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Interim Report to 30 September 2014

BKS Bank
3 Banken Gruppe

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Forward-looking statements

This Interim Report as at and for the nine months ended 30 September 2014 contains statements and forecasts concerning the future performance and development of the BKS Bank Group. Such forecasts are estimates made by us on the basis of all the information available to us on the copy deadline date, which was 25 November 2014. If the assumptions upon which those forecasts were based prove to be wrong or if risk events transpire, actual results may differ from those that are currently expected. This Interim Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG*.

Disclaimer

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

Overview of the BKS Bank Group

THREE-YEAR COMPARISON

Income account, €m	1/1–30/9/2012	1/1–30/9/2013	1/1–30/9/2014
Net interest income	106.8	107.8	119.1
Impairment charge on loans and advance	(27.4)	(30.7)	(40.2)
Net fee and commission income	32.9	33.6	35.8
General administrative expenses	(75.6)	(74.5)	(76.9)
Profit for the period before tax	35.1	34.6	38.6
Profit for the period after tax	30.4	30.9	33.3

Balance sheet data, €m	31/12/2012	31/12/2013	30/9/2014
Assets	6,654.4	6,743.8	6,859.2
Receivables from customers after impairment charge	4,794.2	4,874.2	4,930.4
Primary deposit balances	4,362.4	4,597.5	4,939.0
– Of which savings deposit balances	1,797.9	1,741.2	1,716.5
– Of which liabilities evidenced by paper, including			
Equity	688.3	714.2	741.5
Customer assets under management	10,674.9	11,383.4	12,829.9
– Of which in customers' securities accounts	6,312.5	6,785.9	7,890.9

Own funds within the meaning of BWG, €m (Basel III from 1/1/2014)	31/12/2012	31/12/2013	30/9/2014
Risk-weighted assets	4,457.9	4,423.3	4,864.3
Own funds	709.5	707.6	733.8
– Of which Tier 1 capital (common equity Tier 1 capital in conformity with Basel III from 1/1/2014)	630.7	662.5	615.6
Surplus own funds before operational risk	352.9	353.8	—
Surplus own funds after operational risk	325.8	326.8	—
Surplus own funds for the purposes of Basel III	—	—	344.7
Tier 1 ratio, % (common equity Tier 1 capital ratio in conformity with Basel III from 1/1/2014)	13.1	13.9	12.5
Own funds ratio, % (own funds ratio in conformity with Basel III from 1/1/2014)	15.9	16.0	15.1

PERFORMANCE, %	2012	31/12/2013	1/1–30/9/2014
Return on equity before tax	7.5	6.5	6.9
Return on equity after tax	6.5	5.8	5.9
Cost:income ratio	54.1	54.3	50.5
Risk:earnings ratio (credit risk in % of net interest income)	27.0	29.2	33.7

Resources	2012	2013	1/1–30/9/2014
Average number of staff	930	910	915
Branches	55	56	56

BKS Bank's shares	2012	2013	1/1–30/9/2014
No. of ordinary no-par shares (ISIN: AT0000624705)	30,960,000	30,960,000	30,960,000
No. of no-par preference shares (ISIN: AT0000624739)	1,800,000	1,800,000	1,800,000
High: ordinary/preference share, €	17.6/15.5	17.6/15.3	17.75/15.55
Low: ordinary/preference share, €	17.2/14.9	17.0/14.5	16.9/14.85
Close: ordinary/preference share, €	17.3/15.0	17.5/15.3	17.2/15.15
Market capitalization, €m	562.6	569.3	559.8

From left to right: Wolfgang Mandl, Herta Stockbauer and Dieter Krassnitzer.

Dear shareholder,
Dear customer,
Dear business associate of BKS Bank,

We would like to extend to you — including, in particular, our many 'young' shareholders — a very warm welcome. Following the successful completion of our share capital increase in October, we want to use this Interim Report as an opportunity to thank you for the trust you have put in our bank. We were able to place a total of 3,276,000 new ordinary no-par shares at an issue and subscription price of €16 each. The invitation to subscribe for new ordinary no-par shares ('young' shares) was valid until 22 October 2014. It also attracted a great deal of interest from BKS Bank's existing shareholders. All young shares that were not purchased through subscription rights were subscribed by private and institutional investors within the scope of a public offering lasting until 28 October.

BKS Bank AG now has share capital of €72,072,000. It is represented by 34,236,000 ordinary shares and 1,800,000 preference shares. The capital increase yielded gross proceeds of €52.4 million. This opened up good opportunities for us to permanently improve our competitiveness abroad and continue on our bank's growth path in a planned and well-considered way. Stock exchange trading in our young shares already began on 3 November 2014. They carry a full dividend entitlement in respect of the current 2014 financial year. On the copy deadline date (25 November), the BKS Bank ordinary no-par share was trading at €17.3. The price of the no-par preference share reached €15.4.

Your BKS Bank is Austria's best brick-and-mortar bank. This was the conclusion of a study published by the FORMAT business magazine and *ÖGVS – Gesellschaft für Verbraucherstudien mbH* on the basis of an investment advisor ranking process carried out in recent months. Our bank was leader in the sub-categories 'General Service Performance' and 'Transparency.' BKS Bank also did very well in the 'Mystery Shopper Test' in each of the regional capitals in which it operates (Graz: 2nd place; Vienna: 3rd place), outperforming its big-bank competitors. As for BKS Bank's business performance, we are able to present you with another solid result after three quarters of 2014 in these Interim Financial Statements. Although the difficult market environment in which banks are operating again improved only a shade this year, *BKS Bank AG* has to date avoided all of the market's pitfalls with flying colours. They were both a burden and a challenge. Thanks to the strategic measures that *BKS Bank AG* has already taken and the fine-tuning of its line of products and services to meet the needs of its customers, the Group has stayed on track. Profit before tax was 7.8 per cent up on the first three quarters of 2013 to €33.3 million, and the Group's assets had grown to roughly €6.9 billion by the end of September 2014. We remained uncompromising in the pursuit of our consistent liquidity and risk management activities. Our declared goal for the remaining weeks of 2014 and for the year as a whole is to be able to present to you and your fellow equity holders another balance sheet that is free from surprises and a dividend proposal to match our results. However, we believe that interest rates will remain at historical lows for the foreseeable future and too low to ensure long-term price and financial stability. Moreover, new regulatory demands — which are imposing serious financial and personnel burdens — are being made at ever shorter intervals.

Consolidated Management Report for the Nine Months Ended 30 September 2014

The Economic Setting in which Banks are Operating

The general economic situation

The world economy's outlook has worsened of late. According to the newest estimates published in the European Commission's 2014 Autumn Forecast, real global growth in 2014 is likely to be slightly weaker than previously expected, at 3.3 per cent. However, the real GDP growth forecasts for 2015 and 2016 have been left unchanged at 3.8 per cent and 4.1 per cent, respectively. Because of the growing geopolitical risks in Eastern Europe and the Middle East, the growth gaps between individual regions and countries are visibly widening. Nascent concerns about China's financial stability in the wake of the sharp downturn in the Chinese property market during the first quarter dissipated later in the year following monetary policy action by the central bank and a revival of exports to, above all, the United States and Europe. Having grown by 7.8 per cent in real terms in 2013, China's real GDP is likely to grow by 7.3 per cent this year. In contrast, the Japanese economy, which has recently suffered a downturn in private consumer demand, is looking forward to GDP growth of only about 1.1 per cent in 2014.

After an unusually harsh winter, the US economy still shrank by 0.5 per cent in real terms in the first quarter of 2014. However, it already recorded real annualized growth rates of 1.1 per cent in the second quarter and 3.4 per cent in the third quarter on the back of a strong economic upturn. Given wings by the US central bank's continuation of its expansionary monetary policy, the economy was stimulated primarily by private consumption, gross fixed capital formation and inventory investment. Although exports increased, there was still a negative trade balance as imports continued to grow faster than exports in the wake of exchange gains by the US dollar. If the jobless rate continues to approach the 6 per cent mark — having come to 7.4 per cent in 2013 — real GDP in the United States is likely to grow by 2.2 per cent over 2014 as a whole and 3.1 per cent in 2015.

To date, the broad export-driven recovery that was expected in the eurozone this year has failed to transpire. This has been due to a sharp downturn in demand from the threshold countries in South America, Eastern Asia and Eastern Europe. Moreover, economic sanctions by the United States and the European Union meant that the EU-18 countries also sustained harm to their trading relations with Russia. Among the major eurozone economies, Germany's is likely to continue to expand fastest, achieving domestically driven growth of 1.3 per cent in 2014 and 1.1 per cent in 2015. In contrast, the eurozone's two other big economies — France and Italy — are struggling with persistently weak growth. Overall, supported by the ECB's continuation of its expansionary monetary policy, the eurozone will probably record moderate GDP growth of about 0.8 per cent in 2014. This would compare with negative 0.5 per cent in 2013. However, the spiral of EU and Russian sanctions (trade embargoes) set off by the Ukraine crisis is likely to continue to burden the economy in coming quarters.

So far, confidence and feedback radiating from the eurozone have primarily benefited the eurozone's eastern regions. At the same time, the recovery in the job market has continued at only a modest pace, albeit steadily. The EU-18 jobless rate in September 2014 was 11.5 per cent (December 2013: 11.8 per cent), and jobless rates fell throughout the region. Fortunately, unemployment also continued to drop in the peripheral countries of Southern Europe.

The Austrian economy was unable to escape the effects of weakening export demand from abroad, including, in particular, demand from the threshold countries. Nor have exports to the important German and Italian markets picked up noticeably to date. Private consumption — the biggest building block of domestic value added alongside exports — was not yet providing any noteworthy positive momentum. However, falling rates of inflation, the slowness of the rise in real wages and continuing positive employment growth mean that we can expect some leeway for additional consumer spending to develop in the coming months. On the other hand, gross fixed capital formation is still stagnant. In particular, Austrian exporters were hit by the Ukraine-Russia conflict, causing companies to postpone their investment projects. The sole pillar of investment growth was residential construction investment, which profited from rising property prices and an increase in the demand for homes. Austria's GDP growth was very restrained in the third quarter of 2014, at 0.2 per cent, but growth is likely to accelerate to 0.7 per cent over 2014 as a whole and to 1.2 per cent in 2015. The inflow of foreign workers increased despite the economy's weak performance, but nonetheless, Austria's jobless rate in September was well below the EU-28 average of 10.1 per cent at 4.7 per cent.

Exchange rates

With expectations regarding future monetary policy muted and given the eurozone's troubled economic outlook, the euro lost ground against the currencies of most of the region's main trading partners from the beginning of the year. As a result, the single currency fell by 8.7 per cent versus the US dollar, 6.8 per cent versus sterling and 4.8 per cent versus the Japanese yen. Furthermore, the euro also suffered losses against the currencies of Asian threshold countries during the period under review, including, above all, the Chinese renminbi (loss of 7.5 per cent) and the currencies of the raw material exporting countries. Because of the minimum exchange rate, the euro's value versus the Swiss franc moved within a narrow range to stand at SFr 1.2063/€ at the end of September. The Croatian kuna, which is of importance to our bank, was trading at HRK 7.6425/€ at the end of September, compared with HRK 7.6265/€ at the beginning of the year.

Money and capital markets

In the United States, the Federal Reserve's Open Market Committee announced on 17 September 2014 that it would be tapering its monthly bond purchases by another US$10 billion and only purchasing US$15 billion of securities a month. It did so against a backdrop of generally positive economic forecasts. Moreover, it reconfirmed that, should the labour market's fragile recovery continue, it will — even after tapering has finally been concluded — be leaving its overnight interest rate unchanged in its current target corridor of zero to 0.25 per cent for some time to come. On this side of the Atlantic, the eurozone's key rate was unexpectedly cut by 10 basis points to 0.05 per cent on 4 September 2014. Since then, the deposit rate has been minus 0.2 per cent and the peak refinancing rate has been 0.3 per cent. In addition, the majority of the ECB council decided to start purchasing ABSs and bonds from October to prevent the eurozone from sliding into deflation. This is another indication of the region's precarious monetary and economic policy situation. At the end of September, the one-month, three-month, six-month and 12-month Euribor rates were 0.08 per cent, 0.18 per cent, 0.25 per cent and 0.34 per cent, respectively. In each case, this was about 21 basis points less than at the beginning of the year. Benchmark yields on 10-year government bonds fell by 101 basis points to a historical low of 0.95 per cent in the eurozone, and at the same time, they fell by 51 basis points to 2.49 per cent in the United States and by 18 basis points to just 0.53 per cent in Japan. At the end of September, the yields on 10-year government bonds in the individual countries in the eurozone ranged between 0.95 per cent in Germany and 6.57 per cent in Greece.

Equity and raw material markets

Against the backdrop of escalating geopolitical tensions in Eastern Europe and the Middle East, growing concern about Ebola and the mixed economic and corporate numbers coming out of the different economic regions, the performance of the international equity markets during the first three quarters was patchy although positive overall. The MSCI World Equity Index in euros gained 11.5 per cent from 123.094 points at the beginning of the year to 137.288 points at the end of September. This trend began in the United States. It was fuelled by expectations of a gradual tapering of bond purchasing by the Federal Reserve System and positive momentum from the US labour market and economy. The Dow Jones Industrial Average rose 3.2 per cent to 17,042.9 points, and the broader S&P 500 gained 6.7 per cent to 1,972.29 points. Share prices in the eurozone measured in terms of the Euro Stoxx 50 — the monetary union's key index — did not begin falling again until the beginning of October following a sustained rise of 3.8 per cent up to the end of September. Having stood at 9,552.16 points at the beginning of the year and having subsequently risen to just under 10,000 points, the DAX had dropped by 0.8 per cent to 9,474.30 points by the end of September following price losses and profit taking. On the Vienna Stock Exchange, the ATX stood at just 2,203.94 points at the end of September. This was 13.5 per cent down on the end of 2013.

Energy prices — a key determinant of global inflation — fell sharply from the beginning of July. Despite tensions in the Ukraine, Russia, Iraq and Libya, global oil output was robust as shale oil and gas production in North America continued to increase and few signals came from the OPEC oil cartel to suggest that it would be cutting production so as to halt the sharp drop in prices. Following a high of US$115.0 a barrel in June, benchmark Brent crude was trading at US$94.83 a barrel at the end of September. That was about 15 per cent less than at the beginning of the year. However, despite the current glut and a temporary drop in price to below the US$84 mark, market participants are pricing in a small rise in oil prices in the medium term. At the time of writing, Brent crude oil futures for delivery in December 2015 are trading at US$97 a barrel. For the most part, supply in other raw material segments like industrial metals also exceeded demand. Having begun the year at US$1,196.8 an ounce, the price of the 'crisis currency' gold was affected by the upward movement in the US economy and the foreseeable end of the glut of cheap central bank money from the United States, reducing its attractiveness to many investors as a hedge against inflation. At the end of September, the spot price of a fine ounce was US$1,204.0.

Notes on the Scope of Consolidation

The overview that follows presents the entities whose assignment to the BKS Bank Group was required by the International Financial Reporting Standards. Consequently, the consolidated group upon which Group analyses were based consisted of 20 banks and other financial service providers and entities rendering banking-related ancillary services. Those entities included our leasing companies in Austria and abroad as well as *Alpenländische Garantie-Gesellschaft mbH* and *Drei-Banken Versicherungs-Aktiengesellschaft*. Given the sizes of the various entities in the Group, its consolidated net profit was dominated by the earnings of *BKS Bank AG*. The consolidated members of the BKS Bank Group comprised the banks and other financial service providers and entities rendering banking-related ancillary services that were controlled by *BKS Bank AG*. During the elimination of investments in and equity of subsidiaries upon consolidation, an entity's cost was compared with the Group's interest in that entity's measured equity, materiality being judged applying common, Group-wide criteria. The principal criteria of materiality were the balance sheet total of a subsidiary, the Group's interest in an associate's equity and the number of people employed by the entity in question. These Interim Consolidated Financial Statements were thus based on the separate financial statements of all the consolidated entities, which were prepared applying common, Group-wide policies. Investments in material associates were accounted for using the equity method, the carrying amount of an equity investment being adjusted according to the change in the net assets of the entity in which the investment was held. All other equity investments were classified as available for sale.

Our investments in our sister banks *Oberbank AG* und *Bank für Tirol und Vorarlberg AG* — which make up the *3 Banken Group* together with *BKS Bank AG* — were also accounted for in the Consolidated Financial Statements, using the equity method. Although BKS Bank controlled less than 20 per cent of the voting power in each of those banks, holding stakes of 18.51 per cent and 15.10 per cent, respectively, the exercise of voting rights was regulated 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 control of them. Consolidated net profit for the period in the nine months to 30 September 2014 included BKS Bank's interests in those banks' profits for the period. The other consolidated entities, most of which were designated as real estate companies, rendered banking-related ancillary services.

THE MEMBERS OF THE GROUP

Consolidated
Accounted for using the equity method

Banks and Other Financial Service Providers

BKS Bank AG, Klagenfurt	*BKS-Leasing Gesellschaft mbH*, Klagenfurt	*BKS-leasing d.o.o.*, Ljubljana	*BKS-leasing Croatia d.o.o.*, Zagreb
BKS Bank d.d., Rijeka	*BKS-Leasing s.r.o.*, Bratislava		
Oberbank AG, Linz	*Bank für Tirol und Vorarlberg AG*, Innsbruck	*Alpenländische Garantie-Gesellschaft mbH*, Linz	*Drei-Banken Versicherungs-Aktiengesellschaft*, Linz

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

Assets, Liabilities, Financial Position

Assets

A marginal increase in assets, a small rise in credit demand

Our balance sheet total grew by €115.5 million or 1.7 per cent to €6.86 billion between 31 December 2013 and the end of the period under review. This was mainly due to growth in the line items *Receivables from customers*, which increased by 1.5 per cent to €5.13 billion, and *Receivables from other banks*, which increased by 67.3 per cent to €195.6 million.

Cash and balances with the central bank were increased by 1.2 per cent to €106.0 million. This compared with €104.8 million at the end of 2013. The increase in receivables from other banks mirrored the usual seasonal pattern of low balances at year-end and higher balances in the course of the year; it was the result of short-term investments of surplus liquid assets with banks of excellent credit standing.

Because of muted demand, the increase in loan receivables was comparatively modest, coming to €77.4 million and taking the total to €5.13 billion. It was not until the third quarter that demand picked up a little. Our outlook for new business volumes remains positive, with the present growth of new business volumes in the corporate and business banking segment living up to our expectations. New business volumes in the retail banking segment were also on target at the end of September. The impairment allowance balance for customer receivables increased by €21.2 million to total €197.3 million at the end of September.

After the elimination of intragroup balances, *BKS Bank AG* accounted for €4.71 billion of the Group's consolidated loan portfolio. Because of the state of the market, the increase versus the end of 2013 was modest, coming to €65.1 million. This was an indication of the in part still precarious economic situation prevailing in Austria and Slovenia. However, the inflow of new personal banking customers at our Slovenian branches was still outstanding. Here too, new depositors predominated.

Leasing operations in Austria continued to grow well, with the present value of lease receivables increasing by 3.6 per cent. Despite the difficult market environment, our leasing subsidiaries abroad — in Slovenia, Slovakia and Croatia — were able to echo the balance of €146.8 million recorded at the end of 2013, achieving a total present value of €143.6 million at the end of September. The main contributor to their generally good performance was *BKS-leasing d.o.o.* in Slovenia, which reported a present value of €70.6 million. The loan portfolio at *BKS Bank d.d.* in Croatia grew by €10.2 million to €122.1 million during the period under review.

It is noteworthy that the proportion of foreign currency loans in relation to total loans in the portfolio fell by another 222 loans or SFr58.9 million and was already down to 10 per cent. This compared with 10.3 per cent at mid-year.

Growth of financial assets affected by historically low interest rates

Our financial assets totalled €1.48 billion at the end of September. While we invested €62.8 million in fixed-interest securities, redemptions totalled €43.9 million. On balance, this increased the portfolio of held-to-maturity investments. Holdings of securities designated as at fair value through profit or loss or classified as available for sale fell by €29.9 million to €158.7 million and by €48.8 million to €202.7 million, respectively. Having started the year at 1.96 per cent, yields on 10-year German *bunds* slumped dramatically to below 1.0 per cent during the period under review. In this environment, redemptions were not made up for by new investments in either the held to maturity or the available for sale portfolio.

The increase in the line item *Investments in entities accounted for using the equity method* was satisfactory; it came to €387 million and was therefore up on the figure of €361.1 million recorded at the end of 2013. The biggest contribution came from our sister banks *Oberbank AG* und *BTV AG*, which were thus accounted for.

Equity and Liabilities

Striking inflow of primary deposits

The equity and liabilities side of the Balance Sheet reflected a pleasing inflow of primary deposits. We were able to increase the total balance of savings, sight and time deposits, our own issuances and subordinated debt capital by €341.5 million or 7.5 per cent to €4.94 billion between the beginning of the year and the end of the period under review.

However, the ECB's near-zero interest rates policy has made it very difficult to attract savings deposits this year. Here, BKS Bank's performance mirrored the nationwide trend, albeit, as we are pleased to report, in a less severe form. Consequently, the balance of savings deposits with our bank was just €24.7 million or 1.4 per cent down on the end of December to €1.72 billion. Over the same period, Austrian savings deposit balances in the joint stock bank sector shrank by 3.8 per cent (latest available data: Q2 2014). This means that Austrian savings deposits totalling €1.65 billion were withdrawn from the banking sector as a whole. In order to secure our funding base, we will continue to do everything we can to attract savings deposits on market terms and conditions and with the help of our branches' strong regional roots.

In contrast, *Other liabilities* in the form of sight and time deposit balances grew sharply, increasing by €380.6 million or 18.6 per cent to a total of €2.42 billion. This line item, which will also be of importance to our liquidity planning at the end of 2014, was strengthened mainly by institutional clients. The strong inflow of deposits from Slovenia driven by the high level of customer confidence in us was also striking.

As expected, growth in the line item *Liabilities evidenced by paper* was subdued, taking it up to €604.3 million from €591.1 million at the end of 2013. This was because the extremely low interest rates made it difficult to design attractive issues. Our subordinated debt issuance in the period under review comprised one issue of €20.0 million. Redemptions came to €80.6 million, while new issues came to €94.6 million. Although we carried out a series of attractive new issues — including the 2.4 per cent *BKS Bank-Obligation 2014-2021/1* and the *BKS Bank-Stufenzins-Obligation 2014-2021/3* — our issuing policy was intentionally defensive in the absence of corresponding credit demand.

Satisfactory equity growth

The line item *Equity* grew by €27.3 million to €741.5 million during the first three quarters of 2014. Most of the increase was due to the addition of profit for the period and adjustments connected with associates.

Own funds

Own funds remain solid

The way we calculate our own funds changed significantly when Basel III was implemented by the new EU legislation (CRD IV and CRR) at the beginning of 2014 and to conform to the amended *Bankwesengesetz* (BWG *neu*: new Austrian

BKS BANK KREDITINSTITUTSGRUPPE: OWN FUNDS FOR THE PURPOSES OF BASEL III

€m	31/3/2014	30/6/2014	30/9/2014
Equity	64.8	64.8	64.8
Reserves less intangible assets	541.8	541.9	541.2
Deductions	0	0	0
Common equity Tier 1	**606.6**	**606.7**	**606.0**
Common equity Tier 1 ratio	12.1%	12.4%	12.5%
Hybrid capital	32.0	32.0	32.0
Deductions	(22.2)	(22.4)	(22.4)
Additional Tier 1	**9.8**	**9.6**	9.6
Tier 1	**616.4**	**616.4**	**615.6**
Tier 1 ratio (including additional Tier 1 capital)	12.3%	12.6%	12.7%
Ancillary capital items and instruments	128.4	131.3	127.4
Deductions	(9.1)	(9.1)	(9.2)
Ancillary capital	**119.3**	**122.2**	118.2
Total own funds	**735.7**	**738.5**	**733.8**
Own funds ratio	14.7%	15.0%	15.1%
Basis of assessment	**4,996.5**	**4,912.8**	4,864.3
Surplus own funds	**336.0**	**345.5**	**344.7**

banking act). In conformity with the transitional provisions of CRR and CRD IV, capital instruments that are no longer eligible are gradually being eliminated while the new rules associated with the regulatory adjustments are successively being introduced.

BKS Bank now calculates its own funds ratio and basis of assessment in accordance with the own funds regime established by Basel III. However, our regulatory calculations had not yet been brought into line with IFRSs. Our own funds requirement was computed in compliance with the requirements of the standardized approach. The basis of assessment — still computed in conformity with Basel II at the end of 2013 — was €4.42 billion. The requisite new additions arising from, *inter alia*, credit, market and operational risk increased it to €4.86 billion by the end of September. Furthermore, at the end of the third quarter, BKS Bank had common equity Tier 1 capital of €606.0 million, own funds of €733.8 million and surplus own funds of €344.7 million. Its own funds ratio for the purposes of CRR was 10 basis points up on the end of the first half to 15.1 per cent. Its common equity Tier 1 ratio came to 12.5 per cent, compared with 12.4 per cent at mid-year. The minimum common equity Tier 1 ratio in 2014 will 4 per cent, and the minimum total capital requirement will be 8 per cent.

The recent 1-for-10 increase in share capital came to an end on 28 October 2014. As a result, it has of course not yet been included in the calculations as of 30 September.

Performance

Solid profit growth despite a challenging market environment

Profit for the period in the first three quarters of 2014 came to €33.3 million. We are pleased to report that this was €2.4 million or 7.8 per cent up on the same period of 2013. Earnings in the third quarter also showed the contours of an uptrend, with profit for the period coming to €12.2 million. This was both 15.9 per cent up on profit for the previous quarter and roughly one fifth up on profit for the third quarter of 2013.

Net interest income before the impairment charge grew by €11.4 million to €119.1 million, compared with €107.8 million in the same period of 2013. This increase too reflected our solid performance. It was founded on a significant drop in interest expenses, especially in the savings deposit segment. Interest earnings were just 0.5 per cent up on the same period of 2013 to €146.3 million. We believe that the recovery of new lending business volumes in the present fourth quarter will increase loan take-ups, keeping interest earnings stable.

The line item *Profit/(loss) from investments in entities accounted for using the equity method* was €2.6 million or 13.8 per cent up on the same period of 2013 to €21.1 million. This was because those entities recorded solid business growth, especially in the second quarter of 2014.

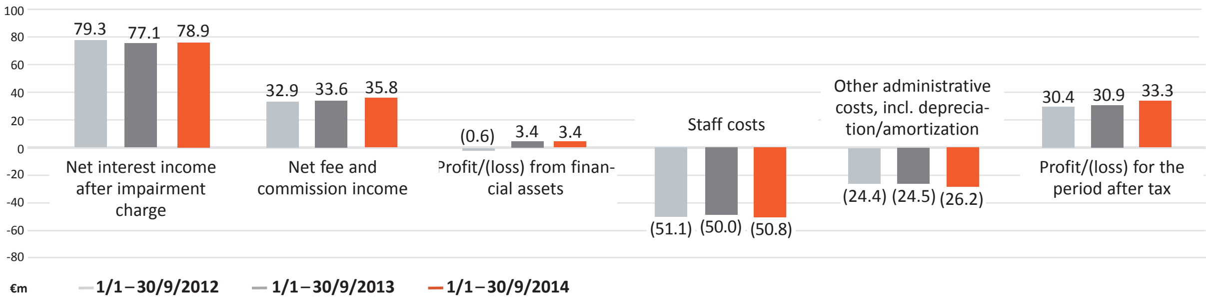
As the impairment charge showed, many companies in our target markets in Austria and abroad had not yet emerged from the economic shadows. It was the one fly in the ointment in our bank's otherwise good performance. We had to accept a substantial increase of 31 per cent compared with the same period of 2013 to €40.2 million. However, our strict risk standards give us security and the confidence that we will be able to detect risks in good time and act appropriately.

Fee and commission operations pick up

Net fee and commission income grew satisfactorily during the period under review, coming to €35.8 million. This was €2.1 million or 6.4 per cent up on the same period of 2013.

Fees and commission earnings from payment operations were the most important pillar of net fee and commission income, coming to €14.1 million or roughly 40 per cent of the total. Profit from securities operations was 8.9 per cent up on the same period of 2013. The increase in the value of securities portfolios in Slovenia generated by the acquisition of *Factor banka*'s securities positions had a positive impact. Monthly fee and commission earnings there averaged €84 thousand during the third quarter, compared with roughly €25 thousand in the first half. Securities accounts within the Group were worth €7.89 billion at 30 September 2014 following an increase of €1.1 billion during the period under review. Net fee and commission income from credit operations came to €10.2 million, compared with €9.7 million in the first three quarters of 2013. This was a solid result, but the weak demand for credit kept it slightly below our expectations.

COMPONENTS OF THE INCOME STATEMENT



Solid earnings from financial assets

We matched our good results in the same period of 2013 with a 'no-surprises' profit from financial assets of €3.4 million. We achieved solid growth of €0.7 million in our earnings from financial assets designated as at fair value through profit or loss. We were able to exploit temporary stock market booms to earn €2.7 million in the available for sale portfolio in the first nine months of this reporting year.

Staff costs below budget

Staff costs up to the end of September were just slightly up on the same period of 2013, coming to €50.8 million. We are pleased that we managed with the help of structural measures to keep the workforce at a maintainable level despite the high regulatory requirements. The average number of staff increased by just five to 915 (full year equivalents) during the period under review, and it was completely static in the third quarter. Personal loan processing and branch services were outsourced to Group member *BKS Service GmbH* as of 1 January 2014 within the scope of our Operational Excellence Project (OpEx). This having been done, the optimization of processes within the outsourced units progressed steadily. The resulting staff savings were promptly put into effect.

Other administrative costs and depreciation and amortization of fixed assets came to €26.2 million during the period under review, compared with €24.5 million in the first three quarters of 2013. True to our commitment to strictly applied enterprise-wide cost discipline, the small increase in office and operating expenses took place alongside marketing expenses that stayed well below budget. In addition, the cost reductions achieved through the ongoing implementation of our OpEx project made up for the increase in costs caused by the challenging regulatory requirements and allowed us to continue to invest in improving enterprise processes. The small increase in other administrative costs is all the more remarkable given that we opened another branch this year as part of reinforcing our presence in the Viennese market, necessitating investments in the requisite construction work and IT systems.

The line item *Other operating income net of other operating expenses* came to negative €4.0 million. Although this loss was more than a third smaller than in the same period of 2013, it was still significantly more than we had planned. Among other things, this line item included substantially increased expenditure on the controversial bank tax — which was unexpectedly increased by another €1.6 million in 2014 — and on provisions created for possible damages payments in the securities segment.

Segmental Reports

Our comments on the performance of our segments during the first nine months of 2014 are based on the organizational structure of the Group that underlay its internal management reporting system as at the end of 2013. BKS Bank thus focused its activities on its three big business segments, namely the corporate and business banking, retail banking and financial markets segments. The performance of each of those segments was measured on the basis of its profit before tax and return on equity (ROE), its cost:income ratio (CIR) and its risk:earnings ratio (RER). All three segments recorded a profit in the first three quarters of 2014 that was respectable given the economic environment, and the financial markets segment actually achieved conspicuous rates of growth.

Corporate and Business Banking

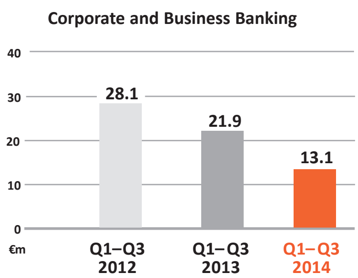
We were servicing 14,150 corporate and business banking customers in this segment after a pleasing influx of about 850 new customers during the period under review. Alongside major customers, they consisted of small and medium-sized enterprises in the manufacturing, business and trading sectors. Besides all the income and expenses of *BKS Bank AG* that arose from business done with corporate and business banking customers, this segment also encompassed business done by *BKS Bank d.d.* in Croatia and the Group's leasing companies insofar as it comprised customer business done with companies. The portfolio of loans to corporate and business banking customers grew by 1.0 per cent to €3.99 billion during the period under review. As a result, roughly 78 per cent of all loans and advances to customers contained in the Group's portfolios at the end of September had thus been granted to this group of customers. This total compared with payables to corporate and business banking customers of €1.92 billion.

Net interest income in the first three quarters came to €60.0 million, following on from the satisfactory total of €60.3 million recorded in this segment in the same period of 2013. Net fee and commission income was 3.4 per cent up on the same period of 2013 to €18.7 million. Synergistic effects reduced general administrative expenses by €0.4 million or 1.4 per cent versus the same period of 2013 to €28.2 million. However, the impairment charge had to be increased by €9.0 million to €38.1 million against the backdrop of the obstinate economic slump. This reduced the segment's profit for the period from €21.9 million to €13.1 million, resulting in a number of significantly weakened performance ratios. The segment's risk:earnings ratio worsened to 63.5 per cent and the return on equity based on profit for the period fell from 11.2 per cent to 6.8 per cent. On the other hand, the cost:income ratio improved marginally, falling by 40 basis points to 35.5 per cent.

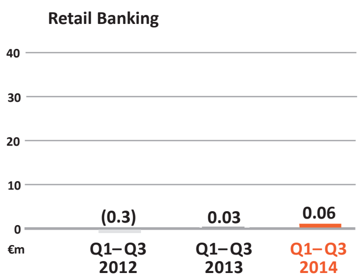
Retail Banking

134,200 customers of *BKS Bank AG*, *BKS Bank d.d.* and the Group's leasing companies were being serviced in the retail banking segment. Furthermore, it included some 2,700 securities customers absorbed by our branch in Ljubljana during the takeover of the securities operations of *Factor banka* in Slovenia. At the end of September, the portfolio of loans to retail banking customers totalled €1.14 million, having grown by 3.5 per cent since the end of 2013, when it totalled €1.10 billion. The corresponding liabilities increased by 2.7 per cent to €2.22 billion. Consequently, at the end of the period under review, roughly 88 per cent of savings deposit balances and nearly 30 per cent of sight and time deposit balances had been generated by retail customer operations. Although this segment is highly dependent on resource and cost intensive branch operations, limiting its profit for the period to just €59 thousand, there was a slight increase compared with the first three quarters of 2013. Net interest income was satisfactory at €25.9 million, compared with €24.1 million in the same period of 2013. Net fee and commission income also grew, increasing by 8.3 per cent to €16.4 million. The requisite impairment charge up to the end of September, most of which affected *BKS Bank AG*, was €1.7 million, compared with €0.7 million as of the same day of 2013. This gave the segment a risk:earnings ratio of 6.5 per cent, as against 3.0 per cent as of the end of September 2013. Its ROE improved marginally, advancing by 10 basis points to 0.2 per cent. The cost:income ratio was 220 basis points down on the same period of 2013 to 95.9 per cent, but nonetheless, this is still a level upon which we wish to improve. To this end, we will continue to intensify our distribution activities. Thanks to the many initiatives we have put in place, we expect this segment's earnings performance to continue to firm up this fourth quarter.

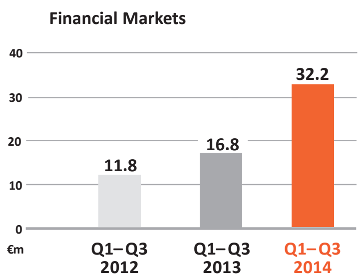
PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT



ROE	14.5%	11.2%	6.8%
CIR	34.7%	35.9%	35.5%
RER	40.8%	48.3%	63.5%



ROE	(0.9%)	0.1%	0.2%
CIR	99.6%	98.1%	95.9%
RER	1.9%	3.0%	6.5%



ROE	4.5%	5.9%	10.2%
CIR	24.8%	19.3%	14.2%
RER	0.0%	3.7%	1.3%

A detailed segmental breakdown is presented in the Notes on page 35.

Financial Markets

The financial markets segment encompassed profits from *BKS Bank AG*'s proprietary trading activities, securities held in our own portfolios, derivatives in the banking book and interbank operations as well as earnings from our interest rate term structure management activities. Profit for the period before tax in this segment in the first three quarters of 2014 came to €32.4 million, which was a substantial €15.3 million up on its profit as of 30 September 2013. This was the result of an increase in net interest income to €32.4 million generated mostly by an advance in so-called 'structural' income, the segment's stable profit from financial assets and a merely marginal increase in general administrative expenses to €4.9 million. The risk costs allocated to this segment came to just €0.4 million. They comprised the collective allowance for country risk exposure required by IAS 39 and gave it a risk:earnings ratio of 1.3 per cent. The segment's ROE based on its profit for the period increased by 430 basis points to 10.2 per cent, and its cost:income ratio improved to an excellent 14.2 per cent from 19.3 per cent in the same period of 2013.

Key Corporate Ratios

All ratios other than risk:earnings ratio on course

Join us for a look at a few common operational performance ratios. Based on a number of indicators — credit and primary deposit balance growth, costs and operating profit growth — the BKS Bank Group's enterprise barometer paints a balanced overall picture. As a result, thanks to the growth in consolidated profit for the period that we have described, most of the BKS Bank Group's key operational performance ratios also exceeded our high expectations. As we have already explained in the section on our own funds, our bank had a very solid own funds base and, consequently, also boasted correspondingly good numbers under the Basel III regime. Our cost:income ratio was likewise on course to our benchmark, improving slightly to 50.5 per cent. This was the reward for our consistent cost management activities. The increase in the risk:earnings ratio from 29.2 per cent to 33.7 per cent was a result of the increase in the requisite charge for impairment losses — and the visibly frosty economic climate is dampening our expectations of being able to get back to the bank's internal benchmark of 20 per cent in the foreseeable future.

CORPORATE RATIOS

Per cent	2012	2013	1/1–30/9/2014
ROE (before tax)	7.5	6.5	6.9
ROA (before tax)	0.8	0.7	0.8
Cost:income ratio	54.1	54.3	50.5
Risk:earnings ratio	27.0	29.2	33.7
Tier 1 ratio*	13.1	13.9	12.5
Own funds ratio*	15.9	16.0	15.1

* Since 1 January 2014: common equity Tier 1 and own funds ratio in conformity with Basel III.

Risk Report

BKS Bank defines risk as the possibility of losses or profits foregone as a result of internal or external factors. Our bank's risk management activities focus on ensuring that we remain liquid, on ensuring that the customer funds entrusted to us can be returned and on ensuring that the capital invested in us by our equity holders retains its value. The goal of our risk policy is to detect quantifiable and non-quantifiable operational and other banking risks at the outset and to actively manage and limit them using effective risk management techniques. Making as efficient use as possible of available capital in the light of medium-term and long-term strategic goals and optimizing the trade-off between risk and return thus remained at the centre of our risk management activities during the first three quarters. This was in line with the commitment anchored in our vision and mission only to enter into risks that BKS Bank can bear without outside help. Another goal was to ensure that BKS Bank always has adequate capital to support its risk profile.

The areas of risk that are of most essential importance to BKS Bank are credit risk (which includes equity investment risk), market risk, liquidity risk and operational risk. A Management Board member who is not involved in front office operations has central responsibility for risk management, which is based on official regulatory recommendations. The large loan risks incurred by BKS Bank and the *3 Banken Group* are secured by *Alpenländische Garantie-Gesellschaft mbH* (ALGAR), which is accounted for in the Consolidated Financial Statements of the BKS Bank Group.

Credit Risk

Credit risk (also called default risk) is one of the most important risks in banking. It arises both from classical banking products (e.g. credit products und guarantees) and from certain trades (e.g. forwards, futures, swaps and options). Credit risk is the risk of a partial or complete loss of contractually agreed loan payments. This risk can, among other things, be caused by a business counterparty's inadequate credit standing or, indirectly, by country risk as the result of a counterparty's domicile or place of residence. Throughout the BKS Bank Group, it is monitored and analyzed at the product and single customer level, at the level of groups of related customers and at the portfolio level. Our bank employs a 13-class rating system that is based on statistical methods.

RATING CLASSES

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

Although the latest forecasts suggest that the threat of a renewed relapse into recession in our market territories has been averted, the economic situation in general is, from a risk point of view, still plagued by uncertainties and imponderables. We therefore remain upbeat about the fact that about 74.6 per cent of the total corporate and business loan portfolio and 90.8 per cent of the total retail loan portfolio are in the rating classes from AA to 3b. In other words, they are in the credit standing classes from first-class to acceptable where the default risk is low. This reflects the focuses of BKS Bank's new customer acquisition activities.

The charge for impairment losses in the first three quarters of 2014 came to €40.2 million, compared with €30.7 million in the same period of 2013. This translates into an increase of €9.5 million or 31.0 per cent. Impairment allowances increased by €9.1 million to €44.0 million. This figure includes impairment allowances recognized on an item-by-item basis, commission payments to ALGAR, collective assessments of impairments carried out in accordance with IAS 39 and the collective allowance for country risk exposure. On the other hand, the requisite charge for the risks of our foreign subsidiaries fell slightly compared with the same period of 2013, coming to €1.3 million. The requisite charge for impairment losses at *BKS Leasing* in Croatia came to €0.7 million, followed by €0.6 million at *BKS Bank d.d.* The charges were based on regulatory risk allowance standards and our strict internal rules.

CHARGE FOR IMPAIRMENT LOSSES

€m	30/9/2013	30/9/2014	+/(–) Change, %
Direct write-offs	1.1	0.4	(61.2)
Impairment allowances	34.9	44.0	26.1
— Of which at Slovenia branch	3.9	8.4	>100
Impairment reversals	(5.1)	3.9	(23.5)
— Of which at Slovenia branch	—	—	—
Subsequent recoveries	(0.2)	0.4	48.2
Charge for impairment losses	**30.7**	**40.2**	**31.0**

Market Risk

In this risk category, we differentiate between interest rate risk, foreign exchange risk and equity price risk. Within the bank, we manage these risks using value at risk (VaR) limits, duration limits and volume limits. The VaR approach is employed to measure the maximum possible loss that could be incurred applying a defined confidence interval. Our Asset Liability Management Committee (ALM) manages market risk monthly on the basis of present value, duration and value at risk calculations. The rise in interest rate risk from 0.32 per cent to 2.5 per cent as shown in the table below was computed on the basis of our interest rate statistics. It was due to an increase on the liabilities side of the account caused by our own longer-term issuances. The difference between the interest rate risk as a percentage of own funds calculated using our internal methodology (100 basis point interest rate shock) and the figure stated in our interest rate statistics (200 basis point interest rate shock) was due to the fact that interest rate gaps in the regulatory calculations are multiplied applying fixed factors and then added regardless of whether they are positive or negative whereas their addition in our internal calculations takes account of whether they are positive or negative.

BKS BANK AG'S INTEREST RATE RISK

€k	31/12/2012	31/12/2013	30/9/2014
Modified duration	0.17	0.05	(0.18)
Absolute duration risk	702	2,572	(3,634)
Risk ratio (100 basis points), % of own funds	**0.13**	**0.49**	**(0.66)**
Interest rate risk according to interest rate risk statistics (200 basis points), % of own funds	**0.91**	**0.32**	**2.50**

EQUITY PRICE RISK AND FOREIGN EXCHANGE RISK

€m	31/12/2012	31/12/2013	30/9/2014
FX risk			
Open currency positions	14,489	18,178	660
Value at risk	932	579	859
Equity price risk			
Equity positions	40,792	37,850	36,222
Value at risk	1,370	1,163	1,343

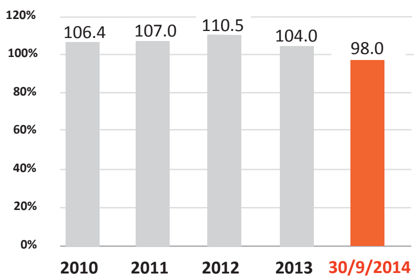
Our open currency positions fell to €0.7 million during the third quarter of 2014. This was €17.5 million down on the figure reported at the end of 2013. The reduction was attributable to the foreign currency components of fund investments held in the banking book, which are no longer counted towards open currency positions under CRR. The portfolio of investments in equities and equity-like instruments reached €36.2 million in the third quarter and was therefore €1.6 million down on 31 December 2013. The value at risk calculated using a historical simulation model was €1.3 million.

Liquidity Risk

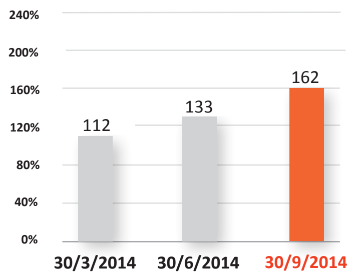
We define liquidity risk as the risk that BKS Bank might not be able to meet its future financial obligations to a sufficient extent or in time or in the right currency or that it might only be able to raise funds at higher than usual market rates (funding risk) or liquidate assets at significantly below normal market rates or prices (market liquidity risk) in crisis situations.

We must begin by pointing out that, as in prior periods, BKS Bank had unrestricted access to the money and capital market during the period under review. Consequently, it was always able to raise the funds needed to achieve a balanced funding mix. At BKS Bank, liquidity management to ensure solvency at all times was carried out with the help of a daily maturity gap analysis for each main currency. Limits were defined at the short end to set liquidity risk boundaries. We mainly held as a liquidity buffer highly liquid securities that were eligible for refinancing with the ECB and eligible customer accounts. Material liquidity risk management decisions were made and liquidity risk monitoring was carried out by the Asset Liability Management Committee (ALM), which met regularly. The Management Board as a whole was involved in this process. As a result, our group had a solid liquidity buffer of €1.10 billion at 30 September 2014, compared with €1.00 billion at the end of 2013.

LOAN:DEPOSIT RATIO



LCR



The loan:deposit ratio shows the relationship between the loan portfolio and primary deposit balances. Thanks to our intensive efforts to attract primary deposits, it was close to our benchmark at 98.0 per cent. The liquidity coverage ratio (LCR) is used to determine whether a bank is in a position to remain liquid for the coming 30 days even in the event of simultaneous market and bank-specific stresses. It compares highly liquid assets with the expected net cash outflow (cash inflow less cash outflow) in the coming 30 days. At BKS Bank, this regulatory liquidity ratio came to 161.7 per cent on 30 September 2014 and was therefore very substantially above the minimum ratio of 100 per cent that will gradually be phased in between the beginning of October 2015 and 2018.

Operational Risk
In line with CRR, we define operational risk as the risk of losses arising primarily in BKS Bank's operational domain and resulting from inadequate or failed internal processes, people or systems or from external factors. At BKS Bank, operational risk management is the responsibility of the respective operating departments and responsible individuals (so-called 'risk-taking units'). 167 loss events were reported during the first three quarters of 2014 (without credit risk events). After the deduction of reimbursements for those losses, they cost roughly €1.12 million.

Outlook for the Year as a Whole

The existing economic forecasts for this year and 2015 have one thing in common: they were initially far too upbeat on the back of promising sentiment indicators and have gradually had to be reduced in view of the slump in world trade that we have been seeing for a number of months. Added to that, there have been exogenous factors such as the marked outflow of capital from the big threshold countries — including, in particular, Russia, India and Brazil — triggered by the US central bank's monetary policy turnaround, increased volatility in the US dollar, euro, Japanese yen and Chinese renminbi currency matrix and in the international money, capital and raw material markets and conflagrations in the Ukraine and the Middle East. Based on the EU Commission's and WIFO's autumn predictions, we believe that real GDP in the eurozone will grow by 0.8 per cent this year and that the Austrian economy too will — after an interim period of weakness — follow a flat economic growth path with growth of between 0.8 per cent (WIFO) and 1.2 per cent (EU Commission).

The emerging market economies will pick up little momentum this year or in 2015. China is already officially on a flatter growth trajectory. Consequently, the biggest source of economic stimulus for the world economy in the coming quarters is probably going to be the US economy, where real GDP is expected to grow by 3.1 per cent and 3.2 per cent, respectively, in 2014 and 2015. The protracted correction in the American property market has come to an end, private households have reduced their debts to a sustainable level and the government is not planning any additional spending cuts or tax hikes that would brake the economy. As a result, the US central bank may begin marginally increasing its key rate towards the middle of 2015. This step would send out a global signal. However, the ECB would be unlikely to follow it for the time being in the light of the persistently weak eurozone economy, a jobless rate that is only slowly sinking towards 11 per cent and an inflation rate close to 1 per cent.

A number of factors suggest that growth in Austria and the EU-18 will be slightly stronger next year than in 2014. Among other things, the euro has depreciated appreciably and the global economy is likely to recover with real growth of about 3.8 per cent in 2015. After an increase of 1.5 per cent this financial year, WIFO expects real exports in Austria to grow by 3.5 per cent in 2015. However, subdued sales growth expectations mean that the increase in capital expenditure on plant and machinery is likely to be modest, at 2.0 per cent, following zero growth in 2014. Private consumption is only likely to increase marginally this year and next, growing by 0.4 per cent and 0.8 per cent, respectively, and the phenomenon of 'cold progression' is also having a serious impact on it. According to the OECD, the tax and contribution ratio for an average wage in Austria has now reached nearly 50 per cent.

Economic growth in the other eurozone countries is likely to increase moderately to about 1.1 per cent in 2015. This will mainly be thanks to economic recovery in the European Union's peripheral crisis countries. Germany too is heading for real GDP growth of 1.1 per cent. On the other hand, the French and Italian economies will again grow by just 0.6 per cent and 0.7 per cent, respectively, in 2015. GDP growth forecasts for the Central and Eastern European countries (CEECs) range between 2.9 per cent (2014) and 2.6 per cent (2015).

The European banking sector has been undergoing a structural transformation that is not yet complete across the continent. It was set off by the crises of recent years triggered by the differing conditions in the individual capital, liquidity and derivative markets and the big regulatory challenges they created (including Basel III). Furthermore, the regulatory pressure on banks and other financial institutions has left them little time to modify their business models. Although the results of the Asset Quality Review (AQR) published at the end of October and the stress test that followed it (i.e. to simulate a recession and falling property and share prices) showed how stress-resistant the 130 biggest banks in the eurozone are, uncertainty remains when it comes to reducing debt and improving the quality of banks' assets. In addition, profit drivers that were essential in the past like high economic and lending growth and moderate loan loss ratios are less available than they used to be. All in all, we will be seeing the scars of the financial crisis — the persistence of historically low interest rates, a yield curve that has recently continued to flatten, lukewarm lending growth and increased caution and a preference for liquid assets among banks' customers — for some time to come.

As for the BKS Bank Group's medium-term outlook, we will remain consistent in the application of our strategy, which is characterized by closeness to the customer, flexibility and speed, earnings diversification and high risk and cost discipline. The competition for primary deposits will stay just as intense in the weeks and months to come. Recently, we have been recording further growth in our customer operations in the retail and corporate and business banking segments. This has done much to cushion downside factors like the low interest rates environment and companies' low propensity to invest. As a result, our short-term and medium-term outlooks are still cautiously optimistic, with BKS Bank strategically well placed to meet future challenges. In the absence of any unexpectedly big deviations from the trends we have been observing thus far this year, we believe that the profit we are aiming for in 2014 will, as in prior periods, enable us to allocate sufficient reserves and, therefore, contribute to another increase in our enterprise value. In the continuing pursuit of our ambitious dividends policy, we will be recommending to the 76th Ordinary General Meeting that it approve the distribution of a dividend to match our earnings. The recent increase in share capital should permanently strengthen BKS Bank's Tier 1 capital and secure further growth in our core business operations. However, although our own funds position is strong, we want again to express our resentment of the bank tax, which cannot be justified in its present form. Together with the financial and personnel resources needed to meet the requirements of the Basel III regime, it will again have a noticeable impact on our profit in 2014.

We remain,

Yours faithfully,

Herta Stockbauer
Chairwoman

Dieter Krassnitzer
Member of the Management Board

Wolfgang Mandl
Member of the Management Board

Overview of the 3 Banken Group

	BKS Bank Group		Oberbank Group		BTV Group	
Income account, €m	1/1–30/9/2013	1/1–30 /9/2014	1/1–30/9/2013	1/1–30/9/2014	1/1–30/9/2013	1/1–30/9/2014
Net interest income	107.8	119.1	255.3	262.6	133.2	136.3
Impairment charge on loans and advances	(30.7)	(40.2)	(53.1)	(53.5)	(32.9)	(18.5)
Net fee and commission income	33.6	35.8	86.0	87.7	33.7	31.9
General administrative expenses	(74.5)	(76.9)	(172.6)	(175.0)	(72.1)	(106.3)
Other operating income net of other operating expenses	(6.3)	(4.0)	(4.4)	1.4	(1.8)	31.3
Profit for the period before tax	34.6	38.6	114.2	126.3	66.6	75.1
Profit for the period after tax	30.9	33.3	97.2	107.4	51.8	59.3
Balance sheet data, €m	31/12/2013	30/9/2014	31/12/2013	30/9/2014	31/12/2013	30/9/2014
Assets	6,743.8	6,859.2	17,531.8	18,038.6	9,588.5	9,388.7
Receivables from customers after impairment charge	4,874.2	4,930.4	11,277.9	11,798.3	6,197.4	6,008.7
Primary deposit balances	4,597.5	4,939.0	12,250.4	12,078.7	6,715.9	6,701.9
– Of which savings deposit balances	1,741.2	1,716.5	3,352.1	3,132.9	1,175.8	1,155.2
– Of which liabilities evidenced by paper	813.9	799.5	2,224.4	2,328.1	1,288.3	1,372.6
Equity	714.2	741.5	1,421.0	1,530.9	913.1	976.7
Customer assets under management	11,383.4	12,829.9	22,787.5	23,182.2	11,545.8	11,887.8
– Of which in customers' securities accounts	6,785.9	7,890.9	10,537.1	11,103.5	4,829.9	5,185.9
Own funds within the meaning of CRR, €m (2013: BWG)	31/12/2013	30/9/2014	31/12/2013	30/9/2014	31/12/2013	30/9/2014
Basis of assessment of own funds	4,423.3	4,864.3	10,734.0	12,026.4	6,055.4	6,263.0
Own funds	707.6	733.8	1,824.8	1,847.4	964.4	1,109.0
– Of which common equity Tier 1 (CET1)	n/a	606.0	n/a	1,224.7	n/a	784.0
– Of which total Tier 1 capital (CET1 and AT1)	662.5	615.6	1,320.6	1,283.0	807.0	848.0
Common equity Tier 1 ratio, %	n/a	12.46	n/a	10.18	n/a	12.51
Tier 1 ratio, % (2013: Basel II)	13.9	12.7	12.3	10.7	13.3	13.6
Own funds ratio, % (2013: Basel II)	16.0	15.1	17.0	15.4	15.9	17.7
Corporate ratios, %	2013	1/1–30/9/2014	2013	1/1–30/9/2014	2013	1/1–30/9/2014
Return on equity before tax	6.5	6.9	10.3	11.5	9.3	10.6
Return on equity after tax	5.8	5.9	8.9	9.8	7.3	8.4
Cost:income ratio	54.3	50.5	52.1	49.3	43.7	53.3
Risk:earnings ratio	29.2	33.7	21.1	20.4	26.7	13.6
Resources	2013	1/1–30/9/2014	2013	1/1–30/9/2014	2013	1/1–30/9/2014
Average number of staff	910	915	2,001	2,011	793	1,232
Branches	56	56	150	154	37	38

The *3 Banken Group* dates back as far as 1997. It achieves the strength of a major bank through voluntary cooperation. The success of BKS Bank and its sister banks results from their autonomous strategies and business policies and from their self-image as strong and independent 'universal' banks servicing export-orientated medium-sized enterprises in their respective regions. All three banks continued on their sustainable business policy path in the period from January through September 2014. Their aggregate profit for the period before tax grew by €24.6 million or 11.4 per cent to €240.0 million. Their aggregate assets stabilized at a level of €34.3 billion, their loan portfolios net of impairment allowance balances came to €22.7 billion, and funds under management by the three banks in the form of savings, sight and time deposit balances, liabilities evidenced by paper and subordinated liabilities came to €23.7 billion. At the end of September, the three banks employed a total of 4,158 people, and their branch network consisted of 248 points of contact for corporate and business banking and retail banking customers.

Consolidated Financial Statements as at and for the Nine Months Ended 30 September 2014

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Comprehensive Income Statement of the BKS Bank Group for the Period from 1 January to 30 September 2014

INCOME STATEMENT

€k	Note	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Interest income		145,492	146,228	0.5
Interest expenses		(56,282)	(48,219)	(14.3)
Profit/(loss) from investments in entities accounted for using the equity method		18,543	21,094	13.8
Net interest income	**(1)**	**107,753**	**119,103**	**10.5**
Impairment charge on loans and advances	(2)	(30,699)	(40,174)	31.0
Net interest income after impairment charge		**77,084**	**78,929**	**2.4**
Fee and commission income		36,128	38,028	5.3
Fee and commission expenses		(2,501)	(2,261)	(9.6)
Net fee and commission income	(3)	**33,627**	**35,767**	**6.4**
Net trading income	(4)	1,213	1,522	25.5
General administrative expenses	(5)	(74,495)	(76,944)	3.3
Other operating income	(6)	2,837	2,562	(9.7)
Other operating expenses	(6)	(9,088)	(6,589)	(27.5)
Profit/(loss) from financial assets		**3,389**	**3,376**	**(0.4)**
– Profit/(loss) from financial assets (FV)	(7)	1,112	706	(36.5)
– Profit/(loss) from financial assets (AFS)	(8)	2,277	2,670	17.3
– Profit/(loss) from financial assets (HTM)	(9)	0	0	—
Profit for the period before tax		**34,567**	**38,623**	**11.7**
Income tax expense	(10)	(3.95)	(5,341)	44.5
Profit for the period after tax		**30,872**	**33,282**	**7.8**
Minority interests in profit for the period		(2)	(2)	—
Consolidated profit for the period after tax and minority interests		**30,870**	**33,280**	**7.8**

OTHER COMPREHENSIVE INCOME (OCI)

€k	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Profit for the period after tax	**30,872**	**33,282**	**7.8**
Items not reclassified to consolidated profit or loss	(512)	(1,415)	>100
+/(–) Actuarial gains less losses in conformity with IAS 19	0	(2,000)	—
+/(–) Deferred taxes in conformity with IAS 19	0	500	—
+/(–) Gains less losses arising from use of the equity method in conformity with IAS 19	(512)	85	(>100)
Items reclassified to consolidated profit or loss	(370)	6,955	(>100)
+/(–) Exchange differences	(303)	(61)	(79.9)
+/(–) Available-for-sale reserve	1,714	764	(55.4)
+/(–) Deferred taxes taken to AFS reserve items	(1)	(364)	>100
+/(–) Gains less losses arising from use of the equity method	(1,780)	6,616	(>100)
Total income and expenses taken directly to equity	**(882)**	**5,540**	**(>100)**
Comprehensive income before minority interests	**29,990**	**38,822**	**29.4**
Of which minority interests	(2)	(2)	0.0
Comprehensive income after minority interests	**29,988**	**38,820**	**29.4**

QUARTERLY REVIEW

€k	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Interest income	47,683	49,129	50,053	47,937	48.238
Interest expenses	(17,889)	(17,198)	(15,889)	(16,216)	(16,114)
Profit/(loss) from investments in entities accounted for using the equity method	7,502	6,520	4,889	7,493	8,712
Net interest income	**37,296**	**38,451**	**39,053**	**39,214**	**40,836**
Impairment charge on loans and advances	(8,755)	(12,041)	(13,913)	(13.088)	(13,173)
Net interest income after impairment charge	**28,541**	**26,410**	**25,140**	**26,126**	**27,663**
Fee and commission income	12,188	12,201	12,403	12,543	13,082
Fee and commission expenses	(830)	(406)	(716)	(666)	(879)
Net fee and commission income	**11,358**	**11,795**	**11,687**	**11,877**	**12,203**
Net trading income	399	310	321	743	458
General administrative expenses	(24,333)	(26,318)	(25,930)	(26,061)	(24,953)
Other operating income	887	730	869	1,255	438
Other operating expenses	(6,654)	(1,798)	(859)	(3,041)	(2,689)
Profit/(loss) from financial assets	1,077	(167)	1,091	1,352	933
– Profit/(loss) from financial assets (FV)	424	469	673	145	(112)
– Profit/(loss) from financial assets (AFS)	653	(636)	418	1,207	1,045
– Profit/(loss) from financial assets (HTM)	0	0	0	0	0
Profit for the period before tax	**11,275**	**10,962**	**12,319**	**12,251**	**14,053**
Income tax expense	(1,188)	(1,238)	(1,798)	(1,708)	(1,835)
Profit for the period after tax	**10,087**	**9,724**	**10,521**	**10,543**	**12,218**
Minority interests in profit for the period after tax	(1)	(1)	(1)	0	(1)
Consolidated profit for the period after tax and minority interests	**10,086**	**9,723**	**10,520**	**10,543**	**12,217**

Balance Sheet of the BKS Bank Group as at 30 September 2014

ASSETS

€k	Notes	31/12/2013	30/9/2014	+/(–) Change, %
Cash and balances with the central bank	(11)	104,815	106,046	1.2
Receivables from other banks	(12)	116,917	195,630	67.3
Receivables from customers	(13)	5,050,314	5,127,731	1.5
– Impairment allowance balance	(14)	(176,109)	(197,291)	12.0
Trading assets	(15)	352	58	(83.5)
Financial assets		1,516,783	1,481,547	(2.3)
– Financial assets designated as at fair value through profit or loss	(16)	188,626	158,707	(15.9)
– Available-for-sale financial assets	(17)	251,483	202,730	(19.4)
– Held-to-maturity financial assets	(18)	715,548	733,105	2.5
– Investments in entities accounted for using the equity method	(19)	361,126	387,005	7.2
Intangible assets	(20)	1,907	2,038	6.9
Property and equipment	(21)	63,251	62,898	(0.6)
Investment property	(22)	22,814	22,348	(2.0)
Deferred tax assets	(23)	17,109	18,422	7.7
Other assets	(24)	25,607	39,808	55.5
Total assets		**6,743,760**	**6,859,235**	**1.7**

EQUITY AND LIABILITIES

€k	Notes	31/12/2013	30/9/2014	+/(–) Change, %
Payables to other banks	(25)	1,302,332	1,027,427	(21.1)
Payables to customers	(26)	3,783,595	4,139,498	9.4
Liabilities evidenced by paper	(27)	591,083	604,265	2.2
Trading liabilities	(28)	404	58	(85.6)
Provisions	(29)	83,992	84,183	0.2
Deferred tax liabilities	(30)	5,593	11,493	105.5
Other liabilities	(31)	39,788	55,643	39.8
Subordinated debt capital	(32)	222,809	195,200	(12.4)
Equity		714,164	741,468	3.8
Of which total minority interests and equity		714,154	741,456	3.8
Of which minority interests in equity		10	12	20.0
Total equity and liabilities		**6,743,760**	**6,859,235**	**1.7**

EARNINGS AND DIVIDEND PER SHARE

	30/9/2013	30/9/2014
Average number of shares in issue	32,237,156	32,172,435
Dividend per share, €	0.25	0.25
Earnings per share (diluted and undiluted), €	**1.25**	**1.38**

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

Statement of Changes in Equity

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/(Loss) for the Period	Equity
At 1 January 2014	**65,520**	**97,929**	**(987)**	**2,498**	**504,322**	**4,276**	**40,596**	**714,154**
Distribution							(8,044)	(8,044)
Taken to retained earnings					32,552		(32,552)	0
Profit for the period after tax							33,282	33,282
Gains and losses taken directly to equity			(61)	400	(1,500)	6,701		5,540
Increase in share capital								0
Change arising from use of the equity method						(2,105)		(2,105)
Changes in treasury shares					(775)			(775)
Other changes					(584)			(584)
At 30 September 2014	**65,520**	**97,929**	**(1,048)**	**2,898**	**534,015**	**8,872**	**33,282**	**741,468**
Available-for-sale reserve								3,827
Deferred tax reserve								(929)

TOTAL MINORITY INTERESTS AND EQUITY

€k	Subscribed Capital	Capital Reserves	Exchange Differences	Revaluation Reserve	Retained Earnings	Adjustment for Associates	Profit/(Loss) for the Period	Equity
At 1 January 2013	**65,520**	**97,929**	**(714)**	**(118)**	**472,349**	**10,194**	**43,126**	**688,286**
Distribution							(8,063)	(8,063)
Taken to retained earnings					35,063		(35,063)	0
Profit for the period after tax							30,872	30,872
Gains and losses taken directly to equity			(303)	1,713		(2,292)		(882)
Increase in share capital								0
Change arising from use of the equity method						(2,288)		(2,288)
Changes in treasury shares					(1,235)			(1,235)
Other changes					(568)			(568)
At 30 September 2013	**65,520**	**97,929**	**(1,017)**	**1,595**	**505,609**	**5,614**	**30,872**	**706,122**
Available-for-sale reserve								1,988
Deferred tax reserve								(394)

Cash Flow Statement

CASH FLOWS

€k	1/1–30/9/2013	1/1–30/9/2014
Cash and cash equivalents at end of previous period	**81,749**	**104,815**
Net cash from operating activities	97,773	370
Net cash from/(used in) investing activities	(51,081)	37,080
Net cash from/(used in) financing activities	(9,937)	(36,429)
Effect of exchange rate changes on cash and cash equivalents	(67)	210
Cash and cash equivalents at end of period	**118,437**	**106,046**

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

I. General information

The Interim Financial Statements of the BKS Bank Group as at and for the nine months ended 30 September 2014 were prepared in accordance with the provisions of the IFRS standards published by the IASB (International Accounting Standards Board) effective at the reporting date and as adopted by the EU. Account was also taken of the corresponding interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

II. Recognition and measurement

Scope of consolidation

Besides *BKS Bank AG*, the Consolidated Financial Statements accounted for 19 entities (15 consolidated entities and four entities accounted for using the equity method). *BKS 2000 Beteiligungsverwaltungsgesellschaft m.b.H.* was already added to the consolidated group as of 31 March 2014. Besides materiality considerations and the first-time adoption of the IFRS consolidation package — including in particular IFRS 10 — the desire to harmonize the scopes of consolidation (the regulatory scope of consolidation and the scope of consolidation in conformity with IFRSs) also came into this discretionary decision. *BKS-Finance s.r.o.* and *BKS Leasing s.r.o.* were merged as of 5 July 2014. No other changes to the scope of consolidation took place compared with the 31 December 2013 reporting date.

During first-time consolidation, this entity's cost was compared with (the Group's interest in) its remeasured equity.

CONSOLIDATED ENTITIES

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
BKS Bank d.d.	Rijeka	100.00	—	30/9/2014
BKS-Leasing Gesellschaft m.b.H	Klagenfurt	99.75	0.25	30/9/2014
BKS-leasing d.o.o.	Ljubljana	100.00	—	30/9/2014
BKS-leasing Croatia d.o.o.	Zagreb	100.00	—	30/9/2014
BKS-Leasing s.r.o.	Bratislava	100.00	—	30/9/2014
IEV Immobilien GmbH	Klagenfurt	100.00	—	30/9/2014
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	Klagenfurt	100.00	—	30/9/2014
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	—	100.00	30/9/2014
BKS Hybrid alpha Gmbh	Klagenfurt	100.00	—	30/9/2014
BKS Hybrid beta GmbH	Klagenfurt	100.00	—	30/9/2014
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00	—	30/9/2014
LVM Beteiligungs Gesellschaft mbH	Klagenfurt	—	100.00	30/9/2014
BKS Immobilien-Service GmbH	Klagenfurt	100.00	—	30/9/2014
BKS Service GmbH	Klagenfurt	100.00	—	30/9/2014
BKS 2000 Beteiligungsverwaltungs GmbH	Klagenfurt	100.00		30/9/2014

ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

Entity	Head Office	Direct Equity Interest, %	Indirect Equity Interest, %	Date of Financial Statements
Oberbank AG	Linz	16.95	—	30/6/2014
Bank für Tirol und Vorarlberg AG	Innsbruck	13.59	—	30/6/2014
Alpenländische Garantie-GmbH	Linz	25.00	—	30/9/2014
Drei-Banken Versicherungs-Aktiengesellschaft	Linz	20.00	—	30/9/2014

FOREIGN SUBSIDIARIES AND BRANCHES AT 30 SEPTEMBER 2014

€k	Net Interest Income	Operating Profit	Number of Staff (Full Year Equivalents)	Profit/(Loss) for the Period before Tax
Branches abroad				
Slovenia Branch (banking branch)	8,359.5	10,027.7	87.3	(3,433.0)
Slovakia Branch (banking branch)	904.8	991.3	19.0	(275.4)
Subsidiaries				
BKS Leasing d.o.o., Ljubljana	1,335.6	1,610.1	10.6	844.6
BKS-leasing Croatia d.o.o., Zagreb	1,492.2	1,648.0	10.0	362.0
BKS-Leasing s.r.o.,Bratislava	799.4	1,171.8	14.0	122.0
BKS Bank d.d., Rijeka	3,380.2	3,881.8	61.0	413.0

Foreign currency translation

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

Notes on individual items on the Balance Sheet

Cash and balances with the central bank

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

Financial instruments

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

- financial assets and liabilities requiring measurement to fair value, subdivided into
  - trading assets and trading liabilities; these are financial instrument held for trading, inclusive of those derivatives (held for trading) not designated as hedges;
  - financial assets and liabilities designated as at fair value through profit or loss (fair value option)
- available-for-sale financial assets and liabilities (AFS);
- held-to-maturity financial assets and liabilities (HTM);
- loans and receivables (LAR).

On each balance sheet date, financial assets are tested to determine whether there is objective evidence of impairment. Such objective evidence includes, for instance, a debtor in financial difficulties, default or delay in interest payments or repayments and concessions made by *BKS Bank AG* or the consolidated subsidiary to a debtor for financial or legal reasons connected with the debtor’s financial difficulties that would otherwise not have been made.

In the valuations that follow, financial instruments have either been measured to 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 VALUATION OF FINANCIAL INSTRUMENTS

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

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

As in 2013, no reclassifications were carried out in accordance with IFRS 7.12 during the period under review.

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

The measurement of certain positions took place under the collective designation *as at fair value through profit or loss* using the fair value option (FV). Their inclusion in this category was decided by the Asset Liability Management Committee (ALM). These positions (asset or liability and associated derivative) were thus measured at fair value through profit or loss. Any revaluation gains or losses were recognized in the Income Statement in the line item *Profit/(loss) from financial assets designated as at fair value through profit or loss*.

Available-for-sale financial assets

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

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

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

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

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

Impairment allowance balance
Account was taken of the risks identifiable at the time of the Balance Sheet's preparation by recognizing impairment charges on an item-by-item basis (in the case of material exposures, these were calculated on the basis of the *discounted cash flow method*), by recognizing impairment charges on an item-by-item basis applying class-specific criteria and by collective portfolio impairment assessments carried out in accordance with IAS 39.64. The latter included incurred but not yet identifiable losses. Provisions were recognized for risks arising from contingent liabilities in accordance with IAS 37. An assessment of impairment of the portfolio arising from country risks was recognized at the reporting date, with the exposures outstanding in each country being broken down into risk classes. The total impairment allowance balance is disclosed as a deduction on the assets side of the Balance Sheet (impairment account).

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

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

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

Property and equipment
The line item *Property and equipment* consists mainly of land, buildings and other property and equipment comprising primarily office furniture and equipment. Property and equipment was recognized at the amortized cost

of acquisition or conversion. Ordinary depreciation was linear over an asset's usual useful life and lay within the following bands:
- immovable assets: 1.5 per cent to 3.0 per cent (i.e. between 33.3 and 50 years);
- office furniture and equipment: 10 per cent to 20 per cent (i.e. between 5 and 10 years).

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

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

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

No goodwill was recognized at 30 September 2014.

Leasing

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

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

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

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

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

Provisions
Provisions were created in accordance with IAS 37 if there was a reliably determinable current obligation to a third party arising from an event in the past likely to cause a drain on resources. BKS Bank mainly created provisions for

post-employment benefits and similar employee benefits, for taxes and for interest on stepped coupon products. The provision for death benefits was also calculated in accordance with the IFRS principles contained in IAS 19. The interest rates used for calculations are expected to fall compared with the end of 2013. The result was taken into account in *Other comprehensive income*. As of 31 December 2000, the pension benefit expectancies of all active employees were transferred to *VBV-Pensionskasse AG* as the legal successor to *BVP-Pensionskasse AG*.

Equity

Equity consisted of paid-in and earned capital (capital reserves, retained earnings, revaluation reserve, exchange differences and profit for the period). BKS Bank strives to strengthen its capital base on a sustainable basis by ploughing back its profits.

Notes to individual line items in the Income Statement

Net interest income

The line item *Net interest income* contains interest income from credit operations, from securities in the treasury portfolio, from equity investments (in the form of dividend payments), from lease receivables and from investment property less interest expenses on deposits from other banks and customers, liabilities evidenced by paper and investment property. Interest income and interest expenses were accounted for on an accrual basis. The Group's interest in the profits for the period of entities accounted for using the equity method was disclosed in the line item *Net interest income* net of financing costs.

Impairment charge on loans and advances

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

Net fee and commission income

This line item comprises income from services rendered to third parties net of the expenses attributed to such services.

General administrative expenses

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

Net trading income

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

Other operating income net of other operating expenses

This line item comprises fees, levies, damages, etc. They were accounted for on an accrual basis.

Other notes

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

The standards and interpretations effective in the EU for annual periods beginning on or after 1 January 2014 were applied in these Interim Financial Statements. The most important change related to the applicability of the consolidation package (in particular IFRS 10 and 11 and IAS 28).

The assumptions and estimates made for the purposes of the Interim Financial Statements were made on the basis of the knowledge and information available at the reporting date of 30 September 2014.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Interest income	**145,492**	**146,228**	**0.5**
– Of which from credit operations	109,158	110,538	1.3
– Of which from fixed-interest securities	22,923	20,939	(8.7)
– Of which from lease receivables	6,056	7,102	17.3
– Of which from shares and investments in other entities	6,535	5,832	(10.8)
– Of which from investment property	820	1,817	>100
Interest expenses	**56,282**	**48,219**	**(14.3)**
– Of which on deposits from customers and other banks [1]	35,874	27,194	(24.2)
– Of which on liabilities evidenced by paper	20,150	20,583	2.1
– Of which on investment property	258	442	71.3
Profit from investments in entities accounted for using the equity method	**18,543**	**21,094**	**13.8**
– Of which income from investments in entities accounted for using the equity method	19,012	21,283	11.9
– Financing costs of investments in entities accounted for using the equity method [2]	(469)	(189)	(59.7)
Net interest income	**107,753**	**119,103**	**10.5**

[1] Net of financing costs of investments in entities accounted for using the equity method.

[2] Based on the average 3-month Euribor.

(2) IMPAIRMENT CHARGE ON LOANS AND ADVANCES

€k	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Impairment allowances	34,933	44,017	26.0
Impairment reversals	(5,088)	(3.890)	(23.5)
Direct write-offs	1,073	416	(61.2)
Recoveries on receivables previously written off	(249)	(369)	48.2
Impairment charge on loans and advances	**30,669**	**40,174**	**31.0**

(3) NET FEE AND COMMISSION INCOME

€k	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Fee and commission income	**36,128**	**38,028**	**5.3**
– Of which from payment services	14,558	15,374	5.6
– Of which from securities operations	8,985	9,831	9.4
– Of which from credit operations	10,034	10,352	3.2
– Of which from money and foreign exchange transactions	1,721	1,581	(8.1)
– Of which from other services	830	890	7.2
Fee and commission expenses	**2,501**	**2,261**	**(9.6)**
– Of which arising from payment services	1,147	1,262	10.0
– Of which arising from securities operations	551	643	16.7
– Of which arising from credit operations	323	233	(27.9)
– Of which arising from money and foreign exchange transactions	361	18	(95.0)
– Of which arising from other services	119	105	(11.8)
Net fee and commission income	**33,627**	**35,767**	**6.4**

(4) NET TRADING INCOME

€k	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Price-based contracts	98	38	(61.2)
Interest rate and currency contracts	1,115	1,484	33.1
Net trading income	**1,213**	**1,522**	**25.5**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Staff costs	49,998	50,768	1.5
– Of which wages and salaries	36,621	39,418	7.6
– Of which social security costs	9,303	8,930	(4.0)
– Of which costs of old-age benefits	4,074	2,420	(40.6)
Other administrative costs	19,753	21,215	7.4
Depreciation/amortization	4,744	4,961	4.6
General administrative expenses	**74,495**	**76,944**	**3.3**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Other operating income	2,837	2,562	(9.7)
Other operating expenses	(9,088)	(6,589)	(27.5)
Other operating income net of other operating expenses	**(6,251)**	**(4,027)**	**(35.6)**

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

€k	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Revaluation gains and losses on derivatives	2,123	1,405	(33,8)
Gain/(loss) as a result of using the fair value option	(1,011)	(699)	(30,9)
Profit/(loss) from financial assets designated as at fair value through profit or loss	**1,112**	**706**	**(36,5)**

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

€k	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Revaluation gains and losses	(1,432)	(46)	(96.8)
Gains and losses realized on disposal	3,709	2,716	(26.8)
Profit/(loss) from available-for-sale financial assets	**2,277**	**2,670**	**17.3**

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

€k	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Revaluation gains and losses and gains and losses realized on disposal	0	0	—
Profit/(loss) from held-to-maturity financial assets	**0**	**0**	**—**

(10) INCOME TAX EXPENSE

€k	1/1–30/9/2013	1/1–30/9/2014	+/(–) Change, %
Current taxes	(5,360)	(4,187)	(21.9)
Deferred taxes	1,665	(1,154)	(>100)
Income tax expense	**(3,695)**	**(5,341)**	**44.5**

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2013	30/9/2014	+/(–) Change, %
Cash in hand	37,016	31,192	(15.7)
Credit balances with central banks of issue	67,799	74,854	10.4
Cash and balances with the central bank	**104,815**	**106,046**	**1.2**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Receivables from Austrian banks	45,485	72,472	59.3
Receivables from foreign banks	71,432	123,158	72.4
Receivables from other banks	**116,917**	**195,630**	**67.3**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Corporate and business banking customers	3,946,284	3,985,512	1.0
Retail banking customers	1,104,030	1,142,219	3.5
Receivables from customers	**5,050,314**	**5,127,731**	**1.5**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2013	30/9/2014	+/(–) Change, %
At beginning of period under review	168,101	176,109	4.8
+ Added	43,789	41,472	(5.3)
– Reversed	(5,364)	(5,636)	5.1
– Used	(30,334)	(14,654)	(51.7)
+ Exchange differences	(83)	0	(100.0)
At end of period under review	176,109	**197,291**	**12.0**

(15) TRADING ASSETS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Bonds and other fixed-interest securities	0	0	—
Shares and other variable-yield securities	0	0	—
Positive fair values of derivative financial instruments	0	0	—
– Currency contracts	352	58	(83.5)
Trading assets	**352**	**58**	**(83.5)**

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

€k	31/12/2013	30/9/2014	+/(–) Change, %
Bonds and other fixed-interest securities	87,004	68,158	(21.7)
Loans	101.622	90,549	(10.9)
Financial assets designated as at fair value through profit or loss	**188.626**	**158,707**	**(15.9)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Bonds and other fixed-interest securities	117,814	84,420	(28.3)
Shares and other variable-yield securities	83,574	60,490	(27.6)
Investments in other associates and in subsidiaries	35,399	4,393	(87.6)
Other equity investments	14,696	53,427	>100
Available-for-sale financial assets	**251,483**	**202,730**	**(19.4)**

The first-time inclusion of *BKS 2000 Beteiligungsverwaltungs GmbH* in the scope of consolidation (first-time consolidation as of 31 March 2014) reduced the line item *Investments in other associates and in subsidiaries* by €31.0 million and increased the line item *Other equity investments* by €38.7 million.

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Bonds and other fixed-interest securities	715,548	733,105	2.5
Held-to-maturity financial assets	**715,548**	**733,105**	**2.5**

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

€k	31/12/2013	30/9/2014	+/(–) Change, %
Oberbank AG	237,139	251,938	6.2
Bank für Tirol und Vorarlberg AG	118,849	129,929	9.3
Alpenländische Garantie-GmbH	974	974	0.0
Drei-Banken Versicherungs-AG	4,164	4,164	0.0
Investments in entities accounted for using the equity method	**361,126**	**387,005**	**7.2**

(20) INTANGIBLE ASSETS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Goodwill	0	0	—
Other intangible assets	1,907	2,038	6.9
Intangible assets	**1,907**	**2,038**	**6.9**

(21) PROPERTY AND EQUIPMENT

€k	31/12/2013	30/9/2014	+/(–) Change, %
Land	8,840	8,783	(0.6)
Buildings	43,365	41,248	(4.9)
Other	11,046	12,867	16.5
Property and equipment	**63,251**	**62,898**	**(0.6)**

(22) INVESTMENT PROPERTY

€k	31/12/2013	30/9/2014	+/(–) Change, %
Land	7,679	7,948	3.5
Buildings	15,135	14,400	(4.9)
Investment property	**22,814**	**22,348**	**(2.0)**

(23) DEFERRED TAX ASSETS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Deferred tax assets	**17,109**	**18,422**	**7.7**

(24) OTHER ASSETS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Positive fair values of derivative financial instruments	8,903	16,597	86.4
Other items	13,716	19,692	43.6
Deferred items	2,988	3,519	17.8
Other assets	**25,607**	**39,808**	**55.5**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Payables to Austrian banks	961,493	728,770	(24.2)
Payables to foreign banks	340,839	298,657	(12.4)
Payables to other banks	**1,302,332**	**1,027,427**	**(21.1)**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Savings deposit balances	1,741,201	1,716,490	(1.4)
– Of which from corporate and business banking customers	228,814	205,194	(10.3)
– Of which from retail banking customers	1,512,387	1,511,296	(0.1)
Other payables	2,042,394	2,423,008	18.6
– Of which to corporate and business banking customers	1,394,145	1,715,606	23.1
– Of which to retail banking customers	648,249	707,402	9.1
Payables to customers	**3,783,595**	**4,139,498**	**9.4**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2013	30/9/2014	+/(–) Change, %
Issued bonds	480,382	509,878	6.1
Other liabilities evidenced by paper	110,701	94,387	(14.7)
Liabilities evidenced by paper	**591,083**	**604,265**	**2.2**

(28) TRADING LIABILITIES

€k	31/12/2013	30/9/2014	+/(–) Change, %
Interest rate contracts	404	58	(85.6)
Trading liabilities	**404**	**58**	**(85.6)**

(29) PROVISIONS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Provisions for post-employment benefits and similar obligations	69,814	70,923	1.6
Provisions for taxes (current tax)	178	381	>100
Other provisions	14,000	12,879	(8.0)
Provisions	**83,992**	**84,183**	**0.2**

(30) DEFERRED TAX LIABILITIES

€k	31/12/2013	30/9/2014	+/(–) Change, %
Deferred tax liabilities	**5,593**	**11,493**	**>100**

(31) OTHER LIABILITIES

€k	31/12/2013	30/9/2014	+/(–) Change, %
Negative fair values of derivative financial instruments	21,458	27,899	30.0
Other items	16,659	27,019	62.2
Deferred items	1,671	725	(56.6)
Other liabilities	**39,788**	**55,643**	**39.8**

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2013	30/9/2014	+/(–) Change, %
Supplementary capital	182,809	155,200	(15.1)
Hybrid capital	40,000	40,000	0.0
Subordinated debt capital	**222,809**	**195,200**	**(12.4)**

(33) SEGMENTAL REPORTING

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

The reporting structure used for internal management purposes was divided into the following three subareas:
– the monthly analysis of results at the profit centre level;
– the reporting of all relevant types of risk at least once a quarter;
– *ad-hoc* reports in the event of exceptional occurrences.

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

SEGMENTAL BREAKDOWN

€k	Retail Banking		Corporate and Business Banking		Financial Markets	
	1/1–30/9/2013	1/1–30/9/2014	1/1–30/9/2013	1/1–30/9/2014	1/1–30/9/2013	1/1–30/9/2014
Net interest income	**24,059**	**25,866**	**60,271**	**59,955**	**22,959**	**32,390**
– Of which from investments in entities accounted for using the equity method	—	—	—	—	18,543	21,094
Impairment charge on loans and advances	(716)	(1,690)	(29,115)	(38,073)	(838)	(411)
Net fee and commission income	**15,122**	**16,372**	**18,135**	**18,750**	**134**	**146**
Net trading income	0	0	0	0	1,213	1,522
General administrative expenses	(39,102)	(40,764)	(28,569)	(28,174)	(4,723)	(4,819)
Other operating income net of other operating expenses	669	275	1,211	632	(5,300)	(30)
Profit from financial assets	0	0	0	0	3,389	3,376
Profit for the period before tax	**32**	**59**	**21,933**	**13,090**	**16,834**	**32,174**
Average risk-weighted assets	585,035	529,295	3,272,221	3,217,720	547,675	670,057
Average allocated equity	46,803	42,343	261,777	257,418	382,333	420,820
ROE based on profit for the period	**0.1%**	0.2%	**11.2%**	**6.80%**	**5.9%**	**10.2%**
Cost:income ratio	**98.1%**	95.9%	**35.9%**	**35.5%**	**19.3%**	**14.2%**
Risk:earnings ratio	**3.0%**	**6.5%**	**48.3%**	**63.5%**	**3.7%**	**1.3%**

€k	Other		Total	
	1/1–30/9/2013	1/1–30/9/2014	1/1–30/9/2013	1/1–30/9/2014
Net interest income	**464**	**892**	**107,753**	**119,103**
– Of which from investments in entities accounted for using the equity method	—	—	18,543	21,094
Impairment charge on loans and advances	0	0	(30,669)	(40,174)
Net fee and commission income	**236**	**499**	**33,627**	**35,767**
Net trading income	0	0	1,213	1,522
General administrative expenses	(2,101)	(3,187)	(74,495)	(76,944)
Other operating income net of other operating expenses	(2,831)	(4,904)	(6,251)	(4,027)
Profit from financial assets	0	0	3,389	3,376
Profit for the period before tax	**(4,232)**	**(6,700)**	**34,567**	**38,623**
Average risk-weighted assets	40,165	44,314	4,445,096	4,461,386
Average allocated equity	6,299	7,235	697,212	727,816
ROE based on profit for the period	**—**	**—**	**6.5%**	**6.9%**
Cost:income ratio	**—**	**—**	**52.6%**	**50.5%**
Risk:earnings ratio	**—**	**—**	**28.5%**	**33.7%**

(34) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Subscribed capital	65,520	65,520	0.0
– Of which share capital	65,520	65,520	0.0
Capital reserves	97,929	97,929	0.0
Retained earnings and other reserves, current profit	550,715	578,019	5.0
Shareholders' equity before minority interests	**714,164**	**741,768**	**3.8**
Minority interests	(10)	(12)	20.0
Shareholders' equity after minority interests	**714,154**	**741,756**	**3.8**

The share capital was represented by 30,960,000 ordinary no-par voting shares and 1,800,000 non-voting no-par preference shares. *Capital reserves* contains premiums arising from the issuance of shares. *Retained earnings and other reserves* consists essentially of ploughed back profits. At 30 September, total own funds came to €733.8 million (31 December 2013: €707.6 million based on UGB and Basel II). Surplus own funds came to €344.7 million (31 December 2013: €353.8 million based on UGB and Basel II). The external minimum capital adequacy requirements were met in 2013 and during 2014 up to the reporting date.

(35) CONTINGENT LIABILITIES AND COMMITMENTS

€k	31/12/2013	30/9/2014	+/(–) Change, %
Guarantees	379,178	411,581	8.5
Letters of credit	3,119	1,540	(50.6)
Contingent liabilities	**382,297**	**413,121**	**8.1**
Other commitments	750,001	784,683	4.6
Commitments	**750,001**	**784,683**	**4.6**

(36) DISCLOSURE OF RELATIONS WITH RELATED ENTITIES AND PERSONS

€k	Outstanding Balances at 31/12/2013	Provisions for Doubtful Debts	Recognized Expenditure on Irrecoverable or Doubtful Debts During the Period	Outstanding Balances at 30/9/2014
Unconsolidated subsidiaries				
Receivables	9,611	0	0	5,641
Payables	1,675			1,154
Associates				
Receivables	48,968	0	0	5,855
Payables	186,412			161,916
Key management personnel				
Receivables	505	0	0	461
Payables	895			711
Other related persons				
Receivables	8	0	0	17
Payables	1,046			592

LOANS AND ADVANCES GRANTED

€k	31/12/2013	30/9/2014	+/(–) Change, %
Loans and advances granted to members of the Management Board	192	181	5.7
Loans and advances granted to members of the Supervisory Board	313	280	10.5
Loans and advances granted	**505**	**461**	**8.7**

Transactions with related entities and persons were on arm's length terms.

(37) EVENTS AFTER THE INTERIM REPORTING DATE

On 26 September 2014, the Management Board of *BKS Bank AG* decided with the agreement of the Supervisory Board to issue up to a total of 3,276,000 new ordinary no-par shares in the course of a capital increase to be carried out in October that has now been completed, increasing the company's share capital from €65,520,000 to up to €72,072,000. The subscription period began on 6 October 2014 and ended on 22 October 2014, and the public offering lasted until 28 October. All the 'young' ordinary no-par shares were successfully placed in the market. The issue and subscription price of each 'young' share was set at €16.0. The 'young' shares carry a full dividend entitlement in respect of the current 2014 financial year. Trade in the young shares began in the official *Amtlicher Handel* segment on the Vienna Stock Exchange on 3 November 2014. The capital increase yielded gross proceeds of €52.4 million.

(38) FAIR VALUES

30 SEPTEMBER 2014 €k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 30/9/2014	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	195,712	0	195,712	195,630	82
Receivables from customers	0	5,188,724	0	5,188,724	5,127,731	60,993
Trading assets	0	59	0	59	59	0
Financial assets designated as at fair value through profit or loss	68,158	90,549	0	158,707	158,707	0
Available-for-sale financial assets	177,765	0	24,965	202,730	202,730	0
Held-to-maturity financial assets	811,376	0	0	811,376	733,105	78,271
Investments in entities accounted for using the equity method	316,593	0	5,138	321,731	387,005	(65,274)
Investment property	0	0	34,283	34,283	22,348	11,935
Other assets (derivatives)	0	16,597	0	16,597	16,597	0
Equity and liabilities						
Payables to other banks	0	1,031,687	0	1,031,687	1,027,426	4,261
Payables to customers	0	4,159,106	0	4,159,106	4,139,498	19,608
Liabilities evidenced by paper	439,741	182,272	0	622,013	604,265	17,748
– Of which designated as at fair value through profit or loss	0	105,436	0	105,436	105,436	0
Subordinated debt capital	197,331	2,355	0	199,686	195,200	4,486
Trading liabilities	0	58	0	58	58	0
Other liabilities (derivatives)	0	27,899	0	27,899	27,899	0

31 DECEMBER 2013 €k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 31/12/2013	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	116,980	0	116,980	116,917	63
Receivables from customers	0	5,106,280	0	5,106,280	5,050,314	55,966
Trading assets	0	352	0	352	352	0
Financial assets designated as at fair value through profit or loss	87,004	101,622	0	188,626	188,626	0
Available-for-sale financial assets	232,431	0	19,052	251,483	251,483	0
Held-to-maturity financial assets	763,786	0	0	763,786	715,548	48,237
Investments in entities accounted for using the equity method	301,690	0	5,138	306,828	361,126	(54,298)
Investment property	0	0	34,499	34,499	22,814	11,685
Other assets (derivatives)	0	8,903	0	8,903	8,903	0
Equity and liabilities						
Payables to other banks	0	1,305,451	0	1,305,451	1,302,332	3,120
Payables to customers	0	3,795,143	0	3,795,143	3,783,595	11,548
Liabilities evidenced by paper	487,446	118,151	0	605,597	591,083	14,514
– Of which designated as at fair value through profit or loss	69,803	45,722	0	115,525	115,525	0
Subordinated debt capital	224,108	2,350	0	226,458	222,809	3,649
Trading liabilities	0	404	0	404	404	0
Other liabilities (derivatives)	0	21,458	0	21,458	21,458	0

These two tables present the fair values of the respective balance sheet items. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values shown in the category *Level 1 'Market Values'* were determined using market prices quoted on active markets (stock exchange). If market values were unavailable, fair value was ascertained using customary valuation models based on observable input factors and market data and presented in the category *Level 2 'Based on Market Data'* (e.g. by discounting future cash flows from financial instruments). In general, the fair values recognized in this category were ascertained using market data that could be observed for the respective asset or liability (e.g. yield curves, foreign exchange rates). In general, items in the category *Level 2* were measured using present value techniques. In the category *Level 3 'Internal Valuation Methodology'*, the values of individual financial instruments were measured on the basis of special generally accepted valuation methods. If their fair value could not be reliably ascertained, available-for-sale equity investments and investments in entities accounted for using the equity method in the category *Level 3* were recognized at their carrying amounts. To test the sensitivity of the approaches used to measure equity investments in the category *Level 3*, entity valuations were carried out for material equity investments. 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). During the period under review, unlisted investments in *BKS 2000 Beteiligungsverwaltungs GmbH* were reclassified from the category *Level 1* to the category *Level 2* and liabilities of BKS Bank evidenced by paper were reclassified from the category Level 1 to the category *Level 2* on the grounds of the calculation of fair value using a valuation model based on observable input factors. This affected listed bonds in the amount of €77.6 million.

Level 3: Changes between 1 January and 30 September 2014

€k	At 31/12/2013	Income Statement	Other Comprehensive Income	Purchased	Sold	Reclassified	At 30/9/2014
Available-for-sale financial assets	19,052	(72)	0	39	0	5,946	24,965
Investments in entities accounted for using the equity method	5,138	0	0	0	0	0	5,138
Total	**24,190**	**(72)**	**0**	**39**	**0**	**5,946**	**30,103**

(39) BALANCE OF DERIVATIVES OUTSTANDING

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

30/9/2014	Nominal, by Term to Maturity				Fair Values	
€k	< 1 Year	1– 5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**1,237,252**	**707,564**	**0**	**1,944,816**	**9,111**	**14,404**
– Of which in trading book	250	0	0	250	—	—
Interest rate contracts	**155,572**	**251,490**	**281,272**	**688,334**	**6,558**	**11,705**
– Of which in trading book	572	12,866	15,362	28,800	59	59
Securities contracts	**4,052**	**—**	**—**	**4,052**	**—**	**60**
– Of which in trading book	—	—	—	—	—	—
Total	**1,396,876**	**959,054**	**281,272**	**2,637,202**	**15,669**	**26,169**
– Of which in trading book	822	12,866	15,362	29,050	59	59

31/12/2013	Nominal, by Term to Maturity				Fair Values	
€k	< 1 Year	1– 5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	**645,860**	**939,317**	**—**	**1,585,177**	**5,296**	**6,361**
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	**173,286**	**404,348**	**292,686**	**870,320**	**3,389**	**12,942**
– Of which in trading book	2,286	12,598	17,976	32,860	169	169
Securities contracts	**—**	**—**	**—**	**—**	**—**	**—**
– Of which in trading book	—	—	—	—	—	—
Total	**819,146**	**1,343,665**	**292,686**	**2,455,497**	**8,685**	**19,303**
– Of which in trading book	2,286	12,598	17,976	32,860	169	169

Statement by BKS Bank's Management

"We confirm that, to the best of our knowledge, the Consolidated Interim Financial Statements as at and for the nine months ended 30 September 2014 prepared in accordance with the effective financial reporting standards present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group and that the Consolidated Management Report for the period from 1 January to 30 September 2014 presents fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the BKS Bank Group with respect to the important events occurring during the first nine months of the financial year and their impact on the Consolidated Interim Financial Statements with respect to the material risks and uncertainties for the remaining three months of the financial year."

Klagenfurt am Wörthersee
25 November 2014

The Management Board

Herta Stockbauer (Chairwoman)

Member of the Management Board responsible for Corporates, Accounts and Sales Controlling, Human Resources, Treasury and Proprietary Trading, Public Relations, Marketing and Investor Relations, Construction, Subsidiaries and Equity Investments; abroad, she is responsible for the Slovenia, Croatia, Hungary and Slovakia regions.

Dieter Krassnitzer (Member)

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

Wolfgang Mandl (Member)

Member of the Management Board responsible for Retail Personal Banking and Retail Business Banking in Austria, Private Banking and Securities Operations, Capital Management and Securities Account Operations, Online Sales and Social Media and Sales Partners; abroad, he is responsible for the Italy region.

Financial Calendar for 2015

31 March 2015:	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2014 in the Internet and in the official *Wiener Zeitung* gazette
20 May 2015:	76th Ordinary General Meeting (AGM)
22 May 2015:	Ex-dividend date
26 May 2015:	Dividend payment date

BKS Bank's Interim Reports

22 May 2015:	Interim Report as at and for the 3 months ended 31 March 2015
21 August 2015:	Semi-Annual Financial Report
27 November 2015:	Interim Report as at and for the 9 months ended 30 September 2015

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