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Interim Report to 31 March 2017

BKS Bank
3 Banken Gruppe

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Forward-looking statements

This interim financial report as at 31 March 2017 contains statements and forecasts that refer to the future development of the BKS Bank Group. The forecasts are our estimates based on the information at our disposal on the copy deadline date 19 May 2017. Should the assumptions regarding such forward-looking statements prove incorrect or should risks materialize, the actual results may vary from those currently expected. This interim report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

Disclaimer

As auditing is not mandatory for this interim report, it has not been audited or reviewed by an auditor. The German version of this report is the authentic version and is relevant in all legal aspects. Interim financial reports in English are translations.

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

BKS BANK GROUP AT A GLANCE

INCOME STATEMENT in €m	Q1 2016	Q1 2017	± in %
Net interest income	37.4	37.0	-1.0
Charges for losses on loans and advances	-8.8	-8.3	-5.1
Net fee and commission income	12.9	13.3	2.8
General administrative expenses	-26.9	-26.6	-1.1
Profit for the period before tax	10.9	13.4	22.9
Profit for the period after tax	8.5	11.3	32.0

BALANCE SHEET in €m	31/12/2016	31/03/2017	± in %
Total assets	7,581.1	7,250.1	-4.4
Receivables from customers after impairment charges	5,175.3	5,110.9	-1.2
Primary deposits	5,568.0	5,477.6	-1.6
– of which savings deposits	1,529.0	1,522.3	-0.4
– of which securitized debt incl. subordinated debt capital	743.2	722.8	-2.7
Equity	958.8	973.1	1.5
Customer funds under management	13,723.20	13,765.7	0.3
– of which on custody accounts	8,155.1	8,288.1	1.6

OWN FUNDS PURS. TO CRR in €m	31/12/2016	31/03/2017	± in % (points)
Average risk-weighted assets	4,974.1	4,926.3	-1.0
Own funds	670.0	660.9	-1.4
– of which Common Equity Tier 1 (CET1) capital	625.9	573.1	-8.4
– of which total Tier 1 capital (CET1 and AT1)	625.9	577.1	-7.8
Own funds surplus	241.0	205.2	-14.9
Common Equity Tier 1 capital ratio (in %)	12.6	11.6	-1.0
Total capital ratio (in %)	13.5	13.4	-0.1

PERFORMANCE RATIOS	31/12/2016	31/03/2017	± in % (points)
Return on equity before tax	5.5	6.9	1.4
Return on equity after tax	5.1	6.0	0.9
Cost/income ratio	56.2	56.9	0.7
Risk/earnings ratio	20.1	22.5	2.4
LCR	155.6	148.3	-7.3
Leverage ratio	8.5	7.8	-0.7

RESOURCES	Q1 2016	Q1 2017	± in %
Average number of staff	926	924	-2
Number of branches	60	62	2

THE BKS BANK'S SHARES	31/12/2016	31/03/2017
Number of no-par ordinary shares (ISIN AT0000624705)	37,839,600	37,839,600
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000
High (ordinary/preference share) in €	17.3/15.4	17.7/16.2
Low (ordinary/preference share) in €	15.8/13.9	16.8/15.4
Close (ordinary/preference share) in €	16.8/15.4	17.7/16.0
Market capitalization in €m	662.7	698.6

DEAR SHAREHOLDERS,

I am very pleased to present the first interim report for the year 2017. Many of you were our guests at the 78th Annual General Meeting on 9 May 2017 at our Head Office in Klagenfurt. The Annual General Meeting decided to distribute a dividend of EUR 9,117,108. This translates into EUR 0.23 per share and a yield of 1.37% on ordinary shares and of 1.49% on preference shares based on the year-end price of 2016. The dividend distribution was recently completed. I would like to cordially thank you for your trust in our bank and hope you will remain a loyal shareholder for many years to come.

CHANGES TO THE SUPERVISORY BOARD

Gregor Hofstätter-Pobst – Chief Financial Officer (CFO) of UniCredit Bank Austria AG – was newly elected to the Supervisory Board. He succeeds Peter Hofbauer, who resigned from his mandate on 30 September 2016. I would like to thank him for his excellent work for our bank. Christina Fromme-Knoch and Sabine Urnik were re-elected for the maximum period defined in the Articles of Association. The Supervisory Board of BKS Bank includes 15 members, five of which are women. I am pleased to report that BKS Bank already meets the quota for women on supervisory boards as set out in the Austrian government's programme. All resolutions of the Annual General Meeting are available on our website at www.bks.at

TWO NEW BRANCHES OPENED

Since the start of the year, we have continued on our solid growth course. With the opening of one new branch in Vienna and one in Ljubljana, we have enlarged our network of branches. At the same time, we are expanding our range of digital offers. We have launched several projects within our bank to better leverage online sales opportunities. Our special focus here is on Corporates and Business Banking, because we believe there is still enormous potential for simplifying processes between customers and the bank.

ACTING SUSTAINABLY

We are also embarking on new paths in the securities business. At the beginning of January 2017, we were the first bank in Austria to issue a social bond[1)]. The special feature of a social bond is that the issuance proceeds are used to fund a social project in the region. Our social bond is used to fund the project "MaVida Park" in Velden, a competence centre for the treatment of persons suffering from dementia. The social bond is also part of our many sustainability activities such as measures to achieve a good work-life balance. In this context, we are very happy to have come third in a ranking of the most family-friendly worklaces in Austria in April 2017 by the magazine Woman in cooperation with Kununu and Statista. I invite you to read more about our sustainability strategy in our Sustainability Report, which is available on our website at www.bks.at/Nachhaltigkeit.

STEEP RISE IN PROFIT FOR THE PERIOD

Finally, a few words on the most important theme: the development of business at our bank. I am happy to be able to report some good news. We achieved a substantial increase in profit for the period after tax to EUR 11.3 million (+32.0%). Despite the challenging interest rate situation, we achieved a slight increase in net interest income after charges for losses on loans and advances, thus raising it to EUR 28.7 million. Net fee and commission income was EUR 13.3 million or 2.8% higher year on year. This development reflects the slight growth trend in the securities business. Net income from financial assets also developed extraordinarily well. At the close of the quarter, the figure was EUR 1.6 million compared to the slightly negative level of EUR -0.1 million on 31 March 2016.

Based on this robust start into the first quarter of 2017, we are optimistic about the remaining financial year, even though we know that the challenges will remain enormous for banks.

Herta Stockbauer
Chairwoman of the Management Board

1) The information provided in this text serves only as non-binding information and does not replace in any way advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bond mentioned here, and neither is it a buy or sell recommendation. The offer for the product described is based on the base prospectus published by BKS Bank AG on 6 April 2017 including all documents to which a reference is made and all supplementary information to the base prospectus as well as the final terms published on 5 January 2017. The base prospectus including supplementary information and the final terms are available free of charge on the website of the issuer at http://www.bks.at,, under Investor Relations > BKS Bank Anleiheemissionen and also at the offices of BKS Bank AG, 9020 Klagenfurt, St. Veiter Ring 43 during usual office hours.

GROUP MANAGEMENT REPORT

ECONOMIC ENVIRONMENT

GLOBAL ECONOMY ON THE RISE

The global economy has been picking up. Recently, the International Monetary Fund raised its forecasts for the global economy. Reviving economic growth in China, higher consumer prices and more robust trends on financial markets are the reasons behind the IMF's forecast for the global economy which it estimates will grow at a rate of 3.5% in 2017.

By contrast, the US economy grew at a slower pace than expected by analysts in the first quarter of 2017. The 100-day record of the new US President Donald Trump - especially with a view to the latest economic indicators - was quite sobering. At a rate of only 0.7%, economic growth in the US was at the slowest pace seen in the past three years. The reason for the disappointing indicators is the weakest consumption figures in over seven years. Still, there were also some positive impulses. Exports and residential housing as well as corporate spending performed well in Q1 2017. Experts point out that the weaker trend in the first quarter could be due to statistical distortions. In any case, the International Monetary Fund (IMF) predicts that the global economy will grow more strongly in 2017 than in the preceding year and prognosticates the growth rate at 2.3% for the US.

The European economy made a good start into the year 2017. In the first quarter of 2017, the leading sentiment indicators achieved their highest levels in almost six years. Additionally, the euro zone grew faster than the US in the first quarter of the year. The weak euro is fueling the exporting sector, which is also being positively influenced by global economic trends. Private consumption also turned out to be a pillar of support for the economic upswing even though purchasing power is already on a slight decline due to higher inflation. Reports on the European labour market are also encouraging: unemployment decreased again. Both the outcome of the parliamentary elections in the Netherlands and the French presidential elections are assessed as a positive sign for the further trend of economic development. As regards the upcoming Brexit, the British Prime Minister Theresa May officially started her country's exit from the EU at the end of March 2017 and announced new elections for June 2017. The remaining 27 EU member states met at a special Brexit summit and adopted the framework for the exit negotiations. On both sides, negotiations are expected to be tough. Therefore, the economic, and also the political consequences are still unclear. Despite the prevailing uncertainty, the IMF expects a growth rate of 1.7% for the euro area in 2017.

According to recent reports by the Austrian Institute of Economic Research (Wifo), the domestic economy started out on a very good footing in the first quarter. Economic output increased markedly year on year. The upturn was once again driven by private consumption, with demand for investments also rising vigorously. The exporting sector performed especially well. For the first time since 2014, exports contributed again strongly to the upswing. The excellent economy is also supportive of the labour market. According to the Public Employment Office Austria (AMS), the unemployment rate was 8.6% in April 2017

ECB KEEPS EXPANSIVE MONETARY POLICY BIAS

Despite robust economic growth in Europe and rising inflation rates, the ECB has no intention of tightening its ultra-easy monetary policy for now. By year-end, a further half a trillion euro will be pumped into the markets. Thus, the key lending rates will remain at nil or in negative territory for some time to come. The prospect of a "quexit", i.e., the ECB's exit from its expansive monetary policy, technically referred to as "quantitative easing", is nowhere in sight. A gradual recovery of the ECB's historically low deposit rate is expected to start at the earliest in mid-2018.

STOCK MARKETS GAIN GROUND

The year 2017 started out well for stock markets. In the first quarter, the EuroStoxx 300 gained 7.2%, while Stoxx Europe 600 rose by 6.3%. The German stock index went up by 7.3%. The Austrian stock index rose even more steeply: It gained 8.3% by the end of March 2017. Stocks outside of Europe also earned gains for investors. US stocks developed especially well. The S&P 500 rose 4.6%, while the Dow Jones Industrial Index climbed 3.7%. The technology exchange, NASDAQ, advanced by 8.6% East European stocks also performed well on the whole. For example, Polish stocks were up by +16.5%, Romanian stocks by +13.7% and Czech stocks by +6.5%. In contrast, Hungarian stocks (-1.0%) and Russian stocks (-4.1%) lost ground.

DYNAMIC FOREIGN EXCHANGE TRENDS

The start of the year was one of mixed developments for the euro. This is illustrated by the development of exchange rates against the five major trade partners. The euro appreciated moderately versus the US dollar from 1.052 to 1.065 EUR per USD (+1.3%). The appreciation versus the USD was due mainly to the indecisive fiscal policy course of the US government. By contrast, the euro depreciated slightly versus the Swiss franc from to 1.072 per 1.069 EUR per CHF (-0.3%). The steepest depreciation was posted by the euro versus the Japanese yen with roughly -3.5% (from 122.97 down to 118.67). Versus the Chinese renminbi, the euro appreciated by approximately +0.4% (from 7.338 to 7.366), while it dropped -0.6% versus the British pound (from 0.854 to 0.849). The Croatian kuna, which is important, for our business, appreciated in the course of Q1 vs. the euro and was quoted at HRK 7.448 per EUR at the end of 2017 March after HRK 7.557 at the beginning of the year (+1.4%).

MIXED TRENDS FOR COMMODITY PRICES

Commodity markets started out the year on divergent trends. A number of commodities such as industrial metals profited from improving global prospects and by 31 March 2017 had gained some 9.2% in USD. Precious metals such as gold and silver increased in value in the first three months. The gold price rose to USD 1,249.35 per ounce by the end of Q1 2017, which is a gain of 8.4%. During the same period, silver gained around 14.7% and stood at USD 18.27 at the close of the quarter. On the other hand, energy and agricultural goods developed weakly: The oil price (Brent) decreased by -7% in Q1 2017 and was USD 52.83 per barrel at the end of March 2017.

CONSOLIDATED COMPANIES

At the end of March 2017, the relevant group of consolidated companies of BKS Bank included 19 credit and financial institutions as well as companies that supply banking-related services, among them domestic and foreign leasing companies. The overview below shows the companies that belong to the BKS Bank Group pursuant to the International Financial Reporting Standards.

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

GROUP OF CONSOLIDATED COMPANIES

Credit institutions and financial institutions

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

Other consolidated companies

BKS Zentrale-Errichtungs u. Vermietungsgesellschaft m.b.H., Klagenfurt	*Immobilien Errichtungs- u. Vermietungsgesellschaft m.b.H. & Co. KG, Klagenfurt*	*IEV Immobilien GmbH, Klagenfurt*
VBG-CH Verwaltungs- und Beteiligungs GmbH, Klagenfurt	*LVM Beteiligungs Gesellschaft m.b.H., Vienna*	*BKS Service GmbH, Klagenfurt*
BKS Immobilien-Service Gesellschaft m.b.H., Klagenfurt	*BKS Hybrid alpha GmbH, Klagenfurt*	*BKS Hybrid beta GmbH, Klagenfurt*
BKS 2000 - Beteiligungs-verwaltungsgesellschaft mbH, Klagenfurt		

Full consolidation
Recognized using the equity method
Proportionate consolidation

The group of consolidated companies of the BKS Bank Group includes, apart from BKS Bank AG, 14 credit and financial institutions and companies that supply banking-related services in which BKS Bank AG holds controlling interests. These consolidated financial statements are based on the uniformly prepared single-entity financial statements of all fully consolidated companies.

For the three companies recognized using the equity method in accordance with IAS 28, the carrying amounts of the investments are adjusted for the changes in the net assets of the respective entities. Apart from Drei Banken Versicherungsagentur GmbH, the sister banks Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft are also recognized using the equity method. As at 31 March 2017, BKS Bank held a share of 15.21%, and 14.95% in these credit institutions, respectively, which is less than 20% of voting rights in each case; however, the voting rights are exercised under a syndicate agreement. This agreement makes it possible to participate in the financial and business policy decisions of these credit institutions of the 3 Banken Group, without exercising a controlling interest.

ALPENLÄNDISCHE GARANTIE - GESELLSCHAFT m.b.H. (ALGAR) is recognized in the consolidated financial statements on a proportionate basis. This investment is classified as a joint operation pursuant to IFRS 11.

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

ASSETS AND FINANCIAL POSITION

BKS Bank Group's total assets were EUR 7.25 billion as at 31 March 2017, which is lower than at the end of the financial year 2016(-4.4%). The decline is attributable mainly to the lower volume of cash and balances (-33.6%) and a drop in receivables from other banks (-32.6%). On the liabilities sides, primary deposits remained at an excellent level of EUR 5.48 billion.

ASSETS

New year starts out as expected

In the first quarter of 2017, we recorded a slight decline in receivables from credit institutions. General administrative expenses dropped by EUR 79.0 million to EUR 163.4 million due to fluctuations at the cut-off date. The retail lending business went on a sideways trend after its rapid increase in Q4 2016, and since year-end has decreased slightly to EUR 5.27 billion. Compared to Q1 2016, credit growth volume increased by a gratifying 3.1%. Receivables from customers include the lending volume of the parent company BKS Bank AG as well lending by domestic and foreign leasing companies. Foreign markets account for 25.3% of receivables from customers. Charges for receivables from customers rose by 3.7% to EUR 160.9 million following the EUR 155.1 million recorded at year-end 2016. The increase is due to higher allocations in lending and is evidence of our proactive risk management.

The share of foreign currency loans decreased in the first quarter of 2017: The foreign currency ratio (FX ratio) was 4.3% at the end of March 2017 compared to 4.5% on 31 December 2016.

The leasing business of our domestic and foreign subsidiaries was satisfactory in the first three months. In the first quarter of 2017, the leasing volume of the Austrian BKS-Leasing GmbH amounted to EUR 159.2 million. Leasing products are still very popular in Austria. We want to profit from this sustained trend and are therefore working intensely on re-positioning our leasing business. Our plans include the expansion of our direct sales by the end of 2017, the acceleration of the handling processes at the branches, and the simplification of the application and approval procedures.

The first quarter of 2017 was very good for our Slovenian leasing company once again. The leasing volume increased by 2.9% and reached EUR 93.8 million. The Croatian leasing company started the year 2017 very successfully as well. Leasing volume rose from EUR 41.7 million to EUR 42.9 million, which is a gain of 2.9%. By contrast, the leasing business in Slovakia remained below our expectations in the first quarter of the year.

Financial assets contribute essentially to sustainable liquidity management
Investments in fixed interest securities are an important steering element for complying with statutory liquidity requirements. In times of historically low interest rates, it is – and remains – a challenge to make the right investments. Yields on 10-year German government bonds were a mere 0.33% at the end of March 2017. In spite of this, financial assets remained at a constant level at EUR 1.48 billion.

Financial assets measured at fair value through profit or loss were u by 9.3% to EUR 82.6 million as at 31 March 2017. Newly granted fixed-interest loans were hedged against interest rate risk by interest rate swaps with matching maturities. Available-for-sale assets also increased and rose from EUR 189.3 million to EUR 196.6 million. Held-to-maturity assets decreased by 3.6% due to repayments. We hold mainly high quality liquid assets in this position.

The shares of companies measured using the equity method increased by 1.9% to EUR 480.0 million as compared to 31 December 2016. The rise was due to the addition of the net profits for the period from companies recognized using the equity method, above all, our sister banks Oberbank AG and Bank für Tirol and Vorarlberg Aktiengesellschaft.

Cash and balances with central banks decreased considerably and amounted to EUR 360.8 million at the end of March 2017, which is a minus of 33.6%. A positive development is that less funds had to be paid under the so-called deposit facility. Interest on deposits with the European Central Bank is still at an unsatisfactory level of -0.4%.

EQUITY AND LIABILITIES

Steady development of primary deposits
Primary deposits remained at the very satisfactory level of EUR 5.48 billion, a very high volume compared to year-end 2016. Sight and term deposits were again the key determinants with respect to payables to customers. There were hardly any outflows from savings deposits. At EUR 1.52 billion, the volume of savings deposits continues at a very satisfactory level. For us, this is a clear indication of the high trust our customers place in us.

Sight and term deposits decreased slightly by 1.9% to EUR 3.23 billion versus EUR 3.30 billion at year-end 2016, due mainly to the more volatile corporate and business banking segment.

Liabilities evidenced by paper remained more or less unchanged at EUR 539.4 million (-1.0%) versus year-end 2016. Despite the challenging interest rate environment for long-term investments, we were able to compensate a high redemption volume almost entirely by new issues in the first quarter. For example, in Q1 2017, we were the first bank in Austria to issue a social bond [1)]. The proceeds of the issuance are dedicated to financing a competence centre for persons with dementia diseases in Carinthia. Since April 2017, the BKS Bank Obligation[1)] with a maturity of 8 years and interest of 1.375% has been open for subscriptions. Subordinated capital decreased by 7.6% to EUR 183.5 million as a result of repayments.

The item consolidated equity increased slightly by 1.5% at the end of March 2017 and stood at EUR 973.1. The increase results from the write-back of the profit for the period and the recognition of revaluation gains or losses in the available-for-sale reserve and not through profit or loss. Subscribed capital remained unchanged at EUR 79.3 million.

[1)] The information provided in this text serves only as non-binding information and does not replace in any way advisory services for the purchase or sale of securities. It is neither an offer nor a solicitation to buy or sell the bond mentioned here, and neither is it a buy or sell recommendation. The offer for the product described is based on the base prospectus published by BKS Bank AG on 6 April 2017 including all documents to which a reference is made and all supplementary information to the base prospectus as well as the final terms published on 5 January 2017. The base prospectus including supplementary information and the final terms are available free of charge on the website of the issuer at http://www.bks.at,, under Investor Relations > BKS Bank Anleiheemissionen and also at the offices of BKS Bank AG, 9020 Klagenfurt, St. Veiter Ring 43 during usual office hours.

RESULT OF OPERATIONS

The challenging conditions for the branches remained unchanged in the first three months; nonetheless, BKS Bank achieved an excellent result for the period. These positive results were bolstered by the revived commission business, the excellent performance of financial assets as well as by the relaxed risk situation. Furthermore, the business model oriented on sustainability proved once again to be a guarantee for the successful development of business.

EXCELLENT RESULT DESPITE DIFFICULT INTEREST RATE ENVIRONMENT

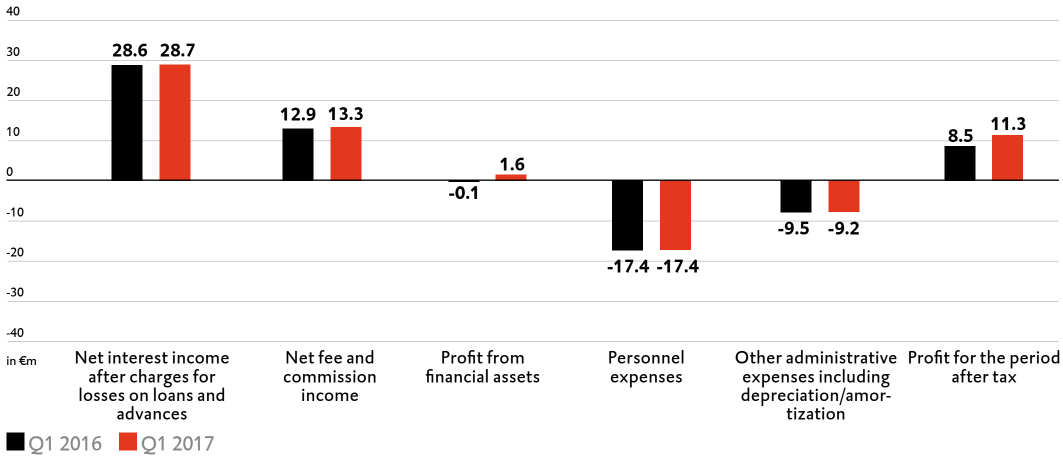
As at 31 March 2017, BKS Bank attained a net profit before tax of EUR 13.4 million. Compared to the same period of the preceding year, the net profit was 22.9% higher. At EUR 37.0 million or -1.0%, net interest income before impairment charges remained almost at the preceding year's level. Even though net interest income decreased by 10.7% to EUR 37.8 million due to the tense situation, interest expenses also decreased significantly and were EUR 8.9 million, which is a minus of 16.5%. Nonetheless, it was not possible to fully compensate the losses incurred in net interest income. By contrast, the shares of companies measured using the equity method increased by a pleasing 42.0% to EUR 8.1 million. This reflects the very good performance of our sister banks.

The sustained relaxed risk situation lowered the charges for losses on loans and advances year on year by 5.1% to EUR 8.3 million. At EUR 28.7 million, net interest income after impairment charges was nearly unchanged to the first quarter of 2016.

UPSWING IN COMMISSION BUSINESS

The result of the commission business developed positively in the first three months and posted a gain of 2.8% to a very satisfactory EUR 13.3 million. It was, above all, the securities business that contributed to the good results. Since the start of the year, stock markets have picked up considerably thus boosting investor behaviour. Thanks to higher securities turnover and a higher market value of the securities on customer portfolios with BKS Bank, the net fee and commission income from the securities business rose by 8.8% to a highly satisfactory EUR 3.3 million. By contrast, commissions from the lending business and payment services were down. Especially in the financing business, it was an enormous challenge to defend prices. Our rigorous billing practice helped to keep net fee and commission income from lending operations at a solid level of EUR 3.5 million. The income from payment services was EUR 5.0 million, which corresponds to a decline of 3.4% year on year.

COMPONENTS OF THE INCOME STATEMENT



GOOD PERFORMANCE OF FINANCIAL ASSETS

Total profit from financial assets reached an excellent level of EUR 1.6 million and also reflects the positive sentiment on stock markets. Additionally, we earned contributions to profit from positive valuation effects resulting from the use of the fair value option.

SLIGHT DECLINE IN GENERAL ADMINISTRATIVE EXPENSES

In the first three months, general administrative expenses decreased slightly year on year at EUR 26.6 million. The largest share in general administrative expenses is accounted for by personnel expenses which were also slightly lower at EUR 17.4 million (-0.4%). As at the end of March 2017, our Group had 924 employees, measured in FTEs. At EUR 7.7 million, other administrative expenses were also 1.3% lower than in the preceding year. The lower costs were due to our cautious investment policy. Depreciation and amortisation decreased by 8.0% to EUR 1.5 million.

Other profit or loss contains the high tax burden on banks. The result of EUR -3.9 million includes the expenses for the resolution fund of EUR 2.2 million and the contributions to the deposit guarantee scheme of EUR 1.9 million. The two contributions are must be recognized fully in profit or loss in the first quarter of the financial year.

PERFORMANCE RATIOS ON COURSE

The excellent profit for the period is also reflected in the key management benchmarks. Return on equity (ROE) after tax improved from 5.1% to 6.0% and return on assets (ROA) after tax increased from 0.6% to 0.8% – the latter ratio measures total return on equity.

The cost/income ratio increased by 0.7% to 56.9%. The reason was once again the high other operating expenses for the contributions to the resolution mechanism and deposit guarantee scheme which must be recognized in full in the first quarter according to IFRS. The development of the risk/earnings ratio was highly satisfactory: The improved risk situation is shown by a ratio of 22.5%.

Our bank has a solid capital base. With a Common Equity Tier 1 capital ratio of 11.6% and an own funds ratio of 13.4%, our figures are excellent and well above the statutory requirements. At 7.8%, the leverage ratio clearly outperformed the regulatory requirement of 3.%. The same is true for the liquidity coverage ratio: As at 31 March 2017, it stood at 148.3%, thus fully in conformity with the 100% ratio which must be attained by 2018.

KEY PERFORMANCE INDICATORS

in %	31/12/2016	31/03/2017	± in %-points
ROE after tax	5.1	6.0	0.9
ROA after tax	0.6	0.8	0.2
Cost/income ratio	56.2	56.9	0.7
Risk/earnings ratio	20.1	22.5	2.4
LCR	155.6	148.3	-7.3
Leverage ratio	8.5	7.8	-0.7
Common Equity Tier 1 ratio	12.6	11.6	-1.0
Own funds ratio	13.5	13.4	-0.1

SEGMENT REPORTS

Corporate and Business Banking is our most successful segment and accounts for the largest share of our profit for the period. The financial markets segment is a source of stable earnings, in spite of market volatility. Retail banking is currently a rather difficult market for banks in which it is not easy to make a profit.

CORPORATE AND BUSINESS BANKING

As at 31 March 2017, the Corporate and Business Banking segment had some 18,800 customers. This customer segment includes many firms from the industrial sector, commerce and trade, as well as from the free professions, farming and forestry and also as municipalities and the public sector.

Corporate and business banking has a long tradition at our bank. Already at the time of its founding in 1922, the object of our business was primarily to supply banking services to business customers. Today, this segment is still the most important operational business unit. Most loans extended go to corporate and business customers.

Excellent segment results

The first quarter of 2017 was another highly successful period for our corporate and business banking segment. The profit for the period before tax came to EUR 12.8 million, up 32.2% from the prior-year figure. There were two main contributors to the excellent results – net interest income and net fee and commission income. Net interest income grew by 4.4% to EUR 21.9 million year-on-year, which is very positive. This is an excellent result which we attribute to our stringent application of loan terms and conditions. Another welcome result is the significant increase – by 12.8% – in net fee and commission income, raising the figure to EUR 7.6 million. This confirms the effectiveness of our policy of stepping up sales activities to expand business areas with little impact on equity. The stress-free risk situation lowering impairment charges on loans and advances to EUR 5.8 million, down by 23.3% or 1.8 million. In contrast, general administrative expenses increase slightly by EUR 0.5 million to EUR 11.4 million.

The excellent development in business is also reflected in the key management benchmarks. Return on equity increased by 3.9%-points to 19.7%, while the risk/earnings ratio, dropped by 9.5%-points, which is an marked improvement. The cost/income ratio performed satisfactorily as well, coming to 38.0% at the end of March 2017 versus 38.7% in the prior-year quarter.

RETAIL CUSTOMERS

In retail banking, we provide services to private individuals and members of the healthcare professions. As at the end of March 2017, we served around 133,700 customers in this segment.

The retail banking segment has been struggling to achieve profits for some time now. The main reasons for this development are, on the one hand, the extremely flat interest rate curve and, on the other, the high operating costs of the branches. What is more, a major technological change is taking place with lasting effects on customer behaviour, which presents new challenges to the banking sector. In spite of these burdens and challenges, however, retail banking is a sine qua non for us. Branches remain our location of choice for providing personalised and competent advisory services. Therefore, we will remain a bank with operative branches that offers reliable service to customers.

At the same time, we are working hard on enhancing our range of digital products and on developing our customer portal. In the first quarter of 2017, we acquired some 800 new customers for BKS Bank-Online, an increase of 2.3%.

Unsatisfactory development of earnings

In the first quarter of 2017, earnings in the retail banking sector were once again in negative territory. The segment result before tax came to EUR -2.4 million as at the end of March. Net interest income and net fee and commission income declined in the first three months of the year. Changes with respect to the prior-year quarter are as follows: Net interest income dropped by 0.5% to EUR 6.2 million. In conformity with our prudent risk policies, we applied stricter standards for calculating impairment allowances in the retail banking segment, raising impairment charges by EUR 0.6 million to EUR 1.7 million. Net fee and commission income decreased by 3.8% to EUR 5.7 million, while at EUR 12.9 million, general administrative expenses remained more or less the same as in the preceding year

The segment loss also had a negative impact on management benchmarks. Return on equity moved further into negative territory reaching -23.3%; the cost/income ratio worsened to 106.0%, and the risk/earnings ratio also deteriorated from 16.1% to 27.4%, albeit due to the one-off effect of the adaptation of the impairment allowance process.

FINANCIAL MARKETS

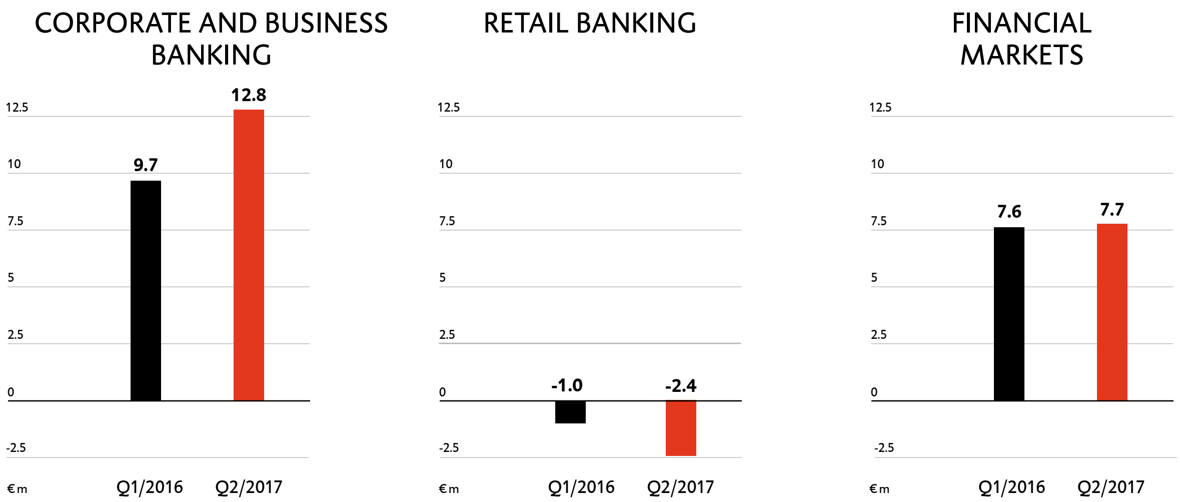
Apart from income earned on the management of term structures, the main pillars of the Financial Markets segment are returns on securities in the own portfolio and the contributions of entities consolidated using the equity method. Proprietary trading is not a focus of our business activities.

Profit for the period before tax came to EUR 7.7 million, slightly above the prior-year value (+2.0%). Once again, profits from the companies measured using the equity method made stable contributions to earnings: with a gain of 42.0%, the profit pf EUR 8.1 million was quite impressive. Net interest income, on the other hand, dropped by 1.0% to EUR 8.3 million. Once again, the decline in interest income is attributable to the extremely low interest rate level. In the first quarter of 2017, the provisions for country risks increased slightly, with the risk costs allocated to this segment following suit. Net trading income doubled to EUR 0.4 million, an increase driven by interest rate and foreign exchange transactions. General administrative expenses decreased slightly by 3.9% to EUR 1.6 million.

The Financial Markets segment also includes net income from financial assets. Taking advantage of the positive sentiment on the stock exchanges, we sold available-for-sale assets, with proceeds amounting to EUR 0.5 million. In total, profit from financial assets was EUR 1.6 million, significantly higher than in the preceding year.

Segment-specific benchmarks developed as follows: Return on equity declined by 0.7%-points to 4.7%, while the cost/income ratio rose slightly to 18.8% at the end of March. The risk/earnings ratio saw an increase from 2.3% to 10.9%, due to a rise in impairment charges.

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



in %	Q1/2016	Q1/2017
ROE	15.8	19.7
CIR	38.7	38.0
RER	35.8	26.3

in %	Q1/2016	Q1/2017
ROE	-9.6	-23.3
CIR	99.4	106.0
RER	16.1	27.4

in %	Q1/2016	Q1/2017
ROE	5.4	4.7
CIR	17.7	18.8
RER	2.3	10.9

A detailed presentation of the segments is given in the Notes starting on page 51.

CONSOLIDATED OWN FUNDS

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

Common Equity Tier 1 capital decreased from EUR 625.9 million to EUR 573.1 million. This decline is due mainly to higher loss items for holdings in other banks resulting from the transitional provisions under the CRR. Consequently, the Common Equity Tier 1 ratio dropped from 12.6% to 11.6%. Taking Tier 2 capital in the amount of EUR 83.8 million into account, the bank's own funds came to EUR 660.9 million as at 31 March 2017.

The own funds ratio stood at 13.4% at the end of March. In this context, we would like to note that the interim report as at 31 March 2017 has not been audited by an auditor. Consequently, the profit for the period has not been computed towards own funds. The capital ratios as at the end of March 2017 significantly exceeded the statutory requirements of 5.75% and 9.25%, respectively.

As at the end of March 2017, the leverage ratio came to 7.8%, thus also far above the regulatory minimum ratio of 3% and the internal target of >5%. The leverage ratio is the ratio of Common Equity Tier 1 capital to the unweighted exposure of BKS Bank including the off-balance sheet risk positions.

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

in €m	31/12/2016	31/03/2017
Share capital	77.8	77.5
Reserves net of intangible assets	831.4	835.7
Deductions	-283.3	-340.1
Common Equity Tier 1 capital (CET 1)[1]	625.9	573.1
Common Equity Tier 1 ratio	12.6%	11.6%
Hybrid capital	24.0	20.0
AT1 note	23.4	23.4
Deductions	-47.4	-39.4
Additional Tier 1 capital	-	4.0
Tier 1 capital (CET1 + AT1)	625.9	577.1
Tier 1 capital ratio	12.6%	11.7%
Tier 2 capital items and instruments	120.6	123.0
Deductions	-76.5	-39.2
Tier 2 capital	44.1	83.8
Total own funds	670.0	660.9
Own funds ratio	13.5%	13.4%
Assessment base	4,974.1	4,926.3
Own funds surplus	241.0	205.2

RISK REPORT

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

BKS Bank makes every effort to pro-actively meet the new risk management requirements. In doing so, we focus on

– Data transmission and calibration for risk reporting,
– Implementation of the draft guidelines of the European Central Bank "Guidance to banks on non-performing loans",
– Amendments derived from the International Financial Reporting Standards, especially from IFRS 9,
– Supervisory Review and Evaluation Process (SREP), and
– Review of CRR/CRD IV, referred to as Basel 3.5.

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

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

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

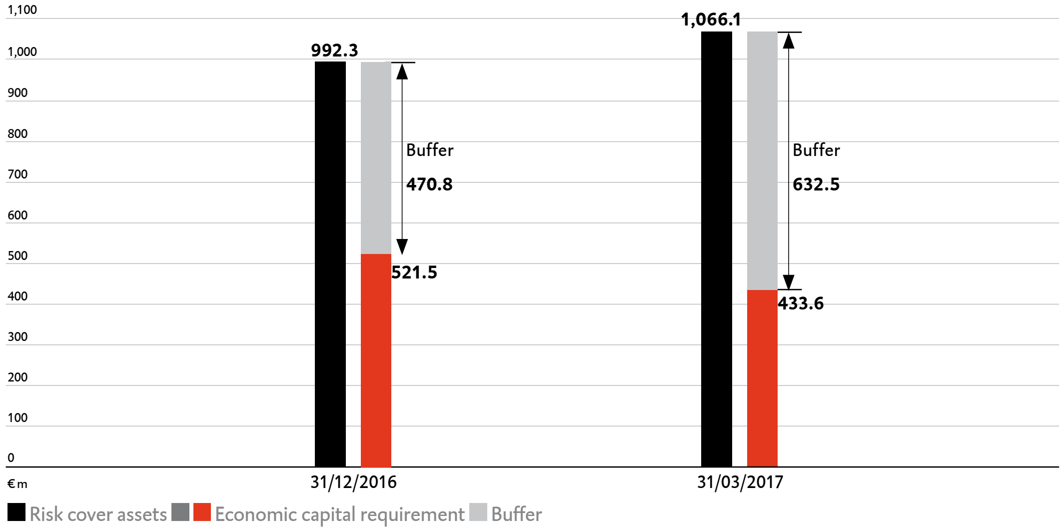
The overall bank risk is the equivalent of our economic capital requirement, which is the amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit and liquidity risk are accounted for in the prices charged to customers as risk premiums (standard risk costs, liquidity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

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

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

The economic capital requirement for credit risk was the largest risk capital requirement within the Group. As at the end of March 2017, credit risks accounted for about 68.0% of the total loss potential (31 December 2016: 76.8%). Market and interest rate risks accounted for a share of 18.0% (31 December 2016: 10.3%). Based on the liquidation approach, the economic capital requirement was determined at EUR 433.6 million as at 31 March 2017, compared with EUR 521.2 million as at 31 December 2016. Risk cover assets amounted to EUR 1,066.1 million (31 December 2016: EUR 992.3 million).

RISK-BEARING CAPACITY BASED ON THE LIQUIDATION APPROACH



CREDIT RISK

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

The management of credit risk is based on the principle of granting loans only on a know-your-customer basis. Therefore, loans are granted only after a thorough check of the person and creditworthiness and – if relevant – in compliance with the dual control principle (front office and back office). Collateral requirements are derived from the rating class and the product. Fair value valuations of collateral take their bearings from average proceeds from liquidation achieved in the past. Lending in markets outside of Austria is governed by special guidelines that are specific to the features of the country concerned, in particular, the economic environment and the higher realization risk of the collateral.

BKS Bank uses a rating scale with 13 rating classes. As at 31 March 2017, around 48.6% of all loans to corporate and business customers and around 76.6% of loans to retail customers were assigned an excellent rating of AA-2b. The focus of new business was on customers in the rating classes up to 3a.

IMPAIRMENT CHARGES FOR LOSSES ON LOANS AND ADVANCES

in €m	31/03/2016	31/03/2017	± in %
Impairment allowances	10.4	15.3	46.8
Impairment reversals	-1.6	-6.9	>100
Direct write-offs	0.1	0.1	0.0
Recoveries in respect of receivables previously written off	-0.2	-0.2	0.0
Impairment allowance balance	**8.8**	**8.3**	**-5.1**

As at the end of March 2017, the balance of additions to impairment allowances was EUR 8.3 million, down from EUR 8.8 million in the prior-year period. New allocations in the amount of EUR 15.3 million were balanced by reversals in the amount of EUR 6.9 million, with additions to individual impairment allowances, collective impairment allowances under IAS 39 and allowances for country risk being taken into account. A look at credit risk at the level of non-performing loans shows a reduction of the NPL ratio[1)] by 18 basis points to 4.6% since the beginning of 2017. Foreign subsidiaries reversed provisions in the amount of EUR 0.1 million.

INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

	Financial instruments that were neither past due nor impaired		Past due financial instruments	
Carrying value/max. default risk per class in €m	31/12/2016	31/03/2017	31/12/2016	31/03/2017
Receivables from customers	5,490	5,424	385	362
– of which, measured at fair value	52	60	-	-
Contingent liabilities	233	268	3	9
Receivables from banks	262	181	1	1
Securities and funds	815	791	-	-
– of which, measured at fair value	23	23	-	-
Equity investments	521	534	-	-
Total	**7,321**	**7,281**	**389**	**372**

INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

	Impaired financial instruments		Past due but not yet impaired financial instruments	
Carrying value/max. default risk per class in €m	31/12/2016	31/03/2017	31/12/2016	31/03/2017
Receivables from customers	318	317	105	75
– of which, measured at fair value	-	-	-	-
Contingent liabilities	-	-	3	9
Receivables from banks	1	1	-	-
Securities and funds	-	-	-	-
– of which, measured at fair value	-	-	-	-
Equity investments	8	8	-	-
Total	**327**	**326**	**108**	**84**

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

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

MARKET RISK INCLUDING INTEREST RATE RISK IN THE BANKING BOOK

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

BKS groups market risk into the following categories:
– Interest rate risk (including credit spread risk)
– Equity price risk
– Foreign currency risk

The management of market risks and the setting of the relevant limits is based on a combination of indicators and methods such as value-at-risk (VAR), modified duration, volume analysis and stress tests of the economic capital.

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

BKS Bank pursues a conservative strategy regarding interest rates risk and as a general rule does not engage in any significant speculative derivative transactions. BKS Bank engages in derivative transactions almost exclusively to hedge against market risks, using only instruments whose characteristics and
related risks are known and for which experience-based data is available.

The quotient, which is reported to OeNB, derived from interest rate risk and eligible own funds based on an interest rate shift of 200 base points was 1.4% at the end of March 2017 versus 1.0% at the end of March 2016. We point out that the supervisory authority classifies a bank as an ‘outlier bank’ as of a ratio of 20%. Our bank is not anywhere near this figure.

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

Foreign currency loans and deposits in foreign currencies are generally refinanced or invested in the same currency. To hedge foreign exchange risks, BKS Bank in some cases enters into derivative transactions such as cross currency swaps, foreign currency

forwards and foreign currency swaps.
At the end of March, the Open FX position, taking into account foreign currency shares in funds held in the treasury portfolio, came to EUR 18.1 million. The value at risk from the foreign exchange position declined to EUR 0.6 million.

The volume of equity positions and alternative investments that are not equity investments came to EUR 33.7 million in the first quarter of 2017. The value at risk derived from the equity price risk was EUR 1.0 million, compared to EUR 1.2 million at year-end 2016.

VALUE-AT-RISK FIGURES

in €m	31/12/2016	31/03/2017	± in %
Interest rate risk[1)]	6.7	12.0	100
FX risk	0.9	0.6	-33.3
Equity price risk	1.2	1.0	-16.7
Total (incl. diversification effects)	**7.1**	**12.1**	**70.4**

[1)] incl. credit spread risks

LIQUIDITY RISK

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

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

Essential for liquidity management is a diversification of the refinancing profile by investor category, product and maturity. The policies guiding the terms and conditions of the lending business are based on the Austrian Regulation on Credit Institution Risk Management and the EBA Guidelines. The costs of refinancing financial products are determined within the scope of a sophisticated funds transfer pricing model. These costs are allocated in the product and profit centre calculations.

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

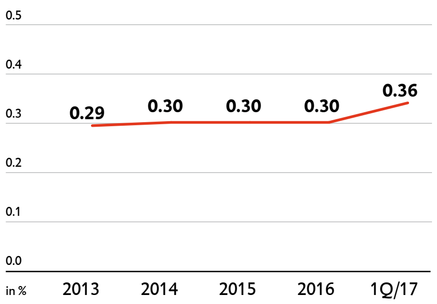
Possible liquidity peaks are balanced out by borrowing or investing money with the Austrian central bank, OeNB, or on the interbank market. Intraday liquidity management is done within the limits defined and utilization is reported daily to Risk Controlling and the chief risk officer

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

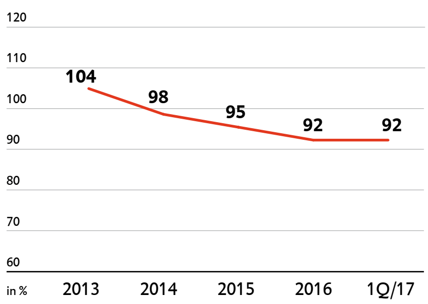
The loan/deposit ratio is a further key indicator for liquidity management and shows the relation between loans and primary deposits. At a ratio of 91.9%, we are clearly below our internal benchmark of 100% and thus in an excellent position.

The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain liquid for the next 30 days in the event of simultaneous market and bank-specific stress situations. It compares highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. This regulatory liquidity ratio was 148.3% at 31 March 2017 and was therefore far above the minimum ratio of 100% which is being phased in starting in October 2015 until 2018. In the ILAAP report of BKS Bank, we now monitor NSFR on an ongoing basis. At the end of March 2017, NSFR was 106.2%.

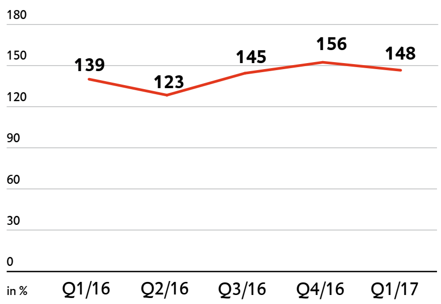
DEPOSIT CONCENTRATION



LOAN/DEPOSIT RATIO



LCR



OPERATIONAL RISK

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

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

In the reporting period, 41 loss events (excluding those resulting from credit operations) were reported. The average loss amount after deducting amounts recovered was EUR 211,000. At a total of EUR 0.2 million, the loss events recorded pursuant to § 19 Austrian Securities Supervision Act (WAG 2007) remained below the internally-defined risk tolerance threshhold of EUR 1.0 million.

OUTLOOK FOR 2017

GLOBAL ECONOMY GROWING ROBUSTLY

The economy is on the grow path all over the world. In many industrialized and emerging markets, the global economy is picking up pace. The International Monetary Fund (IMF) recently slightly updated its forecast for the global economy to 3.5%, while the European Commission expects global growth to expand by 3.7% for 2017.

The US economy is likely to attain solid growth in 2017 despite the sluggish first quarter of 2.2% (estimate of the European Commission). The US labour market has been performing robustly. The unemployment rate reached the lowest level in ten years in April 2017 at 4.4.%. The economic outlook remained encouraging despite the still uncertain economic and trade policy of the Trump administration. Economists expect the US Fed to raise interest rates again in June.

The European economy has been growing steadily over the past five years. All EU member states are reporting stable growth rates, with the countries having implemented structural reforms performing much better. The European Commission raised the growth rate for 2017 in the euro area from 1.6% (winter forecast) to 1.7% in its recently published spring forecast. The economy is expected to grow by 1.9% this year in the entire European Union (EU). The most important pillar of support for economic recovery in Europe remains private consumption. However, the perceptible rise in inflation may have a slightly dampening effect on consumption in the course of the year. By contrast, the rising corporate earnings, full order books, continuation of the low interest rate policy and generally good sentiment are bolstering investment activity. The labour market is also profiting from the recovering economy. The unemployment rate in the entire EU area is estimated to decline to 8.0% in 2017. The upcoming Brexit negotiations do not appear to be having any real impact on the European economy.

For Austria, the economic prospects are also very positive. The Austrian Institute of Economic Research (Wifo) expects the year 2017 to bring an increase in GDP of 2%. Several factors indicate that the economic recovery rests on a solid foundation: The sustained strong level of retail consumption, the livelier investment activity of companies and higher exports are proving to be a viable pillar of support for the upswing. Moreover, sentiment is bright among business leaders in Austria. The labour market is also profiting from this positive development. In 2017, the annual average for the unemployment rate is estimated to be 8.7%.

A brief look at developments on stock and bond markets: The environment for stocks is still bullish. The optimistic sentiment is also reflected in the positive reporting by companies. Up to now, it has been possible to meet the high expectations of the market. We therefore expect stock prices to continue rising over the medium term. However, temporary corrections and higher fluctuations cannot be ruled out.

As regards fixed-interest securities, we are still skeptical about how government bonds will develop. Since mid-2016, volatility has risen steeply in this segment. Yields on long-term government bonds have not reacted to the effective reduction of monthly bond purchases since April 2017 or to the rise in inflation to almost 2%. Moreover, a discussion on the phasing out of the securities purchases could soon become topical and cause yields to rise.

OPTIMISTIC OUTLOOK FOR 2017

We expect our bank to profit from the robust economic development as well. We believe that the already higher demand for loans from corporates will continue to rise over the course of the year. The slight easing on the labour market will improve the income situation of private households. Therefore, we also expect higher demand for residential construction loans.

Furthermore, we are, of course, working hard on the implementation of our strategic company goals. The year 2017 is dominated by the progress of digitization.
We have initiated attractive projects for both the Corporate and Business Banking segment and the Retail Banking segment. The themes covered include the possibility of opening accounts and requesting loans loans online as well as the development of a new customer portal for our corporate customers.

It is not only the digital transformation that is creating new opportunities, but we also hope to grow strongly in the classical banking business. In the retail segment, we recently successfully launched a new product on the market, BKS-Bank-Komplett. This package deal offers retail customers a complete range of services at an attractive flat rate that includes online banking, an overdraft facility, bank cards, savings and household accounts. We are also very enthusiastic about the continued expansion of our sustainable range of products. By year-end, we will launch a further sustainable investment product. Unlike our competitors, we will enlarge our network of branches this year as well. Apart from the newly opened locations in Ljbubljana and Vienna, we will open our third branch in Croatia in Split in the autumn.

While we will be taking measures to improve our earnings capacities, we will also focus on containing costs. An example is the optimisation and cost-cutting project at the head office in Slovenia.

We are optimistic about the current financial year. The solid results achieved in the first quarter make us optimistic that we will be able to pursue our sustainable growth course. As in preceding years, we are planning to pay out a dividend commensurate with earnings for the financial year 2017.

Klagenfurt am Wörthersee, 19 May 2017

Herta Stockbauer
Chairman of the Management
Board

Dieter Kraßnitzer, CIA
Member of the Management
Board

Wolfgang Mandl
Member of the Management
Board

CONSOLIDATED FINANCIAL STATEMENTS
PURSUANT TO IFRS

TABLE OF CONTENTS - NOTES

STATEMENT OF COMPREHENSIVE INCOME OF THE BKS BANK GROUP FOR THE PERIOD ENDED 31 MARCH 2017

INCOME STATEMENT

in €k	Notes	Q1 2016	Q1 2017	± in %
Interest income		42,319	37,780	-10.7
Interest expenses		-10,644	-8,887	-16.5
Profit/loss from equity-method accounted investments		5,726	8,132	42.0
Net interest income	**(1)**	**37,401**	**37,025**	**-1.0**
Impairment charges on loans and advances	(2)	-8,793	-8,345	-5.1
Net interest income after impairment charges		**28,608**	**28,680**	**0.3**
Fee and commission income		13,864	13,930	0.5
Fee and commission expenses		-974	-674	-30.8
Net fee and commission income	**(3)**	**12,890**	**13,256**	**2.8**
Net trading income	(4)	199	383	92.2
General administrative expenses	(5)	-26,898	-26,594	-1.1
Other operating income	(6)	1,239	1,952	57.6
Other operating expenses	(6)	-5,039	-5,837	15.8
Profit/loss from financial assets		**-61**	**1,600**	**>100**
– Profit/loss from financial assets designated as at fair value through profit or loss	(7)	-195	1,143	>100
– Profit/loss from available-for-sale financial assets	(8)	134	460	>100
– Profit/loss from helt-to-maturity financial assets	(9)	-	-4	>100
Profit for the period before tax		**10,938**	**13,440**	**22.9**
Income tax expense	(10)	-2,414	-2,183	-9.6
Profit for the period after tax		**8,524**	**11,256**	**32.0**
Minority interests in profit for the period		-1	-1	-13.4
Profit for the period after minority interests		**8,523**	**11,256**	**32.0**

INCOME AND EXPENSES TAKEN DIRECTLY TO EQUITY

in €k	Q1 2016	Q1 2017	± in %
Profit for the period after tax	**8,523**	**11,256**	**32.0**
Items not reclassified to profit or loss for the year	**3,381**	**1,524**	**-54.9**
± Actuarial gains/losses in conformity with IAS 19	-250	-167	-33.2
± Deferred taxes in conformity with IAS 19	63	42	-33.2
± Gains less losses arising from use of the equity method in conformity with IAS 19	3,568	1,649	-53.8
Items reclassified to profit or loss for the year	**-6,649**	**4,438**	**>100**
± Exchange differences	470	53	-88.7
± Unrealised gains/losses on available-for-sale financial instruments	-1,374	4,628	>100
± Deferred taxes unrealised gains/losses on available-for-sale financial instruments	346	-1,157	>100
± Gains less losses arising from use of the equity method	-6,091	914	>100
Total income and expenses taken directly to equity	**-3,268**	**5,962**	**>100**
Comprehensive income before minority interests	**5,256**	**17,218**	**>100**
of which minority interests	-1	-1	>100
Comprehensive income after minority interests	**5,255**	**17,217**	**>100**

QUARTERLY REVIEW

in €k	Q1/2016	Q2/2016	Q3/2016	Q4/2016	Q1/2017
Interest income	42,319	40,300	40,108	38,240	37,780
Interest expenses	-10,644	-10,617	-9,969	-9,246	-8,887
Profit/loss from equity-method accounted investments	5,726	10,211	9,728	8,031	8,132
Net interest income	**37,401**	**39,894**	**39,867**	**37,025**	**37,025**
Impairment charges on loans and advances	-8,793	-3,608	-13,361	-5,245	-8,345
Net interest income after impairment charges	**28,608**	**36,286**	**26,506**	**31,780**	**28,680**
Fee and commission income	13,864	13,301	12,176	13,245	13,930
Fee and commission expenses	-974	-828	-908	-1,046	-674
Net fee and commission income	**12,890**	**12,473**	**11,268**	**12,199**	**13,256**
Net trading income	199	779	-61	800	383
General administrative expenses	-26,898	-27,400	-26,100	-26,030	-26,594
Other operating income	1,239	953	1,583	2,816	1,952
Other operating expenses	-5,039	-3,424	-1,512	-12,037	-5,837
Profit/loss from financial assets	**-61**	**-120**	**-1,297**	**-598**	**1,600**
– Profit/loss from financial assets designated as at fair value through profit or loss (FV)	-195	-414	-1,553	299	1,143
– Profit/loss from available-for-sale financial assets (AFS)	134	294	103	-897	460
– Profit/loss from held-to-maturity financial assets (HtM)	-	-	153	-	-4
Profit for the period before tax	**10,938**	**19,547**	**10,387**	**8,929**	**13,440**
Income tax expense	-2,414	-3,362	1,778	381	-2,183
Profit for the period after tax	**8,524**	**16,185**	**12,165**	**9,310**	**11,256**
Minority interests in profit for the period	-1	-1	-	-2	-1
Profit for the period after minority interests	**8,523**	**16,184**	**12,165**	**9,308**	**11,256**

BALANCE SHEET OF THE BKS BANK GROUP FOR THE PERIOD ENDED 31 MARCH 2017

ASSETS

in €k	Notes	31/12/2016	31/03/2017	± in %
Cash and balances with the central bank	(11)	543,542	360,806	-33.6
Receivables from other banks	(12)	242,347	163,372	-32.6
Receivables from customers	(13)	5,330,395	5,271,747	-1.1
– Impairment allowance balance	(14)	-155,136	-160,874	3.7
Trading assets	(15)	10	10	2.1
Financial assets		1,483,583	1,480,328	-0.2
– Financial assets designated as at fair value through profit or loss	(16)	75,568	82,631	9.3
– Available-for-sale financial assets	(17)	189,335	196,590	3.8
– Held-to-maturity financial assets	(18)	747,773	721,073	-3.6
– Investments in entities accounted for using the equity method	(19)	470,907	480,035	1.9
Intangible assets	(20)	1,735	1,542	-11.1
Property and equipment	(21)	56,274	55,640	-1.1
Investment property	(22)	30,720	31,075	1.2
Deferred tax assets	(23)	17,288	17,780	2.8
Other assets	(24)	30,298	28,675	-5.4
Total assets		**7,581,056**	**7,250,103**	**-4.4**

EQUITY AND LIABILITIES

in €k	Notes	31/12/2016	31/03/2017	± in %
Payables to other banks	(25)	867,494	603,374	-30.4
Payables to customers	(26)	4,824,760	4,754,769	-1.5
– Of which savings deposits		1,528,994	1,522,328	-0.4
– Of which other payables		3,295,766	3,232,441	-1.9
Liabilities evidenced by paper	(27)	544,656	539,356	-1.0
Trading liabilities	(28)	10	10	4.2
Provisions	(29)	126,902	120,280	-5.2
Deferred tax liabilities	(30)	261	1,979	658.4
Other liabilities	(31)	59,602	73,753	23.7
Subordinated debt capital	(32)	198,585	183,482	-7.6
Equity		958,786	973,101	1.5
– Of which total minority interests and equity		958,767	973,081	1.5
– Of which minority interests in equity		19	20	4.5
Total equity and liabilities		**7,581,056**	**7,250,103**	**-4.4**

EARNINGS AND DIVIDEND PER SHARE

	31/03/2016	31/03/2017
Average number of shares in issue (ordinary and preference shares)	35,327,392	39,009,649
Earnings per ordinary and preference share (allocated to period)	0.23	0.29
Earnings per ordinary and preference share in EUR (diluted and undiluted)	0.92	1.15

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

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained earnings	Adjustment for Associates[1]	Profit/loss for the period	Additional equity instru-ments[2]	Equity in €k
As at 1 January 2017	**79,279**	**193,032**	**-59**	**3,090**	**608,138**	**5,707**	**46,180**	**23,400**	**958,767**
Distribution									-
Taken to retained earnings					46,180		-46,180		-
Profit/loss for the period							11,255		11,255
Income and expenses taken directly to equity			53	3,471	-125	2,563			5,962
Increase in share capital									-
Effect of the equity method					-1,568				-1,568
Change in treasury shares					-1,065				-1,065
Additional equity instruments [2]									-
Other changes					-270				-270
As at 31 March 2017	**79,279**	**193,032**	**-6**	**6,561**	**651,290**	**8,270**	**11,255**	**23,400**	**973,081**
Available-for-sale reserve								17,018	
Deferred tax reserve								-2,188	

[1] This column shows the cumulated pro rata OCI of entities recognized using the equity method.
[2] The proceeds from the issue of the Additional Tier 1 note in 2015 are classified as equity in conformity with IAS 32.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained earnings	Adjustment for Associates[1]	Profit/loss for the period	Additional equity instru-ments[2]	Equity
As at 1 January 2016	**72,072**	**143,056**	**-1,030**	**2,388**	**562,416**	**4,312**	**53,613**	**23,400**	**860,227**
Distribution									-
Taken to retained earnings					53,613		-53,613		-
Profit/loss for the period							8,523		8,523
Income and expenses taken directly to equity			470	-1,028	-187	-2,523			-3,268
Increase in share capital									-
Effect of the equity method					657				657
Change in treasury shares					-352				-352
Additional equity instruments [2]									-
Other changes					-1,132				-1,132
As 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] This column shows the cumulated pro rata OCI of entities recognized using the equity method.
[2] The proceeds from the issue of the Additional Tier 1 note in 2015 are classified as equity in conformity with IAS 32.

STATEMENT OF CASH FLOWS

CASH FLOWS

in €k	Q1 2016	Q1 2017
Cash and cash equivalents at the end of previous period	**190,310**	**543,542**
Profit for the period after tax before minority interests	8,524	11,255
Non-cash positions in profit for the period	6,569	3,030
Change in assets and liabilities arising from operating business activities after correction for non-cash items	-22,436	-201,833
Net cash from/used in operating activities	**-7,343**	**-187,548**
Proceeds from sales	22,412	69,724
Outlay on purchases	-37,201	-48,812
Net cash from/used in investing activities	**-14,789**	**20,912**
Other cash receipts	-	-
Dividend distributions	-	-
Subordinated liabilities and other financing activities	8,786	-16,168
Net cash from/used in financing activities	**8,786**	**-16,168**
Effect of exchange rate changes on cash and cash equivalents	96	68
Cash and cash equivalents at the end of the reporting period	**177,060**	**360,806**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BKS BANK

MATERIAL ACCOUNTING POLICIES

I. GENERAL INFORMATION

The financial statements of BKS Bank for the period ended 31 March 2017 were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as adopted by the EU. The relevant interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) were taken into account.

II. RECOGNITION AND MEASUREMENT

Group of consolidated companies

Besides BKS Bank AG, the consolidated financial statements accounted for a total of 18 entities (14 consolidated, three accounted for using the equity method and one accounted for on a proportionate basis). The scope of consolidation was unchanged compared with the reporting date of 31 December 2016.

CONSOLIDATED ENTITIES

Company	Head office	Direct equity interest	Indirect equity interest	Date of financial statements
BKS-Leasing Gesellschaft m.b.H.	Klagenfurt	99.75%	0.25%	31/03/2017
BKS-leasing d.o.o.	Ljubljana	100.00%	-	31/03/2017
BKS-leasing Croatia d.o.o.	Zagreb	100.00%	-	31/03/2017
BKS-Leasing s.r.o.	Bratislava	100.00%	-	31/03/2017
IEV Immobilien GmbH	Klagenfurt	100.00%	-	31/03/2017
Immobilien Errichtungs- und Vermietungs GmbH & Co KG	Klagenfurt	100.00%	-	31/03/2017
BKS 2000-Beteiligungs- und Verwaltungs GmbH	Klagenfurt	100.00%		31/03/2017
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	-	100.00%	31/03/2017
BKS Hybrid alpha Gmbh	Klagenfurt	100.00%	-	31/03/2017
BKS Hybrid beta GmbH	Klagenfurt	100.00%	-	31/03/2017
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	-	31/03/2017
LVM Beteiligungs Gesellschaft m.b.H.	Klagenfurt	-	100.00%	31/03/2017
BKS Immobilien-Service GmbH	Klagenfurt	100.00%	-	31/03/2017
BKS Service GmbH	Klagenfurt	100.00%	-	31/03/2017

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Company	Head office	Direct equity interest in %	Date of financial statements
Oberbank AG	Linz	14.21	31/12/2016
BTV AG	Innsbruck	13.59	31/12/2016
Drei Banken Versicherungsagentur GmbH	Linz	20.00	31/03/2017

Regarding Oberbank AG and BTV AG, we point out that although, as at 31 March 2017, BKS Bank had voting interests of less than 20% in those banks, namely 15.21% and 14.95%, respectively, and equity interests of less than 20%, namely 14.21% and 13.59%, respectively, the exercise of voting rights was governed by syndicate agreements. These allowed participation in those two banks' financial and business policy decisions within the scope of the 3 Banken Group without having a controlling interest in them.

Entities accounted for on a proportionate basis

Pursuant to the provisions of IFRS 11, the investment in AlpenländischeGarantie-GESELLSCHAFT m.b.H. (ALGAR) required classification as a joint operation and was, therefore, accounted for on a proportionate basis.

ENTITIES ACCOUNTED FOR ON A PROPORTIONATE BASIS

Company	Head office	Direct equity interest	Date of financial statements
ALGAR	Linz	25.0%	31/03/2017

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 MARCH 2017

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit/loss for the period before tax
Branches abroad				
Slovenia Branch (banking branch)	2,689	3,414	101	755
Croatia Branch (banking branch)[1)]	1,777	2,284	59	1,051
Slovakia Branch (banking branch)	352	390	23	-127
Subsidiaries				
BKS-leasing d.o.o., Ljubljana	601	680	15	541
BKS-leasing Croatia d.o.o., Zagreb	599	735	11	548
BKS-Leasing s.r.o., Bratislava	193	248	10	-69

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 MARCH 2016

in €k	Net interest income	Operating income	Number of employees (FTE)	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)]	1,659	1,818	56	757

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

Foreign currency translation

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

NOTES ON INDIVIDUAL ITEMS ON THE BALANCE SHEET

Cash and balances with the central bank

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

Financial instruments

A financial instrument is a contract, which for the one contractual partner gives rise to a financial asset, and for the other contractual partner, a financial liability or equity. Financial assets and liabilities are initially measured at their fair value, which is, as a rule, at cost. They are subsequently measured in conformity with the provisions of IAS 39 and according to their category:

- financial assets requiring measurement at fair value, subdivided into
  - trading assets and trading liabilities: these are financial instrument held for trading, inclusive of all derivatives with the exception of those designated as hedges (held for trading);
  - financial assets and liabilities designated as at fair value through profit or loss (fair value option)

– available-for-sale financial assets (AfS)
– held-to-maturity financial assets (HtM)
– loans and receivables (LAR)
– financial liabilities (other liabilities)

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

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS[1]

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

[1] As in the preceding year, no reclassifications were carried out pursuant to IFRS 7.12 in the reporting period.

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

Financial assets designated as at fair value through profit or loss
Selected items are summarized under assets in the position at fair value through profit or loss (FV) by applying the fair value option. The designation is done by the ALM Committee. These items are taken to profit or loss at their fair value (assetor liability and related derivative). Revaluation gains net of revaluation losses are recognized in the income statement in Profit/loss from financial assets designated as at fair value through profit or loss.

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

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

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

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

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

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

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

Trading assets/liabilities
Within the Trading assets, primary financial instruments are measured at fair value. Derivative financial instruments are measured at fair value. Financial instruments with negative fair values are recognized on the balance sheet in Trading liabilities. Revaluation gains and losses on this line item are recognized in the Income Statement in Net trading income. Interest expenses incurred in the financing of trading assets are reported in Net interest income. Spot transactions are recognized and derecognized at their settlement dates.

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

Property and equipment
Property and equipment consists of land, buildings and other property and equipment comprising primarily office furniture and business equipment.
Property and equipment was recognized at amortized cost.
Depreciation is linear based on an asset's usual useful life and lies within the following bands:
– Immovable assets 1.5% to 2.5% (i.e. 66.7 to 40 years)
– Office furniture and business equipment: 10% to 20% (i.e. from 10 to 5 years).

Impairment allowances are recognized in the Income Statement under General administrative expenses to take account of impairments. If an impairment ceases to exist, a reversal is made up to the asset's amortized cost. No impairments or reversals were recognized during the period under review.

Intangible assets
Other intangible assets have been all purchased and have limited useful lives; they consist primarily of software. Amortization is linear based on an asset's usual useful life. The amortization rate for software is 25% (i.e. four years).

Leasing
Leased assets within the Group are recognized as assets leased under finance leases (the risks and rewards being with the lessee for the purposes of IAS 17). Leased assets are recognized as receivables in the amount of the present values of the agreed payments taking into account any residual values.

Other assets and other liabilities
Besides deferred items, the Other assets and Other liabilities comprise 'other' assets and liabilities and the fair values of derivative instruments. They are recognized at amortized cost or measured at fair value.

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

Subordinated debt capital

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

Deferred tax assets and deferred tax liabilities

The reporting and calculation of income tax is done in accordance with IAS 12. The calculation for each taxed entity is carried out applying the tax rates that, under the applicable legislation, are to be applied in the tax period in which a temporary difference is going to reverse. Deferred taxes are computed on the basis of differences between the tax base and the carrying amounts of assets or liabilities for the purposes of IFRSs. These will probably give rise to additional tax burdens or reduce tax burdens in the future.

Provisions

In accordance with IAS 37, provisions are recognized if there is a reliably determinable current obligation to a third party arising from an event in the past likely to cause an outflow of resources. BKS Bank mainly recognizes provisions for post-employment benefits and similar employee benefit obligations (IAS 19), for taxes and for interest on stepped coupon products. The provision for death benefits is also calculated in accordance with the IFRS principles contained in IAS 19.
As of 31 December 2000, the retirement pension entitlements of all active employees were transferred to VBV-Pensionskasse AG as the legal successor to BVP-Pensionskasse AG.

Equity

Equity consists of paid-in and earned capital (capital reserves, retained earnings, revaluation reserve, foreign exchange differences and profit for the period). BKS Bank strives to strengthen its capital base on a sustainable basis by reinvesting its profits. An additional Tier 1 note was issued in 2015. Under IAS 32, it required classification as equity.

NOTES TO INDIVIDUAL LINE ITEMS IN THE INCOME STATEMENT

Net interest income

Net interest income contains interest income from credit operations, from securities in the treasury portfolio, from equity investments (in the form of dividend payments), from lease receivables and from investment property less interest expenses on deposits from other banks and from customers, liabilities evidenced by paper and investment property. Interest income and interest expenses are accounted for on an accrual basis. Income from investments in entities accounted for using the equity method is disclosed in Net interest income net of financing costs. The historically low interest rates led to negative interest earnings. According to the IFRIC Interpretations Committee (IC), these should not be presented as income within the meaning of IAS 18. Instead, they must be presented in an 'appropriate expense classification'. As a result, negative interest income is presented as interest expense. Likewise, positive interest expenses are presented as interest income.

Impairment charge on loans and advances

This line item recognizes impairment allowances, impairment reversals and provisions. Recoveries on receivables previously written off are also accounted for in this line item. See also Note 2 for details.

Net fee and commission income

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

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

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

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

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

The assumptions and estimates entering into the financial statements for the period were made on the basis of the state of knowledge and information at our disposal as at 31 March 2017.

DETAILS OF THE INCOME STATEMENT

(1) NET INTEREST INCOME

in €k	Q1 2016	Q1 2017	± in %
Interest income from:			
Lending transactions	32,125	28,031	-12.7
Fixed-income securities	5,480	4,518	-17.5
Leasing receivables	2,268	2,297	1.3
Shares, equity investments in other companies	435	418	-4.0
Positive interest expenses[1)]	1,293	1,657	28.2
Investment property	718	858	19.5
Total net interest income	**42,319**	**37,780**	**-10.7**
Interest expenses for:			
Deposits from customers and other banks[2)]	3,744	1,793	-52.1
Liabilities evidenced by paper	5,812	5,444	-6.3
Negative interest income[1)]	849	1,460	72.0
Investment property	239	190	-20.7
Total interest expenses	**10,644**	**8,887**	**-16.5**
Profit from entities accounted for using the equity method			
Income from entities accounted for using the equity method	5,726	8,132	42.0
Refinancing costs of investments in entities accounted for using the equity method[3)]	-	-	-
Profit from entities accounted for using the equity method	**5,726**	**8,132**	**42.0**
Net interest income	**37,401**	**37,025**	**-1.0**

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) Net of financing costs of investments in entities accounted for using the equity method
3) Based on the average 3-month Euribor

Interest income includes income from unwinding (i.e. from changes in the present values of cash flows) in the amount of EUR 0.6 million (31 March 2016: EUR 0.7 million).

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

in €k	Q1 2016	Q1 2017	± in %
Impairment allowances	10,432	15,318	46.8
Impairment reversals	-1,584	-6,896	>100
Direct write-offs	96	147	53.2
Recoveries in respect of receivables previously written off	-151	-224	48.1
Impairment allowance balance	**8,793**	**8,345**	**-5.1**

(3) NET FEE AND COMMISSION INCOME

in €k	Q1 2016	Q1 2017	± in %
Fee and commission income from:			
Payment services	5,634	5,452	-3.2
Securities operations	3,312	3,590	8.4
Foreign exchange operations	614	913	48.7
Credit operations	3,709	3,622	-2.3
Other services	595	568	-4.6
Total fee and commission income	**13,864**	**14,145**	**2.0**
Fee and commission expenses from:			
Payment services	455	446	-1.9
Securities operations	238	245	2.8
Foreign exchange operations	140	24	-82.6
Credit operations	102	158	54.9
Other services	39	16	-58.7
Total fee and commission expenses	**974**	**889**	**-8.7**
Net fee and commission income	**12,890**	**13,256**	**2.8**

(4) NET TRADING INCOME

in €k	Q1 2016	Q1 2017	± in %
Price-based transactions	9	1	-91.8
Interest rate and currency contracts	190	382	>100
Net trading income	**199**	**383**	**92.2**

5) GENERAL ADMINISTRATIVE EXPENSES

in €k	Q1 2016	Q1 2017	± in %
Staff costs	17,423	17,351	-0.4
– Wages and salaries	13,377	13,497	0.9
– Social security costs	2,762	2,841	2.9
– Costs of retirement benefits	1,284	1,013	-21.1
Other administrative costs	7,839	7,737	-1.3
Depreciation/amortization	1,636	1,506	-8.0
General administrative expenses	**26,898**	**26,594**	**-1.1**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

in €k	Q1 2016	Q1 2017	± in %
Other operating income	1,239	1,952	57.6
Other operating expenses	-5,039[1)]	-5,837[1)]	15.8
Other operating income net of other operating expenses	**-3,800**	**-3,885**	**2.2**

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

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

in €k	Q1 2016	Q1 2017	± in %
Revaluation gains and losses on and gains and losses on disposals of derivatives	4	-11	>100
Gain/loss as a result of using the fair value option	-199	1,155	>100
Profit/loss from financial assets designated as at fair value through profit or loss	**-195**	**1,143**	**>100**

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

in €k	Q1 2016	Q1 2017	± in %
Result of valuations	-	-	-
Gains and losses realized on disposal	134	460	>100
Profit/loss from available-for-sale financial assets	**134**	**460**	**>100**

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

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

(10) TAXES

in €k	Q1 2016	Q1 2017	± in %
Current taxes	-2,391	-2,025	-15.3
Deferred taxes	-23	-159	>100
Income tax expense	**-2,414**	**-2,183**	**-9.6**

DETAILS OF THE BALANCE SHEET

(11) CASH AND BALANCES WITH THE CENTRAL BANK

in €k	31/12/2016	31/03/2017	± in %
Cash in hand	35,727	81,411	>100
Credit balances with central banks	507,815	279,396	-45.0
Cash and balances with the central bank	**543,542**	**360,806**	**-33.6**

12) RECEIVABLES FROM OTHER BANKS

in €k	31/12/2016	31/03/2017	± in %
Receivables from Austrian banks	93,766	91,166	-2.8
Receivables from foreign banks	148,581	72,206	-51.4
Receivables from other banks	**242,347**	**163,372**	**-32.6**

(13) RECEIVABLES FROM CUSTOMERS

in €k	31/12/2016	31/03/2017	± in %
Corporate and Business Banking	4,148,430	4,081,458	-1.6
Retail Banking	1,181,965	1,190,289	0.7
Receivables from customers, by customer group	**5,330,395**	**5,271,747**	**-1.1**

(14) IMPAIRMENT ALLOWANCE BALANCE

in €k	31/12/2016	31/03/2017	± in %
At the start of the reporting period	193,748	155,136	-19.9
+ Additions	43,113	16,030	-62.8
- Reversals	-16,574	-7,445	-55.1
- Use	-65,208	-2,869	-95.6
+ Exchange differences	57	22	-61.4
At the end of the reporting period	**155,136**	**160,874**	**3.7**

15) TRADING ASSETS

in €k	31/12/2016	31/03/2017	± in %
Bonds and other fixed interest securities	-	-	-
Positive fair values of derivative financial instruments	10	10	-
– of whichcurrency contracts	-	-	-
– of which interest rate contracts	10	10	2.1
Trading assets	**10**	**10**	**-**

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

in €k	31/12/2016	31/03/2017	± in %
Bonds and other fixed interest securities	22,893	22,804	-0.4
Loans	52,675	59,827	13.6
Financial assets designated as at fair value through profit or loss	**75,568**	**82,631**	**9.3**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

in €k	31/12/2016	31/03/2017	± in %
Bonds and other fixed interest securities	83,093	84,578	1.8
Shares and other non-interest bearing securities	47,882	50,343	5.1
Other equity investments	58,360	61,669	5.7
Available-for-sale financial assets	**189,335**	**196,590**	**3.8**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

in €k	31/12/2016	31/03/2017	± in %
Bonds and other fixed interest securities	747,773	721,073	-3.6
Held-to-maturity financial assets	**747,773**	**721,073**	**-3.6**

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

in €k	31/12/2016	31/03/2017	± in %
Oberbank AG	308,778	316,566	2.5
Bank für Tirol und Vorarlberg AG	159,514	160,854	0.8
Drei-Banken Versicherungs-AG	2,615	2,615	0.0
Investments in entities accounted for using the equity method	**470,907**	**480,035**	**1.9**

(20) INTANGIBLE ASSETS AND GOODWILL

in €k	31/12/2016	31/03/2017	± in %
Other intangible assets	1,735	1,542	-11.1
Intangible assets	**1,735**	**1,542**	**-11.1**

(21) PROPERTY AND EQUIPMENT

in €k	31/12/2016	31/03/2017	± in %
Land	8,072	10,550	30.7
Buildings	40,238	37,346	-7.2
Other	7,964	7,744	-2.8
Property and equipment	**56,274**	**55,640**	**-1.1**

(22) INVESTMENT PROPERTY

in €k	31/12/2016	31/03/2017	± in %
Land	8,643	8,645	0.0
Buildings	22,077	22,430	1.6
Investment property	**30,720**	**31,075**	**1.2**

(23) DEFERRED TAX ASSETS

in €k	31/12/2016	31/03/2017	± in %
Deferred tax assets	**17,288**	**17,780**	**2.8**

(24) OTHER ASSETS

in €k	31/12/2016	31/03/2017	± in %
Positive fair values of derivative financial instruments	12,950	10,006	-22.7
Other items	14,801	16,229	9.6
Deferred items	2,547	2,441	-4.2
Other assets	**30,298**	**28,675**	**-5.4**

(25) PAYABLES TO OTHER BANKS

in €k	31/12/2016	31/03/2017	± in %
Payables to Austrian banks	733,479	484,914	-33.9
Payables to foreign banks	134,015	118,459	-11.6
Payables to other banks	**867,494**	**603,374**	**-30.4**

(26) PAYABLES TO CUSTOMERS

in €k	31/12/2016	31/03/2017	± in %
Savings deposit balances	**1,528,994**	**1,522,328**	**-0.4**
- Corporate and business banking customers	199,001	198,738	-0.1
- Retail banking customers	1,329,993	1,323,590	-0.5
Other payables	**3,295,766**	**3,232,441**	**-1.9**
- Corporate and business banking customers	2,414,114	2,339,071	-3.1
- Retail banking customers	881,652	893,370	1.3
Payables to customers	**4,824,760**	**4,754,769**	**-1.5**

(27) LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2016	31/03/2017	± in %
Issued bonds	475,842	476,889	0.2
Other liabilities evidenced by paper	68,814	62,467	-9.2
Liabilities evidenced by paper	**544,656**	**539,356**	**-1.0**

(28) TRADING LIABILITIES

in €k	31/12/2016	31/03/2017	± in %
Interest rate contracts	10	10	4.2
Trading liabilities	**10**	**10**	**4.2**

(29) PROVISIONS

in €k	31/12/2016	31/03/2017	± in %
Provisions for post-employment benefits and similar obligations	72,480	72,630	0.2
Provisions for taxes (current taxes)	2,238	2,325	3.9
Other provisions	52,184	45,325	-13.1
Provisions	**126,902**	**120,280**	**-5.2**

(30) DEFERRED TAX LIABILITIES

in €k	31/12/2016	31/03/2017	± in %
Deferred tax liabilities	**261**	**1,979**	**>100**

(31) OTHER LIABILITIES

in €k	31/12/2016	31/03/2017	± in %
Negative fair values of derivative financial instruments	30,821	31,243	1.4
Other liabilities	23,566	38,197	62.1
Deferred items	5,215	4,313	-17.3
Other liabilities	**59,602**	**73,753**	**23.7**

(32) SUBORDINATED DEBT CAPITAL

in €k	31/12/2016	31/03/2017	± in %
Tier 2 capital	158,585	143,482	-9.5
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**198,585**	**183,482**	**-7.6**

Subordinated debt capital is reported with accrued interest. The nominal value is EUR 180.0 million, down from EUR 195.0 million as at 31 December 2016.

In 2017, Tier 2 capital issued with a nominal value of EUR 48.6 million will mature (preceding year: EUR 7.7 million). In conformity with CRR Article 484, EUR 40 million of hybrid capital was counted towards consolidated own funds (preceding year: EUR 40.0 million). It did not constitute a component of consolidated equity.

(33) SEGMENT REPORTS

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

SEGMENT RESULTS

	Retail Banking		Corporate and Business Banking		Financial Markets	
in €k	Q1/2016	Q1/2017	Q1/2016	Q1/2017	Q1/2016	Q1/2017
Net interest income	6,643	6,153	20,974	21,905	9,349	8,268
– of which from investments in entities accounted for using the equity method	-	-	-	-	5,726	8,132
Impairment charges on loans and advances	-1,069	-1,684	-7,513	-5,761	-211	-899
Net fee and commission income	5,933	5,705	6,748	7,611	8	34
Net trading income	-	-	-	-	199	383
General administrative expenses	-13,012	-12,933	-10,864	-11,361	-1,691	-1,625
Other operating income net of other operating expenses	515	346	325	394	-5	-22
Profit/loss from financial assets	-	-	-	-	-61	1,600
Profit for the period before tax	**-990**	**-2,414**	**9,670**	**12,787**	**7,588**	**7,738**
Average risk-weighted assets	514,361	497,776	3,062,963	3,121,507	892,363	921,827
Average allocated equity	41,149	41,418	245,037	259,370	566,792	653,539
ROE based on profit for the period before tax	**-9.6%**	**-23.3%**	**15.8%**	**19.7%**	**5.4%**	**4.7%**
Cost/income ratio	**99.4%**	**106.0%**	**38.7%**	**38.0%**	**17.7%**	**18.8%**
Risk/earnings ratio	**16.1%**	**27.4%**	**35.8%**	**26.3%**	**2.3%**	**10.9%**

	Other		Total	
in €k	Q1/2016	Q1/2017	Q1/2016	Q1/2017
Net interest income	435	700	37,401	37,025
– of which from investments in entities accounted for using the equity method	-	-	5,726	8,132
Impairment charges on loans and advances	-	-	-8,793	-8,345
Net fee and commission income	201	-94	12,890	13,256
Net trading income	-	-	199	383
General administrative expenses	-1,331	-675	-26,898	-26,594
Other operating income net of other operating expenses	-4,635	-4,603	-3,800	-3,885
Profit/loss from financial assets	-		-61	1,600
Profit for the period before tax	**-5,330**	**-4,672**	**10,938**	13,440
Average risk-weighted assets	49,685	55,275	4,519,372	4,596,385
Average allocated equity	9,479	11,617	862,457	965,943
ROE based on profit for the period before tax	-	**-**	6.1%	**6.9%**
Cost/income ratio	-	**-**	57.6%	**56.9%**
Risk/earnings ratio	-	**-**	23.5%	**22.5%**

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

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

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

Corporate and business banking segment
As at the end of March, 18,779 corporate and business banking customers were served in this segment. BKS Bank was originally been founded as a corporate and business bank and this segment is still the bank's most important pillar. Corporate and business banking customers still account for the larger part of the loan portfolio and make an essential contribution to the profit for the period. Besides all the income and expenses of BKS Bank AG from business with corporate and business banking customers, the income and expenses of the leasing companies were also allocated to this segment, provided they are from business done with corporate customers.

Retail banking segment
All income and expense components of BKS Bank AG, BKS Bank d.d., BKS-Leasing Gesellschaft m.b.H., BKS-leasing d.o.o., BKS-leasing Croatia d.o.o. and BKS-Leasing s.r.o. from business with retail customers and wage and salary earners are reported summarized in the retail banking segment. Some 133,764 customers were assigned to this segment at the end of March 2017.

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

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

(34) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

in €k	31/12/2016	31/03/2017	± in %
Subscribed capital	79,279	79,279	0.0
– Share capital	79,279	79,279	0.0
Capital reserves	193,032	193,032	0.0
Retained earnings and other reserves	663,075	677,390	2.2
Additional equity instruments (AT1 note)	23,400	23,400	0.0
Shareholders' equity before minority interests	**958,786**	**973,101**	**1.5**
Minority interests	-19	-20	4.5
Shareholders' equity after minority interests	**958,767**	**973,081**	**1.5**

The share capital was represented by 37,839,600 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. Each share had a nominal value of EUR 2.0. Capital reserves contain premiums from the issuance of shares. Retained earnings and other reserves consist essentially of reinvested profits. Additional equity instruments consist of the Additional Tier 1 note issued in 2015, which must be classified as equity pursuant to IAS 32. The liability reserve required under section 57 (5) Banking Act (BWG) in the amount of EUR 80.8 million is contained in Retained earnings.

(35) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2016	31/03/2017	± in %
Guarantees	387,962	400,059	3.1
Letters of credit	2,583	3,028	17.2
Contingent liabilities	**390,545**	**403,087**	**3.2**
Other commitments	1,243,552	1,388,585	11.7
Commitments	**1,243,552**	**1,388,585**	**11.7**

(36) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

	Outstanding balances		Guarantees received		Guarantees provided	
in €k	At 31/12/2016	At 31/03/2017	At 31/12/2016	At 31/03/2017	At 31/12/2016	At 31/03/2017
Non-consolidated subsidiaries			-	-	-	-
Receivables	3,213	3,222				
Payables	1,379	1,766				
Associates and joint arrangements			-	-	-	-
Receivables	17,799	10,973				
Payables	67,767	6,089				
Key management personnel			-	-	-	-
Receivables	458	452				
Payables	859	1,150				
Other related persons			-	-	-	-
Receivables	124	163				
Payables	753	755				

LOANS AND ADVANCES GRANTED

in €k	31/12/2016	31/03/2017	± in %
Loans and advances granted to members of the Management Board	72	69	-4.2
Loans and advances granted to members of the Supervisory Board	386	383	-0.8
Loans and advances granted	**458**	**452**	**-1.3**

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

(37) EVENTS AFTER THE REPORTING DATE

After the reporting date of this interim report (31 March 2017), BKS Bank witnessed no activities or events unusual in terms of form or content that had an impact on the view of the assets, financial position and result of operations as presented in this report.

(38) FAIR VALUES

Financial assets and debt measured at fair value

31/03/2017 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	LEVEL 3 "Internal measurement method"	Total fair value
Assets				
Trading assets	-	10	-	10
FA[1] at fair value through profit or loss	22,804	-	59,827	82,631
Available-for-sale financial assets	176,469	-	20,121[2]	196,590
Other assets (derivatives)	-	10,006	-	10,006
Equity and liabilities				
Liabilities evidenced by paper	-	-	82,901	82,901
Trading liabilities	-	10	-	10
Other liabilities (derivatives)	-	31,243	-	31,243

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

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

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

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

in €k	Financial assets designated as at fair value through profit or loss	Liabilities evidenced by paper of which, at fair value through profit or loss
At 1 January 2017	52,675	85,130
Reclassified	-	-
Income Statement[1]	-496	-2,229
Other profit or loss	-	-
Purchased	11,500	-
Sold/redeemed	-3,852	-
At 31 March 2017	**59,827**	**82,901**

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

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

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

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

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

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

In Level 3 'Internal measurement method', the values of individual financial instruments were measured on the basis of our own generally accepted valuation methods. If their fair value could not be reliably ascertained, available-for-sale equity investments were recognized at their carrying amounts. In general, liabilities evidenced by paper in Level 3 were measured on the basis of market data that were observable for these liabilities (e.g. yield curves, foreign exchange rates). The factors affecting the values of positions in level 3 that were not observable in the market were adjustments on the basis of internal rating procedures to the credit ratings of customers and of BKS Bank itself with respect to liabilities evidenced by paper and the credit spreads derived from them. In general, items in Level 3 were measured using the present value method.

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

Changes in the ratings of assets and liabilities measured at fair value
Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of those financial instruments and their remaining term to maturity.

The change in the default risk associated with liabilities measured at fair value in the period under review was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining term to maturity. In the first quarter of 2017, the changes in the ratings of receivables from customers measured at fair value had an effect on their fair value in the amount of EUR 0.0 million (previous year: EUR 0.0 million). In the first quarter of 2017, the changes in the ratings of BKS Bank's liabilities evidenced by paper measured at fair value had an effect on their fair value in the amount of EUR 0.0 million (previous year: EUR 0.7 million).

Sensitivity analysis
The result of the sensitivity analysis of receivables from customers measured at fair value results in an accumulated change in value of EUR 0.2 million (previous year: EUR 0.2 million), assuming an improvement or deterioration in credit rating of 10 basis points in the credit spread. An analysis assuming an improvement or deterioration in BKS Bank's rating of 10 basis points in the credit spread would result in an accumulated change in the value of the liabilities evidenced by paper designated at fair value of EUR 0.5 million (previous year: EUR 0.6 million).

FINANCIAL ASSETS AND DEBT NOT MEASURED AT FAIR VALUE

31/03/2017 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	LEVEL 3 'Internal measurement method'	Total fair value	Carrying value 31/12/2016
Assets					
Receivables from other banks	-	-	163,440	163,440	163,372
Receivables from customers	-	-	5,336,760	5,336,760	5,271,747
FA[1] Held-to-maturity	781,294	-	-	781,294	721,073
Equity and liabilities					
Payables to other banks	-	-	605,100	605,100	603,374
Payables to customers	-	-	4,764,474	4,764,474	4,754,769
Liabilities evidenced by paper	400,899	72,587	-	473,486	456,455
Subordinated debt capital	186,956	2,356	-	189,312	183,482

[1] FA = Financial assets

31/12/2016 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	LEVEL 3 'Internal measurement method'	Total fair value	Carrying value 31/12/2015
Assets					
Receivables from other banks			242,392	242,392	242,347
Receivables from customers			5,397,186	5,397,186	5,330,395
FA[1] Held-to-maturity	816,054			816,054	747,773
Equity and liabilities					
Payables to other banks			870,217	870,217	867,494
Payables to customers			4,835,759	4,835,759	4,824,760
Liabilities evidenced by paper	448,488	79,353		527,841	459,526
Subordinated debt capital	200,510	2,355		202,865	198,585

[1] FA = Financial assets

(39) DERIVATIVES TRANSACTION VOLUME

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

31/03/2017	Nominal amount, by time to maturity				Fair values	
in €k	<1 year	1-5 years	> 5 years	Total	Positive	Negative
Currency contracts	**1,346,342**	**351,632**	**-**	**1,697,974**	**2,522**	**24,795**
– of which Trading Book	-	-	-	-	-	-
Interest rate contracts	**9,434**	**78,210**	**205,860**	**293,504**	**7,118**	**6,167**
– of which Trading Book	434	15,210	1,240	16,884	10	10
Securities contracts	-	-	-	-	-	-
– of which Trading Book	-	-	-	-	-	-
Total	**1,355,776**	**429,842**	**205,860**	**1,991,478**	**9,640**	**30,962**
– of which Trading Book	434	15,210	1,240	16,884	10	10

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

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

"We state to the best of our knowledge that the interim consolidated financial statements as at 31 March 2017 prepared in accordance with the relevant financial reporting standards provide a true and fair view of the assets, financial position and result of operations of the BKS Bank Group, and that the Group management report for the period ended 31 March 2017 provides a true and fair view of the assets, financial position and result of operations of the BKS Bank Group with respect to the key events having taken place during the first three months of the financial year and their effects on the interim consolidated financial statements in terms of material risks and uncertainties over the course of the remaining nine months of the financial year."

Klagenfurt am Wörthersee, 19 May 2017

The Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer, CIA
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Member of the Management Board with responsibility for Risk Management, Risk Controlling, Credit Back Office and Service Companies, Treasury Back Office, Business Organization, IT and Technical Services and DREI-BANKEN-EDV Gesellschaft m.b.H.; he is also responsible for the Back Office, Risk Management and IT outside of Austria

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

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

FINANCIAL CALENDAR 2017

Date	Content of the notification
5 April 2017	Publication of the annual financial statements and the consolidated financial statements 2016 on the internet and in the Official Gazette of the Republic of Austria "Wiener Zeitung"
9 May 2017	78th Annual General Meeting
15 May 2017	Ex-dividend date
17 May 2017	Dividend payment date
26 May 2017	Interim report for the period ended 31 March 2017
25 August 2017	Half-year financial report
29 November 2017	Interim report for the period ended 30 September 2017

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