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Half-Year Financial Report 2017

BKS Bank
3 Banken Gruppe

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Forward-looking statements
This half-year financial report as at 30 June 2017 contains statements and forecasts that refer to the future development of the BKS Bank Group. The forecasts are our estimates based on the information at our disposal on the copy deadline date 18 August 2017. Should the assumptions regarding such forward-looking statements prove incorrect or should risks materialize, the actual results may vary from those currently expected. This half-year report does not constitute a recommendation to buy or sell shares of BKS Bank AG.

Disclaimer
The German version of this report is the authentic version and is relevant in all legal aspects. Interim financial reports in English are translations.

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

BKS BANK GROUP AT A GLANCE

INCOME STATEMENT in €m	1HY 2016	1HY 2017	± in %
Net interest income	77.3	78.6	1.7
Charges for losses on loans and advances	-12.4	-14.2	14.5
Net fee and commission income	25.4	25.9	2.2
General administrative expenses	-54.3	-52.6	-3.1
Profit for the period before tax	30.5	36.7	20.3
Profit for the period after tax	24.7	33.1	34.1

BALANCE SHEET €m	31/12/2016	30/06/2017	± in %
Total assets	7,581.1	7,431.9	-2.0
Receivables from customers after impairment charges	5,175.3	5,159.8	-0.3
Primary deposits	5,568.0	5,509.5	-1.1
– of which savings deposits	1,529.0	1,516.0	-0.8
– of which securitized debt incl. subordinated debt capital	743.2	698.7	-6.0
Equity	958.8	1,004.9	4.8
Customer funds under management	13,723.2	13,957.3	1.7
– of which on custody accounts	8,155.1	8,447.8	3.6

OWN FUNDS PURS. TO CRR in €m	31/12/2016	30/06/2017	± in % (point)
Average risk-weighted assets	4,974.1	4,986.4	0.3
Own funds	670.0	684.0	2.1
– of which Common Equity Tier 1 capital	625.9	597.4	-4.6
– of which total Tier 1 capital (CET1 and AT1)	625.9	604.6	-3.4
Own funds surplus	241.0	222.8	-7.6
Common Equity Tier 1 capital ratio (in %)	12.6	12.0	-0.6
Total capital ratio (in %)	13.5	13.7	0.2

PERFORMANCE RATIOS	31/12/2016	30/06/2017	± in % (point)
Return on equity after tax	5.1	6.0	0.9
Return on assets after tax	0.6	0.8	0.2
Cost/income ratio	56.2	52.5	-4.0
Risk/earnings ratio	20.1	18.1	-2.0
NPL ratio	4.8	4.2	-0.6
LCR	155.6	147.1	-8.5
Leverage ratio	8.5	7.8	-0.7

RESOURCES	1HY 2016	1HY 2017	±
Average number of staff	926	925	-1
Number of branches	60	62	2

THE BKS BANK'S SHARES	31/12/2016	30/06/2017
Number of no-par ordinary shares (ISIN AT0000624705)	37,839,600	37,839,600
Number of no-par preference shares (ISIN AT0000624739)	1,800,000	1,800,000
High (ordinary/preference share) in €	17.3/15.4	18.5/16.8
Low (ordinary/preference share) in €	15.8/13.9	16.8/15.4
Close (ordinary/preference share) in €	16.8/15.4	18.0/16.6
Market capitalization in €m	662.7	711.0

DEAR SHAREHOLDERS,

The first half-year of 2017 was a successful one for BKS Bank. We pursued our sustainable growth course with unflagging resolve, taking key decisions for the further digitization of our processes and products. A number of awards are evidence that our efforts are being appreciated. I am particularly pleased that this success is also reflected in our earnings.

STEEP RISE IN PROFIT FOR THE PERIOD

In the first half of 2017, BKS Bank Group's profit for the period after tax amounted to EUR 33.1 million. The key factors contributing to our earnings — net interest and net fee and commission income — performed to our satisfaction. Net interest income increased by 1.7% to EUR 78.6 million, while net fee and commission income grew by 2.2% to EUR 25.9 million. Positive sentiment on the stock markets resulted in rising profits, a boon especially for our securities business. Strict cost management means we have a tight grip on spending: Administrative expenses declined by EUR 1.7 million or 3.1% after EUR 52.6 million in the preceding year.

BKS Bank Group's total assets amounted to EUR 7.43 billion at the end of the first six months. At EUR 5.31 billion, receivables from customers remained stable compared to year-end 2016. The very high level of primary deposits of EUR 5.51 billion bear witness to the large measure of trust our customers place in us.

NEW SUCCESSFUL PRODUCTS

The first six months of 2017 saw a number of outstanding product innovations. As the first Austrian bank to issue a social bond, we succeeded in placing the entire issue on the market. In cooperation with the AHA Group, we used the proceeds to finance MaVida Park in Carinthia, a care establishment for persons suffering from dementia. The retail banking sector also benefited from a brand-new product approach: BKS Bank-Komplett is a package deal that offers our retail customers all commonly required banking services at an attractive flat rate. Our digitization projects are also making excellent progress. Savings products such as building and loan association saving and 'Mein Geld-onlinekonto direkt' accounts have been available online for our customers for several weeks now. The BKS MasterCard can also be applied for online.

ANNIVERSARIES AND AWARDS — CAUSE FOR CELEBRATION

While the BKS Bank in Austria looks back on a history of 95 years, operations in Croatia celebrated their 10th anniversary. Earnings have increased by a factor of four since the acquisition of Croatian bank Kvarner banka d.d. Last year saw the cross-border merger with BKS Bank AG in Austria, and come this autumn, we will be opening our third Croatian branch in Split. BKS Bank-leasing croatia d.o.o. was established already 15 years ago. Both events were a welcome cause for celebration in Zagreb.

BKS Bank carried the day in the state award for corporate excellence in the category 'large companies'. FMVÖ, the Austrian Association for Financial Marketing, conferred the Recommender Award for excellence in customer orientation to BKS Bank. Additionally, we have once again been listed on the Vienna Stock Exchange's VÖNIX sustainability index, which means we are among the best companies in Austria when it comes to sustainability. My personal thanks goes to our management and our employees, without whom we could not have performed so well.

Backed by this strong performance, our outlook for the remainder of the financial year is optimistic, even though we are aware that the banking sector is still facing enormous challenges. True to our vision "Regionally rooted. Open-minded. Excellent in our work" we are optimally prepared to continue our growth course.

Herta Stockbauer
Chairwoman of the Management Board

GROUP MANAGEMENT REPORT

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ECONOMIC ENVIRONMENT

GLOBAL RECOVERY CONTINUES

The global recovery that set in last year continues. Sentiment indicators in the advanced economies are optimistic, and economic activity in the emerging countries is also on the rise. In the second quarter, the Chinese economy grew faster than expected, fuelled by rising private consumption. The Russian economy is likewise gaining steam.
A solid oil price, growing imports and a stable currency ensure its gradual recovery after two years of recession.

The US economy, on the other hand, exhibited a less satisfying performance in the first few months of the new presidency, in contrast to what Donald Trump had promised during the electoral campaign. Private consumption — a traditional stalwart of the US economy — was lower than expected and dampened economic growth. The US labour market, however, continued its strong trend: In May 2017, unemployment reached 4.3%, the lowest rate since 2001. A glance at key lending rates shows that the era of cheap money is over. The US Fed raised interest rates by 25 base points both in March and in June. Pundits expect the next hike to follow in the autumn.

Economic growth in Europe was going strong in the first six months of the year. Germany, Spain, France and Italy, the four largest countries of the euro zone, have seen a significant gain in momentum. The most recent data further corroborate the upward trend in the euro zone. In the aggregate, economic output in the euro zone grew by 0.6%. Political risk, too, diminished markedly after the elections in the Netherlands and most notably Emmanuel Macron's victory in France.
Only the prospect of Brexit might still slow down economic recovery in Europe. As it is still impossible to forecast its economic and political consequences, Britain's exit from the EU remains a major uncertainty factor.

After growth rates of under 1% in the period 2012 to 2015, the beginning of this year saw the fastest growth of the Austrian economy in six years. Manufacturing for export was the main driver of economic development. A positive economic outlook, continually attractive financing terms as well as fiscal measures contribute to investment continuing on an upward trend. The labour market, too, is showing signs of a lasting improvement. At the end of June, unemployment stood at 7.6% according to AMS estimates and 5.2% according to Eurostat.

THE ECB PERSISTS IN ITS MONETARY POLICY

The key lending rate in the euro zone is still 0.0%. As things stand at the moment, the European Central Bank is not expected to raise rates before the end of 2018. However, economic experts anticipate that the ECB's rhetoric on quantitative easing may change as of this autumn. Moreover, the general view is that tapering will be a slow process, governed largely by the development of inflation. Having risen noticeably towards the ECB target value of 2% at the beginning of the year, inflation in the euro zone declined again over the next few months. If commodity prices continue to drop, the end of quantitative easing might even be postponed further into the future.

STRONG GAINS ON STOCK MARKETS

European and Asian stocks performed particularly well in the first half-year.
By the end of June, the EuroStoxx 300 had gained 6.5%, and Stoxx Europe 600 5.0%.
The DAX rose by 7.4%. Austrian stocks performed exceedingly well, with the ATX up by 18.7%. The US stock market also showed positive trends: S&P 500 climbed by 8.2%, with US technology stocks achieving even higher gains. The NASDAQ posted a plus of 14.1% in USD. Due to wide exchange rate differences, however, euro investors did not profit all that much from US stock gains. The Japanese Nikkei 225 index rose by 4.8% measured in yen.

EURO EXTREMELY STRONG IN FIRST SIX MONTHS

Due to diminishing political risk as well as a rise in inflation, the euro proved stronger in relations with key trade partners this year. The euro appreciated the most versus the US dollar, from EUR 1.052 to 1.143 per USD, which translates into a plus of 8.7%. Exchange rates versus other currencies were up as well: 2.2% against the Swiss franc, 4.4% against the Japanese yen, 5.4% against the Chinese renminbi, and 2.7% against the British pound. The Croatian kuna, which is an important currency for us, depreciated against the euro and was quoted at HRK 7.415 per euro at the end of June, after HRK 7.557 at the beginning of the year (-1.9%).

DIVERGING DEVELOPMENTS IN COMMODITY PRICES

Thus far, the first half of the year has seen heterogeneous developments on the commodity markets. Prices for precious metals (+6.9%), industrial metals (+8.1%) and livestock (+12.5%) rose significantly, while energy resources (-8.8%) and agricultural commodities (-2.2%) registered a decline.

In spite of corrections having taken place, gold started off the year with significant price hikes, but began to lose lustre again by early June.

CONSOLIDATED COMPANIES

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

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

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 - Beteiligungsverwaltungsgesellschaft mbH, Klagenfurt		

Full consolidation
Recognized using the equity method
Proportionate consolidation

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

For the three companies recognized using the equity method in accordance with IAS 28, the carrying amounts of the investments are adjusted for the changes in the net assets of the respective entities. Apart from Drei Banken Versicherungsagentur GmbH, the sister banks Oberbank AG and Bank für Tirol und Vorarlberg Aktiengesellschaft are also recognized using the equity method. As at 30 June 2017, 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.

In early May 2017, BTV increased its share capital. We participated in this capital increase and exercised all subscription rights due to us. As BKS Bank does not hold any preference shares in BTV, its voting right share declined minimally, from 14.95% to 14.78%.

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

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

ASSETS AND FINANCIAL POSITION

BKS Bank Group's total assets amounted to EUR 7.43 billion as at 30 June 2017. The slight decline (-2.0%) is attributable to a lower volume of cash and balances with the central bank (-25.2%) and a drop in receivables from other banks (-35.3%). On the equity and liabilities side, we were able to retain the excellent volume of primary deposits in the amount of EUR 5.51 billion in the first half-year 2017.

ASSETS

Demand for loans on the rise

Lending developed satisfactorily in the first six months of 2017.
The economic recovery is fully under way, and corporate propensity to invest as well as private propensity to spend have shown a marked increase. The volume of new business came to a remarkable EUR 645 million in the first two quarters. At the same time, corporate customers took advantage of high liquidity to pay back loans early. Consequently, at EUR 5.31 billion, the loan portfolio remained on the same level as at year-end 2016. Receivables from customers include the lending volume of the parent company BKS Bank AG as well lending by domestic and foreign leasing companies. Foreign markets account for 25.3% of receivables from customers.

Charges for receivables from customers dropped by EUR 6.2 million to EUR 148.9 million, a decrease by 4.0% due to the significant improvement of the portfolio structure. At 4.2%, the non-performing loans ratio continued its downward trend.

Thanks to our efforts to reduce the ratio of foreign currency financing, the FX ratio performed excellently at 3.9%, thus significantly below the 4.5% recorded at year-end 2016.

Leasing on track

Overall, we are satisfied with the performance of our domestic and foreign leasing companies in the first half of 2017. We are particularly pleased about the successful reorganization of the Austrian leasing company. In the first six months of the year, BKS-Leasing GmbH recorded new business in the amount of EUR 39.6 million. The aggregate volume of the Austrian leasing company amounted to EUR 166.1 million, which is a plus of 4.0%. Our Slovenian leasing company also had a highly successful first six months. Leasing volume grew by 8.3% and reached EUR 98.6 million. BKS-leasing d.o.o was for the first time ever given an AAA rating for credit worthiness by Bisnode, the largest strategic partner of Dun & Bradstreet, a global supplier of commercial data. The leasing volume in Croatia also grew slightly, coming to EUR 42.3 million as at 30 June 2017. By contrast, new leasing transactions in Slovakia remained below expectations in the first six months.

Financial assets help sustain liquidity

Investments in fixed interest securities are an important steering element for complying with statutory liquidity requirements. In times of historically low interest rates, it is — and remains — a challenge to make suitable investments. By the end of June 2017, yields on 10-year German government bonds amounted to 0.47%.

In spite of this development, financial assets were higher at EUR 1.56 billion than at year-end 2016. By 30 June 2017, all items had recorded increases:
Financial assets measured at fair value through profit or loss grew by EUR 11.9 million to EUR 87.5 million, up by 15.7%. The increase was the result of newly granted fixed-interest loans which were hedged using interest rate swaps with matching maturities. Available-for-sale assets increased by 5.4% to EUR 199.5 million, while held-to-maturity assets grew by 2.8% to EUR 768.5 million. We have mainly high quality liquid assets in this position.

The shares of companies measured using the equity method increased by 7.6% to EUR 506.7 million. The rise was due to the addition of the net profits for the period of our sister banks Oberbank AG and Bank für Tirol and Vorarlberg Aktiengesellschaft.

Cash and balances with the central bank declined as investments were made in financial assets and less funds were raised on the money market. As at the end of June 2017, this item amounted to EUR 406.4 million, which corresponds to a minus of 25.2%.

EQUITY AND LIABILITIES

Primary deposits remain high

Primary deposit remained at the same high level of EUR 5.51 billion as at year-end 2016. The most important elements in Payables to customers were once again sight and term deposits, which remained more or less unchanged at the same level as in December 2016, i.e. at EUR 3.30 billion. A positive development was that there were hardly any outflows from savings deposits in the first half of 2017. The high volume of savings deposits in the amount EUR 1.52 billion bears witness to the large measure of trust our customers place in us.

Historically low interest rates make it more difficult to place issues of our own. Liabilities evidenced by paper declined by 3.9% to EUR 523.6 million in the course of the year. Subordinated capital decreased by 11.8% to EUR 175.1 million as a result of repayments.

Even though we did not manage to compensate for all repayments with new issuances, we have been able to strengthen our position as a solid and reliable issuer in the first half of 2017. At the beginning of the year we issued a social bond, being the first bank in Austria to do so, and placed the entire volume of EUR 5.0 million on the market. We are particularly pleased with this successful issuance, as it presented another opportunity for us to demonstrate that our commitment to sustainability strengthens our capacity for innovation. The proceeds of the issuance are dedicated to financing a competence centre for persons with dementia diseases in Carinthia.

To further strengthen our capital base, we issued an Additional Tier 1 note for subscription at the end of May. EUR 5.6 million had been placed on the market by the end of June 2017. These efforts, alongside the addition of the profit for the period, caused consolidated equity to rise by 4.8% to EUR 1.00 billion, the first time ever this mark was surpassed. Subscribed capital remained unchanged at EUR 79.3 million.

RESULT OF OPERATIONS

In the first six months of 2017, BKS Bank posted excellent earnings. Both net interest income and net fee and commission income developed very well in the first half of the year. Net financial assets also made a valuable contribution to boosting positive results.

EXCELLENT EARNINGS DESPITE ZERO INTEREST RATE ENVIRONMENT

The consolidated net profit for the period after tax as at 30 June 2017 amounted to EUR 33.1 million, up 34.1% from the prior-year period 2016.

Net interest income before impairment charges rose by 1.7% to EUR 78.6 million. The increase was attributable to the contributions from companies measured using the equity method, which grew by 16.9% to reach EUR 18.6 million. This item reflects the performance of our sister banks. Interest income decreased by 6.1% to EUR 77.5 million, while, at EUR 17.6 million, interest expenses were down 17.2% from the prior-year period. At EUR 64.4 million, net interest income after impairment charges was in line with the preceding year's trend.

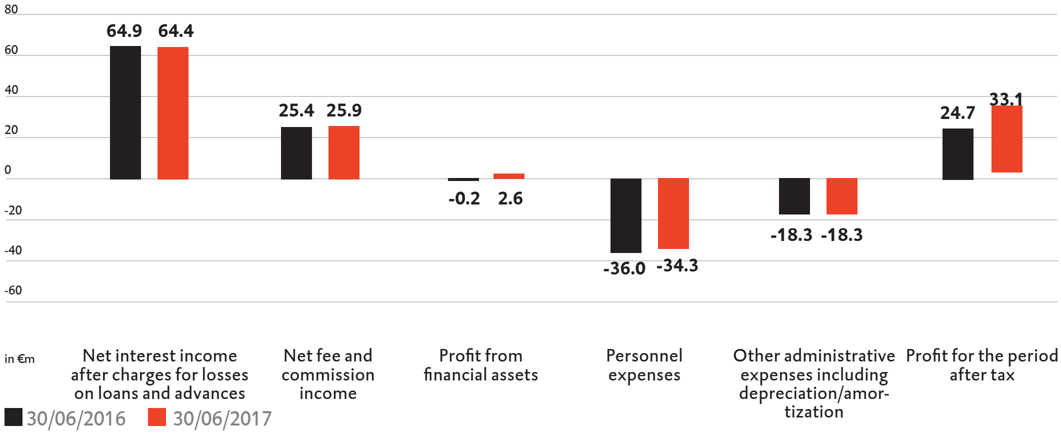
UPSWING IN COMMISSION INCOME

In the first half of 2017, net fee and commission income amounted to EUR 25.9 million, an increase by 2.2%. Income from securities operations performed well due to a more positive development on the stock markets. Both securities turnover and a higher market value helped boost net fee and commission income from securities by 6.3% to EUR 6.9 million. At EUR 9.9 million, commissions from payment services remained on last year's level, while at EUR 6.5 million, commissions on loans fell short of the excellent performance recorded in the preceding year.

GOOD PERFORMANCE OF FINANCIAL ASSETS

As the end of June 2017, profit from financial assets attained an excellent EUR 2.6 million, significantly up from the prior-year figures of EUR -0.2 million. One of the reasons for the rise was the positive trend on stock markets, where we seized opportunities to take profits. Positive measurement effects under the fair value option also contributed to the good result.

COMPONENTS OF THE INCOME STATEMENT



DECLINE IN GENERAL ADMINISTRATIVE EXPENSES

Strict cost discipline and prudent investment policies are key elements of our strategy. This successful approach is reflected in the year-on-year decline in general administrative expenses, by EUR 1.7 million to EUR 52.6 million. Personnel expenses, which is the by far largest single item in general administrative expenses, recorded a 4.8% drop to EUR 34.3 million based on adjusted interest on expenses for retirement benefits. As at the end of June 2017, our Group had 925 employees, measured in FTEs. Other administrative expenses increased by 1.7% to EUR 15.2 million in the reporting period. This rise was attributable mainly to higher IT, office and facilities management expenses. Depreciation/amortization decreased by 5.7% to EUR 3.1 million.

OTHER OPERATING INCOME DEPRESSED BY REGULATORY COSTS

Once again, this item posted a loss because of the costs incurred in establishing the deposit guarantee and resolution mechanism. However, at EUR -4.6 million, the loss was less pronounced than in the preceding year, as lower contributions for the reformed stability tax had positive effects. In the first half-year, the resolution fund accounted for EUR 2.3 million, the deposit guarantee fund for EUR 1.6 million, and the new stability tax for EUR 0.5 million.

PERFORMANCE RATIOS ON AN EVEN KEEL

The excellent consolidated profit for the period is also reflected in the key management benchmarks. Return on equity (RoE) after tax increased from 5.1% to 6.0% and return on assets (RoA) after tax rose from 0.6% to 0.8%.

Due to declining costs, the cost/income ratio fell by 4.0-% points to 52.2%. The risk/earnings ratio, which stood at only 18.1% at the end of June 2017, showed a comparably positive development. The NPL ratio rose by another 0.6-% points to 4.2%.

At 7.8%, the leverage ratio clearly outperformed the regulatory requirement of 3%. The same holds for the liquidity coverage ratio — as at 30 June 2017, it stood at 147.1%, thus more than meeting the 100% ratio stipulated to be attained by 2018.

Our bank has a solid capital base. With a Common Equity Tier 1 capital ratio of 12.0% and an own funds ratio of 13.7%, our figures are well above the statutory requirements.

KEY PERFORMANCE INDICATORS

in %	31/12/2016	30/06/2017	± in %-points
ROE after tax	5.1	6.0	0.9
ROA after tax	0.6	0.8	0.2
Cost/income ratio	56.2	52.2	-4.0
Risk/earnings ratio	20.1	18.1	-2.0
NPL ratio	4.8	4.2	-0.6
LCR	155.6	147.1	-8.5
Leverage ratio	8.5	7.8	-0.7
Common Equity Tier 1 ratio	12.6	12.0	-0.6
Own funds ratio	13.5	13.7	0.2

SEGMENT REPORTS

Corporate and Business Banking is our most successful segment and accounts for the largest share of our profit for the period. The Financial Markets segment is a source of stable earnings, in spite of market volatility. Retail Banking, on the other hand, remains strained.

CORPORATE AND BUSINESS BANKING

As at 30 June 2017, the corporate and business banking segment had some 19,000 corporate and business banking customers. This customer segment includes many firms from the industrial sector, commerce and trade, as well as from the free professions, farming and forestry and also as municipalities and the public sector.

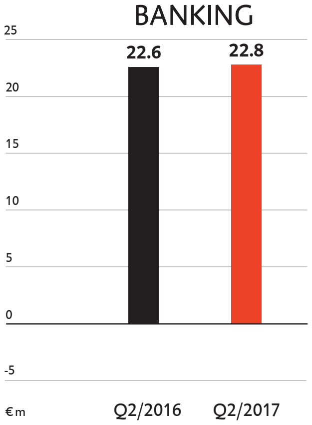
Corporate and business banking has a long tradition at our bank. Already at the time of its founding in 1922, the object of our business was primarily supplying banking services to business customers. Today, this segment is still the most important operational business unit. A large share of the loans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

Excellent segment earnings

The first half of 2017 was another highly positive period for our corporate and business banking segment. The profit for the period before tax came to EUR 22.8 million, approximately the same as the excellent result attained in the prior-year period.

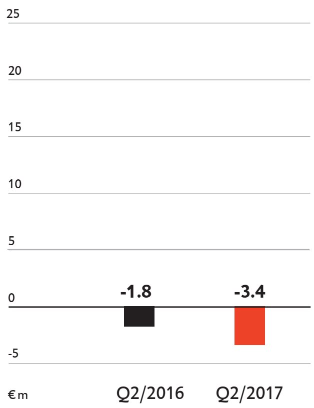
DEVELOPMENT OF PROFIT/LOSS FOR THE PERIOD BEFORE TAX BY SEGMENTS

CORPORATE AND BUSINESS BANKING



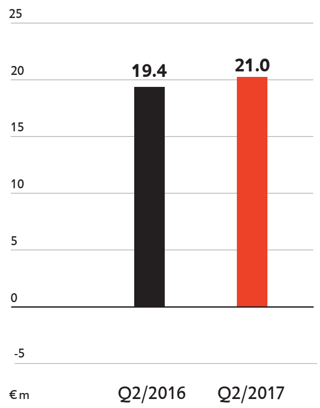
in %	Q2/2016	Q2/2017
ROE	18.3	16.9
CIR	39.6	40.0
RER	26.6	27.1

RETAIL BANKING



in %	Q2/2016	Q2/2017
ROE	-8.7	-16.0
CIR	101.9	108.0
RER	9.9	12.0

FINANCIAL MARKETS



in %	Q2/2016	Q2/2017
ROE	6.8	6.4
CIR	14.3	15.3
RER	0.2	4.9

A detailed presentation of segment data is provided on page 54 of the Notes.

Contributing elements include a rise in net interest income (EUR 43.0 million; +3.6%) alongside an increase in net fee and commission income (EUR 13.9 million; +2.4%). The positive results confirm our strategy of pursuing a strict policy on loan terms and focusing on expanding business areas with little impact on equity. At EUR 11.7 million, impairment charges remained virtually unchanged compared to the preceding year. General administrative expenses increased from EUR 22.0 million to EUR 23.0 million.

Management benchmarks by segment present as follows: Return on equity dropped from 18.3% to 16.9%. The cost/income ratio performed satisfactorily, coming to 40.0% at the end of June 2017, while the risk/earnings ratio was marginally up from the preceding year at 27.1%.

RETAIL BANKING

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

Retail banking has stopped being profitable quite some time ago. This is attributable not only to interest rates having hit record lows, but also to the high cost of operating branches. Technological change has a massive impact on customer behaviour, with new challenges in its wake. Nevertheless, retail banking is a sine qua non for us. Branches remain our location of choice for providing personalised and competent advisory services.

Of course we are working hard on enhancing our digital range of products and services. Recently, we launched an online shop on our customer portal. The process for acquiring savings products such as building and loan association saving account and the 'Mein Geld-onlinekonto direkt' accounts can now be conducted fully online. Applications for a BKS MasterCard can also be submitted online.
More and more retail banking customers are relying on our state-of-the-art customer portal: 1,500 new portal users in the first half of 2017 correspond to an increase of 4.3%.

Sustained pressure on earnings

Segment earnings before tax came to EUR -3.4 million as at the end of June. Net interest income dropped by 7.5% to EUR 12.4 million, although the loan volume rose slightly. As we had already applied stricter standards in calculating impairment allowances in the retail banking segment in the first quarter, impairment charges at EUR 1.5 million were higher than in the preceding year, an effect that flattened out over the course of the second quarter and will continue to do so. Net fee and commission income also declined in the first six months, coming to EUR 11.1 million (down 3.9%). Administrative expenses

stood at EUR 26.0 million, unchanged compared to the prior-year figure.
The segment loss also had a negative impact on management benchmarks. Return on equity declined to -16.0%, the cost/income ratio rose to 108.0%, and the risk/earnings ratio increased by 2.1%-points to 12.0%.

FINANCIAL MARKETS SEGMENT

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

Profit for the period before tax stood at EUR 21.0 million. Once again, profits from the companies measured using the equity method made stable contributions to earnings: up 16.9%, the EUR 18.6 million profit was impressive indeed. At EUR 21.8 million, net interest income remained at the level seen in the preceding year. Impairment charges rose markedly year-on-year, from EUR 0.05 million to EUR 1.1 million.
Reasons include higher allocations to collective country-based provisions and incurred-but-not-reported impairment allowances for receivables from other banks and securities. At EUR 1.0 million, net trading income conformed to the preceding year's trend, while general administrative expenses rose by 7.5% to EUR 3.5 million.

The financial markets segment also includes net income from financial assets. Given good stock market performance and measuring gains under the fair value option, we posted an excellent performance for financial assets.
At EUR 2.6 million, net income from financial assets is markedly up from the prior-year figure (EUR -0.2 million).

Segment-specific benchmarks developed as follows: As a result of a significant increase in allocated equity capital, return on equity declined by 0.4%-points to 6.4%, while the cost/income ratio rose slightly to 15.3%. The risk/earnings ratio saw an increase from 0.2% to 4.9%, due to a rise in collective impairment charges.

CONSOLIDATED OWN FUNDS

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

As at the end of June, the Common Equity Tier 1 capital was EUR 597.4 million. Consolidated interim profit was reviewed by the auditor, in line with Art. 26 CRR. Consequently, the profit for the period was computed towards own funds, with the Common Equity Tier 1 capital ratio amounting to 12.0%.

Tier 2 capital in the amount of EUR 79.4 million and additional Tier 1 capital in the amount of EUR 7.2 million included, the bank's own funds came to EUR 684.0 million as at 30 June 2017. In the second quarter, we issued an AT1 note. By the end of June 2017, EUR 5.6 million had been placed on the market and computed towards own funds. The own funds ratio stood at 13.7%, up from 13.5% at year-end 2016. The capital ratios were thus clearly above the statutory requirements of 5.75% and 9.25%, respectively.

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

BKS BANK GROUP OF CREDIT INSTITUTIONS: OWN FUNDS PURS. TO CRR

in €m	31/12/2016	30/06/2017
Share capital	77.8	77.5
Reserves net of intangible assets	831.4	882.8
Deductions	-283.3	-362.9
Common Equity Tier 1 capital (CET 1)[1)]	625.9	597.4
Common Equity Tier 1 ratio	12.6%	12.0%
Hybrid capital	24.0	20.0
AT1 notes	23.4	29.0
Deductions	-47.4	-41.8
Additional Tier 1 capital	-	7.2
Tier 1 capital (CET1 + AT1)	625.9	604.6
Tier 1 capital ratio	12.6%	12.1%
Tier 2 capital items and instruments	120.6	120.9
Deductions	-76.5	-41.6
Tier 2 capital	44.1	79.4
Total own funds	670.0	684.0
Own funds ratio	13.5%	13.7%
Assessment base	4,974.1	4,986.4
Own funds surplus	241.0	222.8

RISK REPORT

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

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

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

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

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

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

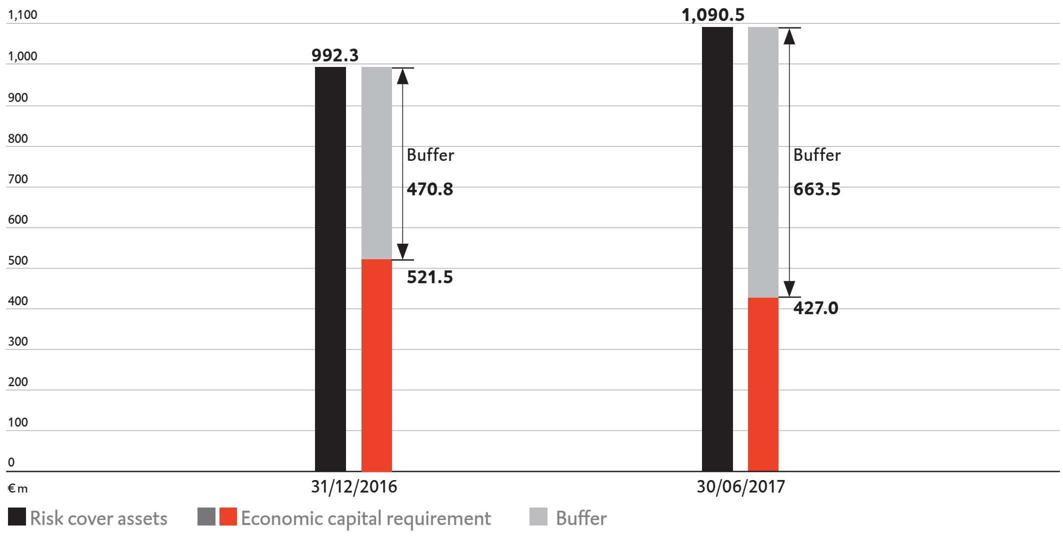
The overall bank risk is the equivalent of our economic capital requirement, which is the amount of capital needed to cover unexpected losses. The 'foreseeable costs' arising from credit and liquidity risk are accounted for in the prices charged to customers as risk premiums (standard risk costs, liquidity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

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

The capital adequacy target 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 the Group. As at the end of June 2017, credit risks accounted for about 70.4% of the total loss potential (31 December 2016: 76.8%). Market and interest rate risks accounted for a share of 15.3% (31 December 2016: 10.3%). Based on the liquidation approach, the economic capital requirement was determined at EUR 427.0 million as at 30 June 2017, compared with EUR 521.5 million as at 31 December 2016. Risk cover assets amounted to EUR 1,090.5 million (31 December 2016: EUR 992.3 million).

RISK-BEARING CAPACITY BASED ON THE LIQUIDATION APPROACH



CREDIT RISK

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

The management of credit risk is based on the principle of granting loans only on a know-your-customer basis. 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 30 June 2017, around 49.1% of all loans by corporate and business customers and around 85.2% of retail customers were assigned an excellent rating of AA-2b. The focus of new business was on customers in the rating classes up to 3a.

IMPAIRMENT CHARGE ON LOANS AND ADVANCES

in €m	30/06/2016	30/06/2017	± in %
Impairment allowances	19.5	26.0	33.2
Impairment reversals	-7.3	-11.7	60.0
Direct write-offs	0.6	0.4	-33.0
Recoveries in respect of receivables previously written off	-0.4	-0.4	0.0
Impairment charge on loans and advances	**12.4**	**14.2**	**14.5**

As at the end of June 2017, the balance of additions to impairment allowances was EUR 14.2 million, up from EUR 12.4 million in the prior-year period. New allocations in the amount of EUR 26.0 million were balanced by reversals in the amount of EUR 11.7 million, with additions to individual impairment allowances, collective impairment allowances under IAS 39 and allowances for country risk being taken into account. A look at credit risk at the level of non-performing loans shows a reduction of the NPL ratio[1)] by 60 base points to 4.2% since the beginning of 2017. Foreign subsidiaries reversed provisions in the amount of EUR 0.2 million.

INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

	Financial instruments that were neither past due nor impaired		Past due financial instruments	
Carrying value/max. default risk per class in €m	31/12/2016	30/06/2017	31/12/2016	30/06/2017
Receivables from customers	5,490	5,567	385	327
— of which, measured at fair value	52	64	-	-
Contingent liabilities	233	229	3	1
Receivables from banks	262	178	1	1
Securities and funds	815	836	-	-
— of which, measured at fair value	23	23	-	-
Equity investments	521	567	-	-
Total	**7,321**	**7,377**	**389**	**329**

INFORMATION ON IMPAIRED AND PAST DUE FINANCIAL INSTRUMENTS

	Impaired financial instruments		Past due but not yet impaired financial instruments	
Carrying value/max. default risk per class in €m	31/12/2016	30/06/2017	31/12/2016	30/06/2017
Receivables from customers	318	270	105	61
— of which, measured at fair value	-	-	-	-
Contingent liabilities	-	-	3	1
Receivables from banks	1	1	-	-
Securities and funds	-	-	-	-
— of which, measured at fair value	-	-	-	-
Equity investments	8	8	-	-
Total	**327**	**279**	**108**	**62**

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

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

MARKET RISK INCLUDING INTEREST RATE RISK IN THE BANKING BOOK

BKS Bank defines market risk as the potential risk of loss that might arise from movements in market prices or exchange rates (e.g. equity and bond prices, foreign exchange rates, interest rates) or other parameters that influence prices or rates (e.g. volatilities and credit spreads).

Market risk affects all interest rate and price-sensitive positions in the banking and trading books of BKS Bank and the individual institutions within the group of credit institutions. Therefore, for internal risk management, the BKS Bank Group includes the risk of potential changes in interest rates for positions in the banking book in market risk.

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

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

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

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

The quotient, which is reported to OeNB, derived from interest rate risk and eligible own funds based on an interest rate shift of 200 base points was 2.59% at the end of June 2017 versus 2.36% at the end of June 2016. 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.

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

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

At the end of June, the open FX position came to EUR 16.5 million, taking into account foreign currency shares in funds held in the treasury portfolio. The value at risk from the foreign exchange position declined to EUR 0.7 million.

The volume of equity positions and alternative investments that are not equity investments came to EUR 29.7 million in the first half of 2017. The value at risk from the equity price risk was EUR 1.1, compared with EUR 1.2 million at year-end 2016.

VALUE-AT-RISK FIGURES

in €m	31/12/2016	30/06/2017	± in %
Interest rate risk[1)]	6.7	6.8	1.5
FX risk	0.9	0.7	-22.2
Equity price risk	1.2	1.1	-8.3
Total (incl. diversification effects)	**7.1**	**7.0**	**-1.4**

[1)] incl. credit spread risks

LIQUIDITY RISK

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

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

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

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

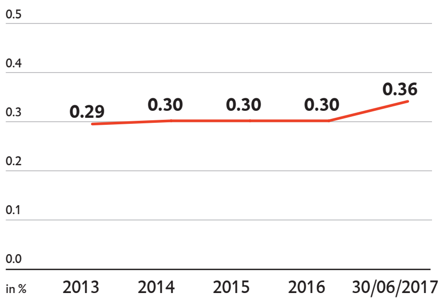
Possible liquidity peaks are balanced out by borrowing or investing money with the Austrian central bank, OeNB, or on the interbank market. Intraday liquidity management is done within the limits defined and utilization is reported daily to Risk Controlling and the chief risk officer.

The chart below shows the deposit concentration, which reached a level of 0.36 in the first half 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 measured with their respective share and a weighting factor from 0 to 1.

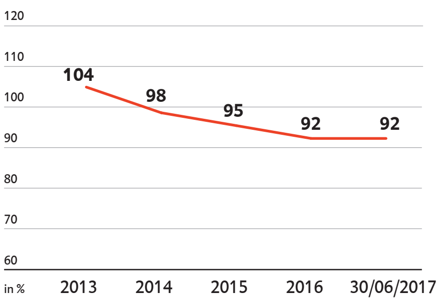
The loan/deposit ratio is a further key indicator for liquidity management and shows the relation between loans and primary deposits. At a ratio of 92.2%, we are clearly below our internal benchmark of 100% and thus in an excellent position.

The liquidity coverage ratio (LCR) tests whether a bank is in a position to remain liquid for the next 30 days in the event of simultaneous market and bank-specific stress situations. It compares highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. This regulatory liquidity ratio was 147.1% at 30 June 2017 and was therefore far above the minimum ratio of 100% which is being phased in starting in October 2015 until 2018. In the ILAAP report of BKS Bank, we now monitor NSFR on an ongoing basis. At the end of June 2017, NSFR was 104.3%.

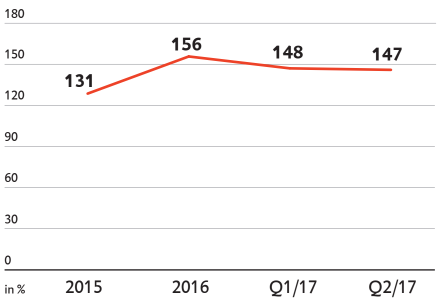
DEPOSIT CONCENTRATION



LOAN/DEPOSIT RATIO



LCR



OPERATIONAL RISK

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

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

In the reporting period, 98 loss events (excluding those resulting from credit operations) were reported. The average loss amount after deducting amounts recovered was EUR 896 k. At a total of EUR 0.8 million, the loss events recorded pursuant to § 19 Austrian Securities Supervision Act (WAG) remained below the internally set risk tolerance threshold of EUR 1.0 million.

OUTLOOK FOR 2017

GLOBAL ECONOMY ON AN UPWARD TRAJECTORY

The global economy is headed for a major upswing. According to a recent forecast by the International Monetary Fund (IMF), growth is anticipated to pick up pace, with Europe playing a major role in this development. The IMF expects global output to grow by 3.5% in 2017 and 3.6% in 2018, unchanged from the April forecast. Growth in the euro zone is projected at 1.9% for this year and 1.7% for next year. The forecast for Germany was revised upward by 0.2%-points, and Italy, France and Spain are seeing positive developments as well.

However, Brexit, the ambiguities of US financial policy as well as geopolitical tensions are dampening prospects for the US and the UK, where growth rates are expected to be significantly lower. Given the uncertainties inherent in Donald Trump's economic policy, the US growth forecast was revised downward from 2.3% to 2.1%. At 1.7%, the forecast for the United Kingdom is likewise down from 2% in April, on account of its upcoming exit from the EU. Prospects for China are seen in a much more optimistic light. China's economy is expected to grow by 6.7% and 6.4% this year and next year, respectively. However, there are some downsides to China's growth: high debt levels and growing protectionism might still come to put a damper on the positive outlook.

The forecasts for Austria's economy remain promising as well. For 2017, WIFO experts expect GDP growth to attain 2.4%, the highest level in six years, followed by 2% in 2018. This puts Austria's growth forecasts above the euro zone average. The upswing comes on the back of continued strong consumption, rising exports and increased investment. The labour market is expected to benefit particularly from this development this year. Economic experts anticipate a drop in the unemployment rate to 8.6% on an annual average, based on the Austrian method of calculating said rate.

STOCK MARKETS REMAIN ATTRACTIVE

We believe that stock markets will continue to perform well, as good global prospects and positive sentiment make for a supportive environment. Moreover, corporate sentiment remains optimistic as well. From a regional perspective, Europe is currently the most attractive market for stocks in terms of profit growth and yield potential. Where fixed-interest instruments are concerned, we are still skeptical as to how government bonds will develop. Yields on European government bonds have risen by around 80 base points in one year now, causing price losses on bonds, as for instance with European government bonds, which lost around 0.7% this year. Should the ECB announce its intention in the autumn to taper its bond buying activities in 2018, this might result in further losses. The corporate bond segment, too, has recently seen interest rates rise. Good performance indicators and exceedingly positive sentiment indicators still provide an excellent environment for corporates.

OPTIMISTIC OUTLOOK FOR 2017

Our bank's excellent performance in the first half-year proves that our business decisions so far have been the right ones. Given the low interest rates, technological change, cost pressure and fierce competition, the banking business still remains challenging. We still have a lot of activities planned until the end of the year in order to further strengthen profitability.

Our digitization projects are at the top of our agenda in this context. We are developing a customer portal specifically geared to our corporate and business customers that is scheduled to be launched early in 2018. In the retail segment, we focus on expanding our range of digital product offers. We have already translated some of our projects into practice, such as the introduction of e-service functions for the Maestro card or the new online shop, and are now working on speeding up and improving financing and account opening processes through automation. Securities transactions is another area where we intend to find new 'smart' solutions and offer both enhanced and new services on our customer portals by the end of 2018. At the same time, we are also pursuing a strict cost management policy to improve our earnings capacity. The objective is to keep the cost/income ratio below the internal benchmark of 55.0%. Simplifying high-cost processes and pushing ahead with digitalization are some of the steps along the way to attaining this objective.

This autumn will also see a few of our other projects come to fruition. We will open our third Croatian branch operation in Split. Our Austrian real-estate subsidiary will develop a residential project in the centre of Klagenfurt where 50% of new flats will be reserved for assisted living quarters. And by the end of the year, a green bond is going to supplement our range of sustainable products.

While we admittedly still have some work ahead of us, we take an optimistic view of the current financial year. The positive development of business over the course of the first six months inspires us with confidence that we will be able to pursue our sustainable growth course. For this reason, we plan to continue our dividend policy unchanged for the financial year 2017.

Klagenfurt am Wörthersee, 18 August 2017

Herta Stockbauer
Chairwoman of the Management Board

Dieter Kraßnitzer, CIA
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO IFRS

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STATEMENT OF COMPREHENSIVE INCOME OF THE BKS BANK GROUP FOR THE PERIOD ENDED 30 JUNE 2017

INCOME STATEMENT

in €k	Notes	1HY 2016	1HY 2017	± in %
Interest income		82,619	77,545	-6.1
Interest expenses		-21,261	-17,597	-17.2
Profit/loss from equity-method accounted investments		15,937	18,631	16.9
Net interest income	**(1)**	**77,295**	**78,579**	**1.7**
Impairment charge on loans and advances	(2)	-12,401	-14,204	14.5
Net interest income after impairment charges		**64,894**	**64,375**	**-0.8**
Fee and commission income		27,165	27,785	2.3
Fee and commission expenses		-1,802	-1,859	3.2
Net fee and commission income	**(3)**	**25,363**	**25,926**	**2.2**
Net trading income	(4)	978	974	-0.5
General administrative expenses	(5)	-54,298	-52,623	-3.1
Other operating income	(6)	2,192	2,234	1.9
Other operating expenses	(6)	-8,463	-6,832	-19.3
Profit/loss from financial assets		**-181**	**2,615**	**>100**
- Profit/loss from financial assets designated as at fair value through profit or loss (FV)	(7)	-609	1,297	>100
- Profit/loss from available-for-sale financial assets (AFS)	(8)	428	1,322	>100
- Profit/loss from held-to-maturity financial assets (HtM)	(9)	-	-4	>-100
Profit for the period before tax		**30,485**	**36,669**	20.3
Income tax expense	(10)	-5,776	-3,542	-38.7
Profit for the period after tax		**24,709**	**33,127**	34.1
Minority interests in profit for the period		-2	-1	-23.2
Profit for the period after minority interests		**24,707**	**33,125**	34.1

INCOME AND EXPENSES TAKEN DIRECTLY TO EQUITY

in €k	1HY 2016	1HY 2017	± in %
Profit for the period after tax	**24,709**	**33,127**	**34.1**
Items not reclassified to profit or loss for the period	**2,947**	**2,582**	**-12.4**
± Actuarial gains/losses in conformity with IAS 19	-926	1,244	>100
± Deferred taxes in conformity with IAS 19	231	-311	>-100
± Gains less losses arising from use of the equity method in conformity with IAS 19	3,641	1,649	-54.7
Items reclassified to profit or loss for the period	**-6,681**	**9,170**	**>100**
± Exchange differences	459	71	-84.5
± Available-for-sale reserve	-3,318	6,133	>100
± Deferred taxes taken to AfS reserve items	826	-1,533	>-100
± Gains/losses arising from use of the equity method	-4,648	4,499	>100
Total income and expenses taken directly to equity	**-3,735**	**11,752**	**>100**
Comprehensive income before minority interests	**20,975**	**44,879**	**>100**
of which minority interests	-2	-1	-50.0
Comprehensive income after minority interests	**20,973**	**44,878**	**>100**

QUARTERLY REVIEW

in €k	Q2/2016	Q3/2016	Q4/2016	Q1/2017	Q2/2017
Interest income	40,300	40,108	38,240	37,780	39,766
Interest expenses	-10,617	-9,969	-9,246	-8,887	-8,711
Profit/loss from equity-method accounted investments	10,211	9,728	8,031	8,132	10,499
Net interest income	**39,894**	**39,867**	**37,025**	**37,025**	**41,554**
Impairment charge on loans and advances	-3,608	-13,361	-5,245	-8,345	-5,859
Net interest income after impairment charges	**36,286**	**26,506**	**31,780**	**28,680**	**35,695**
Fee and commission income	13,301	12,176	13,245	13,930	13,640
Fee and commission expenses	-828	-908	-1,046	-674	-970
Net fee and commission income	**12,473**	**11,268**	**12,199**	**13,256**	**12,670**
Net trading income	779	-61	800	383	591
General administrative expenses	-27,400	-26,100	-26,030	-26,594	-26,029
Other operating income	953	1,583	2,816	1,952	282
Other operating expenses	-3,424	-1,512	-12,037	-5,837	-995
Profit/loss from financial assets	**-120**	**-1,297**	**-598**	**1,600**	**1,015**
- Profit/loss from financial assets designated as at fair value through profit or loss (FV)	-414	-1,553	299	1,143	154
- Profit/loss from available-for-sale financial assets (AFS)	294	103	-897	460	861
- Profit/loss from held-to-maturity financial assets (HtM)	-	153	-	-4	-
Profit for the period before tax	**19,547**	**10,387**	**8,929**	**13,440**	**23,229**
Income tax expense	-3,362	1,778	381	-2,183	-1,358
Profit for the period after tax	**16,185**	**12,165**	**9,310**	**11,256**	**21,870**
Minority interests in profit for the period	-1	-	-2	-1	-
Profit for the period after minority interests	**16,184**	**12,165**	**9,308**	**11,256**	**21,870**

BALANCE SHEET OF THE BKS BANK GROUP FOR THE PERIOD ENDED 30 JUNE 2017

ASSETS

in €k	Notes	31/12/2016	30/06/2017	± in %
Cash and balances with the central bank	(11)	543,542	406,394	-25.2
Receivables from other banks	(12)	242,347	156,909	-35.3
Receivables from customers	(13)	5,330,395	5,308,670	-0.4
- Impairment allowance balance	(14)	-155,136	-148,932	-4.0
Trading assets	(15)	10	11	7.5
Financial assets		1,483,583	1,562,132	5.3
- Financial assets designated as at fair value through profit or loss	(16)	75,568	87,457	15.7
- Available-for-sale financial assets	(17)	189,335	199,510	5.4
- Held-to-maturity financial assets	(18)	747,773	768,460	2.8
- Investments in entities accounted for using the equity method	(19)	470,907	506,706	7.6
Intangible assets	(20)	1,735	1,465	-15.5
Property and equipment	(21)	56,274	55,261	-1.8
Investment property	(22)	30,720	31,229	1.7
Deferred tax assets	(23)	17,288	17,745	2.6
Other assets	(24)	30,298	41,019	35.4
Total assets		**7,581,056**	**7,431,904**	**-2.0**

EQUITY AND LIABILITIES

in €k	Notes	31/12/2016	30/06/2017	± in %
Payables to other banks	(25)	867,494	719,869	-17.0
Payables to customers	(26)	4,824,760	4,810,761	-0.3
- of which savings deposits		1,528,994	1,516,038	-0.8
- of which other payables		3,295,766	3,294,723	0.0
Liabilities evidenced by paper	(27)	544,656	523,625	-3.9
Trading liabilities	(28)	10	11	9.7
Provisions	(29)	126,902	121,046	-4.6
Deferred tax liabilities	(30)	261	2,721	>100
Other items	(31)	59,602	73,782	23.8
Subordinated debt capital	(32)	198,585	175,149	-11.8
Equity		958,786	1,004,939	4.8
- of which total minority interests and equity		958,767	1,004,919	4.8
- of which minority interests in equity		19	20	6.6
Total equity and liabilities		**7,581,056**	**7,431,904**	**-2.0**

EARNINGS AND DIVIDEND PER SHARE

	30/06/2016	30/06/2017
Average number of shares in issue (ordinary and preference shares)	35,322,088	38,992,364
Earnings per ordinary and preference share (allocated to period)	0.68	0.85
Earnings per ordinary and preference share (annualized)	1.36	1.70

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.

STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained earnings	Adjustment for Associates[1]	Profit/loss for the period	Additional equity instru-ments[2]	Equity
As at 1 January 2017	**79,279**	**193,032**	**-59**	**3,090**	**608,138**	**5,707**	**46,180**	**23,400**	**958,767**
Distribution							-8,965		-8,965
Taken to retained earnings					37,224		-37,244		-
Profit/loss for the period							33,125		33,125
Income and expenses taken directly to equity			71	4,600	933	6,148			11,752
Issuance of additional equity instruments								5,600	5,600
Effect of the equity method					6,165				6,165
Change in treasury shares					-1,497				-1,497
Other changes					-29				-29
As at 30 June 2017	**79,279**	**193,032**	**12**	**7,690**	**650,925**	**11,855**	**33,125**	**29,000**	**1,004,919**
Available-for-sale reserve									10,253
Deferred tax reserve									-2,564

[1] This column shows the cumulated pro rata OCI of entities recognized using the equity method.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in €k	Subscribed capital	Capital reserves	Exchange differences	Revaluation reserve	Retained earnings	Adjustment for Associates[1]	Profit/loss for the period	Additional equity instru-ments[2]	Equity
As at 1 January 2016	**72,072**	**143,056**	**-1,030**	**2,388**	**562,416**	**4,312**	**53,613**	**23,400**	**860,227**
Distribution							-8,124		-8,124
Taken to retained earnings					45,489		-45,489		0
Profit/loss for the period							24,707		24,707
Income and expenses taken directly to equity			459	-2,492	-694	-1,007			-3,735
Increase in share capital									0
Effect of the equity method					5,226				5,226
Change in treasury shares					-568				-568
Other changes					-610				-610
As at 30 June 2016	**72,072**	**143,056**	**-571**	**-104**	**611,258**	**3,305**	**24,707**	**23,400**	**877,123**
Available-for-sale reserve									-137
Deferred tax reserve									33

[1] This column shows the cumulated pro rata OCI of entities recognized using the equity method.

STATEMENT OF CASH FLOWS

CASH FLOWS

in €k	1HY 2016	1HY 2017
Cash and cash equivalents at the end of previous period	**190,310**	**543,542**
Profit for the period after tax before minority interests	24,709	33,127
Non-cash positions in profit for the period	2,939	-1,826
Change in assets and liabilities arising from operating business activities after correction for non-cash items	-23,613	-105,438
Net cash from/used in operating activities	**4,035**	**-74,137**
Proceeds from sales	57,953	78,102
Outlay on purchases	-55,455	-112,840
Net cash from/used in investing activities	**2,498**	**-34,738**
Other cash receipts	-	5,600
Dividend distributions	-8,124	-8,956
Subordinated liabilities and other financing activities	9,950	-24,933
Net cash from/used in financing activities	**1,826**	**-28,289**
Effect of exchange rate changes on cash and cash equivalents	220	16
Cash and cash equivalents at the end of the reporting period	**198,889**	**406,394**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BKS BANK

MATERIAL ACCOUNTING POLICIES

I. GENERAL INFORMATION

The financial statements of BKS Bank for the period ended 30 June 2017 were prepared in accordance with the principles of the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as adopted by the EU. The relevant interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) were taken into account.

II. EFFECTS OF NEW AND AMENDED STANDARDS

Effects of new standards

The Amendments to IAS 7 — Statement of Cash Flows and IAS 12 — Income taxes would have been applicable as of 1 January 2017. However, as these two standards have not been adopted by the EU yet, they cannot be taken into account in the half-year financial statements for the period ended 30 June 2017.

Various amendments will enter into force as of 1 January 2018. IFRS 9 is particularly important in this context and will be discussed in more detail below. The BKS Bank Group does not expect any of the other amendments to have material effects on its operations.

IFRS 9: On 24 July 2014, the IASB released the final version of IFRS 9, which replaces IAS 39: Financial Instruments: Recognition and Measurement.
EU endorsement was given on 22 November 2016. IFRS 9 must applied for the first time in the first reporting period of a financial year starting on or after 1 January 2018, with early application being permitted.
The BKS Bank Group intends to apply IFRS 9 for the first time as of 1 January 2018.

The new standard requires the Group to adjust its accounting processes and internal controls relating to the reporting and measurement of financial instruments. The standard can be divided into three main areas, namely classification and measurement, impairment, and hedge accounting. At present, the BKS Bank Group does not engage in hedge accounting, therefore, the focus is on project implementation for classification and impairment.

Classification and Measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are held as well as the characteristics of its cash flows.
The new approach to the classification and measurement of financial instruments provides for two totally new criteria for classification, namely classification driven by business models and classification driven by the 'SPPI' criteria. These only allow instruments with cash flows that consist solely of payments of principal and interest. Based on what we have learned from the project, receivables from other banks and receivables from customers as well as financial assets, which are currently classified as "held-to-maturity" assets pursuant to IAS 39, must now be classified in the business model "hold to collect". Securities and funds, which under IAS 39 are classified as available-for-sale, are mostly assigned to the business model "hold to sell". Derivatives are assigned to the business model "sell".

With respect to the SPPI criterion, at present we anticipate that a large share of the loans to customers and to other banks meet the SPPI criterion, thus guaranteeing that a large part of portfolio positions of receivables from other banks and receivables from customers can continue to be measured at amortized cost under IFRS 9. This also applies to the current portfolio of financial assets classified as "held to maturity". The AfS securities in the portfolio at present also largely meet the SPPI criterion and therefore will be recognized under IFRS 9 at fair value through other comprehensive income (FVOCI). Under IFRS 9, investment funds and shares are to be recognized at fair value through profit or loss (FVPL). For the time being, BKS Bank does not plan to designate equity instruments as at fair value through other comprehensive income (FVOCI).

Under IAS 39, investments classified as available-for-sale are measured at cost at a carrying value of EUR 20 million.

Pursuant to IFRS 9, an additional mandatory fair value measurement will apply in this case, too. As regards the classification of financial liabilities, there are generally no changes compared to IAS 39. In the case of measurement at fair value, only the changes in fair value arising from own credit risk have to be reported in equity in the future.

Impairment

IFRS 9 replaces the IAS 39 incurred loss model by a forward-looking expected loss impairment model. IFRS 9 requires an impairment allowance to be recognized also for customers with performing loans rated AA -4b. The currently applicable provisions for determining impairment charges for the event of default remain more or less unchanged. There are two stages for determining the impairment charge for customers in the rating classes of performing loans. If credit risk has not increased significantly since initial recognition, 12-month expected-loss (stage 1) must be determined and recognized. However, if credit risk has increased significantly, it is necessary to determine lifetime expected-loss (stage 2). The standard does not specify how to measure expected loss. The BKS Bank Group will use the formula "Probability of Default (PD) x Loss Given Default (LGD) x Exposure At Default (EAD) for determining the impairment charge. The Markov chain process will very likely be used for determining the multi-year parameters for lifetime expected losses. Pursuant to IFRS 9, also forward-looking information must be included when calculating the expected loss, and in this context we will rely on estimates provided by recognized institutions.

Current status of implementation

Implementing IFRS 9 involves enormous technical resources, time and costs. Relying on a software acquired specifically for this purpose, we have already made first ECL calculations, which are currently being analyzed. As things currently stand in the project, we proceed on the assumption that implementing IFRS 9 will not have any material effects on impairment charges. The current focus of project work is on the technical side of configuring benchmark tests and changes in contracts. Both work packages are very likely to be completed on schedule.

III. RECOGNITION AND MEASUREMENT

GROUP OF CONSOLIDATED COMPANIES

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

CONSOLIDATED ENTITIES

Company	Head Office	Direct equity interest	Indirect equity interest	Date of financial statements
BKS-Leasing Gesellschaft m.b.H.	Klagenfurt	99.75%	0.25%	30/06/2017
BKS-leasing d.o.o.	Ljubljana	100.00%	-	30/06/2017
BKS-leasing Croatia d.o.o.	Zagreb	100.00%	-	30/06/2017
BKS-Leasing s.r.o.	Bratislava	100.00%	-	30/06/2017
IEV Immobilien GmbH	Klagenfurt	100.00%	-	30/06/2017
Immobilien Errichtungs- und Vermietungs GmbH & Co KG	Klagenfurt	100.00%	-	30/06/2017
BKS 2000-Beteiligungs- und Verwaltungs GmbH	Klagenfurt	100.00%		30/06/2017
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	-	100.00%	30/06/2017
BKS Hybrid alpha Gmbh	Klagenfurt	100.00%	-	30/06/2017
BKS Hybrid beta GmbH	Klagenfurt	100.00%	-	30/06/2017
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00%	-	30/06/2017
LVM Beteiligungs Gesellschaft m.b.H.	Klagenfurt	-	100.00%	30/06/2017
BKS Immobilien-Service GmbH	Klagenfurt	100.00%	-	30/06/2017
BKS Service GmbH	Klagenfurt	100.00%	-	30/06/2017

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Company	Head office	Direct equity interest in %	Date of financial statements
Oberbank AG	Linz	14.21	31/03/2017
BTV AG	Innsbruck	13.59	31/03/2017
Drei Banken Versicherungsagentur GmbH	Linz	20.00	30/06/2017

Regarding Oberbank AG and BTV AG, we point out that although, as at 30 June 2017, BKS Bank had voting interests of less than 20% in those banks, namely 15.21% and 14.78%, respectively, and equity interests of less than 20%, namely 14.21% and 13.59%, respectively, the exercise of voting rights was governed by syndicate agreements. These allowed participation in those two banks' financial and business policy decisions within the scope of the 3 Banken Group without having a controlling interest in them.

Entities accounted for on a proportionate basis

Pursuant to the provisions of IFRS 11, the investment 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%	30/06/2017

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 JUNE 2017

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit/loss for the period before tax
Branches abroad				
Slovenia Branch (banking branch)	5,383	6,777	100.0	1,533
Croatia Branch (banking branch)[1)]	3,539	4,475	58.8	1,349
Slovakia Branch (banking branch)	709	803	23.0	-1,651
Subsidiaries				
BKS-leasing d.o.o., Ljubljana	1,177	1,302	14.9	790
BKS-leasing Croatia d.o.o., Zagreb	1,010	1,132	11.0	786
BKS-Leasing s.r.o., Bratislava	374	595	8.8	13

FOREIGN SUBSIDIARIES AND BRANCHES AS AT 30 JUNE 2016

in €k	Net interest income	Operating income	Number of employees (FTE)	Profit/loss for the period before tax
Branches abroad				
Slovenia Branch (banking branch)	5,296	6,504	97.9	1,757
Slovakia Branch (banking branch)	681	799	23.5	-50
Subsidiaries				
BKS-leasing d.o.o., Ljubljana	1,115	1,280	12.4	798
BKS-leasing Croatia d.o.o., Zagreb	994	1,094	11.2	707
BKS-Leasing s.r.o., Bratislava	429	652	10.3	61
BKS Bank d.d., Rijeka [1)]	3,311	3,714	53.8	1,675

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

Foreign currency translation

Assets and liabilities denominated in foreign currencies were generally translated at the market exchange rates ruling at the balance sheet date. The financial statements of subsidiaries that were not prepared in euro were translated using the closing rate method. Within the Group, there is just one Croatian company that did not prepare its financial statements in euro, but in Croatian kuna (HRK).

The assets and liabilities were translated at the exchange rates ruling at the balance sheet date, while expenses and income were translated applying the average rate of exchange for the respective period. The resulting exchange differences were recognized in Other comprehensive income; exchange differences are recognized as a component of equity.

NOTES ON INDIVIDUAL ITEMS ON THE BALANCE SHEET

Cash and balances with the central bank

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

Financial instruments

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

- financial assets requiring measurement at fair value, subdivided into
  - trading assets and trading liabilities: these are financial instrument held for trading, inclusive of all derivatives with the exception of those designated as hedges (held for trading);
  - financial assets and liabilities designated as at fair value through profit or loss (fair value option)
- available-for-sale financial assets (AfS)
- held-to-maturity financial assets (HtM)
- loans and receivables (LAR)
- financial liabilities (other liabilities)

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

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS[1)]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Equity
Equity consists of paid-in and earned capital (capital reserves, retained earnings, revaluation reserve, foreign exchange differences and profit for the period). BKS Bank strives to strengthen its capital base on a sustainable basis by reinvesting its profits. The proceeds from the issue of Additional Tier 1 notes are classified as equity in conformity with IAS 32. Interest paid on such bonds is taken directly to equity.

NOTES TO INDIVIDUAL LINE ITEMS IN THE INCOME STATEMENT

Net interest income

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

Impairment charge on loans and advances

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

Net fee and commission income

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

General administrative expenses

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

Net trading income

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

Other operating income net of other operating expenses

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

Other explanatory notes

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

The assumptions and estimates entering into the financial statements for the period were made on the basis of the state of knowledge and information at our disposal as at 30 June 2017.

DETAILS OF THE INCOME STATEMENT

(1) NET INTEREST INCOME

in €k	1HY 2016	1HY 2017	± in %
Interest income from:			
Lending transactions	60,859	56,706	-6.8
Fixed-income securities	10,706	8,976	-16.2
Leasing receivables	4,374	4,424	1.1
Shares, equity investments in other companies	2,558	2,549	-0.3
Positive interest expenses[1)]	2,673	3,169	18.6
Investment property	1,449	1,721	18.8
Total net interest income	**82,619**	**77,545**	**-6.1**
Interest expenses for:			
Deposits from customers and other banks	7,401	3,885	-47.5
Liabilities evidenced by paper	11,614	10,639	-8.4
Negative interest income[1)]	1,881	2,750	46.2
Investment property	365	322	-11.7
Total interest expenses	**21,261**	**17,598**	**-17.2**
Profit from entities accounted for using the equity method			
Income from entities accounted for using the equity method	15,937	18,631	16.9
Profit from entities accounted for using the equity method	**15,937**	**18,631**	**16.9**
Net interest income	**77,295**	**78,579**	**1.7**

[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) in the amount of EUR 1.1 million (30 June 2016: EUR 1.3 million).

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

in €k	1HY 2016	1HY 2017	± in %
Impairment allowances	19,488	25,953	33.2
Impairment reversals	-7,343	-11,749	60.0
Direct write-offs	628	421	-33.0
Recoveries in respect of receivables previously written off	-372	-421	13.2
Impairment charge on loans and advances	**12,401**	**14,204**	**14.5**

(3) NET FEE AND COMMISSION INCOME

in €k	1HY 2016	1HY 2017	± in %
Fee and commission income from:			
Payment services	10,966	10,857	-1.0
Securities operations	6,946	7,418	6.8
Foreign exchange operations	1,111	1,947	75.2
Credit operations	7,310	6,721	-8.1
Other services	832	843	1.3
Total fee and commission income	**27,165**	**27,785**	**2.3**
Fee and commission expenses from:			
Payment services	1,043	973	-6.7
Securities operations	431	493	14.4
Foreign exchange operations	22	115	>100
Credit operations	240	242	0.9
Other services	66	36	-46.2
Total fee and commission expenses	**1,802**	**1,859**	**3.2**
Net fee and commission income	**25,363**	**25,926**	**2.2**

(4) NET TRADING INCOME

in €k	1HY 2016	1HY 2017	± in %
Price-based transactions	-5	-7	39.7
Interest rate and currency contracts	983	981	-0.3
Net trading income	**978**	**974**	**-0.5**

5) GENERAL ADMINISTRATIVE EXPENSES

in €k	1HY 2016	1HY 2017	± in %
Staff costs	36,045	34,300	-4.8
– Wages and salaries	27,227	25,671	-5.7
– Social security costs	6,464	6,939	7.3
– Costs of retirement benefits	2,354	1,690	-28.2
Other administrative costs	14,964	15,220	1.7
Depreciation/amortization	3,289	3,103	-5.7
General administrative expenses	**54,298**	**52,623**	**-3.1**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

in €k	1HY 2016	1HY 2017	± in %
Other operating income	2,192	2,234	1.9
Other operating expenses	-8,463[1)]	-6,832[1)]	-19.3
Other operating income net of other operating expenses	**-6,271**	**-4,598**	**-26.7**

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

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

in €k	1HY 2016	1HY 2017	± in %
Gain/loss as a result of using the fair value option	-609	1,297	>100
Profit/loss from financial assets designated as at fair value through profit or loss	**-609**	**1,297**	**>100**

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

in €k	1HY 2016	1HY 2017	± in %
Revaluation gains and losses	66	10	-84.6
Gains and losses realized on disposal	362	1,311	>100
Profit/loss from available-for-sale financial assets	**428**	**1,322**	**>100**

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

in €k	1HY 2016	1HY 2017	± in %
Gains and losses realized on disposal	-	-4	>100
Profit/loss from held-to-maturity financial assets	**-**	**-4**	**>100**

(10) TAXES

in €k	1HY 2016	1HY 2017	± in %
Current taxes	-5,542	-3,419	-38.3
Deferred taxes	-234	-123	-47.5
Income tax expense	**-5,776**	**-3,542**	**-38.7**

DETAILS ON THE BALANCE SHEET

(11) CASH AND BALANCES WITH THE CENTRAL BANK

in €k	31/12/2016	30/06/2017	± in %
Cash in hand	35,727	82,625	>100
Credit balances with central banks	507,815	323,769	-36.2
Cash and balances with the central bank	**543,542**	**406,394**	**-25.2**

12) RECEIVABLES FROM OTHER BANKS

in €k	31/12/2016	30/06/2017	± in %
Receivables from Austrian banks	93,766	78,587	-16.2
Receivables from foreign banks	148,581	78,322	-47.3
Receivables from other banks	**242,347**	**156,909**	**-35.3**

(13) RECEIVABLES FROM CUSTOMERS

in €k	31/12/2016	30/06/2017	± in %
Corporate and Business Banking	4,148,430	4,115,219	-0.8
Retail Banking	1,181,965	1,193,451	1.0
Receivables from customers, by customer group	**5,330,395**	**5,308,670**	**-0.4**

(14) IMPAIRMENT ALLOWANCE BALANCE

in €k	31/12/2016	30/06/2017	± in %
At the start of the reporting period	193,748	155,136	-19.9
+ Additions	43,113	25,951	-39.8
- Reversals	-16,574	-12,852	-22.5
- Use	-65,208	-19,333	-70.4
+ Exchange differences	57	30	-47.4
At the end of the reporting period	**155,136**	**148,932**	**-4.0**

15) TRADING ASSETS

in €k	31/12/2016	30/06/2017	± in %
Positive fair values of derivative financial instruments	10	11	10.0
- Of which interest rate contracts	10	11	10.0
Trading assets	**10**	**11**	**10.0**

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

in €k	31/12/2016	30/06/2017	± in %
Bonds and other fixed interest securities	22,893	22,773	-0.5
Loans	52,675	64,683	22.8
Financial assets designated as at fair value through profit or loss	**75,568**	**87,457**	**15.7**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

in €k	31/12/2016	30/06/2017	± in %
Bonds and other fixed interest securities	83,093	84,653	1.9
Shares and other non-interest bearing securities	47,882	48,567	1.4
Other equity investments	58,360	66,290	13.6
Available-for-sale financial assets	**189,335**	**199,510**	**5.4**

(18) HELD-TO-MATURITY FINANCIAL ASSETS

in €k	31/12/2016	30/06/2017	± in %
Bonds and other fixed interest securities	747,773	768,460	2.8
Held-to-maturity financial assets	**747,773**	**768,460**	**2.8**

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

in €k	31/12/2016	30/06/2017	± in %
Oberbank AG	308,778	329,263	6.6
Bank für Tirol und Vorarlberg AG	159,514	175,727	10.2
Drei-Banken Versicherungs-AG	2,615	1,715	-34.4
Investments in entities accounted for using the equity method	**470,907**	**506,706**	**7.6**

(20) INTANGIBLE ASSETS AND GOODWILL

in €k	31/12/2016	30/06/2017	± in %
Other intangible assets	1,735	1,465	-15.5
Intangible assets	**1,735**	**1,465**	**-15.5**

(21) PROPERTY AND EQUIPMENT

in €k	31/12/2016	30/06/2017	± in %
Land	8,072	8,061	-0.1
Buildings	40,238	39,110	-2.8
Other	7,964	8,091	1.6
Property and equipment	**56,274**	**55,261**	**-1.8**

(22) INVESTMENT PROPERTY

in €k	31/12/2016	30/06/2017	± in %
Land	8,643	8,688	0.5
Buildings	22,077	22,541	2.1
Investment property	**30,720**	**31,229**	**1.7**

(23) DEFERRED TAX ASSETS

in €k	31/12/2016	30/06/2017	± in %
Deferred tax assets	**17,288**	**17,745**	**2.6**

(24) OTHER ASSETS

in €k	31/12/2016	30/06/2017	± in %
Positive fair values of derivative financial instruments	12,950	11,130	-14.1
Other items	14,801	27,586	86.4
Deferred items	2,547	2,303	-9.6
Other assets	**30,298**	**41,019**	**35.4**

(25) PAYABLES TO OTHER BANKS

in €k	31/12/2016	30/06/2017	± in %
Payables to Austrian banks	733,479	569,531	-22.4
Payables to foreign banks	134,015	150,338	12.2
Payables to other banks	**867,494**	**719,869**	**-17.0**

(26) PAYABLES TO CUSTOMERS

in €k	31/12/2016	30/06/2017	± in %
Savings deposit balances	**1,528,994**	**1,516,038**	**-0.8**
- Corporate and business banking customers	199,001	204,607	2.8
- Retail banking customers	1,329,993	1,311,431	-1.4
Other payables	**3,295,766**	**3,294,723**	**0.0**
- Corporate and Business Banking	2,414,114	2,349,382	-2.7
- Retail banking customers	881,652	945,341	7.2
Payables to customers	**4,824,760**	**4,810,761**	**-0.3**

(27) LIABILITIES EVIDENCED BY PAPER

in €k	31/12/2016	30/06/2017	± in %
Issued bonds	475,842	460,925	-3.1
Other liabilities evidenced by paper	68,814	62,699	-8.9
Liabilities evidenced by paper	**544,656**	**523,625**	**-3.9**

(28) TRADING LIABILITIES

in €k	31/12/2016	30/06/2017	± in %
Interest rate contracts	10	11	10.0
Trading liabilities	**10**	**11**	**10.0**

(29) PROVISIONS

in €k	31/12/2016	30/06/2017	± in %
Provisions for post-employment benefits and similar obligations	72,480	69,945	-3.5
Provisions for taxes (current taxes)	2,238	4,720	>100
Other provisions	52,184	46,381	-11.1
Provisions	**126,902**	**121,046**	**-4.6**

ACTUARIAL ASSUMPTIONS

in %	31/12/2016	30/06/2017	± in %-points
Financial assumptions			
Interest rate	1.77	2.00	0.23
Salary trend	1.24	1.28	0.04
Career dynamic	0.25	0.25	0.00
Demographic assumptions			
Increase in retirement age (men/women) to	65 years	65 years	-
Mortality table	AVÖ 2008	AVÖ 2008	-

The interest rate was determined pursuant to IAS 19.83 on the basis of yields for first-ranking fixed interest industrial bonds. As in the preceding year, the table published by Mercer (Austria) GmbH was used.

(30) DEFERRED TAX LIABILITIES

in €k	31/12/2016	30/06/2017	± in %
Deferred tax liabilities	**261**	**2,721**	**>100**

(31) OTHER LIABILITIES

in €k	31/12/2016	30/06/2017	± in %
Negative fair values of derivative financial instruments	30,821	28,627	-7.1
Other liabilities	23,566	40,949	73.8
Deferred items	5,215	4,206	-19.3
Other liabilities	**59,602**	**73,782**	**23.8**

(32) SUBORDINATED DEBT CAPITAL

in €k	31/12/2016	30/06/2017	± in %
Tier 2 capital	158,585	135,149	-14.8
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**198,585**	**175,149**	**-11.8**

Subordinated debt capital is reported with accrued interest. The nominal value was EUR 173.0 million down from EUR 195.0 million as at 31 December 2016.

(33) SEGMENT REPORTS

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

SEGMENT RESULTS

	Retail Banking		Corporate and Business Banking		Financial Markets	
in €k	30/06/2016	30/06/2017	30/06/2016	30/06/2017	30/06/2016	30/06/2017
Net interest income	13,366	12,367	41,462	42,951	21,915	21,849
- of which from investments in entities accounted for using the equity method	-	-	-	-	15,937	18,631
Impairment charge on loans and advances	-1,326	-1,487	-11,028	-11,655	-47	-1,063
Net fee and commission income	11,580	11,125	13,597	13,925	28	172
Net trading income	-	-	-	-	978	974
General administrative expenses	-26,225	-25,968	-22,033	-22,950	-3,272	-3,518
Other operating income net of other operating expenses	784	554	630	562	-21	-48
Profit/loss from financial assets	-	-	-	-	-181	2,615
Profit for the period before tax	**-1,821**	**-3,409**	**22,628**	**22,833**	**19,400**	**20,981**
Average risk-weighted assets	523,438	494,277	3,089,118	3,138,432	889,923	936,419
Average allocated equity	41,875	42,691	247,129	270,584	569,081	656,478
ROE based on profit for the period before tax	**-8.7%**	**-16.0%**	**18.3%**	**16.9%**	**6.8%**	**6.4%**
Cost/income ratio	**101.9%**	**108.0%**	**39.6%**	**40.0%**	**14.3%**	**15.3%**
Risk/earnings ratio	**9.9%**	**12.0%**	**26.6%**	**27.1%**	**0.2%**	**4.9%**

	Other		Total	
in €k	30/06/2016	30/06/2017	30/06/2016	30/06/2017
Net interest income	552	1,413	77,295	78,579
- of which from investments in entities accounted for using the equity method	-	-	15,937	18,631
Impairment charge on loans and advances	-	-	-12,401	-14,204
Net fee and commission income	158	704	25,363	25,926
Net trading income	-	-	978	974
General administrative expenses	-2,768	-186	-54,298	52,623
Other operating income net of other operating expenses	-7,664	-5,667	-6,271	-4,598
Profit/loss from financial assets	-	-	-181	2,615
Profit for the period before tax	**-9,722**	**-3,736**	**30,485**	**36,669**
Average risk-weighted assets	55,640	57,019	4,558,119	4,626,146
Average allocated equity	10,605	12,109	868,690	981,863
ROE based on profit for the period before tax	-	**-**	**6.1%**	**6.9%**
Cost/income ratio	-	**-**	**55.8%**	**52.2%**
Risk/earnings ratio	-	**-**	**16.0%**	**18.1%**

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

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

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

Corporate and business banking segment
As at the end of June, 19,042 corporate and business banking customers were serviced in this segment. BKS Bank having originally been conceived as a corporate and business bank, this business segment is still the enterprise's most important pillar. Corporate and Business Banking customers still account for the larger part of the loan portfolio and make an essential contribution to profit for the period. Besides all the income and expenses of BKS Bank AG that arose from business with corporate and business banking customers, the income and expenses of the leasing companies were also allocated to this segment, provided they arose from business done with corporate customers.

Retail banking segment
All income and expense components of BKS Bank AG, BKS Bank d.d., BKS-Leasing Gesellschaft m.b.H., BKS-leasing d.o.o., BKS-leasing Croatia d.o.o. and BKS-Leasing s.r.o. from business with retail customers and wage and salary earners are reported summarized in the retail banking segment. Some 133,647 customers were assigned to this segment at the end of June 2017.

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

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

(34) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

in €k	31/12/2016	30/06/2017	± in %
Subscribed capital	79,279	79,279	0.0
- Share capital	79,279	79,279	0.0
Capital reserves	193,032	193,032	0.0
Retained earnings and other reserves	663,075	703,628	6.1
Additional equity instruments (AT1 note)	23,400	29,000	23.9
Shareholders' equity before minority interests	**958,786**	**1,004,939**	**4.8**
Minority interests	-19	-20	6.6
Shareholders' equity after minority interests	**958,767**	**1,004,919**	**4.8**

The share capital was represented by 37,839,600 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. Each share had a nominal value of EUR 2.0. Capital reserves contain premiums from the issuance of shares. Retained earnings and other reserves consist essentially of reinvested profits. Additional equity instruments consist of Additional Tier 1 notes which must be classified as equity pursuant to IAS 32.

(35) CONTINGENT LIABILITIES AND COMMITMENTS

in €k	31/12/2016	30/06/2017	± in %
Guarantees	387,962	420,819	8.5
Letters of credit	2,583	1,352	-47.7
Contingent liabilities	**390,545**	**422,171**	**8.1**
Other commitments	1,243,552	1,296,531	4.3
Commitments	**1,243,552**	**1,296,531**	**4.3**

(36) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

	Outstanding balances		Guarantees received		Guarantees provided	
in €k	At 31/12/2016	At 30/06/2017	At 31/12/2016	At 30/06/2017	At 31/12/2016	At 30/06/2017
Non-consolidated subsidiaries			-	-	-	-
Receivables	3,213	3,230				
Payables	1,379	1,748				
Associates and joint arrangements			-	-	-	-
Receivables	17,799	5,796				
Payables	67,767	4,247				
Key management personnel			-	-	-	-
Receivables	458	412				
Payables	859	1,237				
Other related persons			-	-	-	-
Receivables	124	195				
Payables	753	866				

LOANS AND ADVANCES GRANTED

in €k	31/12/2016	30/06/2017	± in %
Loans and advances granted to members of the Management Board	72	64	-11.1
Loans and advances granted to members of the Supervisory Board	386	348	-9.8
Loans and advances granted	**458**	**412**	**-10.0**

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

(37) EVENTS AFTER THE REPORTING DATE

In mid-July, Croatia passed a law under which certain loan agreements with retail banking customers and small enterprises might be declared null and void. We have not yet estimated imminent risk in numbers, as the lawfulness of this legislative act is still being questioned. We are keeping a close watch on developments and expect changes to still come about in this matter.

(38) FAIR VALUES

Financial assets and debt measured at fair value

30/06/2017 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	LEVEL 3 "Internal measurement method"	Total fair value
Assets				
Trading assets	-	11	-	11
FA[1] at fair value through profit or loss	22,773	0	64,684	87,457
Available-for-sale financial assets	179,389	0	20,121[2]	199,510
Other assets (derivatives)	-	11,130	-	11,130
Equity and liabilities				
Liabilities evidenced by paper	-	-	83,849	83,849
Trading liabilities	-	11	-	11
Other liabilities (derivatives)	-	28,627	-	28,627

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

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

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

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

in €k	Financial assets designated as at fair value through profit or loss	Liabilities evidenced by paper of which, at fair value through profit or loss
At 1 January 2017	52,675	85,130
Reclassified	-	-
Income Statement[1]	-604	-1,281
Other profit or loss	-	-
Purchased	16,700	-
Sold/redeemed	-4,087	-
At 30 June 2017	**64,684**	**83,849**

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

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

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

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

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

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

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

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

Changes in the ratings of assets and liabilities measured at fair value
Changes in the fair values of securities and loans designated as at fair value through profit or loss arising from default risk were calculated on the basis of the internal ratings of those financial instruments and their remaining term to maturity. The change in the default risk associated with liabilities measured at fair value in the period under review was calculated on the basis of a funding curve specific to BKS Bank and a financial instrument's remaining term to maturity. In the first half of 2017, the changes in the ratings of receivables from customers measured at fair value had an effect on their fair value in the amount of EUR 0.0 million (previous year: EUR 0.0 million). In the first half of 2017, 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 (previous year: EUR 0.7 million).

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

FINANCIAL ASSETS AND DEBT NOT MEASURED AT FAIR VALUE

30/06/2017 in €k	LEVEL 1 'Market value'	LEVEL 2 'Based on market data'	LEVEL 3 'Internal measurement method'	Total fair value	Carrying value 30/06/2017
Assets					
Receivables from other banks	-	-	157,741	157,741	156,909
Receivables from customers	-	-	5,379,290	5,379,290	5,308,670
(FA[1]) Held-to-maturity	823,462	-	-	823,462	768,460
Equity and liabilities					
Payables to other banks	-	-	721,371	721,371	719,869
Payables to customers	-	-	4,819,402	4,819,402	4,810,761
Liabilities evidenced by paper	385,514	71,051	-	456,565	439,776
Subordinated debt capital	179,333	2,360	-	181,693	175,149

[1] FA = Financial assets

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

[1] FA = Financial assets

(39) DERIVATIVES TRANSACTION VOLUME

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

30/06/2017	Nominal amount, by time to maturity				Fair values	
in €k	<1 year	1-5 years	> 5 years	Total	Positive	Negative
Currency contracts	**1,034,124**	**347,629**	**-**	**1,381,753**	**3,897**	**22,428**
– of which Trading Book	-	-	-	-	-	-
Interest rate contracts	**9,374**	**77,038**	**239,092**	**325,504**	**6,541**	**5,574**
– of which Trading Book	624	14,038	1,206	15,868	11	11
Securities contracts	**1,554**	**-**	**-**	**1,554**	**-**	**13**
– of which Trading Book	-	-	-	-	-	-
Total	**1,045,052**	**424,667**	**239,092**	**1,708,811**	**10,438**	**28,015**
- of which Trading Book	624	14,038	1,206	15,868	11	11

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

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

We state to the best of our knowledge that the interim consolidated financial statements as at 30 June 2017 prepared in accordance with the relevant financial reporting standards provide a true and fair view of the assets, financial position and result of operations of the BKS Bank Group, and that the Group management report for the period ended 30 June 2017 provides a true and fair view of the assets, financial position and result of operations of the BKS Bank Group with respect to the key events having taken place during the first three months of the financial year and their effects on the interim consolidated financial statements in terms of material risks and uncertainties over the course of the remaining nine months of the financial year.

Klagenfurt am Wörthersee, 18 August 2017

The Management Board

Dieter Kraßnitzer, CIA
Member of the Management Board

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

Herta Stockbauer
Chairwoman of the Management Board

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

Wolfgang Mandl
Member of the Management Board

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

FINANCIAL CALENDAR 2017

Date	Content of the notification
5 April 2017	Publication of the annual financial statements and the consolidated financial statements 2016 on the internet and in the Official Gazette of the Republic of Austria "Wiener Zeitung"
9 May 2017	78th annual general meeting
15 May 2017	Dividend ex-day
17 May 2017	Dividend payout day
26 May 2017	Interim report for the period ended 31 March 2017
25 August 2017	Half-year Financial Report
29 November 2017	Interim report for the period ended 30 September 2017

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