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Interim Report to 31 March 2016

BKS Bank
3 Banken Gruppe

Contents

Forward-looking statements

This Interim Report as at and for the three months ended 31 March 2016 contains statements and forecasts concerning the future performance and development of the BKS Bank Group. Such forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 17 May 2016. If the assumptions upon which those forecasts were based prove wrong or if risk events transpire, actual results may differ from those that are currently expected. This Interim Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

Disclaimer

This Interim Report does not require auditing and, therefore, has not been audited or examined in full by an auditor. The German version of this report is the authentic version for all legal purposes. Interim reports in English are translations.

Overview of the BKS Bank Group

INCOME ACCOUNT, €m	Q1 2015[1]	Q1 2016	+/(–) Change, %
Net interest income	36.1	37.4	3.6
Impairment charge on loans and advance	(6.2)	(8.8)	42.7
Net fee and commission income	13.7	12.9	(5.7)
General administrative expenses	(26.2)	(26.9)	2.8
Profit for the period before tax	18.8	10.9	(41.9)
Profit for the period after tax	12.3	8.5	(30.6)

BALANCE SHEET DATA, €m	31/12/2015	31/3/2016	+/(–) Change, %
Assets	7,063.4	7,100.9	0.5
Receivables from customers after impairment charge	4,920.1	4,913.4	(0.1)
Primary deposit balances	5,109.8	5,164.4	1.1
– Of which savings deposit balances	1,629.8	1,624.9	(0.3)
– Of which liabilities evidenced by paper, including subordinated debt capital	758.1	772.2	1.9
Equity	860.2	864.7	0.5
Customer assets under management	13,212.1	13,059.2	(1.2)
– Of which in customers' securities accounts	8,102.3	7,894.8	(2.6)

OWN FUNDS FOR THE PURPOSES OF CRR, €m	31/12/2015	31/3/2016	+/(–) Change
Risk-weighted assets	4,883.4	4,834.0	(1.0)
Own funds	599.9	593.9	(1.0)
– Of which common equity Tier 1 capital (CET1)	575.6	546.0	(5.1)
– Of which total Tier 1 capital (CET1 and AT1)	575.6	546.0	(5.1)
Surplus own funds	209.2	177.0	(15.4)
Common equity Tier 1 capital ratio, %	11.8	11.3	(0.5)
Total capital ratio, %	12.3	12.3	—

PERFORMANCE, %	2015	Q1 2016	+/(–) Change, ppt
Return on equity before tax	7.3	6.1	(1.2)
Return on equity after tax	0.9	0.8	(0.1)
Cost:income ratio	48.7	57.6	8.9
Risk:earnings ratio (credit risk in % of net interest income)	29.2	23.5	(5.7)

RESOURCES	31/3/2015	31/3/2016	+/(–) Change
Average number of staff	923	927	4
Branches	59	60	1

BKS BANK'S SHARES	2015	31/3/2016
No. of ordinary no-par shares (ISIN: AT0000624705)	34,236,000	34,236,000
No. of no-par preference shares (ISIN: AT0000624739)	1,800,000	1,800,000
High: ordinary/preference share, €	17.5/15.7	17.2/15.2
Low: ordinary/preference share, €	16.5/14.8	16.5/14.5
Close: ordinary/preference share, €	16.9/15.1	17.0/15.2
Market capitalization, €m	605.8	609.3

[1] In all the relevant tables in the Management Report, Income Statement amounts for the first quarter of 2015 have been restated in conformity with IAS 8.
[2] Percentage points.

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Dear shareholder,
Dear customer,
Dear business associate,

The 77th Ordinary General Meeting of BKS Bank took place just recently, and I can give you some good news. BKS Bank will be distributing out of its net profit as at 31 December 2015 a dividend of €8,288,280.00 to its ordinary and preference shareholders, who hold a total of 36,036,000 ordinary and preference shares. If you are an equity holder of our bank, our outstanding business performance in 2015 means that you will soon be receiving a dividend of €0.23 per share (ex-dividend date: 23 May; dividend payment date: 25 May). Our bank is thus once again one of the Austrian banking industry's strongest dividend payers

A number of changes have taken place in the membership of our Supervisory Board. Peter Gaugg and Karl Samstag left our bank's Supervisory Board at the end of their terms of office in accordance with *§ 11 (2)* of the *Satzung* (articles of association). Peter Gaugg was not available for re-election. I would like to thank him for his many years of commendable work and the invaluable expertise that he has brought to the Supervisory Board since 1998. For the past two years, he has also chaired this board.

The General Meeting passed the motion to re-elect Karl Samstag. Gerhard Burtscher was newly elected to the Supervisory Board. He has been a member of the management board of *Bank für Tirol und Vorarlberg Aktiengesellschaft* for two and a half years and the chairman of its management board since 1 January 2016. The terms of office of both members will last until the end of the General Meeting that decides on discharges from liability in respect of the 2020 financial year. *KPMG Austria GmbH, Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Zweigstelle Klagenfurt*, was tasked with carrying out the annual audit of the business practices and activities of *BKS Bank AG* and its group for the year 2017. All the resolutions passed during the General Meeting have been published on BKS Bank's website. Click on *Investor Relations » Hauptversammlung*.

During the Supervisory Board's constitutive meeting held immediately after the General Meeting, Gerhard Burtscher was elected as Chairman and Franz Gasselsberger as Vice-Chairman.

Our business performance during the first quarter of 2016 was affected by Austria's weak economic development. The low interest rates policies being pursued by the central banks, which were still operating in crisis mode, already made it clear to us in the first weeks of the year 2016 that we should be prepared for a challenging and volatile banking and stock market year. However, regardless of the difficult market landscape, we have been focusing on sustainable growth, efficiency and cost awareness in every one of our core business segments. Net interest income—the most important component of our Income Statement—grew by 3.6 per cent to €37.4 million. The very turbulent markets meant that net fee and commission income fell, declining by 5.7 per cent to €12.9 million. General administrative expenses were only marginally up on the same period of 2015, to €26.9 million. Having grown by 0.5 per cent, our assets reached €7.10 billion. The high level of receivable from customers, which totalled €5.11 billion, and the so-called ‘primary’ funds made available to BKS Bank, which totalled €5.16 billion, were well balanced. Once again, they underscored the sustainability of BKS Bank’s business model.

Following the ECB’s decisions of late, we cannot expect a turnaround in interest rate policy. Instead, we are preparing ourselves for a ‘new normality’ of historically low interest rates. Among other things, the impact that this alarming development is in the meanwhile having has become apparent by the fact that IFRS note 1 now includes the items *Interest income from positive interest expenses* and *Interest expenses on negative interest income*.

In view of this situation, we are anticipating a significant decline in our earnings from traditional interest rate operations. We will be responding by stepping up our sales activities in the payments and securities fields. We will be cautious when it comes to investing and will only do so after looking closely at all the available options. In order to cut costs and explore potential savings, we are also working intensely on the continuous optimization and standardization of organizational procedures. However, we do not think that it would be expedient at the moment to close bank branches or make big staff cuts. That said, we are being very defensive when filling positions that have become vacant. I assume that the costs involved in meeting the regulatory demands on banks will continue to increase. The multitude of regulatory projects are necessitating massive changes to our processes and IT systems and are, therefore, tying up substantial financial and human resources. In addition, our profits are being over-burdened by the bank tax and our contributions to the resolution mechanism and deposit guarantee scheme.

It still seems too early to say with any certainty whether we will in 2016 as a whole and after adjustments for extraordinary effects manage to match our profit for the year in 2015. However, if our bank is spared serious downside surprises, we should during the coming weeks and months gradually be able to make up for the decline of about one third in our first-quarter profit, which came to €8.5 million. I have faith both in the dedication of our employees and your confidence in BKS Bank.

Herta Stockbauer
Chairwoman of the Management Board

Klagenfurt
17 May 2016

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Consolidated Management Report for the Three Months Ended 31 March 2016

The Economic Setting in which Banks are Operating

The general economic situation

The International Monetary Fund (IMF) has already amended its view of the world economy's performance a number of times. It is now predicting that real economic growth will slow to 3.2 per cent in 2016. In particular, the IMF analysts believe that the world economy will be noticeably affected by the growing risk of a deterioration in financing terms in the emerging economies associated with the departure by the US central bank—the Federal Reserve or Fed—from its cheap money policy, the Chinese economy's overcast outlook and low raw material prices.

US economic growth cooled to just 0.1 per cent in the first quarter. It should however remain robust, resulting in full-year real economic growth of 2.3 per cent. To date, the recovery in the labour market—where nominal wages have risen and the jobless rate came to just 5 per cent at the end of the period under review—and the upturn in consumer demand and the residential property markets and, therefore, domestic demand have coincided with a drop in the export sector's contribution to GDP. Exports slackened in the first quarter as the US dollar appreciated by roughly 2.6 per cent versus the currencies of the country's principal trading partners. Although the Fed's full employment target has effectively been reached, the US central bank is still keeping its cards close to its chest when it comes to carrying out another hike in key interest rates and has left the funds rate in a range of 0.25 per cent to 0.5 per cent. Subject to the results of the US monetary authorities' June meeting, the financial markets are currently anticipating a gradual tightening of interest rates in September.

The eurozone recorded real GDP growth of 1 per cent in the first quarter. Its robust economy is currently being supported by sustained employment growth, appreciable growth in private household incomes and a rising propensity to invest among, in particular, export-orientated companies. Low interest rates, the steady improvement in the state of the job market and increased consumer confidence have had a positive impact on domestic demand. The jobless rate in the eurozone fell to 10.2 per cent in the first quarter. This was the lowest rate in over four and a half years. However, according to *Eurostat* figures, 16.5 million people were still unemployed at the end of March.

Austria's economy recorded real growth of 0.4 per cent in the first quarter of 2016. Such strong growth had not been expected. It was primarily fuelled by higher consumer and investment demand and, to a slightly lesser degree, exports. Industrial activity firmed up appreciably, and the service industries also stimulated GDP growth. Private consumption picked up thanks to the effects of the tax reform and low energy prices. Public sector consumption was boosted by an increase in spending caused by providing assistance to and supplying refugees. For the first time in two years, there was also a perceptible recovery in equipment and construction investment. The recovery in the Austrian labour market was still restrained, and only its outlines were apparent. 440,000 people were jobless or in *Arbeitsmarktservice* (Austrian job market service) training in March. Calculated using the Austrian method, this translated into a worrying jobless rate of 9.4 per cent. However, in European comparisons, Austria was one of the continent's better performers with a *Eurostat* jobless rate of 5.8 per cent. While the Czech Republic and Germany had rates of just 4.1 per cent and 4.2 per cent, respectively, every fourth person in Greece and every fifth person in Spain was unemployed at the end of March.

Monetary policy action by the ECB

In recent weeks, the ECB has taken a number of steps to solidify the eurozone's economic growth that have been at least controversial. Its medium-term goal is a rate of inflation of close to 2.0 per cent. The interest rate on main refinancing operations in the euro system and the peak refinancing rate were now zero and 0.25 per cent. The deposit facility rate was cut to negative 0.40 per cent as of 16 March, and monthly purchases within the scope of the APP (Asset Purchase Programme) were increased from €60 billion to €80 billion. This means that the liquidity surplus in the euro system is continuously increasing. The ECB Council intends to sustain these transactions until the end of March 2017, and beyond if necessary. In addition, it will no longer be buying just government bonds; in future, the ECB will also be purchasing corporate bonds.

Exchange rates

During the first three months of the year, the US$/€ exchange rate only strayed outside its rather narrow corridor for brief periods. This rate began the year at US$ 1.0887/€. It was then affected by worries about the currency union's long-term future ahead of the UK referendum on EU membership (the 'Brexit' referendum) upcoming in June. As the quarter progressed, attention turned back to the United States' still disappointing economic indicators against the backdrop of the widening gap between long-end bond yields in the United States and the eurozone. After bottoming out at US$ 1.0742/€ in January, the European single currency had strengthened to US$ 1.1385/€ by the end of March. The single currency also strengthened versus the Swiss franc, the Chinese renminbi and the currencies of other threshold and raw material exporting countries. The Croatian kuna, which is of importance to our bank, was trading at HRK 7.5255/€ at the end of March, compared with HRK 7.6380/€ at the beginning of the year.

Equity and raw material markets

In the international equity markets, the stubbornly low prices of raw materials—including above all crude oil—were a continuing reminder of the weak underlying dynamics of the world economy and burgeoning uncertainty about China's future pace. In addition, monetary policies in the threshold countries that have close trading relations with the United States tightened in response to its interest rates turnaround in December 2015. In the eurozone, the bear market—which had now lasted since the beginning of December 2015—continued during the first few weeks of the period under review against the backdrop of the global increase in uncertainty. However, measured in terms of the Euro Stoxx 50, which is close to the market, the risk concerns of market participants dissipated in the light of the scenario of sustained low ECB key interest rates and stable economic numbers in the United States following a February low of 2,680.35 points. The Euro Stoxx 50 closed the first quarter of 2016 at 3,004.93 points. Its US equivalent—the Dow Jones Industrial Average—gained 1.5 per cent to 17,685.09 points. The MSCI World Equity Index in euros fell by 5.5 per cent to 147.7 points during the period under review. By the end of March, the DAX had returned to near the psychologically important 10,000 mark at 9,997.44 points. That compared with 10,743.01 points at the beginning of the year. As for our bank, BKS Bank's market capitalization was €609.3 million at the end of March, compared with €619.8 million at the end of 2015.

Sentiment in the international raw material markets deteriorated sharply from the middle of October 2015 as a glut of crude oil coincided with falling demand. By the end of January, the price of Brent, which is the relevant price in Europe, had fallen to a historical low of €28.79 a barrel. However, it was back close to US$40 by the end of March. Similarly, the price of a barrel of the American reference WTI Cushing crude has already fallen to below US$ 30 several times this year. On the supply side of the equation, OPEC's decision to leave production unchanged at its record level intensified the drop in prices. Despite Iran's return to the global oil market and record crude oil inventories in the United States, prices rose in February and March in a highly volatile environment. However, judging by the long-term futures curve, both OPEC and the other market participants are expecting oil prices to be low for a longer period. The prices of other industrial raw materials followed a similar pattern.

On the other hand, the 'crisis currency' gold soared by 16.2 per cent to US$ 1,232.7 a fine ounce in the first quarter. Among other things, analysts put the latest rise in the price of gold down to disappointing economic numbers in the United States and the US dollar's present weakness. These made the gold traded in US dollars outside the dollar zone seem more attractive for risk-aware investors. The recent agreement reached between the World Gold Council and the Dubai Multi Commodities Centre (DMCC) on developing a standard for Shariah-compliant gold investing means that the demand for gold from the Islamic world is likely to increase by several hundred tons a year, creating the potential for further increases in the price of gold.

Notes on the Scope of Consolidation

At the end of March, the scope of consolidation of BKS Bank upon which Group analyses were based encompassed 20 banks and other financial institutions and entities rendering banking-related

THE MEMBERS OF THE GROUP

- Consolidated
- Accounted for using the equity method
- Accounted for on a proportionate basis

BANKS AND OTHER FINANCIAL SERVICE PROVIDERS

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

Other Consolidated Entities

- *BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH,* Klagenfurt
- *Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & 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-Beteiligungsverwaltungsgesellschaft mbh,* Klagenfurt

ancillary services. Those entities included the leasing companies in Austria and abroad as well as *Drei-Banken Versicherungs-Aktiengesellschaft*. The overview that follows presents the entities whose assignment to the BKS Bank Group was required by the International Financial Reporting Standards. Subsidiaries were included on the basis of common Group-wide criteria of materiality and qualitative parameters. The principal criteria of materiality were the balance sheet total of a subsidiary, the Group's interest in an associate's equity and the number of people employed by the entity in question.

Besides *BKS Bank AG*, the consolidated members of the BKS Bank Group comprised 15 banks and other financial institutions and entities rendering banking-related ancillary services that were controlled by *BKS Bank AG*. These Interim Financial Statements are based on the separate financial statements of all the consolidated entities, which were prepared applying common, Group-wide policies. The carrying amounts of the investments in the three associates accounted for using the equity method in conformity with IAS 28 were adjusted according to the changes in the net assets of the entities in which those investments were held.

In addition to *Drei-Banken Versicherungs-Aktiengesellschaft*, our investments in our sister banks *Oberbank* and *Bank für Tirol und Vorarlberg* were also accounted for using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of those banks at the end of March 2016, holding stakes of 16.5 per cent and 15.0 per cent, respectively, the exercise of voting rights was regulated by syndicate agreements. These allowed participation in those banks' financial and business policy decisions within the scope of the 3 *Banken Group* without having control of them. *ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.* (*ALGAR*) was accounted for on a proportionate basis. This investment required classification as a joint operation pursuant to IFRS 11. The other consolidated entities, most of which were designated as real estate companies, rendered banking-related ancillary services. All other company shares were assigned to the available for sale portfolio.

Assets, Liabilities, Financial Position

Assets

The BKS Bank Group had assets of €7.10 billion at 31 March 2016. That was slightly more than at 31 December 2015. The line item *Receivables from other banks* grew significantly, increasing by 13.3 per cent to €412.2 million. However, this was due to short-term investments of liquidity peaks in the money market. The line item *Receivables from customers* was unchanged between the beginning of the year and the end of the period under review, coming to €5.11 billion. IFRSs require an impairment charge to be deducted from receivables from customers. The impairment allowance balance increased slightly, going up by €2.5 million to €196.3 million. The line item *Financial assets* increased by €12.2 million to €1.5 billion during the quarter under review.

Looking at these items in detail, the portfolio of loans to corporate and business banking customers shrank slightly, falling by 0.3 per cent, whereas the portfolio of loans to retail banking customers grew by 0.7 per cent. We were pleased with the volume of *BKS Bank AG*'s new lending business, which came to €334.0 million. However, it coincided with substantial loan repayments made possible by the strong liquidity positions of numerous creditworthy companies.

As for foreign currency loans, the reduction of Swiss franc exposures continued apace during the quarter under review. Because this portfolio shrank by SFr 22.0 million to SFr 293.7 million, the foreign currency portion of the loan book shrank from 6.3 per cent at the end of 2015 to 5.8 per cent at 31 March 2016. We are aiming for 4.0 per cent by the end of the year.

The lease portfolio in Austria was unchanged compared with the end of 2015 at €163.3 million. Although new business was good, it nonetheless fell short of our ambitious expectations. We are therefore planning to strengthen the position of *BKS Leasing Gesellschaft m.b.H.* in the market this financial year. We were very satisfied with the business results of our leasing companies abroad, which are located in Slovenia, Slovakia and Croatia. Car, truck and property leasing operations grew particularly well in the Slovenian market.

BKS Bank d.d., which is headquartered in Rijeka, performed very satisfactorily in the first quarter of 2016. Its receivables increased by €10.0 million to €167.0 million, and the customer base grew significantly. It was servicing roughly 4,000 corporate and business banking customers and about 900 retail banking customers at the end of March 2016. Good market opportunities combined with further pleasing GDP growth rates and a lean cost structure should give an additional boost to the profits of this company, which is to become an EU banking branch.

The line item *Financial assets* grew slightly, increasing by 0.8 per cent to €1.46 billion during the first quarter. Investments in fixed-interest securities are an important management tool when it comes to meeting the legislative liquidity requirements. However, the unchanged low level of interest rates provided little incentive to invest. The benchmark yield on 10-year German government bonds stayed low during the period under review and stood at 0.14 per cent at the end of March. However, despite the unattractive returns on investments, we continued to invest in high quality liquid assets (HQLAs) during the first quarter.

The line item *Financial assets designated as at fair value through profit or loss* was maintained at €112.3 million in the first quarter of 2016. Investments in available-for-sale (AFS) financial assets amounting to €12.2 million increased that portfolio to €175.6 million. Holdings of held-to-maturity

(HTM) positions changed marginally, increasing by 0.3 per cent to €726.9 million. At the end of March, the line item *Investments in entities accounted for using the equity method*, which consists primarily of the carrying amounts of our investments in our sister banks *Oberbank* and *Bank für Tirol und Vorarlberg*, came to €442.5 million (taking into account their profit for the period in the fourth quarter of 2015). This was 0.9 per cent up on the end of 2015.

Equity and Liabilities

At the end of March, the biggest line item on the equity and liabilities side of the Balance Sheet was *Payables to customers*, which came to roughly €4.39 billion. It consisted of savings deposit balances and *Other liabilities*, which took the form of sight and time deposit balances. During the quarter under review, liabilities evidenced by paper and subordinated debt capital increased by 1.9 per cent to €0.77 billion. Consequently, the so-called *primary funds* made available to us by our customers increased to €5.16 billion. Given the state of the market, this was a very satisfactory increase and provided confirmation of our customers' unbroken confidence in us. In the savings deposit portfolio, we saw a continuation of the shift from *Kapitalsparbuch* fixed-term, fixed-rate passbook accounts and *Bindungssparbuch* fixed-term passbook accounts to demand deposits. The sight deposit balances included on the Balance Sheet in the line item *Other liabilities* went on growing satisfactorily during the first quarter of 2016, increasing to €225.2 million. This was thanks to the introduction of the *Mein Geld-Konto* account.

In view of our good primary funds base, we slightly reduced our *Payables to other banks*, which decreased by 4.1 per cent to €867.6 million.

Primary deposit balances were again dominated by sight and time deposit balances, which totalled €2.77 billion (31 December 2015: €2.72 billion). Deposits from institutional investors were of considerable importance, and they are of course relatively volatile around reporting dates. Our bank has a particularly good reputation in Slovenia, as was evidenced by deposit balances of €757.8 million there at 31 March 2016.

Because of historically low interest rates that were close to zero, our customers too were naturally looking at alternative forms of investment outside the banking system. However, the outflow of savings deposits attributable to low interest rates was only marginal, leaving a balance of €1.62 billion at the end of the period under review. According to *OeNB* (Austrian National Bank) statistics, the overall balance of savings deposits from Austrian non-bank depositors fell by 1.9 per cent during 2015 to end the year at €146.1 billion.

The line item *Liabilities evidenced by paper* increased by 0.9 per cent to €581.3 million in the first quarter. Although it has been difficult to issue attractive securities of one's own in this period of extremely low interest rates, there was brisk demand for the *BKS Bank Stufenzins Obligation 2016-2025/1* note issued in January 2016. Its annual coupon is being increased in steps from 0.75 per cent to 3.0 per cent. Issuing a supplementary capital bond (*Ergänzungskapitalanleihe*) increased our subordinated debt capital by €9.1 million to €190.9 million.

During the period under review, the line item *Equity* increased by €4.4 million to €864.7 million. Most of the increase was due to the addition of profit for the period, and income and expenses taken directly to equity were also included. Subscribed capital was unchanged at €72.1 million.

Consolidated Own Funds

BKS Bank calculated its own funds ratio and basis of assessment in accordance with the own funds regime laid down by the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) as established by Basel III since the beginning of 2014 in order to increase crisis resilience.

We calculated our own funds requirement in conformity with the standardized approach. Our management of our own funds was a reflection of BKS Bank's conservative and proactive business strategy. An increase in the deductions reduced our common equity Tier 1 capital, which plays an essential role in the bank's management, by 5.1 per cent to €546.0 million. The common equity Tier 1 ratio thus fell by 49 basis points to 11.3 per cent. We issued a total of €23.4 million of the *BKS Bank Additional Tier 1-Anleihe 2015* note, which was open for subscription from 1 September 2015. According to Art. 51 *et seq* of the CRR, it constitutes additional Tier 1 capital. Including ancillary capital in the amount of €47.9 million, our bank had own funds of €593.9 million at the end of March 2016. We were able to keep the own funds ratio at a high level of 12.3 per cent, and surplus own funds came to €177.0 million at the end of March. We note that this Interim Report has not been audited by an auditor and, therefore, that the profit for the period in the quarter under review could not be counted towards our own funds.

The new regulatory ratio introduced upon the implementation of the CRR—the so-called 'leverage ratio'—was 7.7 per cent at the end of March 2016. This was well above the regulatory benchmark of 3 per cent. This ratio measures the relationship between Tier 1 capital and non-risk weighted assets inclusive of off-balance sheet items.

BKS BANK KREDITINSTITUTSGRUPPE: OWN FUNDS

€m	31/12/2014	31/12/2015	31/3/2016
Equity	71.4	71.0	70.6
Reserves less intangible assets	714.5	748.0	743.6
Deductions	(242.2)	(243.4)	(268.2)
Common equity Tier 1 capital (CET1)	**543.7**	**575.6**	**546.0**
Common equity Tier 1 capital ratio	11.2%	11.8%	11.3%
Hybrid capital	32.0	28.0	24.0
Additional Tier 1 capital	0	23.4	23.4
Deductions	(32.0)	(51.4)	(47.4)
Additional Tier 1 capital	**0**	**0**	**0**
Tier 1 capital (CET1 + AT1)	**543.7**	**575.6**	**546.0**
Tier 1 capital ratio	11.2%	11.8%	11.3%
Ancillary capital items and instruments	117.8	114.7	121.0
Deductions	(80.6)	(90.4)	(73.2)
Ancillary capital	**37.2**	**24.3**	**47.9**
Total own funds	**580.9**	**599.9**	**593.9**
Own funds ratio	12.0%	12.3%	12.3%
Basis of assessment	4,846.6	4,883.4	4,834.0
Surplus own funds	**193.2**	**209.2**	**177.0**

Performance

The conditions in which banks were operating stayed as difficult as before in the first quarter of 2016. During that period, BKS Bank recorded solid *Net interest income after the impartment charge* of €37.4 million, compared with €36.1 million in the first three months of 2015. However, we were still unhappy with this result in that the historically low interest rates meant that it was impossible to achieve a significantly bigger increase in interest income. Profit from financial assets designated as at fair value through profit or loss also fell short of our expectations. A further fly in the ointment was a narrowing of our lending margin to just 1.89 per cent despite the fact that we did everything we could to implement any adjustments to margins that credit ratings justified. The deposit margin was actually negative at the end of March at minus 0.03 per cent.

Profit from investments in entities accounted for using the equity method was €0.6 million down on the same period of 2015 to €5.7 million. It should be noted that the first quarter of 2016 was an exception in that BKS Bank had recorded an unusually high profit from investments in entities accounted for using the equity method in the fourth quarter of 2015 as a result of extraordinary items within the profit of *BTV AG*. At the beginning of the second half of 2015, that sister bank of BKS effected a strategic restructuring of its securities portfolio, and it realized substantial hidden reserves in the course of the restructuring. Because of the circular shareholdings that exist between *Oberbank AG*, *BTV AG* and *BKS Bank AG*, the quarterly results of our sister banks have been taken into account on the basis of their quarterly financial statements for the previous quarter. We anticipate a return to stable profits at the same levels as in 2015 from the second quarter.

IFRSs required the credit risk costs recognized in profit or loss to be deducted from net interest income by way of direct write-offs and impairment allowances. The result was a charge for impairment losses on loans and advances of €8.8 million in the first quarter of 2016, compared with €6.2 million in the same period of 2015. Our risk position is quite good at the moment and it was slightly better than we had expected in the period under review. This was because BKS Bank was spared any major impairment losses during the first quarter even though it continued to apply the same strict impairment allowance standards. The risk:earnings ratio in the three months up to the end of March was down 570 basis points to 23.5 per cent.

On the whole, net fee and commission income lived up to our high expectations during the period under review. Group-wide, BKS Bank's net fee and commission income was only marginally down on the same period of 2015 to €12.9 million. As you can see at note 3 from page 39, this acceptable result was based on an increase in fee and commission income from payment services, which grew by 7.1 per cent to €5.6 million, and on higher earnings from credit operations, which advanced by 10.1 per cent to €3.7 million. On the other hand, securities operations were showing clear signs of the highly volatile stock market landscape. Fee and commission income from securities operations came to €3.3 million, which was €0.5 million down on the prior-year

COMPONENTS OF THE INCOME STATEMENT

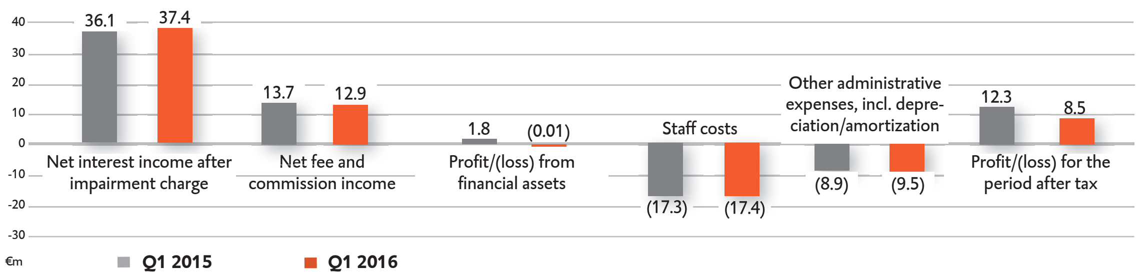


figure of €3.8 million. This was also reflected in a fall in securities turnover. At the end of March 2016, the securities portfolios held in custody by BKS Bank were worth €7.89 billion, compared with €8.10 billion at the end of 2015. We also saw the expected drop in our earnings from foreign exchange operations following a substantial increase in 2015 caused by the abandonment of the cap on the exchange rate between the Swiss franc and the euro.

Our total profit from financial assets was surprise-free. Having been positive €1.3 million in the same period of 2015, profit from financial assets designated as at fair value through profit or loss was now slightly negative, at minus €0.2 million. We exploited price fluctuations in the stock markets to earn €0.1 million in the available for sale portfolio. The sale of an American treasury bond resulted in a gain of €0.3 million in the held to maturity portfolio.

General administrative expenses came to €26.9 million in the first quarter of 2016. This was just 2.8 per cent more than in the same period of 2015. We are pleased to be able to report that we succeeded—despite the high regulatory demands—in keeping the workforce at an acceptable level and limiting the rise in staff costs, which increased by 0.8 per cent to €17.4 million. This was thanks to structural measures, a rigorous approach to costs and the concerted efforts of every decision-maker. The average number of staff increased by 4 compared with the same period of 2015 to 927 (FTEs). However, we remained fairly defensive when it came to re-filling vacant posts. We had to re-fill specialist posts at Head Office and in Slovenia to create the capacities needed to deal with the strong growth in retail banking operations at those locations. The 2016 increases in salaries under collective agreements averaged 1.2 per cent. They took effect at the beginning of April.

The line item *Other administrative costs* increased by 8.5 per cent to €7.8 million. Part of the increase was due to expenditure on office and business equipment and communications that took place earlier than originally planned during the first few weeks of the reporting year. The cost management challenge will now be to stick strictly to the cost budget. Fixed-asset depreciation and amortization were static compared with the same period of 2015 at €1.6 million.

A look at our bank's *Other operating income net of other operating expenses*—which came to negative €3.8 million, compared with negative €0.3 million in the same period of 2015—demonstrates impressively the extent of the questionable additional costs and burdens that had been imposed on banks. Among other things, in conformity with the relevant IFRS provisions, all of our outlay of €2.1 million on the resolution mechanism was already accounted for in the first quarter. The line item *Other operating income net of other operating expenses* also includes the cost of the deposit guarantee scheme, which is likely to total about €1.6 million in 2016.

Segmental Reports

Our segmental reporting is based on the organizational structure of the Group that underlies its internal management systems. It is divided into three segments, namely corporate and business banking, retail banking and financial markets. The performance of each segment was measured on the basis of its profit before tax and the indicators return on equity (ROE), cost:income ratio (CIR) and risk:earnings ratio (RER). Return on equity was calculated on the basis of the relationship between a segment's extrapolated profit for the year and the average amount of capital employed in it. Capital was allocated according to regulatory criteria. Net interest income was allocated using the *market interest rate method* and on the basis of an extensive liquidity cost allocation system. Incurred operating expenses were allocated to the individual business segments on a cost-by-cause basis. So-called 'structural' income was allocated to the financial markets segment. Moreover, since the summer of 2015, we have been using a professional 'Sales Cockpit' dashboard to better manage our sales activities. It is a key component of our modern sales architecture. It supports self-management, promotes self-responsibility and, based on benchmarks that are specific to each segment, shows how well targets are being met.

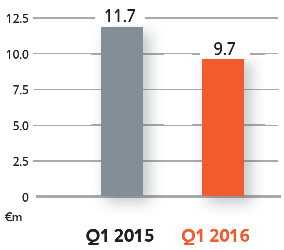
Corporate and Business Banking

About 18,200 customers were being serviced in the corporate and business banking segment at the end of March. BKS Bank having originally been conceived as a pure corporate and business bank, this segment has the longest tradition, dating back to 1922, and it remained the most important pillar of the enterprise. Institutional customers still accounted for the larger part of the loan portfolio and made an essential contribution to profit for the period. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, the income and expenses of *BKS Bank d.d.* in Croatia and of our leasing companies insofar as they arose from business done with companies were also allocated to this segment.

Although net interest income in the corporate and business banking segment was respectable, coming to €21.0 million, the impairment charge on loans and advances increased by €1.4 million to €7.5 million. This reduced the segment's profit for the period before tax to €9.7 million, and its risk:earnings ratio deteriorated from 29.1 per cent to 35.8 per cent. On the other hand,

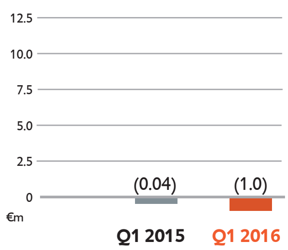
PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT

Corporate and Business Banking



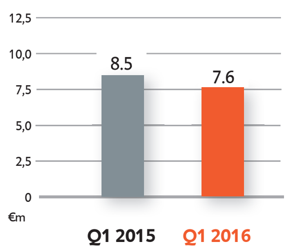
	Q1 2015	Q1 2016
ROE	18.9%	15.8%
CIR	37.8%	38.7%
RER	29.1%	35.8%

Retail Banking



	Q1 2015	Q1 2016
ROE	(0.4%)	(9.6%)
CIR	98.3%	99.4%
RER	3.9%	16.1%

Financial Markets



	Q1 2015	Q1 2016
ROE	6.8%	5.4%
CIR	19.2%	17.7%
RER	(2.5%)	2.3%

A detailed segmental analysis is presented in the Notes from page 44.

it proved possible to freeze general administrative expenses in this segment at the same low level as in the first quarter of 2015, at €10.9 million. Fee and commission income from credit and securities operations was especially weak. This dented net fee and commission income, which retreated by €0.5 million to €6.7 million. Two management indicators—the return on equity and the cost:income ratio—reached very satisfactory levels in the corporate and business banking segment, coming to 15.8 per cent (Q1 2015: 18.9 per cent) and 38.7 per cent (Q1 2015: 37.8 per cent), respectively. Despite the still precarious state of the market, this segment remained highly profitable, convincing us that it will once again become able to emulate its performance in its successful pre-crisis years.

Retail Banking

Our core areas of expertise in the retail banking segment are home construction finance and asset management. Our 60 branches continued to be the hub and pivot of our customer relationships and the most important interface to our retail banking customers. At the end of March 2016, we were servicing approximately 133,000 customers of *BKS Bank AG*, *BKS Bank d.d.* and the Group's leasing companies in this customer segment. Being highly dependent on branch operations, it was very resource and cost intensive. At the same time, though, it was indispensable to us because it remains a stable source of funds for our bank even in times of historically low interest rates. Over 86 per cent of savings deposit balances and roughly 28 per cent of sight and time deposit balances—that is, in total, about half of our payables to customers—were accounted for by retail customers. At the same time, about 22 per cent of the entire loan portfolio, totalling €1.15 billion, consisted of loans to our retail banking customers.

Following a small loss in the same period of 2015, the retail banking segment's profit dipped to negative €1.0 million in the first quarter. As margins continued to drop, falling to just 1.89 per cent in the period under review, net interest income fell by €0.2 million to €6.6 million. However, this cloud had a silver lining in the form of further growth in the customer base. We see that as convincing proof of our customers' confidence in our business model. Although the impairment allowance was slightly up in the first quarter, coming to €1.1 million, the segment's risk:earnings ratio was still low, at 16.1 per cent. This compared with 3.9 per cent in the same period of 2015.

Satisfactory fee and commission income from credit and payment operations increased our earnings from services in this segment by 2.5 per cent to €5.9 million. General administrative expenses increased slightly, to €13.0 million, with investments in sales increasing the line item *Other administrative costs*. As the segment's cost:income ratio shows, it is getting more and more difficult to operate profitably in the retail banking segment; it was 110 basis points up on the first quarter of 2015 to 99.4 per cent.

Financial Markets

Profit for the period 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 together with earnings from interest-rate term structure management activities were just €0.9 million down on the same period of 2015 to €7.6 million. The profit for the period before tax reflected a slightly reduced contribution to profit from investments in entities accounted for using the equity method of €5.7 million (Q1 2015: €6.4 million) and a substantial increase in net interest income to €9.3 million (Q1 2015: €8.1 million). Following an impairment reversal of €0.2 million in the first quarter of 2015 in response to an upgrade of Slovenia's country rating, the requisite impairment charge—which in the financial markets segment also includes the allowance for country risk exposure—came to €0.2 million in the first quarter of 2016. Profit from financial assets is also accounted for in the financial markets segment. Whereas the profit from financial assets in the first quarter of 2015 reflected the still positive performance of the international financial markets, coming to €1.8 million, we only broke even in this area in the three months to the end of March 2016. We again kept a tight rein on general administrative expenses in the financial markets segment. As a result, they rose by just €0.1 million to €1.7 million. Net trading income grew by €0.3 million. The increase was driven by interest rate and foreign exchange operations.

This segment's good overall performance reduced its cost:income ratio by another 150 basis points to 17.7 per cent. Its risk:earnings ratio was low, at 2.3 per cent. The return on equity—the segment's extrapolated profit for the year divided by the equity of €566.8 million allocated to it—came to 5.4 per cent, as against 6.8 per cent in the first quarter of 2015.

Key Corporate Ratios

Please join us for a look at the BKS Bank Group's enterprise performance barometer. Based on the growth in the loan portfolio and in primary deposit balances and on costs and operating profit, it painted a generally satisfactory picture of the three months ended 31 March 2016. The BKS Bank Group's key operational ratios matched our ambitious expectations despite the fact that extraordinary effects led to a drop in profit for the period. As we have already described in the section on our *Own Funds*, our bank's own funds position was solid, and consequently, our ratios remained good under the Basel III regime.

The return on equity (ROE) calculated on the basis of profit for the period weakened to 6.1 per cent. On the other hand, the return on assets— which expresses the total return on our assets— stayed within the same range as in the past two financial years, coming to 0.8 per cent. The risk:earnings ratio came to 23.5 per cent, which was, happily, a clear improvement versus the ratio of 29.2 per cent recorded in the same period of 2015. This was because we were again spared the need for any big write-downs during the quarter under review even though we maintained the same strict standards when recognizing impairment losses. The cost:income ratio was comparatively high, at 57.6 per cent. It was distorted by a non-recurring effect and is likely to fall below our internal benchmark target of 55 per cent again in the next few quarters. Under IFRIC 21, our anticipated outlay on the national bank resolution mechanism of €2.1 million (2015: €2.1 million) already required recognition in the Income Statement in the first quarter of 2016.

CORPORATE RATIOS

	2014	2015	31/3/2016
Return on equity (before tax)	7.2%	7.3%	6.1%
Return on assets (before tax)	0.8%	0.9%	0.8%
Cost:income ratio	51.9%	48.7%	57.6%
Risk:earnings ratio	31.5%	29.2%	23.5%
Common equity Tier 1 capital ratio	11.2%	11.8%	11.3%
Own funds ratio	12.0%	12.3%	12.3%

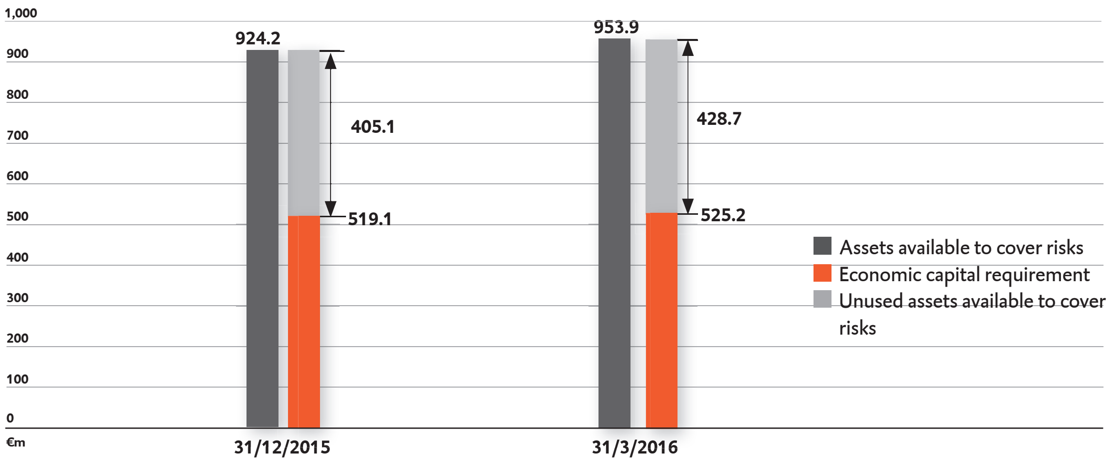
Risk Report

Our business policy credo was to safeguard BKS Bank's autonomy and independence by increasing its profits within the framework of a sustainable growth strategy. The selective assumption of risks was an important feature of our business activities, subject to the requirement that all the relevant operational and other banking risks should be detected early and actively managed and limited through effective risk management. The aim was to continuously and fully capture every individual risk. Available capital was used as efficiently as possible in the light of our medium-term and long-term strategic goals, and the trade-off between risk and return was constantly optimized. The precept that we only enter into risks that BKS Bank can bear without outside help was anchored in the Risk Strategy as a general principle so as not to jeopardize the bank's autonomy and independence. BKS Bank's Risk Strategy is updated and discussed and agreed with the Supervisory Board once a year. In 2016, BKS Bank is again doing its utmost to meet every regulatory requirement in the risk management field. Risk Management worked intensely on existing topics and on the new topics raised by CRD IV and CRR I, the *Banken Sanierungs- und Abwicklungsgesetz* (BaSAG: Austrian bank recovery and resolution act) and the Supervisory Review and Evaluation Process (SREP). We focused particular attention on the requirements they imposed.

Pursuant to the provisions of *§ 39a BWG* (Austrian banking act), banks are required to have effective plans and procedures in place to ascertain the amount, composition and distribution of the capital available to cover quantitatively and qualitatively all material operational and other banking risks. The requisite amount of capital must be held on that basis. These procedures were combined within ICAAP and presented and reported at BKS Bank within the scope of the risk bearing capacity calculation process. ILAAP is the process for identifying, measuring, managing and monitoring liquidity that must be put in place by BKS Bank pursuant to *§ 39 Abs. 3 BWG*. It encompasses a description of the systems and methods used to measure and manage liquidity and funding risks. BKS Bank assessed and monitored adherence to its liquidity targets within the scope of close to real-time and extensive risk reports. The quantitative statements contained in this report in conformity with IFRS 7.31 to 7.42 are based on our internal reports on the overall bank risk management process.

We assess our internal capital adequacy once a quarter on the basis of the risks identified using internal models. The materiality of the respective risks was taken into account when deciding

CALCULATION OF RISK BEARING CAPACITY ON A LIQUIDATION BASIS



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which models to use. The aim was to ensure that BKS Bank always had sufficient assets available to cover its risks, enabling it to absorb the risks it had assumed even if unexpected events were to occur. All identified and quantified unexpected risks were therefore aggregated to obtain a figure for overall bank risk. The overall bank risk was the equivalent of the economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit and liquidity risk were factored into the prices charged to customers as risk premiums (standard risk costs, liquidity premiums). The aggregated total potential loss was compared with the assets available to cover such a potential loss to ascertain whether the bank was in a position to bear expected and unexpected losses without suffering serious detriment to its business activities. The individual components of the assets that were available to cover risks were ranked according to their realizability while taking account, above all, of their liquidity and publicity effects. When a capital adequacy target was set on a going concern basis, the potential risk and risk bearing capacity and the limits derived from them were balanced in such a way that the bank was in a position to bear an adverse burden while continuing to conduct business in an orderly manner. The capital adequacy target set on a liquidation basis is a regulatory requirement. It serves to protect creditors. At BKS Bank, unexpected losses were calculated on a liquidation basis for a period of observation of one year and with a confidence interval of 99.9 per cent.

The economic capital requirement for credit risk was the biggest risk capital requirement within the *Kreditinstitutsgruppe*. Credit risk accounted for about 76.1 per cent of our total potential loss at the end of March 2016 (31 December 2015: 76.1 per cent). Market and interest rate risk accounted for 9.6 per cent (31 December 2015: 10.3 per cent). At 31 March 2016, our economic capital requirement on a liquidation basis was €525.2 million, compared with €519.1 million at the end of December 2015. The assets available to cover risks came to €953.9 million (31 December 2015: €924.2 million).

Credit Risk

We define credit risk as the risk of a partial or complete loss of contractually agreed loan payments. This risk can be caused by a business counterparty's credit standing or, indirectly, by country risk as the result of a counterparty's domicile or place of residence. Credit risk was BKS Bank's biggest risk category by far. Monitoring and analysis took place at the product and single customer level, at the level of groups of related customers and on a portfolio basis. Our management of credit risk was based on the principle that loans shall only be granted on a know-your-customer basis. In other words, loans were only granted after thorough personal and credit checks and on a dual-control or 'four-eyes' basis (front office and back office). Collateral requirements were based on the rating class and the product concerned. Fair value valuations of collateral took their bearings from average proceeds from liquidation achieved in the past. Lending in markets outside Austria was regulated by special guidelines that were fine tuned to suit the specific features of the country concerned. They depended in particular

RATING CLASSES

BKS Bank Rating	Description
AA	First-class (best) credit standing
A1	First-class (excellent) credit standing
1a	First-class credit standing
1b	Very good credit standing
2a	Good credit standing
2b	Still good credit standing
3a	Acceptable credit standing
3b	Still acceptable credit standing
4a	Inadequate credit standing
4b	Poor credit standing
5a	In default – performing
5b	In default – non-performing
5c	In default – irrecoverable

on the economic landscape and allowed for the heightened risk involved in realizing collateral. BKS Bank employed a 13-class rating system. At the reporting date of 31 March 2016, roughly 44 per cent of all lending to corporate and business banking customers and about 66 per cent of lending to retail banking customers was in the good rating classes from AA to 2b. When acquiring new business, our focus was on customers in these rating classes.

CHARGE FOR IMPAIRMENT LOSSES

€m	31/3/2015	31/3/2016	+/(–) Change, %
Impairments allowances	7.2	10.4	45.2
Impairment reversals	(1.1)	(1.6)	49.2
Direct write-offs	0.2	0.1	(43.2)
Subsequent recoveries	(0.1)	(0.2)	13.5
Charge for impairment losses	**6.2**	**8.8**	**42.7**

The charge for impairment losses in the period under review in 2016 came to €8.8 million, compared with €6.2 million in the same period of 2015. Impairments allowances came to €10.4 million, while impairment reversals came to €1.6 million. Individual impairment allowances, collective assessments of impairments carried out in accordance with IAS 39 and the collective allowance for country risk exposure were taken into account. Looking at our credit risk at the level of non-performing loans, the proportion of such loans was 40 basis points down on the beginning of 2016 to 6.2 per cent. The requisite charge for impairment losses at our foreign subsidiaries was unchanged at the same low level as in the first quarter of 2015, at just €0.2 million.

IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

Carrying Amount or Max. Default Risk per Category €m	Financial Instruments that were Neither Past Due nor Impaired		Past Due Financial Instruments	
	31/12/2015	31/3/2016	31/12/2015	31/3/2016
Receivables from customers	5,189	5,194	514	487
Contingent liabilities	212	197	6	4
Receivables from other banks	389	437	0	1
Securities and fund units	772	809	0	0
Equity investments	495	495	0	0
Total	**7,057**	**7,132**	**520**	**492**

Carrying Amount or Max. Default Risk per Category €m	Impaired Financial Instruments		Financial Instruments that were Past Due but Not Yet Impaired	
	31/12/2015 (IFRS)	31/3/2016 (IFRS)	31/12/2015 (IFRS)	31/3/2016 (IFRS)
Receivables from customers	464	398	103	97
Contingent liabilities	0	0	0	0
Receivables from other banks	0	1	0	0
Securities and fund units	0	0	0	0
Equity investments	0	0	0	0
Total	**464**	**399**	**103**	**97**

Market Risk

BKS Bank defines market risk as the risk of losses that might arise from movements in market prices or rates (e.g. equity and bond prices, foreign exchange rates, interest rates) or other parameters that influence prices or rates (e.g. volatilities and credit spreads). Market risk affected all interest rate and price sensitive positions in the banking and trading books of BKS Bank and the individual institutions within the *Kreditinstitutsgruppe*. For internal management purposes, the BKS Bank Group therefore included in its calculations of market risk the risk associated with positions in the banking book as a result of the possibility of movements in interest rates. BKS Bank subdivided market risk into interest rate risk (including credit spread risk), equity price risk and foreign exchange risk. We used a combination of different proven ways of gauging risk (value at risk, modified duration, volumes and stress testing) to effectively manage market risks and set limits.

Interest rate risk is the risk of adverse changes in the values of interest rate sensitive positions caused by a change in interest rates. Differing maturities and interest rate adjustment periods can lead to interest rate risks on both the assets and the equity and liabilities side of the account. However, they can generally be hedged against by means of on-balance sheet and off-balance sheet transactions or a combination thereof. BKS Bank pursued a strictly conservative interest rate risk strategy and did not engage in any large-volume speculative derivative transactions. BKS Bank engaged in derivative transactions almost exclusively to hedge against market risks. In doing so, it only used instruments whose characteristics were known, the risks associated with which were known and where we had experience based data. In the course of the quarter under review, the ratio of our interest rate risk to our eligible own funds assuming an interest rate shift of 200 basis points as reportable to *OeNB* fell to 1.3 per cent from 3.0 per cent at the end of 2015. Again, it remained significantly below the critical 20 per cent mark.

Since earning profits from open currency positions is not one of the focuses of our business policy, BKS Bank has always kept its foreign exchange risks low. Consequently, open currency positions were only held in small amounts and for short periods. Generally, foreign currency loans and foreign currency deposit balances were funded or invested in the same currency. To close foreign exchange positions, BKS Bank sometimes engaged in derivative transactions like cross currency swaps, currency forward and future transactions and currency swaps. Our open foreign exchange positions came to €17.9 million at the end of March. This figure includes the foreign currency portions of fund units held in our treasury portfolio. In contrast, we were able to keep our foreign exchange value at risk stable at €0.7 million.

Equity positions and alternative investments that did not comprise equity investments in subsidiaries or associates came to €31.7 million at the end of the first quarter of 2016. The equity value at risk was €1.6 million, compared with €1.3 million at 31 December 2015.

VALUE AT RISK

€m	31/3/2015	31/3/2016	+/(–) Change, %
Interest rate risk[1]	12.2	12.3	0.8
FX risk	0.7	0.7	—
Equity price risk	1.3	1.6	23.9
Total (including diversification effects)	12.2	12.5	2.4

[1] Includes credit spread risk.

Liquidity Risk

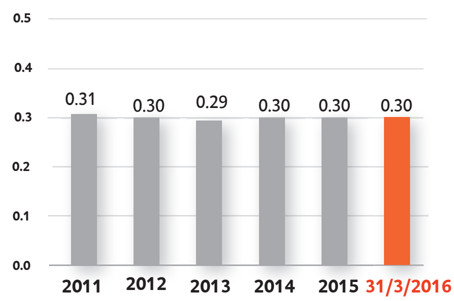
Liquidity risk is associated with the danger of not being able to meet present or future financial obligations in full or in time. This also includes the risk of only being able to raise funds at higher than usual market rates (funding risk) or liquidate assets at lower than usual market rates or prices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

The management of liquidity risk was governed by clearly defined principles that were laid down in our Risk Strategy and in our liquidity management manuals. The diversification of our funding profile to achieve a mix of investor categories, products and maturities was an essential part of the liquidity management process. Loan terms and conditions policy was managed on the basis of the *Risikomanagementverordnung* (Austrian risk management directive) and the EBA guidance underlying it. Using a sophisticated funds transfer pricing process, we ascertained the costs that arose when financial products were funded and allocated them during our product and profit centre calculations.

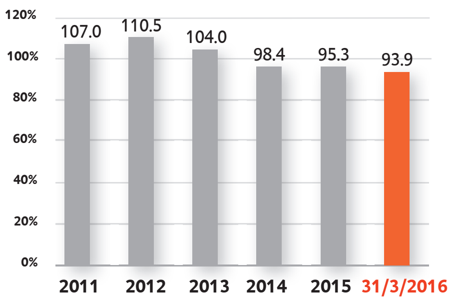
At BKS Bank, the management of liquidity in order to ensure solvency at all times was carried out with the help of a daily liquidity gap analysis for the main currencies. Limits were set at the short end to define liquidity risk boundaries. We mainly held as a liquidity buffer highly liquid securities that were eligible for refinancing with the ECB and eligible customer accounts. Material liquidity risk cost management decisions were made and liquidity risk cost monitoring was carried out by our Asset/Liability Management Committee, which met regularly. BKS Bank had substantial liquidity reserves at 31 March 2016. The liquidity buffer (counterbalancing capacity) was slightly up on the end of 2015 to €1.08 billion.

The deposit concentration sketched out in the chart below came to 0.30 in the quarter under review. This statistic helps us estimate the deposit withdrawal risk associated with the possibility of a run on deposits. Above all, it thus highlights the dangers that come with relying on large deposits. All customer deposit balances were broken down into predefined size bands and the relative amounts thereof, and weighting factors of between 0 and 1 were applied to them. The loan:deposit ratio is another important liquidity management indicator. It states the relationship between the size of the loan portfolio and primary deposit balances. It came to 93.9 per cent, which means that in the quarter under review we were well below our benchmark target and, therefore, at an excellent level. We have set a balanced ratio of 100 per cent as our benchmark target. The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain liquid for the coming 30 days even in the event of simultaneous market and bank-specific stresses. It compares holdings of highly liquid assets with the expected net cash outflow under stress conditions in the coming 30 days. At 31 March 2016, this regulatory liquidity ratio came to 138.9 per cent. It was thus far above the required ratio of 100 per cent that is gradually being phased in between October 2015 and 2018.

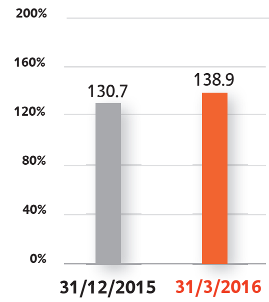
DEPOSIT CONCENTRATION



LOAN:DEPOSIT RATIO



LCR



Operational Risk

In line with the CRR, we define operational risk as the risk of losses arising primarily in BKS Bank's operational domain that might result from inadequate or failed internal processes, people or systems or from external factors. Operational risks at *BKS Bank AG* and all its subsidiaries in Austria and abroad were limited by an appropriate and continually refined internal control system. It included a raft of organizational measures ranging from the appropriate separation of functions within business processes (separation of front office from back office activities, dual-control or 'four-eyes' principle) to extensive bodies of internal rules and regulations and regular controls to emergency plans and self-auditing systems.

We registered 57 loss events (not including those resulting from credit operations) in the period under review. After the deduction of compensation received for those loss events, they cost roughly €50 thousand. The 13 cases that were recorded in conformity with *§ 19 WAG* (Austrian securities supervision act) caused a total loss of €0.1 million. This was below our internally set risk tolerance threshold of €1.0 million.

Outlook for the Year as a Whole

Interest rates are at a historically low level, and given the ECB's decisions of late, a trend reversal is not to be expected. Nor do we expect the pace of Austria's economic growth to change significantly in 2016. The European Commission and WIFO expect Austria's GDP to grow by about 1.5 per cent in real terms this year, compared with 0.9 per cent in 2015. While export growth will wane, private and public sector consumption will rise. The eurozone economy too is being boosted by exceptional factors. Above all, these include historically low crude oil prices and an expansionary monetary policy. Setbacks to the economy recovery—which is likely to result in real growth of about 1.6 per cent in 2016—cannot be totally ruled out. Consequently, the jobless rate, which is still in double figures, will still be slow to fall in 2016. As a result, inflation is also likely to stay very weak, at about 0.2 per cent. We expect the United States to achieve real GDP growth of 2.3 per cent during 2016. Strong domestic demand will probably balance out the fall in demand from the emerging markets and the dampening effect of the US dollar's appreciation. Since the US economy is already approaching full employment with a jobless rate of below 5 per cent, America's central bank may gradually hike key interest rates.

We expect the capital markets to remain as volatile as they are now throughout 2016, and we believe that the low interest rates and the resulting pressure on margins on the credit and deposit sides of the account will create additional burdens. The challenge in the coming months will be to effectively compensate for these factors through growth and with the help of margin management techniques. We are combating the drop in our earnings from traditional interest operations by intensifying our sales activities in the payments and securities fields. The digital revolution too is still opening up significant growth opportunities for the bank. We are investing accordingly in digital online operations in order to exploit those opportunities.

Our strategy for the 2016 financial year is clearly defined. We are pleased to note that BKS Bank has been able to steadily build up its image as a bank that acts responsibly. Given added strength by our customers' strong positive response to our efforts to increase the sustainability of our core operations and daily actions, we intend to expand both in the Viennese market and in foreign markets close to Austria's borders. We will focus on areas of business where sparing use is made of one's own funds. We will pay particular attention to increasing our profitability and productivity and energetically combating (credit) risks. Our common equity Tier 1 capital ratio was 11.3 per cent at the end of the period under review. This means that we are still performing well compared with our competitors, and we feel that our capital base is sufficiently comfortable in the present regulatory environment. What remains and worries us is the enormous burden caused by Austria's exorbitant bank tax, the big contributions we pay to the resolution mechanism and deposit guarantee scheme and the continually rising cost of meeting regulatory requirements. These include our contributions to the cost of all the supervisory authorities.

We have a proven business model and excellent employees and management staff. Our path towards being a sustainably successful bank has become visibly broader. In the light of our experience to date, we are cautiously optimistic about 2016 as a whole. Thanks to the intensification of our sales activities, payment services are likely to be one of our main engines of growth, and there are also signs that lending to corporate and business banking customers is reviving. However, it is still too early for an all-clear in the banking environment. The low interest rates, customers' high sensitivity to prices and growing competition from online banks are restricting the development of profit potential. However, if we are spared any downside surprises over the next three quarters and so long as the economy does not weaken, we intend, as in prior years, to distribute a dividend for the 2016 financial year that adequately reflects our profits.

Klagenfurt
17 May 2016

Herta Stockbauer
Chairwoman of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

The BKS Bank Group at a glance

	BKS Bank Group		Oberbank Group		BTV Group	
INCOME ACCOUNT, €m	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016
Net interest income	36.1	37.4	86.5	83.7	44.0	38.9
Impairment charge on loans and advances	(6.2)	(8.8)	(20.4)	(1.9)	(4.3)	(0.4)
Net fee and commission income	13.7	12.9	35.2	33.0	13.2	11.7
General administrative expenses	(26.2)	(26.9)	(59.7)	(65.4)	(39.1)	(42.1)
Other operating income net of other operating expenses	(0.3)	(3.8)	2.4	0.9	23.5	21.9
Profit for the period before tax	18.8	10.9	48.9	52.5	41.1	30.5
Profit for the period after tax	12.3	8.5	40.6	42.5	32.5	26.1

BALANCE SHEET DATA, €m	31/12/2015	31/3/2016	31/12/2015	31/3/2016	31/12/2015	31/3/2016
Assets	7,063.4	7,100.9	18,243.3	18,478.9	9,426.3	9,535.9
Receivables from customers after impairment charge	4,920.1	4,913.4	12,351.7	12,635.0	6,359.6	6,470.1
Primary deposit balances	5,109.8	5,164.4	12,620.0	12,754.4	7,020.7	7,055.6
– Of which savings deposit balances	1,629.8	1,624.9	2,912.6	2,931.4	1,200.8	1,236.0
– Of which liabilities evidenced by paper	758.1	772.2	2,098.5	2,060.1	1,377.9	1,409.6
Equity	860.2	864.7	1,925.7	1,969.0	1,148.7	1,190.0
Customer assets under management	13,212.1	13,059.2	25,245.1	25,358.1	12,732.4	12,733.9
– Of which in customers' securities accounts	8,102.3	7,894.8	12,625.1	12,603.7	5,711.6	5,678.3

OWN FUNDS FOR THE PURPOSES OF CRR, €m	31/12/2015	31/3/2016	31/12/2015	31/3/2016	31/12/2015	31/3/2016
Basis of assessment of own funds	4,883.4	4,834.0	12,216.7	12,580.6	6,262.7	6,283.2
Own funds	599.9	593.9	2,158.0	2,193.6	977.8	966.0
– Of which common equity Tier 1 capital (CET1)	575.6	546.0	1,650.8	1,688.4	950.9	930.3
– Of which total Tier 1 capital (CET1 and AT1)	575.6	546.0	1,733.3	1,765.0	950.9	930.3
Common equity Tier 1 capital ratio, %	11.8	11.3	13.5	13.4	15.2	14.8
Tier 1 capital ratio, %	11.8	11.3	14.2	14.0	15.2	14.8
Own funds ratio, %	12.3	12.3	17.7	17.4	15.6	15.4

CORPORATE RATIOS, %	31/12/2015	31/3/2016	31/12/2015	31/3/2016	31/12/2015	31/3/2016
Return on equity before tax	7.3	6.1	11.2	10.9	15.9	10.5
Return on equity after tax	6.5	5.3	9.7	8.8	12.8	9.0
Cost:income ratio	48.7	57.6	50.5	54.6	58.6	57.2
Risk:earnings ratio	29.2	23.5	12.4	2.3	9.7	1.0

RESOURCES	31/12/2015	31/3/2016	31/12/2015	31/3/2016	31/12/2015	31/3/2016
Average number of staff	923	927	2,025	2,048	1,354	1,415
Branches	59	60	156	159	36	36

The 3 *Banken Group* has existed for more than 20 years. This voluntary collaboration between *Oberbank AG*, *Bank für Tirol und Vorarlberg Aktiengesellschaft* and *BKS Bank AG* has the strength of a major bank. The success of BKS Bank and its sister banks stems from the fact that each has its own strategy and business policy and from their self-image as independent and capable 'universal' banks servicing retail banking customers and export-orientated medium-sized enterprises in their respective regions. All three banks continued to pursue their successful business policies in the period from January through March 2016. Their aggregate profit for the period before tax came to €93.9 million in the first quarter under review, compared with €108.8 million in the first three months of 2015. Their aggregate assets stabilized at a level of €35.1 billion, and their aggregate loan portfolio net of impairment allowance balances came to €24.0 billion. Moreover, funds under management by the three banks in the form of savings, sight and time deposit balances, liabilities evidenced by paper and subordinated liabilities came to €25.0 billion at the close of March 2016. At the end of the period under review, the three banks employed a total of 4,390 people. The branch network, which is at the disposal of all three sister banks, consisted of 255 branches serving corporate and business banking and retail banking customers.

Consolidated Financial Statements as at and for the Three Months Ended 31 March 2016

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Comprehensive Income Statement of the BKS Bank Group for the Period from 1 January to 31 March 2016

INCOME STATEMENT

€k	Note	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Interest income		44,298	42,319	(4.5)
Interest expenses		(14,575)	(10,644)	(27.0)
Profit/(loss) from investments in entities accounted for using the equity method		6,371	5,726	(10.1)
Net interest income	**(1)**	**36,094**	**37,401**	**3.6**
Impairment charge on loans and advances	(2)	(6,161)	(8,793)	42.7
Net interest income after impairment charge		**29,933**	**28,608**	**(4.4)**
Fee and commission income		14,439	13,864	(4.0)
Fee and commission expenses		(769)	(974)	26.7
Net fee and commission income	**(3)**	**13,670**	**12,890**	**(5.7)**
Net trading income	(4)	(67)	199	(>100.0)
General administrative expenses	(5)	(26,173)	(26,898)	2.8
Other operating income	(6)	1,433	1,239	(13.5)
Other operating expenses	(6)	(1,751)	(5,039)	>100.0
Profit/(loss) from financial assets		**1,768**	**(61)**	**(>100.0)**
– Profit/(loss) from financial assets designated as at fair value through profit and loss	(7)	1,256	(195)	(>100.0)
– Profit/(loss) from available-for-sale financial assets	(8)	225	134	(40.4)
– Profit/(loss) from held-to-maturity financial assets	(9)	287	0	(100.0)
Profit for the period before tax		**18,813**	**10,938**	**(41.9)**
Income tax expense	(10)	(6,534)	(2,414)	(63.1)
Profit for the period after tax		**12,279**	**8,524**	**(30.6)**
Minority interests in profit for the period		(1)	(1)	—
Profit for the period after tax and minority interests		**12,278**	**8,523**	**(30.6)**

OTHER COMPREHENSIVE INCOME (OCI)

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Profit for the period after tax	**12,279**	**8,524**	**(30.6)**
Items not reclassified to consolidated profit or loss for the year	**(5,321)**	**3,381**	**(>100.0)**
+/(–) Actuarial gains less losses in conformity with IAS 19	0	(250)	—
+/(–) Deferred taxes in conformity with IAS 19	0	63	—
+/(–) Gains less losses arising from use of the equity method in conformity with IAS 19	(5,321)	3,568	(>100.0)
Items reclassified to consolidated profit or loss for the year	**1,405**	**(6,649)**	**(>100.0)**
+/(–) Foreign exchange differences	50	470	>100.0
+/(–) Available for sale reserve	5,096	(1,374)	(>100.0)
+/(–) Deferred taxes taken to available for sale reserve items	(1,347)	346	(>100.0)
+/(–) Gains less losses arising from use of the equity method	(2,394)	(6,091)	>100.0
Total income and expenses taken directly to equity	**(3,916)**	**(3,268)**	**(16.5)**
Comprehensive income before minority interests	**8,363**	**5,256**	**(37.2)**
Of which minority interests	(1)	(1)	0.0
Comprehensive income after minority interests	**8,362**	**5,255**	**(37.2)**

CHANGE IN THE PERIOD WITH WHICH THE REPORTING PERIOD ENDED 31 MARCH 2016 IS COMPARED RESULTING FROM RESTATEMENTS AS OF 30 JUNE 2015

As was explained in detail in the 2015 Annual Report and the 2015 Semi-Annual Report, an audit by *Österreichische Prüfstelle für Rechnungslegung* (Austrian financial reporting enforcement panel) produced two results.

In the comparative period (the three months ended 31 March 2015), the restatement in connection with the deferral of loan processing fees and charges resulted in the following changes in the Comprehensive Income Statement:

€k	Interim Report 31/3/2015	Restatement	Amount after Restatement	Change %
Fee and commission income	13,684	+755	14,439	5.52%
Profit for the period before tax	18,058	+755	18,813	4.18%
Income tax expense	(6,345)	(189)	(6,534)	2.98%
Profit for the period after tax	11,713	+566	12,279	4.83%
Earnings per share (annualized), €	1.32	+0.07	1.39	5.30%

The second result related to the accounting for *ALGAR* on a proportionate basis. It did not affect the comparative amounts for the same period of 2015.

In all the tables in the Interim Report that have been affected, the amounts for the period from 1 January through 31 March 2015 have been restated in conformity with IAS 8.

QUARTERLY REVIEW

€k	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Interest income	44,298	48,388	43,855	39,510	42,319
Interest expenses	(14,575)	(13,706)	(13,524)	(10,788)	(10,644)
Profit/(loss) from investments in entities accounted for using the equity method	6,371	8,735	9,624	18,256	5,726
Net interest income	**36,094**	**43,417**	**39,955**	**46,978**	**37,401**
Impairment charge on loans and advances	(6,161)	(6,126)	(12,907)	(23,353)	(8,793)
Net interest income after impairment charge	**29,933**	**37,291**	**27,048**	**23,625**	**28,608**
Fee and commission income	14,439	14,103	13,133	14,479	13,864
Fee and commission expenses	(769)	(843)	(856)	(704)	(974)
Net fee and commission income	**13,670**	**13,260**	**12,277**	**13,775**	**12,890**
Net trading income	(67)	998	1,086	303	199
General administrative expenses	(26,173)	(26,875)	(26,185)	(25,887)	(26,898)
Other operating income	1,433	899	1,209	6,493	1,239
Other operating expenses	(1,751)	(4,170)	(6,810)	(2,977)	(5,039)
Total profit/(loss) from financial assets	**1,768**	**1,004**	**358**	**(4,809)**	**(61)**
– Profit/(loss) from financial assets designated as at fair value through profit and loss	1,256	(528)	565	(1,184)	(195)
– Profit/(loss) from available-for-sale financial assets	225	1,532	(207)	(3,625)	134
– Profit/(loss) from held-to-maturity financial assets	287	0	0	0	0
Profit for the period before tax	**18,813**	**22,407**	**8,983**	**10,523**	**10,938**
Income tax expense	(6,534)	(3,032)	3,337	(881)	(2,414)
Profit for the period after tax	**12,279**	**19,375**	**12,320**	**9,642**	**8,524**
Minority interests in profit for the period	(1)	(1)	0	(1)	(1)
Profit for the period after tax and minority interests	**12,278**	**19,374**	**12,320**	**9,641**	**8,523**

Balance Sheet of the BKS Bank Group as at 31 March 2016

ASSETS

€k	Note	31/12/2015	31/03/2016	+/(–) Change, %
Cash and balances with the central bank	(11)	190,310	177,060	(7.0)
Receivables from other banks	(12)	363,862	412,174	13.3
Receivables from customers	(13)	5,113,867	5,109,615	(0.1)
– Impairment allowance balance	(14)	(193,748)	(196,264)	1.3
Trading assets	(15)	46	15	(67.4)
Financial assets		1,445,094	1,457,301	0.8
– Financial assets designated as at fair value through profit or loss	(16)	114,863	112,323	(2.2)
– Available-for-sale financial assets	(17)	166,721	175,640	5.3
– Held-to-maturity financial assets	(18)	724,891	726,859	0.3
– Investments in entities accounted for using the equity method	(19)	438,619	442,479	0.9
Intangible assets	(20)	1,868	1,811	(3.1)
Property and equipment	(21)	58,437	57,758	(1.2)
Investment property	(22)	29,690	28,391	(4.4)
Deferred tax assets	(23)	25,441	26,175	2.9
Other assets	(24)	28,566	26,822	(6.1)
Total assets		**7,063,433**	**7,100,858**	**0.5**

EQUITY AND LIABILITIES

€k	Note	31/12/2015	31/03/2016	+/(–) Change, %
Payables to other banks	(25)	904,574	867,647	(4.1)
Payables to customers	(26)	4,351,716	4,392,168	0.9
– Of which savings deposit balances		1,629,833	1,624,868	(0.3)
– Of which other payables		2,721,883	2,767,300	1.7
Liabilities evidenced by paper	(27)	576,346	581,339	0.9
Trading liabilities	(28)	46	15	(67.4)
Provisions	(29)	125,973	127,405	1.1
Deferred tax liabilities	(30)	9,312	9,548	2.5
Other liabilities	(31)	53,472	67,175	25.6
Subordinated debt capital	(32)	181,752	190,890	5.0
Equity		860,242	864,671	0.5
– Of which total minority interests and equity		860,227	864,655	0.5
– Of which minority interests in equity		15	16	6.7
Total equity and liabilities		**7,063,433**	**7,100,858**	**0.5**

EARNINGS AND DIVIDEND PER SHARE

	Q1 2015	Q1 2016
Average number of ordinary and preference shares in issue	35,451,803	35,327,392
Earnings per share (ordinary and preference shares), €	0.35	0.23
Earnings per share (ordinary and preference shares, annualized), €	1.39	0.92

Earnings per share compares consolidated profit for the period with the average number of no-par shares (*Stückaktie*) in issue. In the period under review, earnings per share and diluted earnings per share were the same because no financial instruments with a dilution effect on the shares were outstanding.

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Foreign Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/ (Loss) for the Period	Additional Equity Instruments	Equity
At 1 January 2016	**72,072**	**143,056**	**(1,030)**	**2,388**	**562,416**	**4,312**	**53,613**	**23,400**	**860,227**
Distribution									0
Taken to retained earnings					53,613		(53,613)		0
Profit for the period after tax							8,523		8,523
Gains and losses taken directly to equity			470	(1,028)	(187)	(2,523)			(3,268)
Increase in share capital									0
Change arising from use of the equity method					657				657
Change in treasury shares					(352)				(352)
Issues of additional equity instruments (AT1)[1]									0
Other changes					(1,132)				(1,132)
At 31 March 2016	**72,072**	**143,056**	**(560)**	**1,360**	**615,015**	**1,789**	**8,523**	**23,400**	**864,655**
Available for sale reserve									1,807
Deferred tax reserve									(447)

[1] The issued additional Tier 1 note was classified as an equity item in conformity with IAS 32.

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Foreign Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/ (Loss) for the Period	Additional Equity Instruments	Equity
At 1 January 2015	**72,072**	**143,056**	**(1,107)**	**2,560**	**519,297**	**11,219**	**48,740**	**0**	**795,837**
Planned distribution							(8,288)		(8,288)
Taken to retained earnings					40,452		(40,452)		0
Profit for the period after tax							12,279		12,279
Gains and losses taken directly to equity			50	3,749		(7,715)			(3,916)
Increase in share capital									
Change arising from use of the equity method						5,597			5,597
Change in treasury shares					(1,219)				(1,219)
Issues of additional equity instruments (AT1)[1]									0
Other changes					(53)				(53)
At 31 March 2015	**72,072**	**143,056**	**(1,057)**	**6,309**	**558,477**	**9,101**	**12,279**	**0**	**800,237**
Available for sale reserve									8,408
Deferred tax reserve									(2,100)

[1] The issued additional Tier 1 note was classified as an equity item in conformity with IAS 32.

Cash Flow Statement

CASH FLOWS

€k	1/1–31/3/2015	1/1–31/3/2016
Cash and cash equivalents at end of previous period	**215,269**	**190,310**
Profit for the period after tax and before minority interests	12,279	8,524
Non-cash items in profit for the period	9,642	6,569
Changes in assets and liabilities arising from operating activities after correction for non-cash items	(77,899)	(22,436)
Net cash from operating activities	**(55,978)**	**(7,343)**
Cash inflows arising from sales	36,833	22,412
Cash outflows arising from investments	(17,565)	(37,201)
Net cash from investing activities	**19,268**	**(14,789)**
Other receipts	0	0
Dividends paid	0	0
Subordinated liabilities and other financing activities	(10,752)	8,786
Net cash from/(used in) financing activities	**(10,752)**	**8,786**
Effect of exchange rate changes on cash and cash equivalents	210	96
Cash and cash equivalents at end of reporting period	**168,017**	**177,060**

Notes to the Consolidated Financial Statement of BKS Bank – Material Accounting Policies

I. General information

The Interim Financial Statements of the BKS Bank Group as at and for the three months ended 31 March 2016 were prepared in accordance with the provisions of the IFRS standards published by the IASB (International Accounting Standards Board) that were effective at the reporting date and as adopted by the EU. Account was also taken of the relevant interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

II. Recognition and measurement

Scope of consolidation

Besides *BKS Bank AG*, the Consolidated Financial Statements accounted for a total of 19 entities (15 consolidated, three accounted for using the equity method and one accounted for on a proportionate basis). The scope of consolidation was unchanged versus 31 December 2015.

CONSOLIDATED ENTITIES

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
BKS Bank d.d.	Rijeka	100.00	—	31/3/2016
BKS-Leasing Gesellschaft m.b.H	Klagenfurt	99.75	0.25	31/3/2016
BKS-leasing d.o.o.	Ljubljana	100.00	—	31/3/2016
BKS-leasing Croatia d.o.o.	Zagreb	100.00	—	31/3/2016
BKS-Leasing s.r.o.	Bratislava	100.00	—	31/3/2016
IEV Immobilien GmbH	Klagenfurt	100.00	—	31/3/2016
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	Klagenfurt	100.00	—	31/3/2016
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	—	100.00	31/3/2016
BKS Hybrid alpha Gmbh	Klagenfurt	100.00	—	31/3/2016
BKS Hybrid beta GmbH	Klagenfurt	100.00	—	31/3/2016
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00	—	31/3/2016
LVM Beteiligungs Gesellschaft mbH	Klagenfurt	—	100.00	31/3/2016
BKS Immobilien-Service GmbH	Klagenfurt	100.00	—	31/3/2016
BKS Service GmbH	Klagenfurt	100.00	—	31/3/2016
BKS 2000 Beteiligungsverwaltungs GmbH	Klagenfurt	100.00		31/3/2016

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
Oberbank AG	Linz	15.30	—	31/12/2015
Bank für Tirol und Vorarlberg AG	Innsbruck	13.59	—	31/12/2015
Drei-Banken Versicherungs-Aktiengesellschaft	Linz	20.00	—	31/3/2016

Regarding *Oberbank AG* and *Bank für Tirol und Vorarlberg AG*, we point out that although *BKS Bank AG* had voting interests of less than 20 per cent in those banks at 31 March 2016, namely of 16.52 per cent and 14.95 per cent, respectively, and equity interests of less than 20 per cent, namely of 15.30 per cent and 13.59 per cent, respectively, the exercise of voting rights was regulated by syndicate agreements. These allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them.

Entities accounted for on a proportionate basis

As a result of the application of IFRS 11 since the 2014 financial year, our investment in *ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.* required classification as a joint operation and was, therefore, accounted for on a proportionate basis.

ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

Entity	Head Office	Direct Equity Interest, %	Date of Financial Statements
ALPENLÄNDISCHE GARANTIE-GESELLSCHAFT m.b.H.	Linz	25.0	31/3/2016

FOREIGN SUBSIDIARIES AND BRANCHES AT 31 MARCH 2016

€k	Net Interest Income	Operating Profit	Number of Staff (Full Year Equivalents)	Profit/(Loss) for the Period Before Tax
Branches abroad				
Slovenia Branch (banking branch)	2,648	3,276	97	531
Slovakia Branch (banking branch)	331	362	23	(51)
Subsidiaries				
BKS Leasing d.o.o., Ljubljana	539	647	12	419
BKS-leasing Croatia d.o.o., Zagreb	564	657	12	401
BKS-Leasing s.r.o.,Bratislava	229	295	10	52
BKS Bank d.d., Rijeka	1.659	1.818	56	757

FOREIGN SUBSIDIARIES AND BRANCHES AT 31 MARCH 2015

€k	Net Interest Income	Operating Profit	Number of Staff (Full Year Equivalents)	Profit/(Loss) for the Period Before Tax
Branches abroad				
Slovenia Branch (banking branch)	2,878	3,472	91	699
Slovakia Branch (banking branch)	287	308	20	(49)
Subsidiaries				
BKS Leasing d.o.o., Ljubljana	551	957	11	392
BKS-leasing Croatia d.o.o., Zagreb	380	453	11	238
BKS-Leasing s.r.o.,Bratislava	265	319	14	46
BKS Bank d.d., Rijeka	1,292	1.454	57	450

Foreign currency translation

Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates ruling at the balance sheet date. The financial statements of subsidiaries that were not prepared in euros were translated using the *closing rate method*. Within the Group, there were just two companies that did not prepare their financial statements in euros. They were Croatian companies that prepared their financial statements in Croatian kunas (HRK). Their assets and liabilities were translated at the exchange rates ruling at their balance sheet dates. Expenses and income were translated applying the average rates of exchange in the respective period. The resulting foreign exchange differences were recognized in *Other comprehensive income*. Foreign exchange differences were recognized as a component of equity.

Notes on Individual Items on the Balance Sheet

Cash and balances with the central bank

Cash and balances with the central bank were recognized at nominal values.

Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one entity and a financial liability or equity of another entity. Financial assets and liabilities were initially measured at their fair value, which was, as a rule, their cost. They were subsequently measured in accordance with the provisions of IAS 39 and their assignment to one of the following categories:

- financial assets and liabilities requiring measurement to fair value, subdivided into
  - trading assets and trading liabilities: these are financial instrument held for trading, including all derivatives except for those that are designated as hedges (held for trading);
    - financial assets and liabilities designated as at fair value through profit or loss (fair value option)

– available-for-sale financial assets and liabilities (AFS);
– held-to-maturity financial assets and liabilities (HTM);
– loans and receivables (LAR);
– financial liabilities (other liabilities).

On each reporting date, financial assets are tested to determine whether there is objective evidence of impairment. Such objective evidence includes, for instance, a debtor in financial difficulties, default or delay in interest payments or repayments and concessions made by *BKS Bank AG* or the consolidated subsidiary to a debtor for financial or legal reasons connected with the debtor's financial difficulties that would otherwise not have been made. In the valuations that follow, financial instruments have been measured either to fair value or at amortized cost. BKS Bank classified and measured the financial instruments in conformity with IAS 39 and IFRS 7 as follows:

CLASSIFICATION AND VALUATION OF FINANCIAL INSTRUMENTS

Assets	At Fair Value	At Amortized Cost	Other, Note	IAS 39 Category
Cash and balances with the central bank			Nominal	Not assignable
Receivables from other banks		✓	—	Loans and receivables
Receivables from customers		✓	—	Loans and receivables
Trading assets	✓		—	Held for trading
Financial assets designated as at FV through Profit or loss	✓		—	Fair value option
Available-for-sale financial assets	✓	✓	—	Available for sale
Held-to-maturity financial assets		✓	—	Held to maturity
Investments in entities accounted for using the equity method			Equity method	Not assignable
Investment property		✓	—	Not assignable
Other assets				
– Of which derivatives	✓		—	Held for trading
– Of which other items			Nominal	Not assignable

EQUITY AND LIABILITIES	At Fair Value	At Amortized Cost	Other, Note	IAS 39 Category
Payables to other banks		✓	—	Other liabilities
Payables to customers		✓	—	Other liabilities
Liabilities evidenced by paper				
– Of which designated as at FV through profit or loss	✓		—	Fair value option
– Of which other liabilities evidenced by paper		✓	—	Other liabilities
Trading liabilities	✓		—	Held for trading
Other liabilities				
– Of which derivatives	✓		—	Held for trading
– Of which other items			Nominal	Not assignable
Subordinated debt capital		✓	—	Other liabilities

As in 2015, no reclassifications were carried out in accordance with IFRS 7.12 during the period under review.

Financial assets and liabilities designated as at fair value through profit or loss

Certain positions were designated collectively *as at fair value through profit or loss* using the fair value option (FV). Their inclusion in this category was decided by the Asset/Liability Management (ALM) Committee. Those positions (asset or liability and associated derivative) were measured at fair value through profit or loss and any revaluation gains or losses were recognized in the Income Statement in the line item *Profit/(loss) from financial assets designated as at fair value through profit or loss*.

Available-for-sale financial assets

Available-for-sale (AFS) securities are a separate category of financial instrument. They are what remains when a financial asset is recognized neither as a held-to-maturity asset nor as an asset designated as at fair value through profit or loss. They were generally measured applying stock exchange prices. If these were not available, values of interest rate products were measured using present value techniques. Revaluation gains and losses were recognized in the AFS reserve and not through profit or loss. If such securities were sold, the corresponding part of the AFS reserve was released through profit or loss.

In the event of impairment (e.g. a debtor in severe financial difficulties or a measurable decline in the expected future cash flows), a charge was recognized in the Income Statement. If the reason for such a charge no longer existed, a write-back was recorded. In the case of equity capital instruments, it was made to equity through the AFS reserve. In the case of debt instruments, it was made to income. Investments in entities that were neither consolidated nor accounted for using the equity method were deemed to be part of the AFS portfolio. Where market prices were unavailable, equity investments were valued on a cost basis.

Held-to-maturity financial assets
This line item comprises financial instruments that were to be held to maturity (HTM). Premiums and discounts were spread over their term using the *effective interest rate method*. Impairment losses were recognized through profit or loss.

Investments in entities accounted for using the equity method
Entities in which BKS Bank held a stake of over 20 per cent were accounted for in the Consolidated Financial Statements using the equity method. In addition, *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft* were also accounted for in the Consolidated Financial Statements using the equity method even though the stakes held in *Oberbank AG* and *Bank für Tirol und Vorarlberg Aktiengesellschaft* were smaller than 20 per cent. This is because syndicate agreements were in place. They allowed participation in those banks' financial and business policy decisions within the scope of the *3 Banken Group* without having control of them. If there was objective evidence of impairment of an investment accounted for using the equity method, a value in use was calculated on the basis of the estimated future cash flows that were to be expected from the associate. Present value was measured on the basis of a discounted cash flow model. A two-phase mathematical model was used. No impairment losses were incurred in the year under review.

Loans and receivables, other liabilities
The category *Loans and receivables* includes all non-derivative financial assets with fixed or determinable payments that were not listed in an active market. At BKS Bank, this category corresponded to the line items *Receivables from other banks* and *Receivables from customers*. They were measured at amortized cost. Impairments were allowed for by recognizing impairment charges. If there were premiums or discounts, they were spread over the term of the asset and recognized in profit or loss. *Other liabilities* comprises payables to other banks and payables to customers. These liabilities were recognized at the amounts payable.

Impairment allowance balance
Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing individual impairment charges (in the case of material exposures, these were calculated on the basis of the *discounted cash flow method*), by recognizing individual impairment charges applying class-specific criteria and by way of portfolio impairment assessments carried out in accordance with IAS 39.64. The latter captured incurred but not yet identifiable losses. Provisions were recognized for risks arising from contingent liabilities in accordance with IAS 37. An assessment of impairment of the portfolio arising from country risks was recognized at the reporting date, with the exposures outstanding in each country being broken down into risk classes. The total impairment allowance balance is disclosed as a deduction on the assets side of the Balance Sheet (impairment account). The criteria for charging or writing off receivables that were deemed to be irrecoverable were their total irrecoverability and the final realization of all the collateral associated with those receivables.

Investment property
This line item encompasses property intended for letting to third parties. It was measured at amortized cost (*cost method*). The fair value of investment property is disclosed in the Notes. It was mainly based on estimates (by certified appraisers). Depreciation rates were between 1.5 per cent and 3.0 per cent. Depreciation was immediate and linear.

Trading assets and trading liabilities
Within the line item *Trading assets*, primary financial instruments were measured at fair value. Derivative financial instruments were measured at fair value. Financial instruments with negative fair values were recognized on the Balance Sheet in the line item *Trading liabilities*. Revaluation gains and losses on this line item were recognized in the Income Statement in the line item *Net trading income*. Interest expenses incurred in the financing of trading assets were reported in the line item *Net interest income*. Spot transactions were accounted for and charged off at their settlement dates.

Derivatives
Derivative financial instruments were measured at fair value. Changes in value were generally recognized through profit or loss in the Income Statement.

Property and equipment
The line item *Property and equipment* consists mainly of land, buildings and other property and equipment comprising primarily office furniture and equipment. Property and equipment was recognized at the amortized cost of acquisition or conversion. Ordinary depreciation was linear based on an asset's usual useful life and lay within the following bands:
– immovable assets: 1.5 per cent to 3.0 per cent (i.e. between 33.3 and 66.7 years);
– office furniture and equipment: 10 per cent to 20 per cent (i.e. between 5 and 10 years).

Impairments were allowed for by recognizing extraordinary depreciation, which was recognized in the Income Statement in the line item *General administrative expenses*. If an impairment no longer existed, a write-back was made up to the asset's amortized cost. No extraordinary depreciation or write-backs were recognized during the period under review.

Intangible assets
The line item *Intangible assets* comprises goodwill and other intangible assets. The *Other intangible assets* were all purchased and had limited useful lives; they consisted primarily of software. Ordinary amortization was linear based on an asset's usual useful life. The amortization rate for software was 25 per cent (i.e. 4 years).

Purchased goodwill was recognized at cost at the date of acquisition. It is not amortized. Instead, an impairment test is carried out at least once a year. When goodwill on the Balance Sheet was tested for impairment, its carrying amount was compared with the present value of the company's interest in all future cash flows (value in use). Present value was measured on the basis of a discounted cash flow model. A two-phase mathematical model was used:
Phase 1: In phase 1, cash flows in the ensuing five years were calculated and discounted on the basis of the Group's budgets.
Phase 2: In phase 2, a perpetual annuity was calculated on the basis of the cash flow in the most recent plan year.

No goodwill was shown on the Balance Sheet as at 31 March 2016.

Leasing

The leased assets within the Group required recognition as assets leased under finance leases (the risks and rewards being with the lessee for the purposes of IAS 17). Leased assets were 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 line items *Other assets* and *Other liabilities* comprise 'other' assets and liabilities and the fair values of derivative instruments. They were recognized at amortized cost or measured to fair value.

Liabilities evidenced by paper
The line item *Liabilities evidenced by paper* comprises bonds in circulation, debt securities and other liabilities evidenced by paper (own issuances). As a rule, liabilities evidenced by paper were recognized at amortized cost. In exceptional cases (decided by the Asset/Liability Management Committee), liabilities evidenced by paper were measured to fair value (fair value option).

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

Deferred tax assets and deferred tax liabilities
The reporting and calculation of income tax expense took place in accordance with IAS 12. The calculation for each taxed entity was carried out applying the tax rates that, according to the applicable legislation, were to be applied in the tax period in which a temporary difference was going to reverse. Deferred taxes were computed on the basis of differences between the tax base and the carrying amounts of assets or liabilities for the purposes of IFRSs. These would cause additional tax burdens or reduce tax burdens in the future.

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

Equity
Equity consisted 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 ploughing back its profits. An additional Tier 1 note was issued during the 2015 financial year. Under IAS 31, it required classification as equity.

Notes to Individual Line Items in the Income Statement

Net interest income
The line item *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 were accounted for on an accrual basis. Income from equity investments in entities accounted for using the equity method was disclosed in the line item *Net interest income* net of financing costs. The historically low interest rates led to negative interest earnings. According to the IFRIC Interpretations Committee (IC), these should not be presented as income within the meaning of IAS 18. Instead, they must be presented in an 'appropriate expense classification'. As a result, negative interest income is presented as interest expense. Likewise, positive interest expenses are presented as interest income.

Impairment charge on loans and advances
This line item captures impairment allowances, impairment reversals and the creation of provisions for contingent liabilities. Recoveries on receivables previously written off were also accounted for in this line item.

Net fee and commission income
This line item comprises income from services rendered to third parties net of the expenses attributed to such services. Fees and commission connected with newly granted loans with original durations of more than one year were recognized in the Income Statement *pro rata temporis*.

General administrative expenses
The line item *General administrative expenses* includes staff costs, other administrative costs and depreciation and amortization. They were accounted for on an accrual basis.

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

Other operating income net of other operating expenses
This line item comprises fees, levies, damages, compensation for damages, proceeds from property sales and similar items. They were accounted for on an accrual basis.

Other notes
Forward-looking assumptions and estimates regarding yield curves and foreign exchange rates were made as required. The financial statements were prepared on the basis of the knowledge and information available at the copy deadline date.

The assumptions and estimates included in the Interim Financial Statements were made on the basis of the knowledge and information available at the reporting date of 31 March 2016.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Interest income from:			
Credit operations	33,304	32,125	(3.5)
Fixed-interest securities	5,956	5,480	(8.0)
Lease receivables	2,176	2,268	4.2
Shares and investments in other entities	1,405	435	(69.0)
Positive interest expenses [1]	620	1,293	>100.0
Investment property	837	718	(14.2)
Total interest income	**44,298**	**42,319**	**(4.5)**
Interest expenses on:			
Deposits from customers and other banks [2]	7,332	3,744	(48.9)
Liabilities evidenced by paper	6,411	5,812	(9.3)
Negative interest income [1]	579	849	46.6
Investment property	253	239	(5.5)
Total interest expenses	**14,575**	**10,644**	**(27.0)**
Profit from investments in entities accounted for using the equity method			
Income from investments in entities accounted for using the equity method	6,387	5,726	(10.3)
Financing costs of investments in entities accounted for using the equity method [3]	(16)	0	(100.0)
Profit from investments in entities accounted for using the equity method	**6,371**	**5,726**	**(10.1)**
Net interest income	**36,094**	**37,401**	**3.6**

[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] Less financing costs of investments in entities accounted for using the equity method.
[3] Based on the average 3-month Euribor.

The line item *Interest income* includes income from unwinding (i.e. resulting from changes in the present values of cash flows from impaired receivables) in the amount of €0.7 million (Q1 2015: €0.4 million).

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Impairment allowances	7,187	10,432	45.2
Impairment reversals	(1,062)	(1,584)	49.2
Direct write-offs	169	96	(43.2)
Recoveries on receivables previously written off	(133)	(151)	13.5
Impairment charge on loans and advances	**6,161**	**8,793**	**42.7**

(3) NET FEE AND COMMISSION INCOME

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Fee and commission income	**14,439**	**13,864**	**(4.0)**
– Of which from payment services	5,261	5,634	7.1
– Of which from securities operations	3,815	3,312	(13.2)
– Of which from credit operations	3,369	3,709	10.1
– Of which from money and foreign exchange transactions	1,403	614	(56.2)
– Of which from other services	591	595	0.7

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Fee and commission expenses	**769**	**974**	**26.7**
– Of which arising from payment services	425	455	7.1
– Of which arising from securities operations	228	238	4.4
– Of which arising from credit operations	75	102	36.0
– Of which arising from money and foreign exchange transactions	4	140	>100.0
– Of which arising from other services	37	39	5.4
Net fee and commission income	**13,670**	**12,890**	**(5.7)**

(4) NET TRADING INCOME

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Price-based contracts	0	9	(>100)
Interest rate and currency contracts	(67)	190	(>100)
Net trading income	**(67)**	**199**	**(>100)**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Staff costs	17,285	17,423	0.8
– Of which wages and salaries	13,084	13,377	2.2
– Of which social security costs	2,736	2,762	1.0
– Of which costs of old-age benefits	1,465	1,284	(12.4)
Other administrative costs	7,228	7,839	8.5
Depreciation/amortization	1,660	1,636	(1.4)
General administrative expenses	**26,173**	**26,898**	**2.8**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Other operating income	1,433	1,239	(13.5)
Other operating expenses	(1,751)	(5,039)[1]	>100.0
Other operating income net of other operating expenses	**(318)**	**(3,800)**	**>100.0**

[1] Consists mainly of expenditure on the resolution mechanism and deposit guarantee scheme.

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

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Revaluation gains and losses on derivatives	391	4	(99.0)
Gain/(loss) as a result of using the fair value option	865	(199)	(>100.0)
Profit/(loss) from financial assets designated as at fair value through profit or loss	**1,256**	**(195)**	**(>100.0)**

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

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Revaluation gains and losses	11	0	(100.0)
Gains and losses realized on disposal	214	134	(37.4)
Profit/(loss) from available-for-sale financial assets	**225**	**134**	**(40.4)**

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

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Revaluation gains and losses	0	0	—
Gains and losses realized on disposal	287	0	(100.0)
Profit/(loss) from held-to-maturity financial assets	**287**	**0**	**(100.0)**

(10) INCOME TAX EXPENSE

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Current taxes	(5,987)	(2,391)	(60.1)
Deferred taxes	(547)	(23)	(95.8)
Income tax expense	**(6,534)**	**(2,414)**	**(63.1)**

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2015	31/3/2016	+/(–) Change, %
Cash in hand	36,700	34,860	(5.0)
Credit balances with central banks of issue	153,610	142,200	(7.4)
Cash and balances with the central bank	**190,310**	**177,060**	**(7.0)**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2015	31/3/2016	+/(–) Change, %
Receivables from Austrian banks	153,143	143,766	(6.1)
Receivables from foreign banks	210,719	268,408	27.4
Receivables from other banks	**363,862**	**412,174**	**13.3**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2015	31/3/2016	+/(–) Change, %
Corporate and business banking customers	3,974,127	3,961,943	(0.3)
Retail banking customers	1,139,740	1,147,672	0.7
Receivables from customers	**5,113,867**	**5,109,615**	**(0.1)**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2015	31/3/2016	+/(–) Change, %
At beginning of period under review	194,161	193,748	(0.2)
+ Added	54,587	9,781	(82.1)
– Reversed	(11,957)	(2,332)	(80.5)
– Used	(43,021)	(5,079)	(88.2)
+ Foreign exchange differences	(22)	146	(>100.0)
At end of period under review	**193,748**	**196,264**	**1.3**

(15) TRADING ASSETS

€k	31/12/2015	31/3/2016	+/(–) Change, %
Bonds and other fixed-interest securities	0	0	—
Positive fair values of derivative financial instruments			
– From currency contracts	0	0	—
– From interest rate contracts	46	15	(67.4)
Trading assets	**46**	**15**	**(67.4)**

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

€k	31/12/2015	31/3/2016	+/(–) Change, %
Bonds and other fixed-interest securities	41,236	41,914	1.6
Loans	73,627	70,409	(4.4)
Financial assets designated as at fair value through profit or loss	**114,863**	**112,323**	**(2.2)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2015	31/3/2016	+/(–) Change, %
Bonds and other fixed-interest securities	67,303	72,589	7.9
Shares and other variable-yield securities	42,811	46,936	9.6
Other equity investments	56,607	56,115	(0.9)
Available-for-sale financial assets	**166,721**	**175,640**	**5.3**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Bonds and other fixed-interest securities	724,891	726,859	0.3
Held-to-maturity financial assets	**724,891**	**726,859**	**0.3**

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

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Oberbank AG	278,308	286,279	2.9
Bank für Tirol und Vorarlberg AG	155,671	151,560	(2.6)
Drei-Banken Versicherungs-AG	4,640	4,640	0.0
Investments in entities accounted for using the equity method	**438,619**	**442,479**	**0.9**

(20) INTANGIBLE ASSETS

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Other intangible assets	1,868	1,811	(3.1)
Intangible assets	**1,868**	**1,811**	**(3.1)**

(21) PROPERTY AND EQUIPMENT

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Land	7,870	7,871	0.0
Buildings	42,307	41,520	(1.9)
Other	8,260	8,367	1.3
Property and equipment	**58,437**	**57,758**	**(1.2)**

(22) INVESTMENT PROPERTY

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Land	8,667	8,666	0.0
Buildings	21,023	19,725	(6.2)
Investment property	**29,690**	**28,391**	**(4.4)**

(23) DEFERRED TAX ASSETS

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Deferred tax assets	**25,441**	**26,175**	**2.9**

(24) OTHER ASSETS

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Positive fair values of derivative financial instruments	10,788	14,298	32.5
Other items	15,405	10,170	(34.0)
Deferred items	2,373	2,354	(0.8)
Other assets	**28,566**	**26,822**	**(6.1)**

(25) PAYABLES TO OTHER BANKS

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Payables to Austrian banks	724,001	695,404	(3.9)
Payables to foreign banks	180,573	172,243	(4.6)
Payables to other banks	**904,574**	**867,647**	**(4.1)**

(26) PAYABLES TO CUSTOMERS

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Savings deposit balances	**1,629,833**	**1,624,868**	**(0.3)**
– Of which from corporate and business banking customers	218,263	223,192	2.3
– Of which from retail banking customers	1,411,570	1,401,676	(0.7)
Other payables	**2,721,883**	**2,767,300**	**1.7**
– Of which to corporate and business banking customers	1,927,113	2,002,370	3.9
– Of which to retail banking customers	794,770	764,930	(3.8)
Payables to customers	**4,351,716**	**4,392,168**	**0.9**

(27) LIABILITIES EVIDENCED BY PAPER

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Issued bonds	485,071	500,103	3.1
Other liabilities evidenced by paper	91,275	81,236	(11.0)
Liabilities evidenced by paper	**576,346**	**581,339**	**0.9**

(28) TRADING LIABILITIES

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Interest rate contracts	46	15	(67.4)
Trading liabilities	**46**	**15**	**(67.4)**

(29) PROVISIONS

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Provisions for post-employment benefits and similar obligations	74,498	74,130	(0.5)
Provisions for taxes (current tax)	5,739	6,738	17.4
Other provisions	45,736	46,537	1.8
Provisions	**125,973**	**127,405**	**1.1**

(30) DEFERRED TAX LIABILITIES

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Deferred tax liabilities	**9,312**	**9,548**	**2.5**

(31) OTHER LIABILITIES

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Negative fair values of derivative financial instruments	29,587	33,751	14.1
Other items	18,284	28,892	58.0
Deferred items	5,601	4,532	(19.1)
Other liabilities	**53,472**	**67,175**	**25.6**

(32) SUBORDINATED DEPT CAPITAL

€k	1/1–31/3/2015	1/1–31/3/2016	+/(–) Change, %
Supplementary capital	141,752	150,890	6.4
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**181,752**	**190,890**	**5.0**

(33) SEGMENTAL REPORTING

Our segmental reporting was based on the organizational structure of the Group that underlies its internal management reporting system. During the 2014 financial year and in the first half of 2015, BKS Bank worked intensively on optimizing its sales structure and sales organization with a clear focus on the demarcation of the retail banking, corporate and business banking and financial markets segments. In detail, in the course of restructuring, retail business customers—small businesses and professionals—were moved from the retail banking segment to the corporate and business banking segment. Members of the so-called healing professions were left in the retail banking segment. This has led to minor changes in our segmental reporting. The amounts for the comparative period have been restated retrospectively in conformity with IFRS 8.29.

	Retail Banking		Corporate and Business Banking		Financial Markets	
€k	1/1–31/3/2015	1/1–31/6/2016	1/1–31/3/2015	1/1–31/6/2016	1/1–31/3/2015	1/1–31/6/2016
Net interest income	**20,964**	**20,974**	**6,818**	**6,643**	**8,079**	**9,349**
– Of which from investments in entities accounted for using the equity method					6,371	5,726
Impairment charge on loans and advances	(6,097)	(7,513)	(265)	(1,069)	201	(211)
Net fee and commission income	7,195	6,748	5,787	5,933	121	8
Net trading income	0	0	0	0	(67)	199
General administrative expenses	(10,831)	(10,864)	(12,493)	(13,012)	(1,557)	(1,691)
Other operating income net of other operating expenses	490	325	110	515	(13)	(5)
Profit/(loss) from financial assets	0	0	0	0	1,768	(61)
Profit/(loss) for the period before tax	**11,721**	**9,670**	**(43)**	**(990)**	**8,532**	**7,588**
Average risk-weighted assets	3,104,182	3,062,963	516,326	514,361	833,622	892,363
Average allocated equity	248,335	245,037	41,306	41,149	504,260	566,792
ROE based on profit for the period	**18.9%**	**15.8%**	**(0.4%)**	**(9.6%)**	**6.8%**	**5.4%**
Cost:income ratio	**37.8%**	**38.7%**	**98.3%**	**99.4%**	**19.2%**	**17.7%**
Risk:earnings ratio	**29.1%**	**35.8%**	**3.9%**	**16.1%**	**(2.5%)**	**2.3%**

	Other		Total	
€k	1/1–31/3/2015	1/1–31/6/2016	1/1–31/3/2015	1/1–31/6/2016
Net interest income	**233**	**435**	**36,094**	**37,401**
– Of which from investments in entities accounted for using the equity method	—	—	6,371	**5,726**
Impairment charge on loans and advances	—	—	(6,161)	(8,793)
Net fee and commission income	567	201	13,670	12,890
Net trading income	—	—	(67)	199
General administrative expenses	(1,292)	(1,331)	(26,173)	(26,898)
Other operating income net of other operating expenses	(905)	(4,635)	(318)	(3,800)
Profit/(loss) from financial assets	0	0	1,768	(61)
Profit/(loss) for the period before tax	**(1,397)**	**(5,330)**	**18,813**	**10,938**
Average risk-weighted assets	49,346	49,685	4,503,476	4,519,372
Average allocated equity	8,797	9,479	802,698	862,457
ROE based on profit for the period	**—**	**—**	**7.2%**	**6.1%**
Cost:income ratio	**—**	**—**	**53.0%**	**57.6%**
Risk:earnings ratio	**—**	**—**	**17.1%**	**23.5%**

Method: *Net interest income* was subdivided using the *market interest rate method*. Incurred costs were allocated to the individual business segments on a cost-by-cause basis. So-called *structural income* was allocated to the financial markets segment. Capital was allocated according to regulatory criteria. Average allocated equity was recognized applying an interest rate of 5 per cent and the result was recognized as income from investing equity in the line item *Net interest income*. The performance of each business segment was gauged in terms of the profit before tax recorded in that segment. Alongside the cost:income ratio, return on equity was one of the principal benchmarks for managing business segments. Our segmental reporting was based on our internal management processes. The Management Board as a whole was responsible for the enterprise's management.

The reports used for internal management purposes were structured as follows:

- monthly reporting of results at the profit centre level;
- reporting of all relevant types of risk at least once a quarter;
- *ad-hoc* reports in the event of exceptional occurrences.

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

(34) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

€k	31/12/2015	31/03/2016	+/(–) Change, %
Subscribed capital	72,072	72,072	0.0
– Of which share capital	72,072	72,072	0.0
Capital reserves	143,056	143,056	0.0
Retained earnings and other reserves, current profit	621,714	626,143	0.7
Additional equity instruments	23,400	23,400	0.0
Shareholders' equity before minority interests	**860,242**	**864,671**	**0.5**
Minority interests	(15)	(16)	6.7
Shareholders' equity after minority interests	**860,227**	**864,655**	**0.5**

The share capital was represented by 34,236,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. The nominal value of each share was €2.0. *Capital reserves* contains premiums arising from the issuance of shares. *Retained earnings and other reserves* consists essentially of ploughed back profits. The line item *Additional equity instruments* related to the additional Tier 1 note issued during the 2015 financial year. Under IAS 32, it required classification as equity.

(35) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2015	31/03/2016	+/(–) Change, %
Guarantees	385,094	400,231	3.9
Letters of credit	1,777	745	(58.1)
Contingent liabilities	**386,871**	**400,976**	**3.6**
Other commitments	1,057,680	1,032,583	(2.4)
Commitments	**1,057,680**	**1,032,583**	**(2.4)**

(36) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

	Outstanding Balances at		Guarantees Received at		Guarantees Issued at	
€k	31/12/2015	31/03/2016	31/12/2015	31/03/2016	31/12/2015	31/03/2016
Unconsolidated subsidiaries			0	0	0	0
Receivables	5,369	3,135				
Payables	1,108	1,119				
Associates and joint arrangements			0	0	0	0
Receivables	12,869	23,526				
Payables	158,949	141,623				
Key management personnel			0	0	0	0
Receivables	366	410				
Payables	812	833				
Other related persons			0	0	109	109
Receivables	14	16				
Payables	451	749				

LOANS AND ADVANCES GRANTED

€k	31/12/2015	31/3/2016	+/(–) Change, %
Loans and advances granted to members of the Management Board	92	87	(5.4)
Loans and advances granted to members of the Supervisory Board	274	323	17.9
Loans and advances granted	**366**	**410**	**12.0**

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

(37) EVENTS AFTER THE INTERIM REPORTING DATE

No activities or events that were exceptional in either form or nature took place at BKS Bank after the interim reporting date (31 March 2016) affecting the assets, liabilities, financial position or profit or loss as presented in this report.

(38) FAIR VALUES

The two tables that follow on page 47 present the fair values of the respective balance sheet items. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Valuation policies and classification

The fair values shown in the category *Level 1 'Market Values'* were determined using market 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 (e.g. by discounting future cash flows from financial instruments) and presented in the category *Level 2 'Based on Market Data'*. In general, the fair values recognized in this category were ascertained using market data that could be observed for the respective asset or liability (e.g. yield curves, foreign exchange rates). In general, items in the category *Level 2* were measured using present value techniques.

In the category *Level 3 'Internal Valuation Methodology'*, the values of individual financial instruments were measured on the basis of special generally accepted valuation methods. If their fair value could not be reliably ascertained, available-for-sale equity investments and investments in entities accounted for using the equity method in the category *Level 3* were recognized at their carrying amounts. In general, liabilities evidenced by paper in the category *Level 3* were measured on the basis of market data that could be observed for the respective asset or liability (e.g. yield curves, foreign exchange rates). The factors affecting the valuation of positions in the category *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 present value techniques.

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 to fair value

Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of those financial instruments and their remaining terms to maturity. The change in the period under review in the default risk associated with liabilities measured at fair value was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining term to maturity. In the 2016 reporting year, the changes in the ratings of the receivables from customers measured to fair value changed their fair value by negative €0.1 million (31 December 2015: €0.3 million). In the 2016 reporting year, the change in BKS Bank's credit standing changed the fair value of the liabilities evidenced by paper that were measured to fair value by negative €0.4 million (31 December 2015: €0.5 million).

FAIR VALUES

31 MARCH 2016

€k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 31/3/2016	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	412,375	0	412,375	412,174	201
Receivables from customers	0	5,175,953	0	5,175,953	5,109,615	66,338
Trading assets	0	15	0	15	15	0
Financial assets designated as at fair value through profit or loss	41,914	0	70,409	112,323	112,323	0
Available-for-sale financial assets	155,048	0	20,592	175,640	175,640	0
Held-to-maturity financial assets	805,733	0	0	805,733	726,859	78,874
Investments in entities accounted for using the equity method	345,250	0	4,640	349,890	442,479	(92,589)
Investment property	0	0	44,901	44,901	28,391	16,510
Other assets (derivatives)	0	14,298	0	14,298	14,298	0
Equity and liabilities						
Payables to other banks	0	870,253	0	870,253	867,647	2,607
Payables to customers	0	4,407,807	0	4,407,807	4,392,168	15,639
Liabilities evidenced by paper	425,794	77,223	100,203	603,220	581,339	21,881
– Of which designated as at fair value through profit or loss	0	0	100,203	100,203	100,203	0
Subordinated debt capital	191,718	2,355	0	194,073	190,890	3,183
Trading liabilities	0	15	0	15	15	0
Other liabilities (derivatives)	0	33,751	0	33,751	33,751	0

31 DECEMBER 2015

€k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 31/3/2016	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	363,976	0	363,976	363,862	115
Receivables from customers	0	5,175,621	0	5,175,621	5,113,867	61,755
Trading assets	0	46	0	46	46	—
Financial assets designated as at fair value through profit or loss	41,236	0	73,627	114,863	114,863	—
Available-for-sale financial assets	146,128	0	20,593	166,721	166,721	—
Held-to-maturity financial assets	791,709	0	0	791,709	724,891	66,818
Investments in entities accounted for using the equity method	338,871	0	4,640	343,511	438,619	(95,108)
Investment property	0	0	46,894	46,894	29,690	17,204
Other assets (derivatives)	0	10,788	0	10,788	10,788	—
Equity and liabilities						
Payables to other banks	0	907,737	0	907,737	904,574	3,163
Payables to customers	0	4,366,180	0	4,366,180	4,351,715	14,464
Liabilities evidenced by paper	411,918	80,311	103,512	595,741	576,346	19,395
– Of which designated as at fair value through profit or loss	0	0	103,512	103,512	103,512	0
Subordinated debt capital	182,339	2,354	0	184,693	181,752	2,941
Trading liabilities	0	46	0	46	46	0
Other liabilities (derivatives)	0	29,587	0	29,587	29,587	0

LEVEL 3: CHANGES BETWEEN 1 JANUARY AND 31 MARCH 2016

€k	Available for Sale	Investments in Entities Accounted for using the Equity Method	Financial assets designated as at Fair Value Through Profit or Loss	Liabilities Evidenced by Paper, of which at Fair Value Through Profit or Loss
At 31 December 2015	**20,592**	**4,640**	**73,627**	**103,512**
Reclassified	0	0	0	0
Income Statement [1]	0	0	534	1,691
Other profit or loss	0	0	0	0
Purchased	0	0	0	0
Sold/redeemed	0	0	(3,752)	(5,000)
At 31 March 2016	**20,592**	**4,640**	**70,409**	**100,203**

[1] Revaluations through profit or loss.

(39) BALANCE OF DERIVATIVES OUTSTANDING

The nominal and fair values of the derivative contracts outstanding (banking and trading book) were as follows:

31 MARCH 2016

€k	Nominal, by Term to Maturity < 1 Year	1–5 Years	> 5 Years	Total	Fair Values Positive	Negative
Currency contracts	**1,298,945**	**347,612**	0	**1,646,557**	**5,163**	**24,764**
– Of which in trading book	500	0	0	500	0	0
Interest rate contracts	**106,800**	**86,144**	**219,424**	**412,368**	**8,844**	**8,444**
– Of which in trading book	800	19,144	0	19,944	15	15
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,405,745**	**433,756**	**219,424**	**2,058,925**	**14,007**	**33,208**
– Of which in trading book	1,300	19,144	0	20,444	15	15

31 DECEMBER 2015

€k	Nominal, by Term to Maturity < 1 Year	1–5 Years	> 5 Years	Total	Fair Values Positive	Negative
Currency contracts	**1,442,492**	**349,233**	**—**	**1,791,725**	**3,563**	**21,875**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**106,820**	**102,162**	**221,652**	**430,634**	**6,638**	**7,251**
– Of which in trading book	820	19,912	—	20,732	47	47
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**1,549,312**	**451,395**	**221,652**	**2,222,359**	**10,201**	**29,126**
– Of which in trading book	820	19,912	—	20,732	47	47

Statement by BKS Bank's Management

'We confirm that, to the best of our knowledge, the Consolidated Interim Financial Statements as at and for the three months ended 31 March 2016 prepared in accordance with the effective financial reporting standards present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group and that the Consolidated Management Report for the period from 1 January to 31 March 2016 presents fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group with respect to the important events occurring during the first three months of the financial year and their impact on the Consolidated Interim Financial Statements with respect to the material risks and uncertainties for the remaining nine months of the financial year.'

Klagenfurt am Wörthersee
17 May 2016

The Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Member of the Management Board with responsibility for Risk Management, Risk Controlling, BKS Bank's Credit Back Office and Service Companies, the Treasury Back Office, Business Organization, IT and Technical Services and *3 BANKEN EDV Gesellschaft*; abroad, he is responsible for the Back Office, Risk Management and IT.

Chairwoman of the Management Board with responsibility for Corporate and Business Banking, Accounts and Sales Controlling, Human Resources, Treasury and Proprietary Trading, Public Relations, Marketing and Investor Relations, Property, Subsidiaries and Equity Investments; abroad, she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

Member of the Management Board with responsibility for Retail Banking, Private Banking and Securities Operations, New Banking, Custodian Operations and collaboration with sales partners; abroad, he is responsible for the Italy region.

Financial Calendar for 2016

2 April 2016:	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2015 in the Internet and in the official *Wiener Zeitung* gazette
19 May 2016:	77th Ordinary General Meeting (AGM)
23 May 2016:	Ex-dividend date
25 May 2016:	Dividend payment date

BKS Bank's Interim Reports

20 May 2016:	Interim Report as at and for the 3 months ended 31 March 2016
26 August 2016:	2016 Semi-Annual Financial Report
25 November 2016:	Interim Report as at and for the 9 months ended 30 September 2016

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