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INTERIM REPORT FOR THE PERIOD ENDED 31 MARCH 2018

BKS Bank
3 Banken Gruppe

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FORWARD-LOOKING STATEMENTS
This interim financial report as at 31 March 2018 contains statements and forecasts that refer to the future development of the BKS Bank Group. Such forecasts are estimates made on the basis of the information available to us on the copy deadline date, which was 22 May 2018. Should the assumptions on which the forecasts are based fail to materialize or the risks described in the Risk Report occur, the actual results may differ from those currently expected. This interim report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

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

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

BKS BANK AT A GLANCE

INCOME STATEMENT in €m	Q1 2017	Q1 2018	± in %
Net interest income	28.9	30.6	5.8
Impairment charges on receivables from customers	-8.3	-2.9	-65.6
Net fee and commission income	13.3	12.5	-6.0
General administrative expenses	-26.6	-27.6	3.8
Profit for the period before tax	13.4	15.3	13.9
Profit for the period after tax	11.3	13.4	19.2

BALANCE SHEET in €m	31/12/2017	31/03/2018	± in %
Total assets	7,579.5	7,973.6	5.2
Receivables from customers after impairment charges	5,313.2	5,467.4	2.9
Primary deposits	5,669.1	5,884.6	3.8
– thereof savings deposits	1,475.1	1,459.3	-1.1
– thereof securitized debt incl. subordinated debt capital	712.6	765.5	7.4
Equity	1,046.5	1,121.7	7.2
Customer funds under management	14,150.7	14,221.3	0.5
– thereof on custody accounts	8,481.6	8,336.7	-1.7

OWN FUNDS PURS. TO CRR in €m	31/12/2017	31/03/2018	± in %
Total risk exposure amount	5,016.7	5,036.0	0.4
Own funds	701.6	759.1	8.2
– thereof common equity tier 1 (CET1) capital	614.5	565.6	-8.0
– thereof total tier 1 capital (CET1 and AT1)	627.8	619.5	-1.3
Common equity tier 1 capital ratio (in %)	12.3	11.2	-1.1
Total capital ratio (in %)	14.0	15.1	1.1

PERFORMANCE RATIOS	31/12/2017	31/03/2018	± in %
Return on equity after tax	6.8	6.1	-0.7
Return on assets after tax	0.9	0.9	0.0
Cost/income ratio	51.9	59.1	7.2
Risk/earnings ratio	16.7	7.5	-9.2
NPL ratio	3.5	3.1	-0.4
Leverage coverage ratio (LCR)	145.2	157.3	12.1
Leverage ratio	8.0	8.0	0.0

RESOURCES	31/12/2017	Q1 2018
Average number of staff	928	920
Number of branches	63	62

THE BKS BANK'S SHARES	31/12/2017	31/03/2018
Number of no-par ordinary shares (ISIN AT0000624705)	37,839,600	37,839,600
Number of ordinary no-par shares (ISIN AT0000A1Z478)	-	3,303,300
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000
High (ordinary/preference share) in €	18.5/17.8	19.2/18.2
Low (ordinary/preference share) in €	16.8/15.4	17.5/17.6
Close (ordinary/preference share) in €	17.8/17.7	18.0/18.0
Dividend yield ordinary share	-	16.7
Market capitalization in €m	705.3	768.7

DEAR SHAREHOLDERS,

This interim report of BKS Bank presents a review of an eventful first quarter. Just recently, the 79th annual general meeting took place at our Klagenfurt headquarters. We were pleased to see numerous new shareholders in the audience. At the beginning of March, we successfully completed our capital increase. On behalf of the entire BKS Bank, I would like to thank all shareholders who exercised their subscription rights or acquired BKS Bank shares for the first time, thus helping us place 3,303,300 new ordinary shares on the market. As announced, we want to invest the proceeds of the issue of EUR 55 million mainly into digitalisation projects and our efforts to sustain our growth momentum.

Acquisition of GBD in Slovenia successfully completed

We are pleased to have taken a major step in this respect in Slovenia. As of 30 April 2018, we completed the takeover of some 9,000 asset management and brokerage customers of GBD (Gorenjska borznoposredniška družba d.d). This ranks us among the top investment service providers on the Slovenian market. As many of our new customers reside in and around Kranj, we plan to open a new branch there this year. This is the eighth branch of BKS Bank in Slovenia.

Alexander Novak: New member on Management Board from 1 September

The takeover was managed by Alexander Novak who has served as head of the BKS Main Office Slovenia up to now. We are very pleased to welcome Mr. Novak as a new member of the Management Board as of 1 September 2018.

Wolfgang Mandl will pursue new career options and therefore did not prolong his management mandate. He will continue to serve on the Board until the end of the year.

Changes on the Supervisory Board

The annual general meeting elected Stefanie Lindstaedt as a new member of the Supervisory Board. She is the managing director of Know-Center GmbH, which is Austria's leading research centre for big data and data-driven business that works on the development of information technologies for business. We believe her appointment is a valuable addition to our company in times of rapidly developing digitalisation. Josef Korak has resigned from the Supervisory Board. We would like to thank him for the excellent work and cooperation since the year 2005. Mr. Korak headed a successful international industrial company for many years, and his expertise in corporate development was always highly valuable.

Excellent period results

A look at the key ratios reveals that we were able to continue the highly successful trend of the financial year 2017 also in the first quarter of 2018. Please note that this interim report for the period ended on 31 March 2018 has been prepared for the first time pursuant to the new accounting standards of IFRS 9. Starting on page 42, we explain the changes in detail.

We are pleased about the 19.2% rise in profit for the period to EUR 13.4 million. Total assets increased by 5.2% to 7.97 billion. The lending business developed positively in the first quarter. EUR 5.59 billion in loans to customers makes us an important finance partner for the local economy. The level of primary deposits - EUR 5.88 billion - is a sign of the enormous trust customers have in BKS Bank.

Sustainable excellence

oekom research AG, a company specialised in researching sustainability activities, ranked us as "prime" again in February. This places us among the top banks in the area of sustainability worldwide. To live up to this standard, we have numerous projects in the pipeline again for 2018. In addition to a new issue of a social bond or green bond and the erection of a photo-voltaic plant in Slovenia, we will dedicate major efforts to de-carbonisation. Innovative and sustainable products help set us apart from our competitors and we plan to pursue this course in the future. Because if there is one thing we know, it is that challenges are there to be overcome – and there are quite a few challenges facing the banking industry right now.

Herta Stockbauer
Chairwoman of the Management Board

GROUP MANAGEMENT REPORT

ECONOMIC ENVIRONMENT

The Goldilocks scenario is coming to an end

The preceding year was dominated by talk of a "Goldilocks economy". This refers to a period of nearly perfect economic conditions with strong, but not too strong growth, with low inflationary pressure and low interest rates, accompanied by the prospect that they will remain low over the medium term.

However, markets expect these optimal economic conditions to end at some time during the course of 2018. Global economic growth is still going strong, but some sentiment indicators have started dimming. This is revealed, for example, in the purchasing managers index for manufacturing in the euro area. At present, it stands at 56.2, while in December 2017 it had been 60.6. Germany, Europe's growth engine, has also been stuttering recently. Retail sales dropped again for the third time in a row (-0.7%), and also industrial production (-1.6%) and exports decline (-3.2%). The Ifo Business Climate Index also fell for a third consecutive time. This usually portends a potential dip in economic development, but by no means a trend reversal.

Against this backdrop it is therefore not surprising that GDP growth in the euro area halved, from 0.8% to 0.4% in the first quarter of 2018. Temporary factors – such as the unusually cold weather in the first six months of the year, strikes, short-term supply bottlenecks and also the outbreak of widespread influenza – put a strain on growth.

The US economy also lost momentum recently. In the first quarter of 2018, gross domestic product (GDP) rose "only" at a rate of 2.3% projected for the full year. The last quarter of 2017 had still posted 2.9% growth. Support comes from the US President. Donald Trump has set himself the goal of raising US GDP to at least 3% through his tax reform, among other things. It remains to be seen if he will succeed.

Corporate earnings are still developing positively in the US as well as in Europe. Most US and European companies surpassed their earnings expectations. US companies are expected to gain 20% over the preceding quarter, while the gain in Europe is estimated to reach 13%.

Austria's business sector also developed very pleasingly. Positive impulses came from both domestic demand and foreign trade. The industrial sector developed robustly in the first quarter of the year. The services sector is also on an upswing. In the first quarter of 2018, the growth rate was 0.8%. Projected for the full year, growth is expected to reach 3.1% and thus continue at an above average pace in the euro area. The solid economic development also had a positive effect on the labour market. The unemployment rate in March 2018 decreased to 8.0% (based on the calculation method applied in Austria).

Changing monetary policy in euro area

The majority of the members of the ECB Supervisory Board has been rather cautious up to now regarding the future policy of the ECB, and therefore, there is not much news on the exit from the bond buying programme. Nonetheless, the ECB can be expected to phase out the buying programme this year. However, no interest rate hike is anticipated before mid 2019. The US has seen a change at the top of the US Federal Reserve (Fed), with Jerome Powell taking over from Janet Yellen. With the sixth hike by 0.25%-points in key lending rates since December 2015, the interest spread is now between 1.50% and 1.75%. Three hikes in key lending rates are expected for the year 2018.

Stock markets fluctuating widely

Stock markets made a flying start into the new year. However, some first major price corrections were seen in the months of February and March. Most markets were still in negative territory at the end of March. European shares (Stoxx Europe 600) dropped by 2.3%. The German stock index lost 2.7%. The Austrian stock market had dropped by 1.4% by the end of March. US stocks also developed negatively. The S&P 500 lost 3.3% and the Dow Jones Industrial Index 4.3% in euro. The NASDAQ technology market shed 3.5% of its value in euro. The Japanese stock market (Nikkei 225) posted -3.3% at the end of March. The reason for the price losses in February and March was initially fear of higher inflation and interest, but later on giving way to fear of protectionism and trade barriers by the US.

Further appreciation of euro vs. US dollar

The euro appreciated versus the USD from EUR 1.201 to 1.232 per US dollar, which is a plus of 2.7%. Compared to the Swiss franc, the euro appreciated from 1.170 to 1.175 (+0.4%). The euro moved from EUR 0.888 to 0.879 (-1%) versus the British pound. Losses of 3.2% were also seen versus the Japanese yen. Relative to the Chinese renminbi, the euro depreciated by 0.9% from 7.802 to 7.735 per CNY. The Croatian kuna - an important currency for us - moved versus the euro by -0.3% and was quoted at the end of March at HRK 7.409 per euro following HRK 7.433 per euro at year-end.

Divergent trends in commodity prices

The first three months of the year saw a rise in energy commodities (+5.1%), produce (+3.3%) and precious metals (+0.3%) versus the euro. Significant drops were recorded in livestock prices (-9.8%) and industrial metals (-7.2%). In Q1, the oil price (Brent) rose by 5.1% in USD and stood at USD 70.27 per barrel at the end of March. In the further course of the year, market participants expect the slight rise in commodity prices to continue. However, fears of a looming trade war might have a dampening effect. Experts expect the consequences of import tariffs to make themselves felt more outside of the commodity sector. Gold has been fluctuating between USD 1,300 and USD 1,360 since the start of the year. The threat of a trade war has not yet translated into a positive trend in gold prices. Rising interest rates in the US, which usually indicate a weaker gold price, are apparently having a stronger influence on the price of gold than fears of a trade war.

CONSOLIDATED COMPANIES

As at the end of March, the relevant group of consolidated companies of BKS Bank included 19 credit and financial institutions as well as companies that supply banking services, including Austrian 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 primarily 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. On 31 March 2018, BKS Bank held a share of 15.21%, and 14.78% in these credit institutions, respectively, which is less than 20% of voting rights in each case; however, the voting rights are exercised under a syndicate agreement. This agreement makes it possible to participate in the financial and business policy decisions of these credit institutions of the 3 Banken Group, without exercising a controlling interest.

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

ASSETS AND FINANCIAL POSITION

Total assets of the BKS Bank Group were EUR 7.97 billion on 31 March 2018. The excellent economic situation boosted demand for loans and lowered the level of risk provisious. A look at the liabilities side of the balance sheet shows that in Q1 2018 the volume of primary deposits, which were already at an excellent level at year-end, widened further.

Assets

IFRS 9 CHANGES IN THE PRESENTATION OF THE FINANCIAL STATEMENTS

The BKS Bank Group started applying IFRS 9 for the first time on 1 January 2018. The changes to classification and measurement policies as well as the impairment rules of IFRS 9 affect the balance sheet and the income statement, financial reporting and risk management processes, internal controls and reporting. The comparative figures for the financial year 2017 have not been adjusted - as allowed under the transitional provisions of IFRS 9 - and therefore reflect the classification and measurement policies of IAS 39 as at 31 December 2017. The notes to the financial statements (as of page 51) contain a table of carrying values reconciled from IAS 39 to IFRS 9 as at 1 January 2018. The following section contains our comments on the development of assets from 1 January to 31 March 2018.

LENDING BUSINESS DEVELOPED SATISFACTORILY

Demand for loans picked up speed in the first quarter of 2018 and from January to March 2018, we granted EUR 507 million in new loans. As at 31 March 2018, outstanding receivables from customers were EUR 5.59 billion, which is an increase in lending by 1.5%. Receivables from customers include lending by the parent company BKS Bank AG as well lending by Austrian and foreign leasing companies. Our foreign markets account for 23.4% of loans granted. Receivables from banks went up substantially in the first quarter and amounted to EUR 145.9 million, which is an increase by 49.3%.

Impairment charges on receivables from customers developed very positively due to the robust economic growth in our regions and the resultant improvement of the portfolio structure, reaching EUR 124.0 million at the end of March. In the first quarter, we also took effective measures to further reduce the volume of non-performing loans. The NPL ratio was thus lowered from 3.5% to 3.1%

The volume and number of foreign currency loans also developed in the right direction: as at 31 March 2018, the FX ratio was only 3.0%.

LEASING BUSINESS IS FLOURISHING

The business of our Austrian and foreign leasing companies developed very promisingly again in the first quarter. The leasing volume of the Austrian leasing company increased from EUR 175.4 million to EUR 185.7 million, which is a gain of 5.9%. The success story of the Slovenian leasing company continued in the financial year 2018. The leasing volume rose in the first three months to EUR 115.0 million, which is an increase of 10.0%. In Croatia, the leasing business also developed very satisfactorily and expanded by almost EUR 3.5 million to EUR 46.5 million. As regards the Slovak leasing company, we took several measures in the preceding year to improve business. In the first quarter, we already profited from these steps, with the leasing volume increasing steeply by 13.3%.

HIGH LIQUIDITY BUFFER

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

The volume of debt securities and other fixed-income securities increased by 4.1% to EUR 897.3 million. In the first quarter, we made investments of EUR 62.4 million, as compared to redemptions of only EUR 26.0 million. We hold high quality liquid assets in this position in order to meet the statutory liquidity standards. Shares and other equity increased by 2.0% to EUR 127.3 million.

In the first quarter, the shares of companies measured using the equity method increased slightly to EUR 524.9 million (+0.9%). The addition of the net profits for the period from our sister banks Oberbank AG and Bank für Tirol and Vorarlberg Aktiengesellschaft is presented in this item.

Cash reserves reached a historic level of EUR 661.8 million. While this is an adverse development given the still negative interest rate for the deposit facility, it is attributable to the high level of liquidity of our corporate and retail customers.

Equity and liabilities

HIGH LEVEL OF PRIMARY DEPOSITS

Primary deposits reached a very high level once again at EUR 5.88 billion as at 31 March 2018. The 3.8% increase was driven by several factors: other liabilities rose again substantially from EUR 3.48 billion to EUR 3.66 billion, which is an increase of 5.1%.

Not only was demand for term and sight deposits from corporate and business banking customers higher due to the very good liquidity situation (+3.6%), but more and more retail customers started shifting funds held on classical savings deposits to this type of short-term investment (+ 9.6%). Therefore, we recorded a decline in savings deposits of retail customers of EUR 12.3 million, while the volume on “Mein Geld-Konto” accounts increased by EUR 7.2 million to EUR 297.0 million during the same period. Moreover, this product offers a glimpse of the future of banking, as account opening as well as transactions are fully digitalized processes. In total, the volume of savings deposits at the end of the quarter was EUR 1.46 billion, down slightly by 1.1%.

Another reason for the higher volume of primary deposits is the excellent trend in the issuance business. It is our goal to substantially increase our issuing business with institutional investors. The first quarter already witnessed the first success stories. In total, we issued private placements for some EUR 65.0 million that included EUR 13.0 million in subordinate capital. We are very pleased that we have gained the trust of major institutional investors. Securitized liabilities increased to EUR 583.4 million (+5,3%) as at 31 March 2018. Subordinated capital advanced by 14.8% to EUR 182.1 million.

Our main strategic objective remains to constantly strengthen our capital base. In the first quarter of 2018, we completed a capital increase at a ratio of 10:1. In total, 3,303,300 new ordinary shares were placed at an offer price of EUR 16.7 per share. Due to this measure and the addition of the very pleasing result for the period, Group equity increased to EUR 1.12 billion (+7.2%). Subscribed capital rose to EUR 85.9 million.

RESULT OF OPERATIONS

The first quarter of 2018 was very satisfactory for BKS Bank. Consolidated net profit for the period increased by 19.2% to a pleasing EUR 13.4 million. The excellent result was achieved on the back of a robust economy and the much lower risk provisions needed as a consequence. It is also an outcome of ours staff's proactive consulting and acquisition efforts in the first quarter.

Excellent result for the period

BKS Bank earned a consolidated net profit of EUR 13.4 million in Q1 2018, which is a gain of 19.2% year on year. The outstanding development of business was also reflected in the much higher net interest income before impairment charges on receivables from customers at EUR 30.6 million. The good development in the lending business is based primarily on the steep rise in demand for loans. The flourishing economy and our cautious lending policy also considerably improved our risk situation. Compared to the preceding year, charges for losses on loans and advances declined by two thirds to EUR 2.9 million. Net interest income after impairment charges increased by EUR 7.2 million to EUR 27.7 million, which is a remarkable rise of 34.8%.

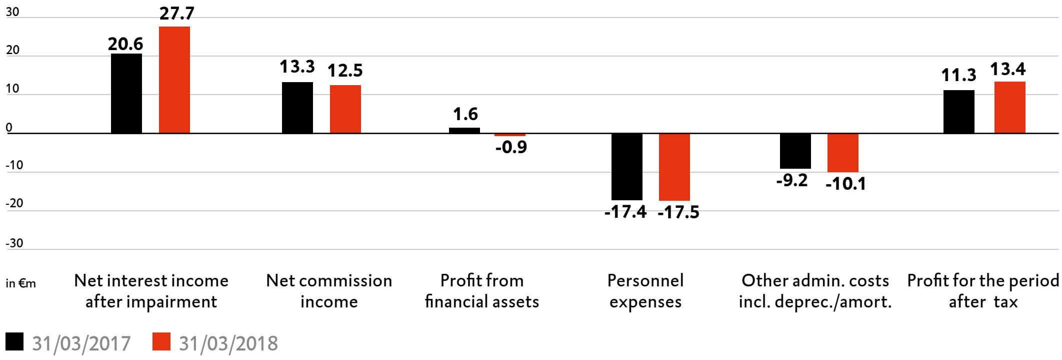
Payment services expanded, investment business slowed

Unlike the lending business, net fee and commission income was more subdued in the first quarter and remained below expectations at EUR 12.5 million. The segments of the services business developed very divergently: commissions on payment services developed well, rising by 3.1% to EUR 5.2 million. We are very pleased that the uptrend in payment services stabilized further in the first three months. We believe that this segment has excellent growth prospects. We introduced the BKS Bank Business App in the first quarter. This marks another milestone in the range of digital products BKS Bank offers. And for this year, we plan to reposition ourselves in this field and also overhaul the organization. The good development in the first quarter encourages us in our strategy.

The investment business flattened in the first quarter by 5.2% to EUR 3.2 million. However, for the further course of the year we expect the investment business to pick up again. The takeover of the roughly 9,000 asset management and brokerage customers of GBD in Slovenia was an important step in this respect. Moreover, we are planning special sales activities to rekindle the investment business which was rather sluggish in the first quarter.

We also recorded a decline in fees and commissions on loans, but we had expected this. In the preceding year, the good result was overshadowed by higher exit fees. Therefore, in the first quarter of 2018 the trend in fees and commissions on loans was again in line with the normal course of business at EUR 2.9 million.

COMPONENTS OF THE INCOME STATEMENT



IFRS 9 changes to the presentation of financial assets

The introduction of IFRS 9 also changed the composition of the item “Profit/loss from financial assets/liabilities”. The two items “Profit/loss from available-for-sale financial assets” and “Profit/loss from held-to-maturity financial assets” have been eliminated. Instead there are now three new items. These developed as follows in the first quarter: The item “Gains/losses on financial assets measured at fair value through profit or loss (mandatory)” was negative at EUR -1.9 million due to the volatile development on stock markets in the first quarter. Profit/loss from the derecognition of financial assets measured at amortized cost was EUR -0.1 million in the first quarter of 2018. The new item “Other comprehensive income from financial assets/liabilities” amounted to EUR 1.2 million at the end of March. This positive result is due mainly to changes in profits/ losses that result from modification gains/losses on contracts with customers that are not substantial such as from changes to interests or maturities. The item “profit/loss from financial assets designated as at fair value through profit or loss” decreased by EUR 1.3 million to EUR -0.2 million. The reason is mainly the fact that the amount of the fair value changes which is due to changes in the default risk of financial liabilities must be reported in other comprehensive income in equity under IFRS 9. In total, the result of the profit/ loss from financial assets/liabilities in the first quarter was EUR -0.9 million.

Strict cost discipline kept administrative costs low

Administrative costs increased by 3.8% to EUR 27.6 million year on year. A large percentage of administrative expenses is accounted for by personnel expenses. The share rose marginally by 0.6% to EUR 17.5 million. At the end of March 2018, we employed 920 persons throughout the Group (FTE). Other administrative costs increased by 10.3% to EUR 8.5 million due to higher investments in digitalization. Depreciation/amortisation also rose by 6.7% to EUR 1.6 million.

Other comprehensive income stable

Other operating income was weighed down especially by regulatory costs. The result of EUR -3.8 million includes expenses for the resolution mechanism and deposit guarantee scheme of EUR 2.3 million and EUR 2.1 million, respectively, as well as the stability tax of EUR 0.3 million.

Performance ratios developing well

The excellent earnings are also reflected in the key management benchmarks. Return on equity (RoE) after tax changed to 6.1%, while return on assets (RoA) after tax was unchanged at 0.9%.

The cost/income ratio developed contrary to our expectations at 59.1%. The reasons for the increase were the lower earnings in the service business and the excessive burden in the first quarter from the costs for the resolution mechanism and deposit guarantee scheme. By contrast, the risk/earnings ratio developed excellently. As at 31 March 2018, the ratio – thanks to the excellent risk situation – was only 7.5 % which is a decline by 9.2%-points versus the year 2017.

In the first quarter, we continued to reduce the portfolio of non-performing loans. Our rigorous management of risk events has also resulted in a substantially improved NPL ratio of 3.1%, which is a reduction by 0.4% points.

The leverage ratio of 8% stayed at the level of year-end 2017, while the liquidity coverage ratio increased to 157.3%. The two figures were clearly above the statutory requirements of 3.0% and 100.0% by far.

The capital ratios changed on account of the successful capital increase as follows: the total capital ratio improved from 14.0% to 15.1%. The common equity tier 1 ratio slipped from 12.3% to 11.2%, because deductions increased due to the phasing out of the transitional provisions. The two capital ratios are well above the statutory thresholds.

KEY PERFORMANCE INDICATORS

in %	31/12/2017	31/03/2018	± in %-points
ROE after tax	6.8	6.1	-0.7
ROA after tax	0.9	0.9	0.0
Cost/income ratio	51.9	59.1	7.2
Risk/earnings ratio	16.7	7.5	-9.2
NPL ratio	3.5	3.1	-0.4
Liquidity coverage ratio (LCR)	145.2	157.3	12.1
Leverage ratio	8.0	8.0	0.0
Common equity tier 1 ratio	12.3	11.2	-1.1
Total capital ratio	14.0	15.1	1.1

SEGMENT REPORT

Corporate and business banking is the BKS Bank Group's most successful segment by far. A large share of consolidated net profit for the period is earned in the segment corporate and business banking. The financial markets segment also contributes stable earnings despite the challenging market conditions. Retail banking is still a difficult business in which it is not easy to make a profit. Nonetheless, in the first quarter we came one step closer to this goal.

Corporate and Business Banking

As at 31 March 2018, we served almost 20,000 customers in the segment corporate and business banking, which is a gain of 2.6%. We are very pleased to have acquired 500 new corporate customers in the first quarter, winning them over with the high quality of our advisory services.

This customer segment includes firms from the industrial sector, commerce and trade, as well as from the free professions, farming and forestry and also municipalities and the public sector.

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

EXCELLENT SEGMENT RESULTS

The first quarter of 2018 was once again very successful. The profit for the period before tax increased by one third to EUR 16.8 million compared to the preceding year. The two main sources of the excellent results were, on the one hand, the much higher net fee and commission income (EUR 24.6 million; +12.5%), and on the other, the improved risk situation, backed by a sound economy. Impairment charges for losses on loans and advances decreased to EUR 2.7 million year on year.

As regards net fee and commission income, we posted a decline of 13.9% to EUR 6.6 million. This was caused mainly by the much lower commissions on loans, which was felt especially in the corporate and business banking segment. Almost 78% of total lending goes to corporate and business banking customers. Costs increased sharply, above all, IT expenses. Overall, general administrative expenses went up by 4.2% to EUR 11.8 million.

A look at the segment-specific management benchmarks shows a highly positive development. Return on equity achieved the very good level of 18.7%. The cost/income ratio decreased from 38.0% to 37.6% and return/earnings ratio attained a solid level of 10.8%.

Retail Banking

In retail banking, we provide services to private individuals and members of the healthcare professions. At the end of March 2018, we served some 133,700 customers in this segment.

The retail banking segment has been struggling with lacking profitability for some time now. The tense earnings situation is aggravated by the extremely low interest rates and the fast pace of the technological transformation. A growing number of customers are conducting their banking transactions online. This is seen in the steadily growing number of portal users and in the rising rates of use. On the other hand, the change in customer behaviour is also seen in the plunge in the frequency of customer visits to bank tellers and the self-service zones. The need for cash is also on a steady decline. However, our commitment to branch operations is firm, because we believe that the bank branch is the right place for obtaining personal and competent advice. At the same time, we are of course also working to expand our range of digital offers.

Our customers appreciate our modern customer portal, which we are constantly developing. In the first quarter of 2018, we acquired some 900 new portal users, which is a rise by 2.3%.

SUBSTANTIALLY IMPROVED EARNINGS

We are pleased to have achieved a much better result than one year ago in retail banking with a segment result of EUR -0.3 million. Net interest income rose by 11.1% to EUR 6.8 million. Although we posted a decline of 1.9% in net fee and commission income versus Q1 2017, we are satisfied with the net fee and commission income of EUR 5.6 million.

The solid development of the economy in all of our regions and the related improvement of the situation on the labour market are also reflected in the impairment charges on receivables from customers. As at 31 March 2018, we had allocated only EUR 0.3 million for charges for losses on loans and advances to retail customers. General administrative expenses also developed positively. At EUR 13.0 million, it remained at the same level as in the preceding year.

The improved segment results also significantly improved the management benchmarks. Return on equity changed to -2.1. The cost/income ratio attained 100.1% at the end of the first quarter 2018 and the risk/earnings ratio decreased to 4.8%.

Financial Markets

In the financial markets segment, income earned on the management of term structures, returns on securities in the own portfolio and the contributions of entities consolidated using the equity method are the main sources of earnings. Proprietary trading is not a focus of our business activities.

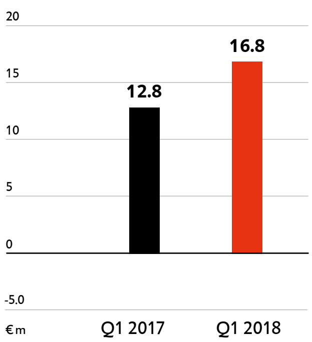
As at 31 March 2018, BKS Bank earned a net profit for the period before tax of EUR 3.4 million following EUR 7.7 million in the preceding year in the financial markets segment. Net interest income - including income from entities consolidated by the equity method - decreased by 2.4% to EUR 5.9 million. A large share of the decline was due to the sustained low interest rates. As regards impairment charges on receivables from customers, we reversed EUR 0.1 million. In the preceding year, higher allocations for country risks had been necessary. The general administrative expenses rose from EUR 1.6 million to EUR 1.8 million.

The biggest changes occurred in the item “Profit/loss from financial assets/liabilities”. After a positive income figure of EUR 1.6 million in the preceding year, we closed at 31 March 2018 with a minus of EUR 0.8 million. The fair value measurement through profit or loss pursuant to IFRS 9 applied to own portfolio investments led to a negative measurement of EUR 1.8 due to the volatile market developments. Additionally, under IFRS 9 measurement results for so-called own credit risk are now no longer reported in financial assets, but directly in equity. In the preceding year, we reported a positive contribution in this context. By contrast, the new item other comprehensive income from financial assets/liabilities was positive at EUR 1.2 million.

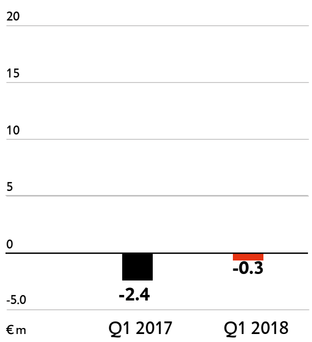
The segment-specific indicators developed as follows: return on equity changed from 4.7% to 2.1% and the cost/income ratio increased to 31.2%.

DEVELOPMENT OF PROFIT/LOSS FOR THE PERIOD BEFORE TAX

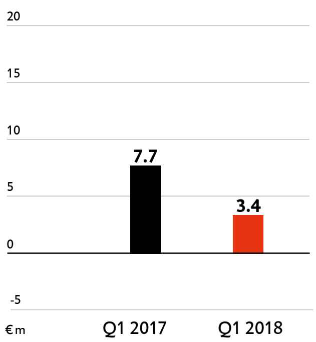
CORPORATE BANKING



RETAIL BANKING



FINANCIAL MARKETS



in %	Q1 2017	Q1 2018
ROE	19.7	18.7
CIR	38.0	37.6
RER	26.3	10.8

in %	Q1 2017	Q1 2018
ROE	-23.3	-2.1
CIR	106.0	100.1
RER	27.4	4.8

in %	Q1 2017	Q1 2018
ROE	4.7	2.1
CIR	18.8	31.2
RER	10.9	-

A detailed presentation of the segments is given in the Notes from page 61.

CONSOLIDATED OWN FUNDS

BKS Bank calculates the own funds ratio and measurement 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.

As a result of the Supervisory Review and Evaluation Process (SREP) conducted by the Austrian Financial Market Authority (FMA) in the preceding year, BKS Bank must meet the minimum requirements for common equity tier 1 capital (CET1) of 5.66%, and for the total capital ratio of 10.1%.

Strong capital cover after successful capital increase

In the first quarter of 2018, we completed a successful capital increase at a ratio of 10:1. BKS Bank AG issued a total of 3,303,300 new ordinary shares at an offer price of EUR 16.7 per new share and received proceeds of EUR 55.0 million. However, common equity tier 1 capital decreased to EUR 565.6 million due to higher deductions that resulted from the phasing out of the transitional provisions. Consequently, the common equity tier 1 ratio dropped from 12.3% to 11.2%. Including tier 2 capital of EUR 139.5 million, the bank's own funds came to EUR 759.1, a gain of 8.2%. The own funds ratio was 15.1% as at 31 March 2018.

At 8.0%, the leverage ratio remained at the preceding year's level and thus exceeded the regulatory requirement of 3% as well as the internal target of >5%.

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

in €m	31/12/2017	31/03/2018
Share capital	77.5	83.7
Reserves net of intangible assets	909.3	964.5
Deductions	-372.3	-482.6
Common equity tier 1 capital(CET1)	614.5	565.6
Common equity tier 1 ratio	12.3 %	11.2 %
Hybrid capital	20.0	16.0
AT 1 note	36.2	37.9
Deductions	-42.9	-
Additional tier 1 capital	13.3	53.9
Tier 1 capital (CET1 + AT1)	627.8	619.5
Tier 1 capital ratio	12.5 %	12.3 %
Tier 2 capital items and instruments	116.5	139.5
Deductions	-42.7	-
Tier 2 capital	73.8	139.5
Total own funds	701.6	759.1
Own funds ratio	14.0 %	15.1 %
Total risk exposure amount	5,016.7	5,036.0

RISK REPORT

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

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

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

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

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

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

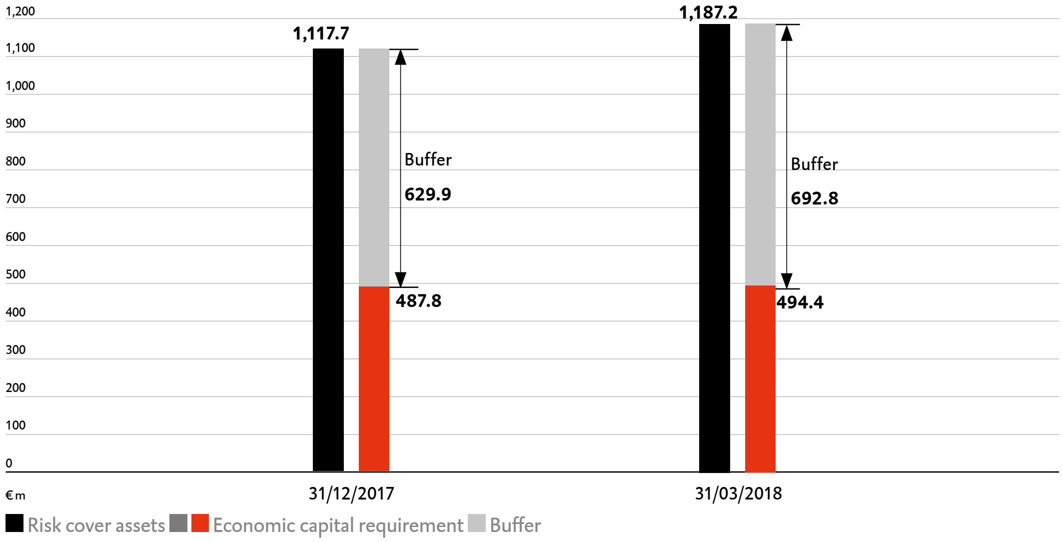
The overall bank risk is the equivalent of our economic capital requirement, which is the minimum amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit and liquidity risk are accounted for in the prices charged to customers as risk premiums (standard risk costs,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

The individual components of the assets available to cover risks were ranked according to their realization capacity, while taking account, above all, of liquidity and disclosure effects. When a capital adequacy target is set on a going concern basis, the potential risk and risk-bearing capacity and the limits derived therefrom were balanced in such a way so as to put the bank in a position to absorb an adverse event and continue to conduct business in an orderly manner.

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

The economic capital requirement for credit risk was the largest risk capital requirement within group of credit institutions. As at the end of March 2018, credit risks accounted for about 63.0% of the total loss potential (31/12/2017: 61.8%) under the liquidation approach. Market price-induced risks accounted for a share of 24.2% (31 December 2017: 25.0%). Based on the liquidation approach, the economic capital requirement was determined at EUR 494.4 million after EUR 487.8 million at the close of December 2017. The cover assets were EUR 1,187.2 million (31/12/2017: EUR 1,117.7 million).

RISK-BEARING CAPACITY BY LIQUIDATION APPROACH



Credit risk

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

The management of credit risk is based on the principle of granting loans only on a know-your-customer basis. Thus, loans are granted only after a thorough check of the person and creditworthiness and – if relevant – in compliance with the dual control principle (front office and back office). Collateral requirements are derived from the rating class and the product. Fair value valuations of collateral take their bearings from average 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 2018, around 52% of all loans to corporate and business customers and around 86% of loans to retail customers were assigned a very good rating of AA-2b The focus of new business was on customers in the rating classes up to 3a.

IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €m	31/03/2017	31/03/2018	± in %
Impairment additions	15.3	13.8	-9.7
Impairment reversals	-6.9	-10.9	59.1
Direct write-offs	0.1	n/a	-
Recoveries in respect of receivables previously written off	-0.2	n/a	-
Impairment charges on receivables from customers	**8.3**	**2.9**	**-65.6**

At the end of March 2018, the balance of additions to impairment charges on receivables from customers was EUR 2.9 million versus EUR 8.3 million in the prior-year period in 2017. New allocations in an amount of EUR 9.9 million were balanced by reversals of EUR 7.0 million. At foreign subsidiaries, allocations to impairment charges amounted to EUR 0.2 million on balance. The NPL ratio[1] decreased again, thus dropping to 3.1% since the start of the year 2018.

INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

	Financial instruments that were neither past due nor impaired		Past due financial instruments	
Carrying value/max. default risk per class in EUR m	31/12/2017	31/03/2018	31/12/2017	31/03/2018
Receivables from customers	5,702	5,848	288	257
– thereof at fair value	56	114	-	-
Contingent liabilities	163	156	4	2
Receivables from banks	110	152	-	-
Securities and funds	817	855	-	-
– thereof, measured at fair value	107	138	-	-
Equity investments	600	605	-	-
– thereof, measured at fair value	-	80	-	-
Total	**7,392**	**7,616**	**292**	**259**

INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

	Impaired financial instruments		Past due but not yet impaired financial instruments	
Carrying value/max. default risk per class in EUR m	31/12/2017	31/03/2018	31/12/2017	31/03/2018
Receivables from customers	238	219	50	38
– thereof, measured at fair value	-	-	-	-
Contingent liabilities	-	-	4	2
Receivables from banks	-	-	-	-
Securities and funds	-	-	-	-
– thereof, measured at fair value	-	-	-	-
Equity investments	10	10	-	-
– thereof at fair value	-	10	-	-
Total	**248**	**229**	**54**	**40**

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

The rise in financial instruments measured at fair value as at 31 March 2018 was due mainly to the changeover to measurement pursuant to IFRS 9.

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

INTEREST RATE RISK

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

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

The quotient, which is reported to OeNB, derived from interest rate risk and eligible own funds based on an interest rate shift of 200 base points was 3.8% at the end of March 2018 after 4.4% at 31 December 2017. We point out that the supervisory authorities classify a bank as an 'outlier bank' as of a ratio of 20%. Our bank is not anywhere near this figure.

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

VALUE-AT-RISK FIGURES

in €m	31/12/2017	31/03/2018	± in %
Interest rate risk[1]	28.0	22.9	-18.2

[1] incl. credit spread risks

FOREIGN CURRENCY RISK

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

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

The open FX position at the end of March was EUR 18.7 million, taking into account foreign currency shares in funds held in the Treasury portfolio. Value-at-risk for the foreign currency risk reached a level of EUR 0.6 million.

VALUE-AT-RISK FIGURES

in €m	31/12/2017	31/03/2018	± in %
FX risk	0.6	0.6	0.0

EQUITY PRICE RISK

Equity price risk is the risk of changes in stock market prices that result from the interaction of supply and demand. Investments in equities in our Treasury portfolio are mainly in highly liquid German and Austrian listed securities. The bank complied with all internal limits for shares and equity funds. The volume of positions in shares and alternative investments that are not equity investments came to EUR 32.0 million in the first quarter. Value-at-risk from equity price risk was EUR 1.6 million compared with EUR 1.2 million at 31 December 2017.

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

VALUE-AT-RISK FIGURES

in €m	31/12/2017	31/03/2018	± in %
Equity price risk	1.2	1.6	33.3

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.

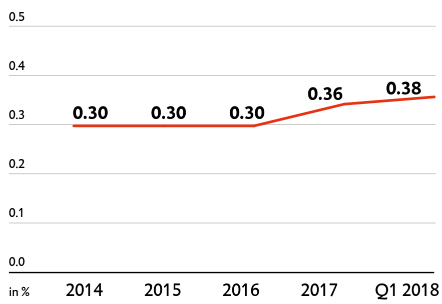
Essential for liquidity management is a diversification of the refinancing profile by investor category, product and maturity. Loan terms and conditions are based on the Austrian risk management decree and the EBA Guidelines it is based on. The costs of refinancing financial products are determined by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

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

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

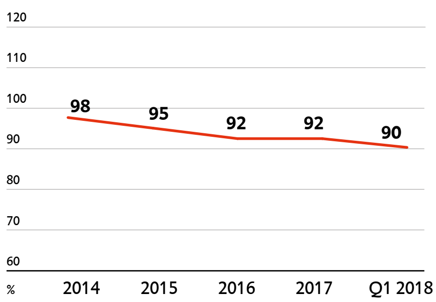
The chart below shows the deposit concentration, which reached a level of 0.38 in the first quarter of the year. This value is an estimate of the withdrawal risk associated with a run on deposits and indicates, above all, the risk of being dependent on large deposits. All customer deposits are broken down into defined size bands and valuated with their respective share and with a weighting factor from 0 to 1.

DEPOSIT CONCENTRATION



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 89.5%, we are clearly below our internal benchmark of 100% and thus in an excellent position.

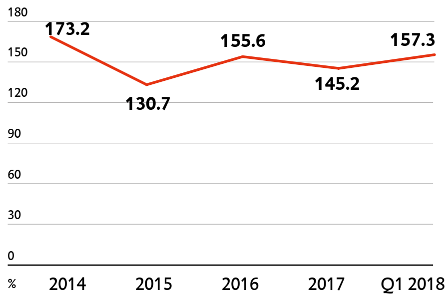
LOAN-TO-DEPOSIT RATIO



The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain liquid for the next 30 days in the event of simultaneous market and bank-specific stress situations. It compares highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. This regulatory liquidity ratio was 157.3% at 31 March 2018 and therefore fully meets the statutory requirement of 100%.

In the ILAAP report of BKS Bank, we are already monitoring NSFR that was 109.2% as at the end of March 2018.

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. Further types of risks closely related to operational risk are reputation risks, conduct risks, model risks and information and communications technology risks (ICT risks).

At BKS Bank AG and at all Austrian and foreign subsidiaries, operational risks are limited by means of an appropriate control system that is continually being developed. The system features a number of 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, 45 loss events (excluding those resulting from credit operations) were reported. The loss amount after deducting amounts recovered was only EUR 90,000. At a total of EUR 4,000, the loss events in the investment business were below the internally-defined risk tolerance threshold of EUR 1.0 million. As regards the ICT risk, there were two loss events with a total sum of EUR 1,000.

A key component for the management of reputation risk is complaints management. During the reporting period, the BKS Office of the Ombudsperson processed 144 customer complaints.

OUTLOOK

Global economy expanding robustly also in 2018

In its latest report, the International Monetary Fund (IMF) forecasts that the global economy will expand by 3.9% this year. However, the forecast applies on the condition that the trade tariff dispute does not escalate any further, because emerging protectionism is the greatest risk likely to cause a slowdown of the global economy. In the view of IMF, the global economy stands to profit from the stimulus of the tax reform in the US. The growth rate forecast for the US is 2.9% for this year.

In its latest spring forecast, the European Commission expects a growth rate of 2.3% for the EU and of 2.0% for the euro area. Confidence among households and businesses is still high. Consumption and investment activity as well as lively exports will boost growth in 2018 as well. The EU Commission is already warning of downwards tendencies. These include higher volatility on financial markets, the risk of overheating due to pro-cyclical economic measures in the US and the escalation of the trade tariff dispute. By contrast, the outlook is more positive for the European labour market. The EU Commission estimates that the unemployment rate will decline to 7.1% in the EU and to 8.4% in the euro area. The growth prospects for our foreign markets are still very positive. GDP growth in Slovenia is estimated at 4.7%, for Croatia at 2.8% and for Slovakia at 4.0%.

The year 2018 is expected to be another good one for the economy. The Austrian Institute of Economic Research (WIFO) prognosticates a robust rise in GDP of 3.2%. The domestic export sector, which is profiting from a strong global economy, will make a key contribution to economic growth. Moreover, WIFO expects private households to spend again heavily on consumption goods this year and thus contribute to the sustained upswing. The labour market will also benefit from the favourable economic conditions.

Rising volatility on financial markets

The environment for stocks remains attractive also in the current financial year although stock markets have become more volatile since February. There are several issues burdening stock markets: First, there is uncertainty over US trade measures and the entailing risk of a trade war. Second, the market still fears that US interest rates are rising too fast. However, one should not ignore the fact that the sentiment indicators and also the entire global economy are in an extraordinarily good condition. Nonetheless, we expect the positive dynamic of the past year to slow and the stock markets to fluctuate more widely.

The bond market is still not very attractive in 2018, especially with respect to conservative bonds. The yields on government bonds from the euro area are still relatively low. Corporate bonds are an appealing alternative in this case. Furthermore, many companies are benefiting from the positive global economic environment, which is boosting sales and profits. Considering that the purchase programme of the European Central Bank (ECB) will probably end soon, we expect government and corporate bonds to experience short-lived price losses at generally higher yields.

Optimistic outlook for 2018 despite enormous challenges

Historically low interest rates, digitalisation and excessive regulation will continue to pose a challenge in the current financial year. However, this will not dampen our resolve, quite on the contrary, our strategy is to unequivocally focus on providing excellent services to customers, generating earnings and pursuing a healthy growth path.

The successful capital increase and the excellent economic framework conditions offer enough support to quickly progress in the pursuit of our corporate goals. In the coming months, we will concentrate on important digitalisation projects, including the launch of a modern portal for corporate and business customers and a new website. At the same time, we are also working on the reorientation, in terms of organization and focus, of certain business areas such as payment services. The concept for the branch of the future will be completed by summer. These projects will help us strengthen our earnings power over the long term.

As a responsible bank, it is especially important to us to invest in the region in which we do business. At the location of our head office in Klagenfurt, we are investing over EUR 10 million in a residential project that is being developed by our real estate subsidiary and implemented primarily by Carinthian construction firms. The cornerstone was laid in mid-May. The project has 50 flats of which 23 will be assisted-living flats. The project is scheduled for completion in the autumn of 2019.

We have planned numerous projects again for the year 2018 to ensure that BKS Bank AG sustains its successful course. The good results achieved in the first quarter encourage us to boldly pursue the path we have embraced. For the current year as well, we aim to pay out a dividend that adequately reflects our profits and own funds.

Klagenfurt am Wörthersee, 22 May 2018

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Managemen Board

CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO IFRS

TABLE OF CONTENTS - NOTES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 31 MARCH 2018

INCOME STATEMENT

in €k	Notes	Q1 2017	Q1 2018	± in %
Interest income applying the effective interest rate method		36,190	36,420	0.6
Other interest income		1,590	2,621	64.9
Interest expenses		-8,887	-8,466	-4.7
Net interest income	**(1)**	**28,893**	**30,575**	**5.8**
Impairment charges on receivables from customers	(2)	-8,345	-2,867	-65.6
Net interest income after impairment charges		**20,548**	**27,708**	**34.8**
Fee and commission income		13,930	13,506	-3.0
Fee and commission expenses		-674	-1,042	54.6
Net fee and commission income	**(3)**	**13,256**	**12,464**	**-6.0**
Profit/loss from investments accounted for using the equity method	(4)	8,132	7,488	-7.9
Net trading income	(5)	383	-13	>-100
General administrative expenses	(6)	-26,594	-27,607	3.8
Other operating income	(7)	1,952	1,271	-34.9
Other operating expenses	(7)	-5,837	-5,075	-13.1
Profit/loss from financial assets/liabilities		**1,600**	**-932**	**>-100**
– Profit/loss from financial instruments designated at fair value through profit/loss	(8)	1,143	-203	>-100
– Profit/loss from available-for-sale financial assets (AFS)	(9)	460	n/a	-
– Profit/loss from held-to-maturity financial assets (HtM)	(10)	-4	n/a	-
– Profit/loss from financial assets measured at Fair Value through profit/loss (mandatory)	(11)	n/a	-1,819	-
– Gains/losses from derecognition of financial assets measured at amortized cost	(12)	n/a	-143	-
– Other profit/loss from financial assets/liabilities	(13)	n/a	1,233	-
Profit for the period before tax		**13,440**	**15,305**	**13.9**
Income tax expense	(14)	-2,183	-1,889	-13.5
Profit for the period		**11,256**	**13,416**	**19.2**
Non-controlling interests		-1	-1	19.8
Profit for the period after non-controlling interests		**11,256**	**13,414**	**19.2**

OTHER COMPREHENSIVE INCOME

in €k	Q1 2017	Q1 2018	± in %
Profit for the period	**11,256**	**13,416**	**19.2**
Other comprehensive income	**5,962**	**-2,130**	**>-100**
Items not reclassified to profit for the period	**1,524**	**-1,808**	**>-100**
± Actuarial gains/losses in conformity with IAS 19	-167	-239	42.8
± Deferred taxes on actuarial gains/losses in conformity with IAS 19	42	60	42.0
± Changes in the fair value of equity instruments measured at fair value	n/a	-955	-
± Deferred taxes on fair value of equity instruments measured at fair value	n/a	239	-
± Fair value changes of financial liabilities designated at FV PL attributable to own credit risk	n/a	-207	-
± Deferred taxes on Fair value changes of financial liabilities designated at FV PL attributable to own credit risk	n/a	52	-
± Share of income and expenses of associates accounted for using the equity method taken directly to equity in accordance with IAS 19	1,649	-758	-
Items reclassified to profit for the period	**4,438**	**-321**	**>-100**
± Exchange differences	53	5	**-91.3**
± Available-for-sale reserve	4,628	n/a	**-**
± Net change in fair value	4,700	n/a	-
± Reclassified to profit or loss	-72	n/a	-
± Deferred taxes taken to AfS reserve items	-1,157	n/a	-
± Changes in the fair value of debt instruments measured at fair value	n/a	-289	-
± Net change in fair value	n/a	-280	-
± Reclassified to profit or loss from derecognition	n/a	0	-
± Reclassified to profit or loss from impairment charges	n/a	-9	-
± Deferred taxes on changes to the fair value of debt instruments measured at fair value	n/a	70	-
± Share of income and expenses of associates accounted for using the equity method taken directly to equity	914	-107	>-100
Total comprehensive income	**17,218**	**11,286**	**-34.5**
Non-controlling interests	-1	-1	19.8
Total comprehensive income after non-controlling interests	**17,217**	**11,285**	**-34.5**

EARNINGS AND DIVIDEND PER SHARE

	31/03/2017	31/03/2018
Average number of shares in issue (ordinary and preference shares)	39,009,649	39,525,671
Earnings per ordinary and preference share in EUR (adjusted for period)	0.29	0.34
Earnings per ordinary and preference share in EUR (annualised)	1.15	1.36

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

QUARTERLY REVIEW

in €k	Q1/2017	Q2/2017	Q3/2017	Q4/2017	Q1/2018
Interest income	37,780	39,766	38,145	38,582	39,041
Interest expenses	-8,887	-8,711	-8,619	-7,370	-8,466
Net interest income	**28,893**	**31,055**	**29,526**	**31,213**	**30,575**
Impairment charges on receivables from customers	-8,345	-5,859	-2,885	-9,634	-2,867
Net interest income after impairment charges	**20,548**	**25,196**	**26,640**	**21,579**	**27,708**
Fee and commission income	13,930	13,640	13,216	12,934	13,506
Fee and commission expenses	-674	-970	-1,163	-1,018	-1,042
Net fee and commission income	**13,256**	**12,670**	**12,054**	**11,916**	**12,464**
Profit/loss from entities accounted for using the equity method	8,132	10,499	10,407	10,029	7,488
Net trading income	383	591	10	561	-13
General administrative expenses	-26,594	-26,029	-26,670	-28,461	-27,607
Other operating income	1,952	282	934	1,457	1,271
Other operating expenses	-5,837	-995	-2,539	995	-5,075
Profit/loss from financial assets/liabilities	**1,600**	**1,015**	**97**	**1,499**	**-932**
– Profit/loss from financial instruments designated at fair value through profit or loss	1,143	154	15	-12	-203
– Profit/loss from available-for-sale financial assets	460	861	82	1,511	n/a
– Profit/loss from held-to-maturity financial assets	-4	-	-	-	n/a
– Profit/loss from financial assets measured at Fair Value through profit/loss (mandatory)	n/a	n/a	n/a	n/a	-1,819
– Gains/losses from derecognition of financial assets measured at amortized cost	n/a	n/a	n/a	n/a	-143
– Other profit/loss from financial assets/liabilities	n/a	n/a	n/a	n/a	1,233
Profit for the period before tax	**13,440**	**23,229**	**20,933**	**19,574**	**15,305**
Income tax expense	-2,183	-1,358	-2,425	-3,170	-1,889
Profit for the period	**11,256**	**21,870**	**18,507**	**16,404**	**13,416**
Non-controlling interests	-1	-	-1	-1	-1
Profit for the period after non-controlling interests	**11,256**	**21,870**	**18,506**	**16,403**	**13,414**

CONSOLIDATED BALANCE SHEET FOR THE PERIOD ENDED 31 MARCH 2018

ASSETS

in €k	Notes to the Financial Statements	31/12/2017	31/03/2018	± in %
Cash and balances with the central bank	(15)	476,589	661,769	38.9
Receivables from other banks	(16)	97,711	145,912	49.3
Receivables from customers	(17)	5,450,150	5,591,384	2.6
- Impairment charges on receivables and debt securities	(18)	-136,992	-124,034	-9.5
Trading assets	(19)	9,837	8,518	-13.4
Financial assets		1,043,134	n/a	-
- Financial assets designated at fair value through profit or loss	(20)	78,300	n/a	-
- Available-for-sale financial assets	(21)	182,069	n/a	-
- Held-to-maturity financial assets	(22)	782,765	n/a	-
Debt securities and other fixed interest securities	(23)	n/a	897,283	-
Shares and other equity	(24)	n/a	127,313	-
Investments in entities accounted for using the equity method	(25)	520,354	524,879	0.9
Intangible assets	(26)	1,638	1,503	-8.2
Property, plant and equipment	(27)	55,174	55,916	1.3
Investment property	(28)	30,868	30,684	-0.6
Deferred tax assets	(29)	7,873	15,226	93.4
Other assets	(30)	23,161	37,213	60.7
Total assets		**7,579,497**	**7,973,566**	**5.2**

EQUITY AND LIABILITIES

in €k	Notes to the Financial Statements Notes	31/12/2017	31/03/2018	± in %
Payables to other banks	(31)	694,986	777,097	11.8
Payables to customers	(32)	4,956,489	5,119,092	3.3
– thereof savings deposits		1,475,137	1,459,347	-1.1
– thereof other payables		3,481,352	3,659,746	5.1
Liabilities evidenced by paper	(33)	553,952	583,413	5.3
– thereof at fair value through profit or loss		84,688	84,247	-0.5
Trading liabilities	(34)	14,608	12,133	-16.9
Provisions	(35)	123,631	125,770	1.7
Deferred tax liabilities	(36)	127	10,517	>100
Other items	(37)	30,542	41,771	36.8
Subordinated debt capital	(38)	158,622	182,117	14.8
Equity		1,046,540	1,121,656	7.2
– thereof Shareholders' equity	(39)	1,046,518	1,121,633	7.2
– thereof non-controlling interests		22	23	5.5
Total equity and liabilities		**7,579,497**	**7,973,566**	**5.2**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differ-ences	Revaluation reserve	Retained earnings	Profit/loss for the period	Additional equity instru-ments[1]	Equity
As at 01/01/2018	**79,279**	**193,032**	**-168**	**31,956**	**638,184**	**68,035**	**36,200**	**1,046,518**
Impact of adopting IFRS 9				-589	10,103			9,513
Restated as at 1/1/2018	**79,279**	**193,032**	**-168**	**31,367**	**648,287**	**68,035**	**36,200**	**1,056,031**
Distribution								-
Coupon payments on additional equity instruments								-
Taken to retained earnings					68,035	-68,035		-
Profit for the period						13,414		13,414
Other comprehensive income			-102	-1,220	-807			-2,130
Increase in share capital	6,607	48,391						54,998
Effect of the equity method					-2,098			-2,098
Change in Treasury shares					-837			-837
Issuance of additional equity instruments							2,327	2,327
Other changes					-74			-74
As at 31/03/2018	**85,886**	**241,423**	**-270**	**30,147**	**712,506**	**13,414**	**38,527**	**1,121,633**

Status of the fair value OCI reserves (excl. reserves of associates accounted for using the equity method)	20,838
Deferred tax reserve	-5,209

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained earnings	Profit for the period	Additional equity instru-ments[2]	Equity
As at 01/01/2017	**79,279**	**193,032**	**-361**	**17,017**	**600,220**	**46,180**	**23,400**	**958,767**
Distribution								-
Coupon payments on additional equity instruments								-
Taken to retained earnings					46,180	-46,180		-
Profit for the period						11,255		11,255
Other comprehensive income			121	4,317	1,524			5,962
Effect of the equity method					-1,568			-1,568
Change in Treasury shares					-1,065			-1,065
Other changes					-270			-270
As at 31/03/2017	**79,279**	**193,032**	**-240**	**21,334**	**645,021**	**11,255**	**23,400**	**973,081**

Status of the available-for-sale reserves (excl. reserves for associates accounted for using the equity method)	17,018
Deferred tax reserve	-2,188

[2] The additional tier 1 bond issued in 2015 was classified as equity in conformity with IAS 32.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOWS

in €k	Q1 2017	Q1 2018
Cash and cash equivalents at the end of preceding year	**543,542**	**476,589**
Profit for the year after tax before minority interests	11,255	13,416
Non-cash items in profit for the period	3,030	2,409
Change in assets and liabilities arising from operating business activities after correction for non-cash items:	-201,833	132,560
Cash flow from operating activities	**-187,548**	**148,385**
Cash inflow from disposals	69,724	25,794
Cash outflow for investments	-48,812	-68,979
Cash flow from investing activities	**20,912**	**-43,184**
Increase in share capital	-	54,998
Other deposits	-	-
Dividend distributions	-	-
Subordinate liabilities and other financing activities	-16,168	24,986
Cash flow from financing activities	**-16,168**	**79,983**
Effect of exchange rate changes on cash and cash equivalents	68	-4
Cash and cash equivalents at the end of the reporting period	**360,806**	**661,769**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BKS BANK

Material Accounting Policies

I. GENERAL INFORMATION

The interim financial statements of BKS Bank for the period ended 31 March 2018 were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as adopted by the EU. The relevant interpretations of the International financial Reporting Interpretations Committee (IFRIC) were taken into account.

II. EFFECTS OF NEW AND AMENDED STANDARDS

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

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

The new accounting and measurement policies of IFRS 9 are described in the section "Notes on individual items of the balance sheet". Information regarding the initial application of IFRS 9 required by IFRS 7 are addressed in the section "Explanations on the initial application of IFRS 9".

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

III. RECOGNITION AND MEASUREMENT

Group of consolidated companies

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

CONSOLIDATED ENTITIES

Company	Head office	Direct equity interest	Indirect equity interest	Date of financial statements
BKS-Leasing Gesellschaft m.b.H.	Klagenfurt	99.75%	0.25%	31/03/2018
BKS-leasing d.o.o.	Ljubljana	100.00%	-	31/03/2018
BKS-leasing Croatia d.o.o.	Zagreb	100.00%	-	31/03/2018
BKS-Leasing s.r.o.	Bratislava	100.00%	-	31/03/2018
IEV Immobilien GmbH	Klagenfurt	100.00%	-	31/03/2018
Immobilien Errichtungs- und Vermietungs GmbH & Co KG	Klagenfurt	100.00%	-	31/03/2018
BKS 2000-Beteiligungs- und Verwaltungs GmbH	Klagenfurt	100.00%		31/03/2018
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	-	100.00%	31/03/2018
BKS Hybrid alpha Gmbh	Klagenfurt	100.00%	-	31/03/2018
BKS Hybrid beta GmbH	Klagenfurt	100.00%	-	31/03/2018
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	-	31/03/2018
LVM Beteiligungs Gesellschaft m.b.H.	Klagenfurt	-	100.00%	31/03/2018
BKS Immobilien-Service GmbH	Klagenfurt	100.00%	-	31/03/2018
BKS Service GmbH	Klagenfurt	100.00%	-	31/03/2018

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Company	Head office	Direct equity interest in %	Date of financial statements
Oberbank AG	Linz	14.21	31/12/2017
BTV AG	Innsbruck	13.59	31/12/2017
Drei Banken Versicherungsagentur GmbH	Linz	20.00	31/03/2018

Regarding Oberbank AG and BTV AG, we would like to point out that although at 31 March 2018 BKS Bank had voting interests of less than 20% in those banks, namely 15.21% and 14.78%, respectively, and equity interests of less than 20%, namely 14.21% and 13.59%, respectively, the exercise of voting rights was governed by syndicate agreements. These allowed participation in the 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 %	31/03/2018

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 31 DECEMBER 2018

in €k	– Net interest income	Operating income	Number of employees (FTE)	Profit/loss for the period before tax
Branches abroad				
Slovenia Branch	2,730	3,447	100.5	517
Croatia Branch	1,.913	2,311	58.5	1,341
Slovakia Branch	396	437	26.5	-248
Subsidiaries				
BKS-leasing d.o.o., Ljubljana	854	942	15.9	687
BKS-leasing Croatia d.o.o., Zagreb	761	838	11.3	478
BKS-Leasing s.r.o., Bratislava	219	282	8.3	-64

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	2,689	3,414	101.0	755
Croatia Branch	1,777	2,284	58.8	1,051
Slovakia Branch	352	390	23.0	-127
Subsidiaries				
BKS-leasing d.o.o., Ljubljana	601	680	14.7	541
BKS-leasing Croatia d.o.o., Zagreb	599	735	11.2	548
BKS-Leasing s.r.o., Bratislava	193	248	9.8	-69

Foreign currency translation

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

NOTES ON INDIVIDUAL ITEMS OF THE BALANCE SHEET

Cash and balances with the central bank

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

Financial instruments

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

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

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

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

At amortized cost

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

At fair value through other comprehensive income (FV OCI)

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

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

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

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

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

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

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

Pursuant to IFRS 9, **financial iiabilities** are measured as follows upon initial recognition:
- at amortized costs
- at fair value through profit or loss (FV PL)

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

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

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

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

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

– Stage 1: For financial instruments classified to stage 1, an impairment charge equivalent to 12-months expected credit loss (ECL) is recognized. 12-months expected credit loss corresponds to the credit loss a financial instrument might incur during the 12 months following the balance sheet date. Upon acquisition, all financial instruments must be assigned to stage 1; this assignment must then be reviewed at every balance sheet date.

– Stage 2: For financial instruments classified to stage 2, it is required to recognize a lifetime expected credit loss (ECL), which corresponds to the losses expected over the instrument's remaining time to maturity.

– Stage 3: For financial instruments classified to stage 3, it is likewise required to recognize a lifetime expected credit loss corresponding to the losses expected over the instrument's remaining time to maturity. An instrument will be classified to stage 3 if it is credit impaired. Where there is objective evidence on the balance sheet date that a financial instrument is impaired, it will be classified to stage 3.

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

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

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

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

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

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

Property, plant and equipment
Property, plant and equipment consists of land, buildings and other equipment comprising primarily office furniture and business equipment. Property, plant and equipment are recognized at amortized costs. 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 to the asset's amortized costs. 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
Other assets/liabilities comprise deferred items and other assets or liabilities. These are measured at amortized costs.

Liabilities evidenced by paper

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

Subordinated debt capital

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

Deferred tax assets and deferred tax liabilities

Income tax is reported and calculated in accordance with IAS 12. The calculation for each taxed entity is carried out applying the tax rates that are to be applied, under applicable legislation, 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 IFRS. These will probably give rise to additional tax burdens or reduce future tax burdens.

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/loss for the period). BKS Bank strives to strengthen its capital base on a sustainable basis by reinvesting its profits. Additional tier 1 notes were issued in 2015, 2017 and 2018 respectively. Under IAS 32, such notes must be classified as equity.

NOTES TO INDIVIDUAL LINE ITEMS IN THE INCOME STATEMENT

Net interest income

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

Impairment charges on receivables from customers

This line item recognizes impairment allowances, impairment reversals and provisions. See also Note (2) for details.

Net fee and commission income

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

General administrative expenses

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

Net trading income

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

Other operating expenses / income

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

Gains/losses from the derecognition of financial assets measured at amortized costs

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

OTHER EXPLANATORY NOTES

Forward-looking assumptions and estimates such as yield curves and exchange rates were made to the extent required, and the financial statements were prepared on the basis of the state of knowledge and information at our disposal on the balance sheet 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 2018.

EXPLANATIONS ON THE INITIAL APPLICATION OF IFRS 9

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

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

	IAS 39		IFRS 9	
Assets	Measurement category	Carrying amount	Measurement category	Carrying amount
Cash and balances with the central bank	Nominal	476,589	Nominal	476,589
Receivables from other banks	At amortized cost (receivables and loans)	97,711	At amortized cost	97,711
Receivables from customers	At amortized cost (receivables and loans)	5,450,150	At amortized cost	5,402,669
		-	Fair value through profit or loss (FV PL)	47,667
	Designated at fair value through profit or loss (fair value option)	55,805	Designated at fair value through profit or loss (fair value option)	55,805
Trading assets	Held for trading	7	Fair value through profit or loss (FV PL)	7
Debt securities and other interest-bearing securities	At amortized cost (held to maturity)	782,765	At amortized costs	782,765
	Designated at fair value through profit or loss (fair value option)	22,495	Designated at fair value through profit or loss (fair value option)	22,495
	Available for sale	56,799	At fair value through other comprehensive income (FV OCI)	56,799
Shares and other equity	Available for sale	125,270	At fair value through other comprehensive income (FV OCI)	83,068
			Fair value through profit or loss (FV PL)	42,203

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

ASSETS	Carrying amount pursuant to IAS 39 at as 31/12/2017	Reclassification	Remeasurement	Carrying amount pursuant to IFRS 9 as at 01/01/2018
At amortized cost				
Cash and balances with the central bank				
Opening balance under IAS 39	476,589			
Closing balance under IFRS 9				476,589
Receivables from other banks				
Opening balance under IAS 39	97,711			
Closing balance under IFRS 9				97,711
Receivables from customers				
Opening balance under IAS 39	5,450,150			
- Reclassification: to at fair value through profit or loss (FV PL)		-47,481		
Closing balance under IFRS 9				5,402,669
Debt securities: at amortized cost				
Opening balance under IAS 39	-			
Reclassification: from held to maturity		782,765		
Closing balance under IFRS 9				782,765
Debt securities: held to maturity				
Opening balance under IAS 39	782,765			
- Reclassification: to at amortized costs		-782,765		
Closing balance under IFRS 9				-
Impairment charges on receivables from customers				
Opening balance under IAS 39	-136,992			
- Receivables from credit institutions: remeasurement ECL allowance			-153	
- Receivables from customers: remeasurement ECL allowance			-22,459	
- Receivables from customers: remeasurement ECL allowances (from HtM reclassification)			-453	
- Receivables: Reversal IBNR[1)]			36,869	
Closing balance under IFRS 9				-123,188
Total financial assets measured at amortized costs	**6,670,223**	**-47,481**	**13,804**	**6,636,546**

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

ASSETS	Carrying amount pursuant to IAS 39 at as 31/12/2017	Reclassification	Remeasurement	Carrying amount pursuant to IFRS 9 as at 01/01/2018
Fair value through profit or loss (FV PL)				
Trading assets				
Opening balance under IAS 39	7			
Closing balance under IFRS 9				7
Debt securities: Fair value through profit or loss (designated)				
Opening balance under IAS 39	22,495			
Closing balance under IFRS 9				22,495
Loans: Fair value through profit or loss (designated)				
Opening balance under IAS 39	55,805			
Closing balance under IFRS 9				55,805
Loans: Fair value through profit or loss (mandatory)				
Opening balance under IAS 39	-			
- Reclassification: from at amortized costs		47,481		
- Remeasurement: from amortized costs to fair value			186	
Closing balance under IFRS 9				47,667
Shares and other equity: fair value through profit or loss (mandatory)				
Opening balance under IAS 39	-			
- Reclassification: from available-for-sale financial assets		42,203		
Closing balance under IFRS 9				42,203
Total financial assets measured at fair value through profit or loss	**78,307**	**89,684**	**186**	**168,177**
Fair value through other comprehensive income (FV OCI)				
Debt securities - FV OCI (with recycling)				
Opening balance under IAS 39	-			
- Reclassification: from available-for-sale financial assets		56,799		
Closing balance under IFRS 9				56,799
Shares and other equity - FV OCI (without recycling)				
Opening balance under IAS 39	-			
- Reclassification: from available-for-sale financial assets		83,068		
Closing balance under IFRS 9				83,068
Debt securities - available for sale				
Opening balance under IAS 39	56,799			
- Reclassification: to FV OCI		-56,799		
Closing balance under IFRS 9				-
Shares and other equity - available for sale				
Opening balance under IAS 39	125,270			
- Reclassification: to FV OCI		-83,068		
- Reclassification: to FV PL		-42,203		
Closing balance under IFRS 9				-
Total financial assets measured at fair value through other comprehensive income	**182,069**	**42,203**	**-**	**139,866**

Initial application of IFRS 9 on 1 January 2018 had the following effects on the financial assets of BKS Bank: Loans of EUR 47.5 million measured at amortized cost under IAS 39 were classified as at fair value through profit or loss (FV PL) under IFRS 9. These financial assets do not meet the SPPI test as required by IFRS 9 for measurement at amortized cost. The fair value at the time of initial application was EUR 47.7 million, the difference of EUR 0.2 million was reported in retained earnings as an adjustment to the opening value for equity.

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

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

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

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

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

DETAILS OF THE INCOME STATEMENT

(1) NET INTEREST INCOME

in €k	Q1 2017	Q1 2018	± in %
Interest income based on the effective interest rate method			
Lending transactions	28,031	28,042	0.0
Fixed-interest bearing securities measured at amortized costs	n/a	3,729	-
Fixed-interest bearing securities FV OCI	n/a	177	-
Fixed-interest bearing securities held-to-maturity	4,205	n/a	-
Leasing receivables	2,297	2,431	5.8
Positive interest expenses[1)]	1,657	2,041	23.2
Interest income based on the effective interest rate method	**36,190**	**36,420**	**0.6**
Other interest income			
Lending transactions	n/a	731	-
Fixed-interest bearing securities designated at fair value through profit or loss	111	111	0.0
Fixed-interest bearing securities available for sale	203	n/a	-
Shares	343	944	>100
Investment property	858	836	-2.5
Other equity investments	75	-	>-100
Other interest income	**1,590**	**2,621**	**64.9**
Total interest income	**37,780**	**39,041**	**3.3**
Interest expenses			
Deposits from customers and other banks	1,793	1,458	-18.7
Liabilities evidenced by paper	5,444	5,214	-4.2
Negative interest income[1)]	1,460	1,399	-4.1
Investment property	190	394	>100
Total interest expenses	**8,887**	**8,466**	**-4.7**
Net interest income	**28,893**	**30,575**	**5.8**

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

Interest income includes income from unwinding, i.e., from changes in the present values of cash flows from impaired receivables in an amount of EUR 0.9 million (31 March 2017: EUR 0.6 million).

(2) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS

in €k	Q1 2017	Q1 2018	± in %
Impairment allowances	15,318	13,837	-9.7
Impairment reversals	-6,896	-10,970	59.1
Direct write-offs	147	n/a	-
Recoveries in respect of receivables previously written off	-224	n/a	-
Impairment charges on receivables from customers	**8,345**	**2,867**	**-65.6**

(3) NET FEE AND COMMISSION INCOME

in €k	Q1 2017	Q1 2018	± in %
Fee and commission income			
Payment services	5,237	5,663	8.1
Securities operations	3,590	3,514	-2.1
Credit operations	3,622	3,025	-16.5
Foreign exchange operations	913	758	-16.9
Other services	568	546	-3.9
Total fee and commission income	**13,930**	**13,506**	**-3.0**
Fee and commission expenses			
Payment services	231	502	>100
Securities operations	245	341	39.3
Credit operations	158	143	-9.6
Foreign exchange operations	24	45	86.8
Other services	16	11	-30.7
Total fee and commission expenses	**674**	**1,042**	**54.6**
Net fee and commission income	**13,256**	**12,464**	**-6.0**

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

in €k	Q1 2017	Q1 2018	± in %
Profit/loss from investments accounted for using the equity method	8,132	7,488	-7.9
Profit/loss from investments accounted for using the equity method	**8,132**	**7,488**	**-7.9**

(5) NET TRADING INCOME

in €k	Q1 2017	Q1 2018	± in %
Price-based transactions	1	-5	>-100
Interest rate and currency contracts	382	-7	>-100
Net trading income	**383**	**-13**	**>-100**

(6) GENERAL ADMINISTRATIVE EXPENSES

in €k	Q1 2017	Q1 2018	± in %
Staff costs	17,351	17,462	0.6
– Wages and salaries	13,497	12,947	-4.1
– Social security costs	2,841	3,367	18.5
– Costs of retirement benefits	1,013	1,148	13.3
Other administrative costs	7,737	8,537	10.3
Depreciation/amortization	1,506	1,608	6.7
General administrative expenses	**26,594**	**27,607**	**3.8**

(7) OTHER OPERATING INCOME/EXPENSES

in €k	Q1 2017	Q1 2018	± in %
Other operating income	1,952	1,271	-34.9
Other operating expenses	-5,837[1)]	-5,075[1)]	-13.1
Other operating income/expenses	**-3,885**	**-3,804**	**-2.1**

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

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

in €k	Q1 2017	Q1 2018	± in %
Profit/loss from the measurement and disposal of derivatives	-11	-	>-100
Profit/loss from the fair value option	1,155	-203	>-100
Profit/loss from financial assets at fair value through profit/loss	**1,143**	**-203**	**>-100**

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

in €k	Q1 2017	Q1 2018	± in %
Revaluation gains and losses	-	n/a	-
Gains/losses on disposal	460	n/a	-
Profit/loss from available-for-sale financial assets	**460**	**n/a**	**-**

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

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

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

in €k	Q1 2017	Q1 2018	± in %
Revaluation gains and losses	n/a	-1,852	-
Gains/losses on disposal	n/a	33	-
Profit/loss from financial assets measured at fair valuethrough profit or loss (mandatory)	**n/a**	**-1,819**	**-**

(12) GAINS/LOSSES FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTIZED COSTS

in €k	Q1 2017	Q1 2018	± in %
Receivables from other banks	n/a	-	-
– thereof profit	n/a	-	-
– thereof loss	n/a	-	-
Receivables from customers	n/a	-143	-
– thereof profit	n/a	226	-
– thereof loss	n/a	-369	-
Debt securities	n/a	-	-
– thereof profit	n/a	-	-
– thereof loss	n/a	-	-
Gains/losses from derecognition of financial assets measured at amortized costs	**n/a**	**-143**	**-**

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

in €k	Q1 2017	Q1 2018	± in %
Modification gains/losses	n/a	1,233	-
- Financial assets measured at amortized costs	n/a	1,233	-
- From financial assets measured at FV OCI	n/a	-	-
- From financial liabilities measured at amortized costs	n/a	-	-
Derecognition	n/a	-	-
- From financial assets measured at FV OCI	n/a	-	-
- From financial liabilities measured at amortized costs	n/a	-	-
Other profit/loss from financial assets/liabilities	**n/a**	**1,233**	**-**

(14) INCOME TAX EXPENSE

in €k	Q1 2017	Q1 2018	± in %
Current taxes	-2,025	-1,765	-12.8
Deferred taxes	-159	-124	-22.0
Income tax expense	**-2,183**	**-1,889**	**-13.5**

DETAILS OF THE BALANCE SHEET

(15) CASH AND BALANCES WITH THE CENTRAL BANK

in €k	31/12/2017	31/03/2018	± in %
Cash in hand	85,095	81,746	-3.9
Credit balances with central banks	391,494	580,023	48.2
Cash and balances with the central bank	**476,589**	**661,769**	**38.9**

(16) RECEIVABLES FROM OTHER BANKS

in €k	31/12/2017	31/03/2018	± in %
Receivables from Austrian banks	75,741	82,252	8.6
Receivables from foreign banks	21,970	63,660	>100
Receivables from other banks	**97,711**	**145,912**	**49.3**

(17) RECEIVABLES FROM CUSTOMERS

17.1 RECEIVABLES FROM CUSTOMERS, BY CUSTOMER GROUP

in €k	31/12/2017	31/03/2018	± in %
Corporate and business banking customers	4,241,104	4,362,373	2.9
Retail banking customers	1,209,047	1,229,011	1.7
Receivables from customers, by customer group	**5,450,151**	**5,591,384**	**2.6**

17.2 RECEIVABLES FROM CUSTOMERS, BY MEASUREMENT CATEGORY

in €k	31/12/2017	31/03/2018	± in %
Financial assets measured at amortized cost	5,450,151	5,477,334	0.5
Financial assets designated at fair value through profit or loss	n/a	68,642	-
Financial assets measured at fair value through profit or loss (mandatory)	n/a	45,408	-
Receivables from customers, by measurement category	**5,450,151**	**5,591,384**	**2.6**

(18) IMPAIRMENT CHARGES ON RECEIVABLES FROM CUSTOMERS AND DEBT SECURITIES

in €k	– Stage 1	– Stage 2	– Stage 3	31/03/2018
At the beginning of the reporting period	8,749	14,315	100,123	123,187
Increase due to change in credit risk	368	3,236	9,802	13,406
Decrease due to change in credit risk	-1,231	-4,126	-5,613	-10,970
Decrease due to write-offs	-	-	-	-
Change due to modifications without derecognition	-	-	-	-
Newly acquired or originated financial assets	136	295	-	431
Derecognition	-	-	-2,020	-2,020
Changes due to updates in methodology used for estimates	-	-	-	-
Exchange rate effects and other	-	-	-	-
At the end of the reporting period	**8,022**	**13,720**	**102,292**	**124,034**

There were no transfers between individual stages in the first quarter of 2018.

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

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

19) TRADING ASSETS

in €k	31/12/2017	31/03/2018	± in %
Positive fair values of derivative financial instruments	9,837	8,518	-13.4
– Currency contracts	2,539	2,157	-15.0
– Interest rate contracts	7	7	0.0
– Transactions relating to the fair value option	7,292	6,353	-12.9
Trading assets	**9,837**	**8,518**	**-13.4**

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

in €k	31/12/2017	31/03/2018	± in %
Debt securities and other fixed interest securities	22,495	n/a	-
Loans	55,805	n/a	-
Financial assets designated at fair value through profit or loss	**78,300**	**n/a**	**-**

(21) AVAILABLE FOR SALE FINANCIAL ASSETS

in €k	31/12/2017	31/03/2018	± in %
Debt securities and other fixed interest securities	56,799	n/a	-
Shares and non-interest bearing securities	45,268	n/a	-
Other equity investments	80,003	n/a	-
Available-for-sale financial assets	**182,069**	**n/a**	**-**

(22) HELD-TO-MATURITY FINANCIAL ASSETS

in €k	31/12/2017	31/03/2018	± in %
Debt securities and other fixed interest securities	782,765	n/a	-
Held-to-maturity financial assets	**782,765**	**n/a**	**-**

(23) DEBT SECURITIES AND OTHER FIXED INTEREST SECURITIES

in €k	31/12/2017	31/03/2018	± in %
Financial assets measured at amortized cost	n/a	805,703	-
Financial assets designated at fair value through profit or loss	n/a	22,344	-
Financial assets measured at FV OCI	n/a	69,237	-
Debt securities and other fixed interest securities	**n/a**	**897,283**	**-**

(24) SHARES AND OTHER EQUITY

in €k	31/12/2017	31/03/2018	± in %
Financial assets designated at fair value through profit or loss (mandatory)	n/a	40,489	-
Financial assets measured at FV OCI	n/a	86,824	-
Shares and other equity	**n/a**	**127,313**	**-**

Other equity investments are reported under Shares and other equity measured at FV OCI in amount of EUR 79.9 million.

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

in €k	31/12/2017	31/03/2018	± in %
Oberbank AG	338,141	342,538	1.3
Bank für Tirol und Vorarlberg AG	180,492	180,620	0.1
Drei-Banken Versicherungs-AG	1,721	1,721	0.0
Investments in entities accounted for using the equity method	**520,354**	**524,879**	**0.9**

(26) INTANGIBLE ASSETS

in €k	31/12/2017	31/03/2018	± in %
Other intangible assets	1,638	1,503	-8.2
Intangible assets	**1,638**	**1,503**	**-8.2**

(27) PROPERTY, PLANT AND EQUIPMENT

in €k	31/12/2017	31/03/2018	± in %
Property	8,368	8,350	-0.2
Buildings	38,912	38,262	-1.7
Other property, plant and equipment	7,894	9,304	17.9
Property, plant and equipment	**55,174**	**55,916**	**1.3**

(28) INVESTMENT PROPERTY

in €k	31/12/2017	31/03/2018	± in %
Property	8,407	8,407	0.0
Buildings	22,461	22,277	-0.8
Investment property	**30,868**	**30,684**	**-0.6**

(29) DEFERRED TAX ASSETS

in €k	31/12/2017	31/03/2018	± in %
Deferred tax assets	**7,873**	**15,226**	**93.4**

(30) OTHER ASSETS

in €k	31/12/2017	31/03/2018	± in %
Other items	20,826	34,497	65.6
Deferred items	2,334	2,716	16.4
Other assets	**23,161**	**37,213**	**60.7**

(31) PAYABLES TO OTHER BANKS

in €k	31/12/2017	31/03/2018	± in %
Payables to Austrian banks	571,672	666,174	16.5
Payables to foreign banks	123,314	110,924	-10.0
Payables to other banks	**694,986**	**777,097**	**11.8**

(32) PAYABLES TO CUSTOMERS

in €k	31/12/2017	31/03/2018	± in %
Savings deposit balances	**1,475,137**	**1,459,347**	**-1.1**
– Corporate and business banking customers	189,578	186,135	-1.8
– Retail banking customers	1,285,559	1,273,212	-1.0
Other payables	**3,481,352**	**3,659,746**	**5.1**
– Corporate and business banking customers	2,594,792	2,688,381	3.6
– Retail banking customers	886,560	971,365	9.6
Payables to customers	**4,956,489**	**5,119,093**	**3.3**

(33) LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2017	31/03/2018	± in %
Issued bonds	477,899	511,360	7.0
Other liabilities evidenced by paper	76,053	72,053	-5.3
Liabilities evidenced by paper	**553,952**	**583,413**	**5.3**

(34) TRADING LIABILITIES

in €k	31/12/2017	31/03/2018	± in %
Positive fair values of derivative financial instruments	14,608	12,133	-16.9
– Currency contracts	9,272	6,829	-26.3
– Interest rate contracts	7	8	7.8
– Transactions relating to the fair value option	5,329	5,296	-0.6
Trading liabilities	**14,608**	**12,133**	**-16.9**

(35) PROVISIONS

in €k	31/12/2017	31/03/2018	± in %
Provisions for post-employment benefits and similar obligations	69,693	69,868	0.3
Provisions for taxes (current taxes)	4,475	4,261	-4.8
Provisions for guarantees and facilities	0	1,287	>100
Other provisions	49,463	50,353	1.8
Provisions	**123,631**	**125,770**	**1.7**

(36) DEFERRED TAX LIABILITIES

in €k	31/12/2017	31/03/2018	± in %
Deferred tax liabilities	**127**	**10,517**	**>100**

(37) OTHER LIABILITIES

in €k	31/12/2017	31/03/2018	± in %
Other liabilities	25,799	40,198	55.8
Deferred items	4,743	1,572	-66.8
Other liabilities	**30,542**	**41,771**	**36.8**

(38) SUBORDINATED DEBT CAPITAL

in €k	31/12/2017	31/03/2018	± in %
Tier 2 capital	118,622	142,117	19.8
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**158,622**	**182,117**	**14.8**

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 179.4 million after EUR 156.0 million on 31 Dec. 2017.

(39) EQUITY

in €k	31/12/2017	31/03/2018	± in %
Subscribed capital	79,279	85,886	8.3
– Share capital	79,279	85,886	8.3
Capital reserves	193,032	241,423	25.1
Retained earnings and other reserves	738,029	755,820	2.4
Additional equity capital instruments (AT 1 bond)	36,200	38,527	6.4
Equity	**1,046,540**	**1,121,656**	**7.2**
Non-controlling interests	-22	-23	5.5
Shareholders' equity	**1,046,518**	**1,121,633**	**7.2**

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

(40) SEGMENT REPORTING

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

SEGMENT RESULTS

	Retail banking		Corporate and business banking		Financial markets	
in €k	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018
Net interest income	6,153	6,833	21,905	24,634	8,268	5,898
- Profit/loss from investments accounted for using the equity method	-	-	-	-	8,132	7,488
Impairment charges on receivables from customers	-1,684	-326	-5,761	-2,655	-899	114
Net fee and commission income	5,705	5,598	7,611	6,554	34	34
Net trading income	-	-	-	-	383	-12
General administrative expenses	-12,933	-12,958	-11,361	-11,842	-1,625	-1,841
Other operating income net of other operating expenses	346	518	394	273	-22	-26
Profit/loss from financial assets/liabilities	-	29	-	-172	1,600	-789
Profit for the period before tax	**-2,414**	**-306**	**12,787**	**16,792**	**7,738**	**3,378**
Average risk-weighted assets	497,776	508,333	3,121,507	3,075,723	921,827	1,014,612
Average allocated equity	41,418	59,068	259,370	358,880	653,539	653,646
ROE based on profit for period	**-23.3 %**	**-2.1 %**	**19.7 %**	**18.7 %**	**4.7 %**	**2.1 %**
Cost/income ratio	**106.0 %**	**100.1%**	**38.0%**	**37.6%**	**18.8%**	**31.2%**
Risk/earnings ratio	**27.4%**	**4.8%**	**26.3%**	**10.8%**	**10.9%**	**-**

	Other		Total	
in €k	Q1 2017	Q1 2018	Q1 2017	Q1 2018
Net interest income	700	698	37,025	38,063
-Profit/loss from investments accounted for using the equity method	-	-	8,132	7,488
Impairment charges on receivables from customers	-	-	-8,345	-2,867
Net fee and commission income	-94	278	13,256	12,464
Net trading income	0	0	383	-12
General administrative expenses	-675	-966	-26,594	-27,607
Other operating income net of other operating expenses	-4,603	-4,569	-3,885	-3,804
Profit/loss from financial assets/liabilities	-	-	1,600	-932
Profit for the period before tax	**-4,672**	**-4,559**	**13,440**	**15,305**
Average risk-weighted assets	55,275	53,540	4,596,385	4,652,208
Average allocated equity	11,617	12,492	965,943	1,084,086
ROE based on profit for the period	**-**	**-**	**6.9%**	**6.8%**
Cost/income ratio	**-**	**-**	**56.9%**	**59.1%**
Risk/earnings ratio	**-**	**-**	**22.5%**	**7.5%**

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 segment. Capital is allocated based on regulatory parameters.

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

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

Corporate and Business Banking
At the end of March 2018, almost 2,000 corporate and business banking customers were served in this segment. BKS Bank was originally conceived as a corporate and business bank, and therefore, this business segment is still the enterprise's most important source of income. Corporate and business banking customers still account for a large share of the loan portfolio and make essential contributions to the profit for the period. Besides income and expenses of BKS Bank AG relating to business with corporate and business banking customers, income and expenses of the leasing companies are also allocated to this segment if they are from business with corporate customers.

Retail Banking
All income and expense components of BKS Bank AG, BKS-Leasing Gesellschaft m.b.H., BKS-leasing d.o.o., BKS-leasing Croatia d.o.o. and BKS-Leasing s.r.o. from business with retail customers and wage and salary earners are reported summarized in the retail banking segment. Some 133,700 customers belonged to this segment at the end of March 2018.

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

Other
The segment Other 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.

(41) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2017	31/03/2018	± in %
Guarantees	383,312	413,741	7.9
Letters of credit	4,032	7,898	95.9
Contingent liabilities	**387,344**	**421,639**	**8.9**
Other credit risks	1,377,699	1,286,451	-6.6
Credit risks	**1,377,699**	**1,286,451**	**-6.6**

(42) RELATED PARTY DISCLOSURES

	Outstanding balances		Guarantees received		Guarantees provided	
in €k	At 31/12/2017	At 31/03/2018	At 31/12/2017	At 31/03/2018	At 31/12/2017	At 31/03/2018
Non-consolidated subsidiaries			-	-	-	-
Receivables	2,914	2,916				
Liabilities	1,234	116				
Associates and joint arrangements			-	-	-	-
Receivables	2,494	8,853				
Liabilities	65,464	66,265				
Key management personnel			-	-	-	-
Receivables	424	423				
Liabilities	1,151	1,111				
Other related parties			-	-	-	-
Receivables	166	156				
Liabilities	726	721				

LOANS AND ADVANCES GRANTED

in €k	31/12/2017	31/03/2018	± in %
Loans and advances granted to members of the Management Board	57	59	3.5
Loans and advances granted to members of the Supervisory Board	367	364	-0.8
Loans and advances granted	**424**	**423**	**-0.2**

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

(43) EVENTS AFTER THE BALANCE SHEET DATE

In the second quarter of 2018, BKS Bank acquired the brokerage and asset management in Slovenia for some 9,000 customers of GBD (Gorenjska borznoposredniška družba d.d). After the reporting date of this interim report (31 March 2018), BKS Bank witnessed no activities or events unusual in terms of form or content that had an impact on the view of the assets, financial position and result of operations as presented in this report.

(44) FAIR VALUES

Financial assets and liabilities measured at fair value

31/03/2018 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	Level 3 'Internal measurement method'	Total fair value
Assets				
Receivables from customers				
- at fair value through profit or loss (mandatory)	-	-	45,408	**45,408**
- at fair value through profit or loss (designated)	-	-	68,642	**68,642**
Trading assets (derivatives)	-	8,518	-	**8,518**
Debt securities and other fixed interest securities	-	-	-	
- at fair value through profit or loss (designated)	22,344	-	-	**22,344**
- at FV OCI	69,237	-	-	**69,237**
Shares and other equity	-	-	-	
- at fair value through profit or loss (mandatory)	40,489	-	-	**40,489**
- at FV OCI	53,685	3,477	29,662	**86,824**
Equity and liabilities				
Liabilities evidenced by paper - at fair value through profit or loss		-	84,247	**84,247**
Trading liabilities		12,133	-	**12,133**

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

[1] FA = financial assets

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

in €k	Receivables from customers at fair value through profit or loss (designated)	Receivables from customers at fair value through profit or loss (mandatory)	Shares and other equity - at fair value OCI	Securitized liabilities at fair value through profit or loss
As at 01/01/2018	**55,805**	**47,667**	**29,662**	**84,688**
Reclassification	-	-	-	-
Income statement[1]	-546	-114		-441
Other comprehensive income	-	-	-	-
Additions	15,058	356	-	-
Sold/redeemed	-1,675	-2,501	-	-
As at 31/03/2018	**68,642**	**45,408**	**29,662**	**84,247**

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

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

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

[1] Measurement changes in profit/loss; reported in item Profit/loss on financial instruments designated at fair value through profit/loss
[2] As at 1 January of the reporting year, all equity investments had still been measured at amortized cost.

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

If market values were unavailable, the 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 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, they 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 time 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 time to maturity. In Q1 2018, the changes in the ratings of receivables from customers measured at fair value had an effect on their fair value in the amount of EUR 0.0 million (31. Dec. 2017: EUR 0.0 million). In the reporting period Q1 2018, the changes in the ratings of liabilities evidenced by paper had an effect on their fair value in the amount of EUR 0.0 million (31. Dec. 2017: EUR 0.3 million).

Sensitivity analysis
The sensitivity analysis of receivables from customers measured at fair value results in an accumulated change in value of EUR 0.3 million (previous year: EUR 0.2 million), assuming an improvement or deterioration in the credit rating of 10 basis points in the credit spread (31. Dec. 2017: EUR 0.2 million). An analysis assuming an improvement or deterioration in BKS Bank's rating of 10 basis points in the credit spread would result in an accumulated change in the value of the liabilities evidenced by paper designated at fair value of EUR 0.5 million (31. Dec. 2017: EUR 0.8 million).

FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

31/03/2018 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	LEVEL 3 'Internal measurement method'	Total fair value	Carrying amount 31/03/2018
Assets					
Receivables from other banks	-	-	145,994	145,994	145,912
Receivables from customers	-	-	5,551,048	5,551,048	5,477,334
Debt securites and other fixed interest securities	856,393	-	-	856,393	805,703
Equity and liabilities					
Payables to other banks	-	-	777,298	777,298	777,097
Payables to customers	-	-	5,127,322	5,127,322	5,119,092
Liabilities evidenced by paper	213,409	219,352	83,765	516,527	499,166
Subordinated debt capital	185,779	-	2,323	188,102	182,117

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

[1] FA = financial assets

(45) DERIVATIVES TRANSACTION VOLUME

Derivatives transactions (banking book and trading book) accounted for the following nominal amounts and fair values:

31/03/2018	Nominal amount, by time to maturity				Fair values	
in €k	< 1 year	1-5 years	> 5 years	Total	positive	negative
Currency contracts	**1,357,431**	**-**	**-**	**1,357,431**	**2,162**	**6,830**
– thereof trading book	-	-	-	-	-	-
Interest rate contracts	**212**	**146,886**	**184,196**	**331,294**	**5,964**	**5,021**
– thereof trading book	212	13,234	1,106	14,552	7	7
Securities contracts	-	-	-	-	-	-
– thereof trading book	-	-	-	-	-	-
Total	**1,357,643**	**146,886**	**184,196**	**1,688,725**	**8,126**	**11,851**
– thereof trading book	212	13,234	1,106	14,552	7	7

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

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

"We state to the best of our knowledge that the interim consolidated financial statements as at 31 March 2018 prepared in accordance with the relevant financial reporting standards provide a true and fair view of the assets, financial position and result of operations of the BKS Bank Group, and that the Group management report for the period ended 31 March 2018 provides a true and fair view of the assets, financial position and result of operations of the BKS Bank Group with respect to the key events having taken place during the first 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, 22 May 2018

The Management Board

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Managemen Board

Member of the Management Board with responsibility for Risk Management, Risk Controlling, Credit Back Office, Treasury Back Office, Business Organisation, IT and Technical Services and 3 Banken IT GmbH; also responsible for 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; 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 coooperation with sales partners; he is also responsible for Italy

FINANCIAL CALENDAR 2018

Date	Content of the notification
4 April 2018	Publication of the annual financial statements and the consolidated financial statements 2017 on the internet and in the Official Gazette of the Republic of Austria "Wiener Zeitung"
9 May 2018	79th Annual General Meeting
14 May 2018	Ex-dividend day
15 May 2018	Record date
16 May 2018	Dividend payout date
25 May 2018	Interim report for the period ended 31 March 2018
24 August 2018	Half-year Financial Report 2018
30 November 2018	Interim report for the period ended 30 September 2018

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