)	177,248	209,400	18.1
– Impairment charges on receivables from other banks	(15)	-322	-79	-75.4
Receivables from customers	(16)	6,025,858	6,295,035	4.5
– Impairment charges on receivables from customers	(17)	-107,879	-101,582	-5.8
Trading assets	(18)	8,045	13,187	63.9
Debt securities and other fixed-interest securities	(19)	904,421	865,909	-4.3
– Impairment charges on debt securities	(20)	-258	-296	14.9
Shares and other variable-yield securities	(21)	135,609	145,425	7.2
Investments in entities accounted for using the equity method	(22)	599,668	630,836	5.2
Intangible assets	(23)	3,859	10,364	>100
Property and equipment	(24)	53,336	78,868	47.9
Investment property	(25)	34,530	35,234	2.0
Deferred tax assets	(26)	6,363	6,536	2.7
Other assets	(27)	22,497	17,014	-24.4
Total assets		8,434,938	8,795,376	4.3

EQUITY AND LIABILITIES

in €k	Notes	31/12/2018	30/09/2019	± in %
Payables to other banks	(28)	836,489	747,457	-10.6
Payables to customers	(29)	5,467,463	5,734,004	4.9
– thereof savings deposits		1,429,395	1,421,363	-0.6
– thereof other payables		4,038,068	4,312,642	6.8
Liabilities evidenced by paper	(30)	571,052	600,792	5.2
– thereof at fair value through profit or loss		84,744	86,748	2.4
Trading liabilities	(31)	8,362	12,586	50.5
Provisions	(32)	134,485	146,600	9.0
Other liabilities	(33)	26,699	62,280	>100
Subordinated debt capital	(34)	179,667	209,786	16.8
Equity		1,210,721	1,281,872	5.9
– Group equity	(35)	1,210,696	1,281,845	5.9
– thereof non-controlling interests		25	27	11.2
Total equity and liabilities		8,434,938	8,795,376	4.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained earnings	Profit for the period	additional equity instruments ¹⁾	Equity
As at 01/01/2019	85,886	241,416	-335	21,338	741,475	77,417	43,500	1,210,696
Distribution						-9,677		-9,677
Coupon payments on additional equity instruments					-2,333			-2,333
Taken to retained earnings					67,740	-67,740		-
Profit for the period						66,594		66,594
Other profit or loss			139	7,215	-3,479			3,874
Capital increase								-
Effect of the equity method					1,014			1,014
Change in treasury shares					212			212
Issuance of additional equity instruments							11,500	11,500
Other changes					-36			-36
As at 30/09/2019	85,886	241,416	-196	28,552	804,593	66,594	55,000	1,281,845
Status of the fair value OCI reserve (excl. reserves of associates accounted for using the equity method)								18,400
Deferred tax reserve								-4,631

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained reserves	Profit for the period	Additional equity instruments ¹⁾	Equity
As at 01/01/2018	79,279	193,032	-168	31,956	638,184	68,035	36,200	1,046,518
Effects of adopting IFRS 9				-589	10,186			9,596
As at 01/01/2018 after adoption of IFRS 9	79,279	193,032	-168	31,367	648,370	68,035	36,200	1,056,114
Distribution						-8,935		-8,935
Coupon payments on additional equity instruments					-2,333			-2,333
Taken to retained earnings					59,100	-59,100		-
Profit for the period						55,808		55,808
Other profit or loss			44	6,200	-1,610			4,634
Capital increase	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 using the equity method)								28,231
Deferred tax reserve								-7,058

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOWS

in €k	Q3/2018	Q3/2019
Cash and cash equivalents at end of preceding period	476,589	571,963
Profit for the period after tax before non-controlling interests	55,811	66,597
Non-cash items in profit for the period and other valuation adjustments		
other deposits	-78,911	-102,626
Change in assets and liabilities from operating business activities after correction		
for non-cash items	-204,323	-30,936
Cash flow from operating activities	-227,423	-66,965
Cash inflow from sales and redemptions	72,359	67,638
Cash outflow for capital expenditure	-113,869	-45,332
Dividends from entities accounted for using the equity method	5,777	6,906
Cash flow from investing activities	-35,733	29,212
Capital increase	54,991	-
Other deposits	1,700	11,500
Dividend distributions	-8,935	-9,677
Subordinated liabilities and other financing activities	46,777	53,139
Cash flow from financing activities	94,533	54,962
Effect of exchange rate changes on cash and cash equivalents	47	355
Cash and cash equivalents at the end of the reporting period	308,013	589,527

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 2019 were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as adopted by the EU effective on the reporting date. The relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were taken into account.

II. EFFECTS OF NEW AND AMENDED STANDARDS

The accounting policies applied in the financial year 2018 also applied in the third quarter of 2019 with the exception of the new standard IFRS 16 Leasing, which took effect as of 1 January 2019.

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

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

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

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

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

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

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

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

All other IFRIC interpretations and improvements as well as amendments to standards that entered into force on 1 January 2019 do not have any material effects on the BKS Bank Group.

III. RECOGNITION AND MEASUREMENT METHODS

Group of Consolidated Companies

Besides BKS Bank AG, the consolidated financial statements accounted for a total of 14 entities: 11 consolidated entities, two accounted for using the equity method and one entity accounted for on a proportionate basis. The group of consolidated companies remained unchanged versus 31 December 2018.

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 SEPTEMBER 2019

in €k	Net interest income	Operating-income	Number of employees (FTE)	Profit for the period before tax
Branches abroad				
Slovenia Branch	8,805	13,771	127.0	5,310
Croatia Branch	7,674	8,613	61.5	3,070
Slovakia Branch	1,701	1,958	27.8	282
Subsidiaries				
BKS-leasing d.o.o., Ljubljana	2,920	3,179	18.3	1,917
BKS-leasing Croatia d.o.o., Zagreb	1,301	1,424	13.3	514
BKS-Leasing s.r.o., Bratislava	1,003	1,071	12.4	346

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

IV. OTHER EXPLANATORY NOTES

Forward-looking assumptions and estimates such as yield curves and exchange rates were made to the extent required, and the financial statements were prepared on the basis of the state of knowledge and information at our disposal on the date of record. The assumptions and estimates entering 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 2019.

DETAILS OF THE INCOME STATEMENT
(1) NET INTEREST INCOME

in €k	Q3/2018	Q3/2019	± in %
Interest income applying the effective interest rate method:			
Lending operations measured at amortised cost	84,258	88,516	5.1
Fixed-interest securities measured at amortised cost	11,208	9,987	-10.9
Fixed-income securities measured at FV OCI	539	406	-24.7
Positive interest expenses ¹⁾	8,579	6,248	-27.2
Total interest income applying the effective interest rate method	104,584	105,156	0.5
Other interest income and other similar income			
Lending operations measured at fair value	2,536	2,187	-13.8
Fixed-interest securities at fair value through profit or loss	338	337	-0.3
Leasing receivables	6,935	8,220	18.5
Shares and other variable-yield securities	3,489	6,389	83.1
Investment property	2,325	2,264	-2.6
Total other interest income and other similar income	15,623	19,398	24.2
Total interest income	120,207	124,554	3.6
Interest income and similar income for			
Deposits from other banks and customers	3,861	4,831	25.1
Liabilities evidenced by paper	14,372	13,175	-8.3
Negative interest income ¹⁾	4,807	3,967	-17.5
Investment property	446	478	7.2
Leasing liabilities	n/a	181	-
Total interest expenses and other similar expenses	23,487	22,632	-3.6
Net interest income	96,720	101,922	5.4

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

(2) IMPAIRMENT CHARGES

in €k	Q3/2018	Q3/2019	± in %
Financial instruments measured at amortised cost			
– Allocation (+)/reversal (-) of impairment charges (net)	14,971	16,734	11.8
Financial instruments measured at fair value OCI			
– Allocation (+)/reversal (-) of impairment charges (net)	121	9	-92.8
Loan commitments and financial guarantee contracts			
– Allocation (+)/reversal (-) of provisions (net)	-918	-292	68.2
Impairment charges	14,173	16,450	16.1

(3) NET FEE AND COMMISSION INCOME

in €k	Q3/2018	Q3/2019	± in %
Fee and commission income:			
Payment services	17,082	17,779	4.1
Securities operations	10,665	12,927	21.2
Lending operations	12,960	13,354	3.0
Foreign exchange operations	1,742	2,346	34.7
Other services	962	1,004	4.4
Total fee and commission income	43,412	47,411	9.2
Fee and commission expenses:			
Payment services	1,613	1,746	8.2
Securities operations	986	1,313	33.1
Lending operations	522	301	-42.3
Foreign exchange operations	128	141	10.2
Other services	35	50	43.1
Total fee and commission expenses	3,284	3,551	8.1
Net fee and commission income	40,127	43,860	9.3

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

in €k	Q3/2018	Q3/2019	± in %
Profit/loss from investments accounted for using the equity method	31,643	35,522	12.3
Profit/loss from entities accounted for using the equity method	31,643	35,522	12.3

(5) NET TRADING INCOME

in €k	Q3/2018	Q3/2019	± in %
Price-based transactions	47	-17	>-100
Interest rate and currency contracts	662	1,194	80.5
Net trading income	709	1,177	66.2

(6) GENERAL ADMINISTRATIVE EXPENSES

in €k	Q3/2018	Q3/2019	± in %
Staff costs	56,314	61,340	8.9
– Wages and salaries	41,705	43,464	4.2
– Social security costs	9,512	9,944	4.5
– Costs of retirement benefits	3,946	6,490	64.5
Other social expenses	1,152	1,442	25.2
Other administrative costs	23,475	23,726	1.1
Depreciation/amortisation	5,214	7,593	45.6
General administrative expenses	85,004	92,659	9.0

The initial application of IFRS 16 raised depreciation/amortisation by EUR 2.1 million, while other administrative costs decreased accordingly.

(7) OTHER OPERATING INCOME/EXPENSES

in €k	Q3/2018	Q3/2019	± in %
Other operating income	4,241	4,528	6.8
Other operating expenses ¹⁾	-7,962	-8,106	1.8
Other operating income / expenses	-3,721	-3,578	-3.8

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	Q3/2018	Q3/2019	± in %
Profit/loss from the fair value option	-2,797	-1,513	45.9
Profit/loss from financial instruments designated at fair value	-2,797	-1,513	45.9

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

in €k	Q3/2018	Q3/2019	± in %
Profit/loss from measurement	-437	4,689	>100
Profit/loss on disposal	5	300	>100
Profit/loss from financial assets measured at fair value through profit or loss (mandatory)	-432	4,990	>100

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

in €k	Q3/2018	Q3/2019	± in %
Receivables from other banks	-	-	-
– thereof profit	-	-	-
– thereof loss	-	-	-
Receivables from customers	88	1,162	>100
– thereof profit	809	1,932	>100
– thereof loss	-721	-770	6.8
Debt securities	319	-45	>-100
– thereof profit	319	-	-
– thereof loss	-	-45	-
Derecognition gains/losses von zu fortgeführten Profit/loss from the derecognition of financial assets measured at amortised cost	407	1,117	>100

(11) OTHER COMPREHENSIVE INCOME FROM FINANCIAL ASSETS/LIABILITIES

in €k	Q3/2018	Q3/2019	± in %
Modification gains/losses	-106	-292	>-100
– From financial assets measured at amortised cost	-106	-292	>-100
– From financial assets measured through FV OCI	-	-	-
– From financial liabilities measured at amortised cost	-	-	-
Derecognition gains/losses	80	142	77.1
– From financial assets measured through FV OCI	80	142	77.1
– From financial liabilities measured at amortised cost	-	-	-
Other profit or loss from financial assets/liabilities	-26	-150	>-100

(12) INCOME TAX EXPENSE

in €k	Q3/2018	Q3/2019	± in %
Current taxes	-8,030	-8,673	8.0
Deferred taxes	388	1,032	>100
Income tax expense	-7,642	-7,640	0.0

DETAILS OF THE BALANCE SHEET
(13) CASH AND BALANCES WITH THE CENTRAL BANK

in €k	31/12/2018	30/09/2019	± in %
Cash in hand	85,576	83,641	-2.3
Credit balances with central banks	486,387	505,886	4.0
Cash and balances with the central bank	571,963	589,527	3.1

(14) RECEIVABLES FROM OTHER BANKS

in €k	31/12/2018	30/09/2019	± in %
Receivables from domestic banks	123,532	108,008	-12.6
Receivables from foreign banks	53,716	101,393	88.8
Receivables from other banks	177,248	209,400	18.1

(15) IMPAIRMENT CHARGES ON RECEIVABLES FROM OTHER BANKS

in €k	Stage 1	Stage 2	Stage 3	30/09/2019
As at 01/01/2019	318	4	-	322
Additions due to new business	3	-	-	3
Change within stage:				
– Allocation/reversal	-83	-	-	-83
– 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	-163	-	-	-163
As at 30/09/2019	75	4	-	79

(16) RECEIVABLES FROM CUSTOMERS
(16.1) RECEIVABLES FROM CUSTOMERS BY CUSTOMER GROUP

in €k	31/12/2018	30/09/2019	± in %
Corporate and Business Banking	4,727,697	4,937,977	4.4
Retail Banking	1,298,161	1,357,058	4.5
Receivables from customers by customer group	6,025,858	6,295,035	4.5

(16.2) RECEIVABLES FROM CUSTOMERS BY MEASUREMENT CATEGORY

in €k	31/12/2018	30/09/2019	± in %
Financial assets measured at amortised cost	5,885,821	6,154,959	4.6
Financial assets measured at fair value through profit or loss (designated)	85,287	80,720	-5.4
Financial assets measured at fair value through profit or loss (mandatory)	54,750	59,355	8.4
Receivables from customers by measurement category	6,025,858	6,295,035	4.5

(17) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €k	Stage 1	Stage 2	Stage 3	30/09/2019
As at 01/01/2019	8,670	13,763	85,445	107,879
Additions due to new business	3,108	738	-	3,846
Change within stage:				
– Allocation/reversal	1,889	-446	4,706	6,149
– Disposals due to use	-	-	-20,396	-20,396
Reclassification from one stage to another:				
– Decrease due to credit risk				
– Reclassification from stage 2 to stage 1	465	-3,522	-	-3,057
– Reclassification from stage 3 to stage 1	100	-	-276	-176
– Reclassification from stage 3 to stage 2	-	57	-522	-465
– Increase due to credit risk				
– Reclassification from stage 1 to stage 2	-514	3,203	-	2,689
– Reclassification from stage 1 to stage 3	-30	-	2,735	2,705
– Reclassification from stage 2 to stage 3	-	-476	5,568	5,092
Disposals due to repayment	-776	-1,208	-699	-2,683
As at 30/09/2019	12,912	12,109	76,561	101,583

(18) TRADING ASSETS

in €k	31/12/2018	30/09/2019	± in %
Positive fair values of derivative financial instruments	8,045	13,187	63.9
– Currency contracts	1,464	4,130	>100
– Interest rate contracts	2	-	-
– Fair value option	6,580	9,057	37.7
Trading assets	8,045	13,187	63.9

(19) DEBT SECURITIES AND OTHER FIXED-INTEREST SECURITIES

in €k	31/12/2018	30/09/2019	± in %
Financial assets measured at amortised cost	813,421	771,945	-5.1
Financial assets measured at fair value through profit or loss (designated)	21,978	22,196	1.0
Financial assets measured at fair value OCI	68,977	71,712	4.0
Financial assets measured at fair value through profit or loss (mandatory)	45	57	27.4
Debt securities and other fixed-interest securities	904,421	865,909	-4.3

(20) IMPAIRMENT CHARGES ON DEBT SECURITIES

in €k	Stage 1	Stage 2	Stage 3	30/09/2019
As at 01/01/2019	258	-	-	258
Additions due to new business	39	-	-	39
Change within stage:				
– Allocation/reversal	10	-	-	10
– 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	-11	-	-	-11
As at 30/09/2019	296	-	-	296

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

in €k	31/12/2018	30/09/2019	± in %
Financial assets measured at fair value through profit or loss (mandatory)	45,780	52,822	15.4
Financial assets measured at fair value OCI	89,829	92,602	3.1
Shares and other non-interest-bearing securities	135,609	145,425	7.2

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

in €k	31/12/2018	30/09/2019	± in %
Oberbank AG	385,277	403,207	4.7
Bank für Tirol und Vorarlberg AG	214,391	227,629	6.2
Investments in entities accounted for using the equity method	599,668	630,836	5.2

(23) INTANGIBLE ASSETS

in €k	31/12/2018	30/09/2019	± in %
Intangible assets	3,859	10,364	>100
Intangible assets	3,859	10,364	>100

(24) PROPERTY, PLANT AND EQUIPMENT

in €k	31/12/2018	30/09/2019	± in %
Property	8,024	8,351	4.1
Buildings	37,647	37,081	-1.5
Other property, plant and equipment	7,665	10,535	37.4
Right of use for leased real estate	n/a	22,901	-
Property, plant and equipment	53,336	78,868	47.9

(25) INVESTMENT PROPERTY

in €k	31/12/2018	30/09/2019	± in %
Property	8,422	8,405	-0.2
Buildings	26,108	26,829	2.8
Investment property	34,530	35,234	2.0

(26) DEFERRED TAX ASSETS

in €k	31/12/2018	30/09/2019	± in %
Deferred tax assets	6,363	6,536	2.7

(27) OTHER ASSETS

in €k	31/12/2018	30/09/2019	± in %
Other assets	19,037	14,001	-26.5
Deferred items	3,459	3,013	-12.9
Other assets	22,497	17,014	-24.4

(28) PAYABLES TO OTHER BANKS

in €k	31/12/2018	30/09/2019	± in %
Payables to domestic banks	732,544	677,283	-7.5
Payables to foreign banks	103,945	70,174	-32.5
Payables to other banks	836,489	747,457	-10.6

(29) PAYABLES TO CUSTOMERS

in €k	31/12/2018	30/09/2019	± in %
Savings deposit balances	1,429,395	1,421,363	-0.6
– Corporate and business banking customers	178,506	178,014	-0.3
– Retail banking customers	1,250,889	1,243,348	-0.6
Other liabilities	4,038,068	4,312,641	6.8
– Corporate and business banking customers	2,940,119	3,133,931	6.6
– Retail banking customers	1,097,949	1,178,711	7.4
Payables to customers	5,467,463	5,734,004	4.9

(30) LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2018	30/09/2019	± in %
Bonds issued	499,690	528,383	5.7
Other liabilities evidenced by paper	71,362	72,409	1.5
Liabilities evidenced by paper	571,052	600,792	5.2

(31) TRADING LIABILITIES

in €k	31/12/2018	30/09/2019	± in %
Negative fair values of derivative financial instruments	8,362	12,586	50.5
– Currency contracts	2,369	2,735	15.5
– Interest rate contracts	2	-	-
– Fair value option	5,991	9,850	64.4
Trading liabilities	8,362	12,586	50.5

(32) PROVISIONS

in €k	31/12/2018	30/09/2019	± in %
Provisions for post-employment benefits and similar obligations	72,702	79,607	9.5
Provisions for taxes (current taxes)	5,233	5,503	5.2
Provision for guarantees and credit facilities	1,384	1,853	33.9
Other provisions	55,166	59,637	8.1
Provisions	134,485	146,600	9.0

ACTUARIAL ASSUMPTIONS

in %	31/12/2018	30/09/2019
Financial assumptions		
Interest rate	2.01%	0.93%
Salary trend of active staff	2.76%	2.99%
Pensions development	2.10%	2.00%
Career development	0.25%	0.25%
Demographic assumptions		
Retirement age	65 years	65 years
Mortality table	AVÖ 2018	AVÖ 2018

(33) OTHER LIABILITIES

in €k	31/12/2018	30/09/2019	± in %
Other liabilities	21,960	35,857	63.3
Deferred items	4,739	3,433	-27.6
Leasing liabilities	n/a	22,990	-
Other liabilities	26,699	62,280	>100

(34) SUBORDINATED DEBT CAPITAL

in €k	31/12/2018	30/09/2019	± in %
Tier 2 capital	159,667	189,786	18.9
Hybrid capital	20,000	20,000	-
Subordinated debt capital	179,667	209,786	16.8

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 207.3 million after EUR 176.9 million on 31 December 2018.

(35) SHAREHOLDERS' EQUITY

in €k	31/12/2018	30/09/2019	± in %
Subscribed capital	85,886	85,886	-
– Share capital	85,886	85,886	-
Capital reserves	241,416	241,416	-
Retained earnings and other reserves	839,919	899,570	7.1
Additional equity instruments (AT 1 bond)	43,500	55,000	26.4
Shareholders' equity before non-controlling interests	1,210,721	1,281,872	5.9
Non-controlling interests	-25	-27	11.2
Shareholders' equity	1,210,696	1,281,845	5.9

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.

RISK REPORT

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

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

Risk position by rating in €k	AA-A1	1a-1b	2a-2b	3a-3b	4a-4b	5a-5c	No rating	Total
Receivables from customers	50,918	1,764,216	2,314,391	2,085,204	329,173	187,117	1,161	6,732,179
Credit lines promised	7,279	49,370	59,435	43,879	3,267	731	12	163,973
Receivables from banks	64,204	118,079	32,778	12,402	-	-	9	227,471
Securities and funds	730,144	107,413	13,107	7,194	-	-	2,975	860,832
Equity investments	691,581	14,600	8,015	281	57	-	3,063	717,596
Total	1,544,125	2,053,678	2,427,725	2,148,960	332,497	187,847	7,219	8,702,052

LOAN QUALITY BY CLASS OF RECEIVABLE AS AT 31 DECEMBER 2018

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

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

The non-performing loan ratio¹⁾ at the end of September was 2.7% (31/12/2018: 3.3%). The calculation is based on non-performing loans in the rating classes 5a to 5c of the BKS Bank rating system (default classes). We calculate the NPL ratio according to the risk dashboard template of the EBA. The reference values represent receivables on the balance sheet from the public sector, central banks, credit institutions and customers.

Cover for the loss potential of non-performing loans is indicated by the coverage ratio. Coverage Ratio I represents risk provisions set aside in relation to the total risk position. It was 41.3% on 30 September 2019 (31/12/2018: 38.3%). Additionally, we use Coverage Ratio III as an internal benchmark which also includes internal collateral in the calculation. This ratio was 88.4% on 30 September (31/12/2018: 85.5%).

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

Currency	31/12/2018	30/09/2019
€	3.43%	3.03%
CHF	0.02%	0.02%
USD	0.00%	0.07%
JPY	0.00%	0.00%
Other	0.03%	0.02%
Total	3.48 %	3.14%

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

(37.1) VALUE-AT-RISK FIGURES - INTEREST RATE RISK¹⁾

in €K	31/12/2018	30/09/2019
Value-at-risk figures - interest rate risk	24,944	25,184

¹⁾incl. credit spread risks

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

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

in €K	31/12/2018	30/09/2019
Value-at-risk figures - equity price risk	1,366	3,015

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

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

in €K	31/12/2018	30/09/2019
Value-at-risk figures - foreign currency risk	673	437

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

(40) INDICATORS FOR MANAGING LIQUIDITY RISK

	31/12/2018	30/09/2019
Deposit concentration	0.38	0.38
Loan-to-deposit ratio (LDR)	91.7%	91.8%
Liquidity coverage ratio (LCR)	137.8%	142.5%
Net stable funding ratio (NSFR)	110.2%	109.6%

(41) OPERATIONAL RISK AND ICT RISKS BY EVENT CATEGORY¹⁾

in €k	31/12/2018	30/09/2019
Fraud	60	35
Employment practices and workplace safety	47	7
Customers, products, business practices	1,576	740
Property damage	9	26
System failures	33	9
Settlement, sales and process management	142	289

¹⁾excl. credit risk, after refunds

ADDITIONAL INFORMATION
(42) SEGMENT REPORT

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

SEGMENT RESULTS Q3 2019

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	20,331	78,945	35,627	2,541	137,444
– thereof investments in entities accounted for using the equity method	-	-	35,522	-	35,522
Impairment charges	292	-16,703	-40	-	-16,450
Net fee and commission income	19,101	24,132	-180	808	43,860
Net trading income	-	-	1,177	-	1,177
General administrative expenses	-40,148	-38,996	-5,944	-7,571	-92,659
Balance of other operating income/expenses	1,354	401	-18	-5,314	-3,578
Profit/loss from financial assets/liabilities	197	1,035	3,211	-	4,444
Profit for the period before tax	1,126	48,814	33,833	-9,536	74,238
Average risk-weighted assets	673,823	3,427,146	825,717	106,885	5,033,571
∅ Average allocated equity	81,582	414,402	723,781	26,532	1,246,296
ROE based on profit for the period	1.8%	15.7%	6.2%	-	7.3%
Cost/income ratio	98.4%	37.7%	16.2%	-	51.8%
Risk/earnings ratio	-	21.2%	0.1%	-	12.0%

SEGMENT RESULTS Q3 2018

in €k	Retail Banking	Corporate and Business Banking	Financial Markets	Other	Total
Net interest income	19,502	76,959	29,849	2,053	128,363
– thereof investments in entities accounted for using the equity method	-	-	31,643	-	31,643
Impairment charges	-404	-13,662	-107	-	-14,173
Net fee and commission income	18,035	22,478	-107	-279	40,127
Net trading income	-	-	709	-	709
General administrative expenses	-37,634	-36,357	-5,280	-5,733	-85,004
Balance of other operating income/expenses	1,132	463	-25	-5,291	-3,721
Profit/loss from financial assets/liabilities	-	-	-2,937	89	-2,848
Profit for the period before tax	631	49,881	22,102	-9,161	63,453
Average risk-weighted assets	536,729	3,238,035	951,013	59,081	4,784,858
∅ Average allocated equity	62,699	378,324	663,615	13,850	1,118,488
ROE based on profit for the period	1.3%	17.6%	4.4%	-	6.8%
Cost/income ratio	97.3%	36.4%	17.4%	-	51.4%
Risk/earnings ratio	2.1%	17.8%	0.4%	-	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 recognised in net interest income as return on equity invested. The profit for the respective segment is measured based on the profit before tax earned in the segment.

Apart from the cost/income ratio, return on equity is one of the principal benchmarks for managing the business segments. Segment reporting is based on our internal management processes. The Management Board as a whole is responsible for the enterprise's management. In detail, the reports used for internal management purposes comprise the following:

- Monthly reporting of results at the profit centre level
- Quarterly reports for all relevant risk types
- Ad-hoc reports of exceptional events

Corporate and Business Banking

In the Corporate and Business Banking segment some 23,200 corporate and business banking customers were served as of 30 September 2019. BKS Bank was originally conceived as a corporate and business bank, and therefore, this business segment is still the enterprise's most important source of income. Corporate and business banking customers still account for the larger part of the loan portfolio and make an essential contribution to profit for the period. Besides income and expenses of BKS Bank AG relating to business with corporate and business banking customers, income and expenses of the leasing companies 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, wage and salary earners, and members of the health professions are reported summarised in the retail banking segment. Ende September 2019 waren diesem Segment rund 168.000 Kunden zugeordnet.

Financial Markets

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

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

(43) RELATED PARTY DISCLOSURES

in €k	Outstanding balances		Guarantees received		Guarantees provided	
	At 31/12/2018	At 30/09/2019	At 31/12/2018	At 30/09/2019	At 31/12/2018	At 30/09/2019
Non-consolidated subsidiaries						
Receivables	2,927	24,567	-	-	-	-
Liabilities	2,287	3,992				
Associated companies						
Receivables	2,451	7,388	-	-	-	-
Liabilities	669	3.900				
Key management staff						
Receivables	235	217	-	-	-	-
Liabilities	1,417	1,332				
Other related parties						
Receivables	117	114	-	-	-	-
Liabilities	827	585				

LOANS AND ADVANCES GRANTED

in €k	31/12/2018	30/09/2019	± in %
Loans and advances granted to members of the Management Board	25	21	-15.5
Loans and advances granted to members of the Supervisory Board	210	197	-6.6
Loans and advances granted	235	217	-7.5

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.

(44) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2018	30/09/2019	± in %
Guarantees	426,642	461,500	8.2
Letters of credit	1,381	7,866	>100
Contingent liabilities	428,023	469,366	9.7
Other credit risks	1,337,235	1,372,505	2.6
Credit risks	1,337,235	1,372,505	2.6

(45) EVENTS AFTER THE BALANCE SHEET DATE

After the reporting date of this interim report as at 30 September 2019, BKS Bank witnessed no activities or events unusual in terms of form or content that had an impact on the view of the assets, financial position and result of operations as presented in this report.

(46) FAIR VALUES
Financial assets and debt measured at fair value
30/09/2019

in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value
Assets				
Receivables from customers				
- at fair value through profit or loss (mandatory)	-	-	59,355	59,355
- at fair value through profit or loss (designated)	-	-	80,720	80,720
Trading assets (derivatives)	-	13,187	-	13,187
Debt securities and other fixed-interest securities				
- at fair value through profit or loss (mandatory)	57	-	-	57
- at fair value through profit or loss (designated)	22,196	-	-	22,196
- at fair value OCI	70,699	-	1,013	71,712
Shares and other variable-yield securities				
- at fair value through profit or loss (mandatory)	52,822	-	-	52,822
- at fair value OCI	5,899	3,593	83,110	92,602
Equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss (designated)				
	-	-	86,748	86,748
Trading liabilities	-	12,586	-	12,586

31/12/2018

in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value
Assets				
Receivables from customers				
- at fair value through profit or loss (mandatory)	-	-	54,750	54,750
- at fair value through profit or loss (designated)	-	-	85,287	85,287
Trading assets (derivatives)	-	8,045	-	8,045
Debt securities and other fixed-interest securities				
- at fair value through profit or loss (mandatory)	45	-	-	45
- at fair value through profit or loss (designated)	21,978	-	-	21,978
- at fair value OCI	68,977	-	-	68,977
Shares and other variable-yield securities				
- at fair value through profit or loss (mandatory)	45,780	-	-	45,780
- at fair value OCI	4,191	3,665	81,973	89,829
Equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss (designated)	-	-	84,744	84,744
Trading liabilities	-	8,362	-	8,362

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

in €k	Receivables from customers - at fair value through profit or loss (designated)	Receivables from customers - at fair value through profit or loss (mandatory)	Shares and other non-interest-bearing securities at fair value through OCI	Liabilities evidenced by paper at fair value through profit or loss
As at 1 January 2019	85,287	54,750	81,973	84,744
Income Statement ¹⁾	2,182	332	-	2,004
Reclassification	-	-	-	-
Other profit or loss	-	-	2,166	-
Purchased/added	-	9,739	700	-
Sold/redeemed	-6,749	-5,466	-1,729	-
Stand zum 30.09.2019	80,720	59,355	83,110	86,748

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

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

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

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

Measurement and classification

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

If market values were unavailable, fair value is ascertained using customary valuation models based on observable input factors and market data and presented in the category Level 2 'Based on market data' (e.g. by discounting future cash flows from financial instruments). In general, fair values shown in this category are 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 the category Level 3 were measured using the present value method.

Reclassification

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

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

Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of the financial instrument and the remaining time to maturity. The change in the default risk associated with liabilities measured at fair value in the reporting period was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining time to maturity. In the reporting period Q3 2019, the changes in the credit ratings of receivables from customers measured at fair value had an effect on their fair value in the amount of EUR -0.1 million (31/12/2018: EUR -1.1 million). In the reporting period Q3 2019, the change to BKS Bank's credit rating had an effect on the fair value of the liabilities evidenced by paper in the amount of EUR -0.1 million (31/12/2018: EUR 0.1 million).

Sensitivity analysis

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

For level 3 equity instruments (equity investments) in an amount of EUR 20.4 million, the material non-observable parameter is the interest rate. An interest rate increase by 50 basis points reduces the fair value by EUR 1.3 million. An interest rate decrease by 50 basis points raises the fair value by EUR 1.5 million. A change in the price by 10% changes the fair value by EUR 4.4 million, a change in the price by -10% reduces the fair value by EUR 3.7 million. For level 3 equity instruments (equity investments) in an amount of EUR 8.2 million, the material non-observable parameter is the carrying amount of equity. The remainder refers to immaterial minority investments for which no fair value measurement was applied.

FINANCIAL ASSETS AND LIABILITIES NOT RECOGNISED AT FAIR VALUE

30/09/2019

in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value	Carrying amount 30/09/2019
Assets					
Receivables from other banks ¹⁾	-	-	209,403	209,403	209,321
Receivables from customers ¹⁾	-	-	6,111,776	6,111,776	6,053,377
Debt securities and other fixed-interest securities	842,362	-	-	842,362	771,945
Equity and liabilities					
Payables to other banks	-	-	746,390	746,390	747,457
Payables to customers	-	-	5,737,908	5,737,908	5,734,004
Liabilities evidenced by paper	167,928	281,387	83,885	533,200	514,044
Subordinated debt capital	169,202	-	47,215	216,416	209,786

¹⁾ reduced by spec. impair. allow./ECL

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

31/12/2018

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

¹⁾ reduced by spec. impair. allow./ECL

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

“We state to the best of our knowledge that the interim consolidated financial statements as at 30 September 2019 prepared in accordance with the relevant financial reporting standards provide a true and fair view of the assets, financial position and result of operations of the BKS Bank Group, and that the Group management report for the period from 1 January to 30 September 2019 provides a true and fair view of the assets, financial position and result of operations of the BKS Bank Group with respect to the key events having taken place during the first 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, 26 November 2019

The Management Board



Herta Stockbauer
Chairwoman of the Management Board



Dieter Kraßnitzer
Member of the Management Board



Alexander Novak
Member of the Management Board

FINANCIAL CALENDAR 2020

Date	Content of the notification
31 March 2020	Publication of the single-entity financial statements and the consolidated financial statements 2019 on the website and in the Official Gazette of the Republic of Austria "Wiener Zeitung"
6 May 2020	81st Annual General Meeting
11 May 2020	Dividend ex-day
12 May 2020	Record date
13 May 2020	Dividend payout day
29 May 2020	Interim report for the period ended 31 March 2020
28 August 2020	Half-year financial report 2020
27 November 2020	Interim report for the period ended 30 September 2020

INVESTOR RELATIONS CONTACT

Herbert Titze, Head of Investor Relations, E-Mail: investor.relations@bks.at

Publication details:

Media owner (publisher):

BKS Bank AG, St.Veiter Ring 43, A-9020 Klagenfurt am Wörthersee, phone: +43 (0) 463-5858-0

Internet: www.bks.at, www.twitter.com/bksbank, e-mail: bks@bks.at or investor.relations@bks.at

Translated by Edith Vanghelof

Edited by: BKS Bank AG, Office of the Management Board; copy deadline: 26 November 2019

2011