Interim Report to 31 March 2014

BKS Bank
3 Banken Gruppe

Contents

Forward-looking statements

This Interim Report as at and for the three months ended 31 March 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 21 May 2014. If the assumptions upon which those forecasts were based prove wrong or if risk events transpire, actual results may differ from those that are currently expected. This Interim Report does not constitute a recommendation to buy or sell shares of *BKS Bank AG.*

Disclaimer

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

Overview of the BKS Bank Group

THREE-YEAR COMPARISON

Income account, €m	Q1 2012	Q1 2013	Q1 2014
Net interest income	34.5	32.5	39.1
Impairment charge on loans and advances	(8.9)	(9.7)	(13.9)
Net fee and commission income	11.2	11.5	11.7
General administrative expenses	(24.4)	(24.8)	(25.9)
Profit for the period before tax	11.8	11.8	12.3
Consolidated profit for the period after tax	10.1	10.4	10.5

Balance sheet data, €m	31/12/2012	31/12/2013	31/3/2014
Assets	6,654.4	6,743.8	6,738.2
Receivables from customers after impairment charge	4,794.2	4,874.2	4,871.5
Primary deposit balances	4,362.4	4,597.5	4,759.3
Of which savings deposit balances	1,797.9	1,741.2	1,708.9
Of which liabilities evidenced by paper, including subordinated debt capital	816.6	813.9	819.7
Equity	688.3	714.2	719.2
Customer assets under management	10,674.9	11,383.4	12,238.2
Of which in customers' securities accounts	6,312.5	6,785.9	7,478.9

Own funds within the meaning of BWG, €m (2014: Basel III)	31/12/2012	31/12/2013	31/3/2014
Risk-weighted assets	4,457.9	4,423.3	4,996.5
Own funds	709.5	707.6	735.7
Of which common equity Tier 1 capital (CET1)	n/a	n/a	606.6
Of which total Tier 1 capital (CET1 + AT1)	630.7	662.5	616.5
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	—	—	336.0
Tier 1 ratio, % (Common Equity Tier 1 in conformity with Basel III from 1/1/2014)	13.1	13.9	12.1
Own funds ratio, % (Own funds ratio in conformity with Basel III from 1/1/2014)	15.9	16.0	14.7

PERFORMANCE, %	2012	2013	Q1 2014
Return on equity before tax	7.5	6.5	6.9
Return on equity after tax	6.5	5.8	6.1
Cost:income ratio	54.1	54.3	50.8
Risk:earnings ratio (credit risk in % of net interest income)	27.0	29.2	35.6

Resources	2012	2013	Q1 2014
Average number of staff	930	910	912
Branches	55	56	55

BKS Bank's shares	2012	2013	Q1 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	17.6/15.6
Low: ordinary/preference share, €	17.2/14.9	17.0/14.5	17.2/15.0
Close: ordinary/preference share, €	17.3/15.0	17.5/15.3	17.5/15.0
Market capitalization, €m	562.6	569.3	567.3

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

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

We welcome you very warmly to our first Shareholders Letter in 2014. At the same time, we invite you to go online to find out more about your bank's performance during the first three months of this year. We are pleased to be able to report another good quarterly result, which is not something one can take for granted given that the situation in the financial and credit markets is still difficult.

Let us begin with some good news for you as one of our owners following BKS Bank's 75th AGM on 15 May 2014. Because of *BKS Bank AG*'s good overall performance, you received the same dividend of €0.25 a share as for 2012 (ex-dividend date: 19 May; dividend payment date: 22 May). *BKS Bank AG* distributed a total of €8.19 million to its ordinary and preference shareholders out of its net profit at 31 December 2013. The payout ratio of 40.2 per cent underscored our status as one of the strongest dividend payers in the Austrian banking industry. In addition, Josef Korak was re-elected to the Supervisory Board, and we were able to welcome Sabine Urnik and Heimo Penker as new members. All the resolutions passed at the AGM have been published on BKS Bank's website. Click on Investor Relations » aktienrelevante Veröffentlichungen.

Although the market was still in a difficult state, our focus in all our core business segments was on achieving sustainable growth by ensuring a high level of customer acceptance for our products and services, improving the profitability of our core activities and exercising rigorous active cost management. BKS Bank continues to have a solid own funds base under the Basel III regime. Our management of risk positions was consistent. The most important component of our Income Statement — net interest income — increased by more than one fifth to €39.1 million in the first quarter. Profit for the period advanced by 1.4 per cent to €10.5 million. There was another substantial increase in ‘primary’ deposit balances, which grew by €161.7 million to €4.76 billion during the first quarter. This testified once more to our customers’ continued trust in BKS Bank. As interest rates stay low and the intensity of competition stays very high, the coming quarters will challenge financial institutions. Nonetheless, we expect BKS Bank’s operating results to continue to improve compared with 2013.

Group Management Report for the Three Months Ended 31 March 2014

The Economic Setting in which Banks are Operating

The world economy grew at a moderate pace. According to the European Commission’s latest forecast, growth should increase from 2.9 per cent in 2013 to about 3.5 per cent in 2014. Economic momentum is likely to come primarily from the United States, Japan and Europe and, to a slightly lesser degree, from the threshold countries in Asia. The US economy grew by 0.1 per cent during the first quarter of 2014. This growth was supported by the positive trend of private consumer spending, investment outside the residential construction sector and exports. The annualized increase of 0.3 per cent in Japan’s GDP was primarily attributable to a rise in private consumer spending ahead of the announced hike in purchase tax. While Japan wants to continue to combat years of deflation with the help of expansionary monetary and fiscal policies, the Federal Reserve in the United States has reconfirmed its plans for a medium-term exit from quantitative easing — most recently, on 30 April—and had cut its monthly purchases of government bonds to €45 billion as at the reporting date. In a number of threshold countries, markets reacted to this predictable ‘tapering’ of measures to stimulate the US economy with substantial distortions in the money and capital markets. To date, Russia, the Ukraine and Turkey have been hardest hit by withdrawals of foreign investors. By contrast, the main motive behind devaluation of China’s renminbi (yuan) was political, as the People’s Bank of China undertook targeted intervention to increase the flexibility of its exchange rate versus the US dollar.

The economic recovery in Europe gained breadth and increasingly spread into the industrial and service sectors. However, it was still sluggish. Eurozone forecasts to date are predicting real GDP growth of at least 1.0 per cent in 2014. In addition to those of the core countries, the economic outlooks of the euro regions that had been caught up in the crisis were already improving as well. Ireland, Spain, Portugal and Italy appeared to have put the economic slump behind them. Greece too — if one takes as an indicator a 4.75 per cent government bond worth €3 billion that was several times oversubscribed four years after the country’s near bankruptcy — was also beginning to come out of recession. As for the eurozone’s medium-term performance, the EU Commission is predicting a moderate recovery of domestic demand and exports helped along by the ECB’s monetary policy course, further improvements in financing terms and conditions and progress consolidating national budgets and undertaking structural reform. It proved possible to stem the rise in the unemployment rate, and the persistently low rate of inflation in the eurozone (January und February 2014: 0.8 per cent) prompted the European Commission to significantly revise its inflation forecast for 2014 from 1.5 per cent to 1.0 per cent.

Growth in Austria grew firmer and the stagnation of the past two years appeared to have come to an end. Goods exports were in a significant uptrend, increasing by 5.0 per cent compared with the same period of 2013. However, the rate of growth was not as high as in past periods of recovery as public sector budget consolidation dented domestic demand. On the other hand, private consumption seems to have gained momentum, growing by 0.8 per cent. Investment in the corporate sector is expected to increase moderately in 2014, by 3.0 per cent, as demand gradually picks up and confidence increases, financing terms and conditions improve and uncertainty wanes. Following GDP growth of 0.4 per cent in 2013, WIFO is predicting growth of 1.7 per cent this year. Nonetheless, unemployment will increase to an average of over 300,000 in 2014 as the labour market takes time to react to the economic recovery. Consequently, the *Eurostat* jobless rate could rise from 4.9 per cent in 2013 to 5.2 per cent in 2014. Inflation in Austria was running at between 1.5 per cent and 1.6 per cent during the first three months of this year, and WIFO expects it to rise to nearly 2 per cent over the year as a whole. The markets of Eastern Central Europe that are of importance to the Austrian economy also began to perform more strongly again in 2013. However, growth was braked by high private sector indebtedness, so the economic catch-up process was slower than before the financial crisis.

The euro gained marginally against the currencies of most of the eurozone's most important trading partners during the first three months of this reporting year. The main factors driving movements in exchange rates in this period were expectations regarding the ECB's future monetary policy and market participants' differing assessments of the economic outlook in the eurozone compared with the other major economies. The euro's gain versus the US dollar was relatively small as it strengthened by 0.9 per cent to US$1.3788/€. Having gained over 25 per cent versus the yen to ¥145.02 in 2013, the euro weakened by 1.8 per cent to ¥142.42 up to the end of March. On the other hand, the minimum exchange rate kept the rate of exchange versus the Swiss franc virtually unchanged at SFr 1.2194/€. Europe's single currency strengthened by 3.8 per cent versus the Chinese renminbi to RMB 8.5754.

The US Federal Reserve's Open Market Committee has now left its overnight interest rate unchanged in a corridor of between zero and 0.25 per since December 2008. Most recently, on 8 May, the ECB Council reaffirmed its pragmatic cheap money policy and confirmed its intention to keep the ECB's key rate at its present level of 0.25 per cent or even lower for a longer period. Yields on American and European benchmark government bonds had stabilized accordingly by the end of March at 1.9 per cent (eurozone 10-year) and 2.8 per cent (US 10-year). It is noteworthy that the demand for the government bonds of the peripheral euro countries stayed surprisingly strong during the first quarter of 2014. The Euribor 3-month, 6-month and 12-month rates were 0.32 per cent, 0.42 per cent and 0.60 per cent, respectively, at the end of March.

In the first three months of this year, the international equity markets were signalling that the economy will continue to strengthen. Nonetheless, there was a counter-current created by the heightening of geopolitical tensions in the wake of the Crimea crisis. Prices were certainly also dented by the US Federal Reserve Open Market Committee's decision to gradually taper its accommodating monetary policy. At the end of March, the Dow Jones was just marginally down on the end of 2013 and its all-time high at 16,457.66 points. The DAX also closed the first quarter of 2014 nearly unchanged at 9,555.91 points. Having reached 123.09 points at the end of December, the MSCI World Equity Index in euros rose slightly to 124.2 points. Prices in the European equity markets measured in terms of the broad Dow Jones EuroStoxx rose by 2 per cent from 3,097.76 points at the beginning of the year to 3,159.75 points at the end of the period under review. The Vienna Stock Exchange's ATX index stood at 2,546.54 points, which was 0.9 per cent down on the end of 2013. BKS Bank's shares moved within a narrow band between January and March. The BKS Bank ordinary no-par share was trading at €17.45 at the end of March, and the BKS Bank no-par preference share was trading at €15.0.

The global supply of and demand for raw materials kept the oil market stable and amply supplied. At the end of the first quarter, benchmark Brent crude was trading at US$107.8, compared with US$110.91 at the beginning of the year. Influenced by the shale oil boom, the price of a barrel of the American benchmark, WTI Cushing, on the New York Nymex market stayed within a narrow band to end March at US$101.52. This compared with US$98.71 at the beginning of the quarter. As crude oil futures show, participants in the oil market expect oil prices to fall slightly in the medium term, with Brent crude oil futures for delivery in December 2015 trading at about US$100 a barrel. Prices of non-energy commodities were also more or less stable during the period under review, although precious metals, including in particular the 'crisis currency' gold, were the plaything of speculative interests. Having begun the year at US$1,223.55, a fine ounce was trading at US$1,284.25 at the end of March. This was against the backdrop of an increase in the trading activities of some central banks, political and military escalation in the Ukraine, a drop in demand from China and lessening inflationary pressure.

Notes on the Scope of Consolidation

The overview below lists the entities whose assignment to the BKS Bank Group was required by the International Financial Reporting Standards. *BKS 2000 Beteiligungsverwaltungsgesellschaft m.b.H.* was added to the scope of consolidation as of 31 March 2014 to harmonize the scope of consolidation for the purposes of commercial law with the scope of consolidation for the purposes of regulatory law. During first-time consolidation, this entity's cost was compared with (the Group's interest in) its remeasured equity. Because it had previously been recognized on a mark to market basis, this had little effect.

Consequently, the consolidated group on which Group analyses are 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 predominantly generated by *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 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 prepared applying common, Group-wide policies. Investments in material associates were accounted for using the equity method. All other equity investments were classified as available for sale. The carrying amount of an equity investment was adjusted according to the change in the net assets of the entity in which the investment was held.

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 three months ended 31 March 2014 included BKS Bank's interests in those banks' profit 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[1]		
Oberbank AG, Linz	*Bank für Tirol und Vorarlberg AG*, Innsbruck	*Alpenländische Garantie-Gesellschaft mbH*, Linz	*Drei-Banken Versicherungs-Aktiengesellschaft*, Linz

[1] *BKS-Leasing s.r.o.* makes up a subgroup with *BKS Finance s.r.o.*

Other Consolidated Entities

BKS Zentrale-Errichtungs- u. Vermietungsgesellschaft mbH, Klagenfurt	*Immobilien Errichtungs- u. Vermietungsgesellschaft mbH & Co. KG*, Klagenfurt	*IEV Immobilien GmbH*, Klagenfurt	*VBG-CH Verwaltungs- und Beteiligungs GmbH*, Klagenfurt
LVM Beteiligungs Gesellschaft 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

Bucking the general market trend, BKS Bank was able to maintain its assets at the same level as at the end of 2013 in the first quarter of 2014, ending the period under review with a balance sheet total of €6.74 billion. However, the credit growth of 0.1 per cent to €5.06 billion was below expectations. This was a result of the economy's sluggishness, which was particularly marked in our core regional markets within Austria. The credit portfolio grew by 0.7 per cent to €1.11 billion in the retail banking segment but shrank marginally to €3.94 billion in the corporate and business banking segment. IFRSs require an impairment charge to be deducted from receivables from customers. During the period under review, new impairment allowances increased it by €8.4 million to €184.6 million. Receivables from other banks fell by €3.5 million to €113.4 million in the three months ended 31 March 2014. At the same time, payables to other banks fell by €190.6 million to €1.11 billion. This suggests that the inflow of primary funds was picking up again. There was a small increase of €10.6 million in the line item *Financial assets*, which totalled €1.53 billion at the end of March.

After the elimination of intragroup balances, *BKS Bank AG*, the Group parent, accounted for €4.64 billion of the Group's consolidated assets. We were satisfied with our development in the Slovenian credit market. Above all, we saw a continuation of the trend of prior quarters in the retail mortgage segment. The proportion of foreign currency loans in relation to total loans in the portfolio was 10.6 per cent. At the end of March, Swiss franc receivables came to SFr 599.0 million, which was SFr 24.9 million less than at the end of 2013. As in prior periods, we encouraged switches from Swiss franc bullet loans to instalment loans or euro loans.

In the light of the fact that conditions in the market were still difficult, we were pleased with the volume of new leasing business in Austria. We closed the quarter under review with lease receivables of €148.9 million. The present value of the receivables of our leasing subsidiaries abroad — in Slovenia, Slovakia and Croatia — came to €146.4 million, which was just below the figure of €146.8 million recorded at the end of 2013. There was growth in Slovenia and Slovakia, but the portfolio in Croatia shrank slightly. Although the economic outlook in Croatia brightened when it joined the EU, our lending there remained highly selective and risk sensitive. Consequently, *BKS Bank d.d.* increased its loan portfolio by just €7.8 million to €119.7 million during the quarter under review and continued to focus on developing a broadly diversified retail lease portfolio.

The line item *Financial assets* consists of the sub-items financial assets designated as at fair value through profit or loss, available-for-sale (AFS) financial assets, held-to-maturity (HTM) financial assets and investments in other entities accounted for using the equity method. As a result of redemptions of bonds and repayments of loans measured using the fair value option, *Financial assets designated as at fair value through profit or loss* fell by €13 million to €175.6 million. On the other hand, we increased our holdings of financial assets classified as available for sale (AFS), consisting of equities and fund units, by €12.3 million to €263.8 million, and we increased our holdings of financial assets classified as held-to-maturity (HTM) by €2.8 million to €718.4 million by way of investments. This was done against the backdrop of a market environment that favoured equity products. During the quarter, the line item *Investments in entities accounted for using the equity method* increased by €8.5 million to €369.6 million. The increase was attributable to the profits of our sister banks during the period under review, which were recognized in proportion to the Group's interest in them.

Equity and liabilities

On the equity and liabilities side of the Balance Sheet, 'primary' deposit balances — an important pillar of our sustainable liquidity management activities which already accounted for over 70 per cent of the balance sheet total at the end of March — were high at the end of the first quarter of 2014, inflows of €161.7 million having increased them by 3.5 per cent to €4.76 billion. Investor interest remained focused on sight and time deposits. At the same time, despite the historically low interest rates, BKS Bank was able to keep a tight rein on outflows of savings deposits. As result, there was a net outflow of just €32.3 million to €1.71 billion. We point out that Austria's nationwide private household saving rate slumped by 90 basis points to 6.5 per cent in 2013. Initially, this trend continued into the first few months of 2014. However, WIFO expects 6.8 per cent and 7.1 per cent, respectively, of disposable private incomes to be ploughed back again over 2014 as a whole and in 2015. We are of course still striving with the help of our attractive products and services to generate new volumes in this area of saving and investment, which is so important to BKS Bank's liquidity management activities. In contrast, we gained significant ground in the tough struggle for saving and investment balances in the form of sight and time deposits, which increased by €188.3 million or 9.2 per cent to €2.23 billion in the first quarter of 2014. We were particularly pleased with the uninterrupted inflow of deposits at our branches in Slovenia.

Long-term lending can only be financed through funds that are available long-term on a matched maturity basis. In view of the liquidity requirements of Basel III that have been in place since the beginning of 2014, this means that our own issuances are also an essential part of our liquidity management activities. The carrying amount of the bonds issued by BKS Bank came to €0.82 billion at the end of March, which was €5.7 million more than at the end of 2013. We made up for redemptions of maturing bonds in the first quarter with a series of new issuances, including the 2.4 per cent *BKS Bank-Obligation 2014-2021/1* and the 5 per cent *BKS Bank Nachrangige Obligation 2014-2023/2*. These already meet the requirements of the new CRR regime. The demand for covered bonds was also brisk. We increased the cover pool by €2.8 million to €156.9 million during the quarter, while new issuances came to €26.0 million. A total of €101 million of our mortgage-backed covered bonds and covered bonds backed by public sector assets were in circulation at the end of the period under review.

The line item *Equity* increased by €5.0 million to €719.2 million during the first quarter. Most of the increase was due to the addition of profit for the period.

Own funds

Until the end of 2013, BKS Bank calculated its own funds ratio and basis of assessment in accordance with the solvency regime established by Basel II. BKS Bank used the standardized approach to calculate its own funds requirement.

The way we calculate our own funds changed fundamentally when Basel III was implemented on the basis of the new EU legislation (CRD IV and CRR) and in conformity with the amended *Bankwesengesetz* (BWG: Austrian banking act). The new regulatory framework entered into force on 1 January 2014 with a variety of transitional arrangements. Some of the regulatory adjustments — above all, capital charges and regulatory filters in corrected items — will gradually enter into force up to the end of 2018. In the period up to the end of 2022, capital instruments that no longer qualify as own funds under the new regime must gradually be removed from calculations of own funds. The minimum Tier 1 ratio required in 2014 is 4 per cent, and the minimum total capital ratio requirement is 8 per cent. A raft of different buffers that need to be generated from Common Equity Tier 1 will increase minimum capital adequacy requirements from 2015. For example, the capital conservation buffer requirement is to be increased to 2.5 per cent in January 2019 starting from 0.625 per cent in 2016.

We adapted our databases to meet the new requirements in the first quarter of 2014 (see the Basel III table on page 10). It should be noted that *BKS 2000 Beteiligungsverwaltungs GmbH* was added to the regulatory scope of consolidation in the first quarter of 2014. Additions arising from, among other things, credit risk, market risk and operational risk, increased the basis of assessment from €4.42 billion at the end of 2013 (still calculated in conformity with Basel II) to nearly €5.0 billion. As a result, at the end of the first quarter, BKS Bank had Common Equity Tier 1 capital of €606.6 million, own funds of €735.7 million and surplus own funds of €336.0 million. The own funds ratio for the purposes of CRR was 14.7 per cent, and the Common Equity Tier 1 ratio was 12.1 per cent.

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

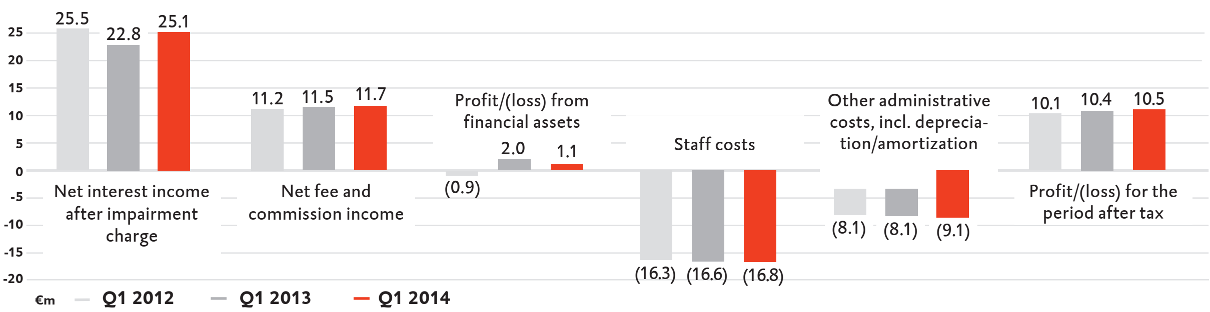
€m	31/3/2014
Equity	64.8
Reserves less intangible assets	541.8
Deductions	0
Common Equity Tier 1	**606.6**
Common Equity Tier 1 ratio	12.1%
Hybrid capital	32.0
Deductions	(22.2)
Additional Tier 1	**9.8**
Tier 1	**616.4**
Tier 1 ratio (including additional Tier 1 capital)	12.3%
Ancillary capital items and instruments	128.4
Deductions	(9.1)
Ancillary capital	**119.3**
Total own funds	**735.7**
Own funds ratio	14.7%
Basis of assessment	**4,996.5**
Surplus own funds	**336.0**

Performance

This financial year, BKS Bank is still operating in a market environment that is difficult for the banking industry; it remains dominated by low interest rates and a high level of competition. In addition, the banking sector is being confronted with new regulatory requirements at shorter and shorter intervals. It is challenging, resource intensive and expensive to satisfy them.

Although the economic forecasts available to us all suggest that the economic stagnation we have been seeing in recent quarters is coming to an end, the individual items of income and expense in the Income Statement for the first three months show a mixed though as a whole stable picture. While interest income rose by 4.6 per cent to €50.0 million, interest expenses fell significantly to €15.9 million. Among other things, this was due to maturities of high-interest *Kapitalsparbuch* fixed-term, fixed-rate passbooks and high-yield bonds. The first quarter was still particularly challenging from a risk point of view. While net interest income before the impairment charge was

Components of the Income Statement



more than one fifth up on the first quarter of 2013 to €39.1 million, we had to increase the impairment charge to €13.9 million. This compared with €9.7 million in the same period of 2013. Nonetheless, net interest income after the impairment charge remained the most important component of profit in the Group, at €25.1 million, with every subsidiary in Austria and abroad contributing to its stabilization. Profit from investments in entities accounted for using the equity method came to €4.9 million in the first quarter of 2014.

We were also pleased with the course of fee and commission business. Net fee and commission income was 1.8 per cent up on the same period of 2013 to €11.7 million. The recovery in the equity markets that we have been observing since the beginning of 2014 mainly benefited our fee and commission earnings from securities operations, which were 4.9 per cent up on the same period of 2013 to €2.9 million. It was also reflected by the value of our customers' securities portfolios, which ended the year at roughly €7.48 billion or 10.2 per cent more than at the end of 2013. Our securities operations received a special boost from our acquisition of the securities customers of *Factor banka d.d.* As planned, we took over some 2,800 customers with securities accounts worth roughly €460 million and assimilated them into the existing structure of the BKS Bank branch in Ljubljana. Moreover, net fee and commission income from credit operations and our earnings from payment services again built on their solid growth in prior periods to total €3.1 million and €4.8 million, respectively.

Reflecting our commitment to strict cost management, general administrative expenses were just 4.7 per cent up on the first quarter of 2013 to €25.9 million. Because of their impact on profit, we kept a particularly close eye on staff costs, which came to €16.8 million. This was only €0.2 million or 1.3 per cent up on the same period of 2013. The hike of about 2.2 per cent in the salaries of the average of 912 people working for the Group under collective agreements did not take effect until 1 April 2014. We point out that the savings achieved as a result of the ongoing application of our Operational Excellence (OpEx) Programme helped cushion the rise in costs caused by the increase in regulatory requirements.

Necessary investments in our infrastructure (communication systems, office equipment) led to an increase in the line item *Other administrative costs* of 13.6 per cent to €7.5 million. *Depreciation/amortization* during the period under review came to €1.6 million and was roughly static compared to the same period of 2013.

Profit from financial assets in the three months to the end of March 2014 came to €1.1 million, which was 45.6 per cent less than in the first quarter of 2013. *Profit from financial assets designated as at fair value through profit or loss* came to €0.7 million. This was the result of revaluations of derivatives and a small revaluation gain on positions for which the fair value option had been chosen. Gains less losses on disposals of securities in the available-for-sale portfolio were €1.2 down on the same period of 2013 to €0.4 million.

Ratios

The BKS Bank Group's key performance ratios in the first three months of 2014 were better than in the same period of 2013. This was above all the fruit of the pleasing advance in profit that we have already described. Our return on equity increased by 40 basis points to 6.9 per cent. The cost:income ratio improved considerably, falling to 50.8 per cent. This compared with 54.1 per cent and 54.3 per cent in the previous two years. We were able to keep the total return on equity static on the year at 0.7 per cent. The risk:earnings ratio — the gauge of the proportion of net interest income used to cover credit risk — rose from 29.2 per cent to 35.6 per cent. This was due to an increase in the necessary impairment charge in the first quarter, with the improvement in net interest income beings used to selectively create provisions.

CORPORATE PERFORMANCE RATIOS

Per cent	2012	2013	Q1 2014
Tier 1 ratio [1]	13.1	13.9	12.1
Own funds ratio [1]	15.9	16.0	14.7
ROE (before tax)	7.5	6.5	6.9
ROA (before tax)	0.8	0.7	0.7
Cost:income ratio	54.1	54.3	50.8
Risk:earnings ratio	27.0	29.2	35.6

[1] Since 1 January 2014, Common Equity Tier 1 and total own funds have been calculated in conformity with Basel III.

Segmental Reports

In order to meet our customers' needs and complete investment projects effectively and transparently, we have divided the bank's operational activities into three segments. They are the corporate and business banking segment, the retail banking segment and the financial markets segment. BKS Bank's segmental reporting is based on the organizational structure of the Group that underlies its internal management reporting system. Consequently, this segmentation was also used as the basis for the internal management of the BKS Bank Group. The performance of each segment was measured on the basis of its profit before tax and the ratios return on equity (ROE), cost:income ratio (CIR) and risk:earnings ratio (RER). Return on equity was calculated on the basis of the relationship between a segment's profit for the period and the average amount of equity tied up in it.

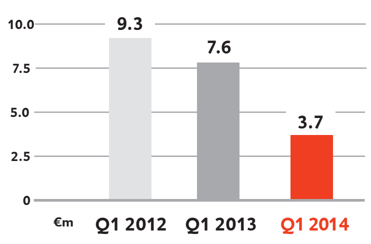
Capital was allocated according to regulatory criteria. Net interest income was allocated using the *market interest rate method* and on the basis of an extensive liquidity cost accounting system. Incurred operating expenses were allocated to the individual business segments on a cost-by-cause basis. So-called 'structural' income was allocated to the financial markets segment. No material organizational changes affecting the structure of our business segments took place in the period from January to March 2014.

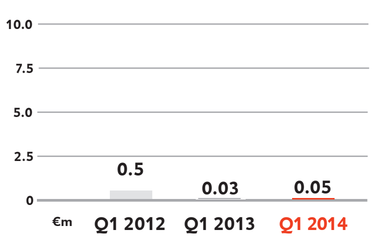
Corporate and Business Banking

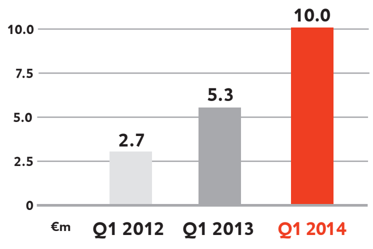
The corporate and business banking segment was the most important operating business unit by far within the BKS Bank Group. In addition to major customers, this segment also targets mainly small and medium-sized enterprises in the manufacturing, business and trading sectors. We were servicing roughly 14,000 corporate and business banking customers at the end of March 2014. 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 the income and expenses of *BKS Bank d.d.* in Croatia and the Group's leasing companies insofar as they arose from customer business done with companies. Since economic growth was still flat, the portfolio of loans to corporate and business banking customers was unchanged compared with the end of 2014 at €3.94 billion. As before, roughly 78 per cent of all loans and advances to customers in the BKS Bank Group had thus been granted to this group of customers.

Profit for the period before tax in the corporate and business banking segment was €3.9 million down on the same period of 2013 to €3.7 million. This drop in profit was attributable to higher risk costs and static net interest income compared with the first quarter of 2013. Risk costs were increased by the difficult economic environment, rising by €3.7 million to €13.1 million in the three months ended 31 March 2014. The lack of credit demand

PROFIT FOR THE PERIOD BEFORE TAX, BY SEGMENT







	Q1 2012	Q1 2013	Q1 2014
ROE	14.9%	11.6%	5.6%
CIR	34.9%	35.7%	35.9%
RER	39.4%	46.8%	65.5%

	Q1 2012	Q1 2013	Q1 2014
ROE	4.5%	0.3%	0.5%
CIR	95.2%	98.2%	95.4%
RER	1.8%	2.6%	7.1%

	Q1 2012	Q1 2013	Q1 2014
ROE	3.1%	5.6%	9.8%
CIR	25.2%	33.1%	15.5%
RER	6.7%	0.2%	1.6%

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

was a key reason for the stagnation of net interest income, which came to €20.1 million. General administrative expenses fell by €0.52 million to €9.4 million. The segment's return on equity and cost:income ratio were 5.6 per cent and 35.9 per cent, respectively. Its risk:earnings ratio rose from 46.8 per cent in the first quarter of 2013 to a relatively high 65.5 per cent in the period under review.

Retail Banking

Approximately 130,500 customers of *BKS Bank AG*, *BKS Bank d.d.* and the leasing companies within the Group were being serviced in this segment. In addition to jobholders, it also encompassed small business owners and self-employed customers. Because it is highly dependent on branch operations, it was very resource and cost intensive. However, it was also indispensable to us as our most important source of funds. This is because about 87.4 per cent of savings deposit balances and 30.9 per cent of sight and time deposit balances — that is, roughly 55.4 per cent of BKS Bank's payables to customers — had been generated by retail banking operations. It should also be noted that loans totalling €1.11 billion — or about 22.0 per cent of our total receivables from customers — had been granted in the retail banking segment by the end of March.

Profit for the period before tax in the three months ended 31 March 2014 came to €53.4 thousand. On the income side of the account, net interest income developed particularly satisfactorily and was €0.9 million up on the same period of 2013 to €8.6 million. Net fee and commission income grew significantly, advancing by 6.4 per cent to €5.6 million. This was attributable to increases in our earnings from securities operations and payment services. On the other hand, despite the necessary investment outlay on branch operations, we were able to limit the increase in general administrative expenses allocated to this segment to 6.2 per cent, resulting in a total of €13.7 million. Thanks to improved earnings, the segment's cost:income ratio was 280 basis points down on the same period of 2013. However, it was still an unsatisfactory 95.4 per cent.

Credit risk in the retail banking segment was marginally up on the end of March 2013, increasing by €0.4 million to €0.6 million. The segment's risk:earnings ratio was higher than at the end of March 2013 but still comparatively good at 7.1 per cent.

Financial Markets

The financial markets segment encompassed BKS Bank's earnings from financial assets and liabilities. They included profits from equity investments, securities held in BKS Bank's own portfolios and receivables from and payables to other banks as well as earnings from BKS Bank's interest rate term structure management activities. The responsibility for and forward-looking management of so-called 'structural' income earned in the financial markets segment were in the hands of BKS Bank's Asset Liability Management (ALM) Committee. Structural income included earnings from interbank trading, securities trading, derivatives in the banking book and the bank's internal reference interest rate settlements. BKS Bank's terms and conditions continued to mirror the low reference interest rates during the first quarter of 2014.

Profit for the period in this segment reflected our satisfactory structural income and the positive contribution to profit made by financial assets and liabilities. Net interest income was substantially up on the same period of 2013, growing by €5.9 million or 135 per cent to €10.3 million. €4.9 million of this total derived from investments in entities accounted for using the equity method. In addition, the segment's first quarter profit of €10.0 million included profit of €1.1 million from financial assets and liabilities.

The requisite impairment charge was just €0.2 million. It comprised the collective allowances for country risk exposure made in conformity with IAS 39. The result was a risk:earnings ratio of 1.6 per cent, compared with 0.2 per cent in the first quarter of 2013.

Risk Report

BKS Bank's risk management strategy was characterized by the conservative handling of all operational and other banking risks. BKS Bank's risks were analyzed, measured, controlled and managed by means of a comprehensive system of risk principles and risk measurement and monitoring procedures and appropriate organizational structures. We made it a rule to constantly review the appropriateness and reliability of our monitoring procedures so as to be able to adapt them as necessary to changing market conditions. BKS Bank defined risk as the possibility of losses or profits foregone that may be caused by internal or external factors. BKS Bank's risk management activities focused primarily on ensuring that we remained liquid while taking account of our medium-term and long-term strategic goals, on avoiding loan losses, on limiting market risks, on ensuring that the customer assets entrusted to the bank can be returned and on ensuring that the capital invested in us by our equity holders continue to increase in value. Another main focus was on optimizing the trade-off between risk and return and only entering into risks that BKS Bank could bear without outside help. In addition, we needed to ensure that our bank always had sufficient capital to support its risk profile.

The areas of risk of relevance to us were credit risk, market risk, liquidity risk and operational risk. The large loan risks incurred by BKS Bank and the *3 Banken Group* were secured against by *Alpenländische Garantie-Gesellschaft mbH*, which is accounted for in the Consolidated Financial Statements of the BKS Bank Group.

Credit Risk

We define credit risk as the risk of a partial or complete loss of contractually agreed loan payments. This risk can be caused by a business counterparty's credit standing or, indirectly, by country risk as the result of a counterparty's domicile or place of residence. Credit risk was BKS Bank's biggest risk category by far. Monitoring and analysis took place at the single customer level, at the level of groups of related customers and at the portfolio level.

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

Our bank employed a 13-class rating system based on statistical methods. On the reporting date of 31 March 2014, 71.1 per cent of all loans to corporate and business banking customers and 89.8 per cent of all loans to retail banking customers were in good rating classes from AA to 3b, which means that the associated default risks were very low. Having increased by €4.2 million or 43.9 per cent, the charge for impairment losses in the first quarter of 2014 was €13.9 million, compared with €9.7 million in the same period of 2013. Impairment allowances increased by €4.2 million to €15.5 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. The requisite charge for the risks of our foreign subsidiaries rose slightly to €0.3 million in the first quarter. The requisite charge for impairment losses was highest at *BKS Bank d.d.*, where it came to €0.3 million, followed by €0.1 million at *BKS Leasing* in Croatia. Allowances were based both on regulatory risk capital requirements and our bank's strict internal rules.

CHARGE FOR IMPAIRMENT LOSSES

€m	31/3/2013	31/3/2014	+/(–) Change, %
Direct write-offs	0.3	0.1	(61.3)
Impairment allowances	11.3	15.5	37.8
Impairment reversals	(1.8)	(1.6)	(10.6)
Subsequent recoveries	(0.1)	(0.1)	29.5
Charge for impairment losses	**9.7**	**13.9**	**43.9**

Market Risk

BKS Bank defines market risk as the risk of losses caused by movements in market prices (e.g. equity and bond prices, foreign exchange rates, interest rates) and variables that influence prices (e.g. volatilities and credit spreads). All interest rate and price sensitive positions in the banking and trading books of BKS Bank and at the individual institutions within the *Kreditinstitutsgruppe* (credit institution group) are exposed to market risk. BKS Bank divided market risk into the categories of interest rate risk (including credit spread risk), equity price risk and currency risk.

We managed these risks within the bank 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 (ALM) Committee analyzed the results of present value, duration and value at risk calculations once a month. Regarding interest rate risk, we point out that the low interest rates continued to make people hesitant to invest in long-term bonds during the quarter under review. At the same time, though, we were able to place long-term issuances of our own in the form of covered bonds. Both factors affected our interest rate risk. At the end of the first quarter of 2014, the ratio of BKS Bank's interest rate risk to its eligible own funds assuming a shift in rates of 200 basis points as reportable to OeNB in our interest rate statistics was 2.19 per cent, as against 0.32 per cent at the end of 2013. This means that it was still well below the critical 20 per cent mark. The equity value at risk having been €1.2 million at the end of 2013, it rose to €1.8 million during the period under review as volumes increased slightly. Our currency risk increased by €7.5 million to €25.7 during the period under review. This was due to fund positions whose foreign currency components had to be counted towards our open currency positions. Nonetheless, the foreign currency value at risk remained marginal, at €0.7 million, compared with €0.6 million at the end of 2013.

Liquidity Risk

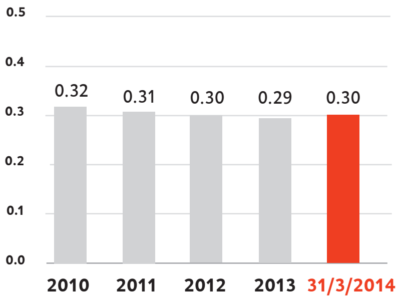
Liquidity risk is the risk that it may not be possible to meet current or future financial obligations in full or in time. It also includes the risk that it may only be possible to raise funds at higher than usual market rates (funding risk) or liquidate assets at lower than usual market rates or prices (market liquidity risk).

The management of liquidity risk was governed by clearly defined principles. Diversifying our funding profile to achieve a mix of investor categories, products and maturities was an essential part of our liquidity management activities. Terms and conditions policy was managed on the basis of the *Risikomanagementverordnung* (Austrian risk management directive) and the EBA guidance underlying it. A sophisticated funds transfer pricing technique was used to ascertain the costs that arise when funding financial products and allocate them during product and profit centre calculations.

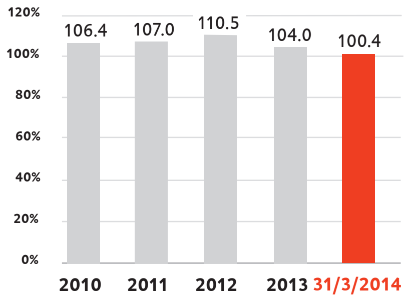
At BKS Bank, liquidity management — and, therefore, ensuring solvency at all times — was carried out with the help of a daily maturity gap analysis for each main currency. Limits were defined at the short end to set liquidity risk boundaries. Regular stress test analyses were performed to ensure that we always had sufficient cash reserves and liquid assets to close as soon as possible any funding gaps that might arise as a result of idiosyncractic and/or systemic stress scenarios. For this purpose, we held liquid reserves in the form of cash and cash equivalents, highly liquid securities (including government bonds, state guaranteed bonds and bonds issued by public sector entities) and other unencumbered assets that were eligible for refinancing at central banks.

BKS Bank's liquidity buffer was divided into a liquidity buffer 1 of €955.0 million (31 December 2013: €854.3 million) — containing cash and cash equivalents in addition to available collateral eligible for refinancing within the ESCB — and a liquidity buffer 2 (CBC: counterbalancing capacity) of €1.11 billion (31 December 2013: €1.00 billion) that also contained other securities. The change compared with the previous quarter was due mainly to the absence of the one week tender of €100 million taken over the end of 2013. In addition, the volume of other liquid securities at 31 March 2014 was roughly €4 million up to €155.1 million, and credit claims were up €6.4 million. On the other hand, the cash and cash equivalents contained in the liquidity buffer 1 fell by €9.4 million to €25.6 million.

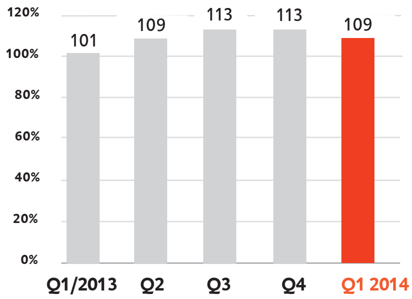
DEPOSIT CONCENTRATION



LOAN:DEPOSIT RATIO



LIQUIDITY COVERAGE RATIO



We continued to meet the minimum liquidity requirements in full during the quarter under review. We held our surplus liquidity, which had to be calculated in accordance with *§ 25 BWG*, at an average of roughly €216 during the period.

The deposit concentration helps estimate the deposit withdrawal risk associated with the possibility of a run on deposits. Above all, it highlights the dangers that come with relying on large deposits. This ratio, which is important to us, was 0.30 in the first quarter of 2014. The loan:deposit ratio (the ratio of receivables from customers to primary deposit balances) has established itself as a useful liquidity management indicator. It stood at 100.4 per cent at 31 March 2014, which was close to our internal benchmark of 100 per cent. This was the fruit of our intensive efforts to attract primary deposits. The new LCR (liquidity coverage ratio) that now has to be reported to the regulators was 109 per cent at 31 March 2014. The 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 predicted weighted net cash outflow (cash inflow less cash outflow) in the coming 30 days. The required ratio from 2018 will be 100 per cent. The legislators have provided for its gradual introduction starting with a minimum ratio of 60 per cent in 2015. BKS Bank already met the legislative requirement in full.

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, the management of operational risk is the responsibility of the respective operating departments and responsible individuals (so-called *risk-taking units*). A total of 50 loss events were reported at BKS Bank in the three months up to the end of March 2014. After the deduction of reimbursed losses, they cost just €28 thousand.

Outlook for the Year as a Whole

Although the global economy's growth is expected to accelerate from 3.0 per cent in 2013 to 3.5 per cent in 2014, it will still fall short of the growth rates recorded in 2010 and 2011. Nonetheless, after a slightly overcast start to the year, the signs are that the United States will achieve real GDP growth of 3 per cent over 2014 as a whole, which would be roughly a percentage point up on 2013. Although the US Federal Reserve has already reduced its monthly bond purchases to US$45 billion and is very likely to terminate them altogether in the autumn, we do not expect key interest rates to be hiked before the middle of 2015. The eurozone economy too began the year on a still flat growth path, with growth running at 1 per cent, and it continued to be dominated by the economic divide within the eurozone. Currently, the positive growth momentum is coming from Germany, the 'hard' core countries and the peripheral countries that have gone a long way towards stabilizing their economies. On the other hand, Italy and France are still suffering from their limited competitiveness and ability to implement reforms.

In this setting, we believe that the European Central Bank (ECB) will sustain its present low interest policy. Indeed, the statements made during the ECB Council session at the beginning of May suggest that we will actually be seeing another cut in interest rates or other monetary policy easing against the backdrop of low inflation, the fragile economic recovery and lending rate differentials between the various eurozone countries. Be that as it may, the big central banks' monetary policies are likely to remain expansionary and keep low investors' risk aversion to equities, corporate bonds and the government bonds of peripheral countries.

In the European banking sector, the main bank supervision and regulatory focuses in the quarters to come are likely to be the ECB's assumption of responsibility for the supervision of big banks, the ongoing audits of banks' balance sheets (Asset Quality Review) with the subsequent stress test and finalizing the regulations that will govern the winding up of failed banks in the future. The climate having improved perceptibly in 2013, the banking environment remained astonishingly robust in the quarter under review. As a result, investor confidence in the banking sector continued to improve at a moderate pace. However, it is still too soon to give the general all-clear. In view of the complex combination of sovereign debt, financial and structural problems, the euro crisis is still smouldering in some areas. In addition, the burgeoning geopolitical risks created by tensions between Russia and the West over the Ukraine could — the economic and financial impact on the financial markets having been localized so far — ignite a wildfire.

As for our bank's medium-term development, our predictions for the 2014 financial year have not changed since the end of 2013. Our ambitious growth initiatives in the corporate and business banking and retail banking segments are aimed at growth in both the volume of customer business and our earnings base. From this point of view, the 2014 financial year began well — even if we are still confronted with margin eroding competition for customer deposits. We expect our access to the secured and unsecured money and capital markets to remain unrestricted. While competing for customer deposits, we want to increase our funding strength with the help, above all, of further inflows of savings deposits and attractive issuances in the capital markets. However, as in the first quarter, lending growth is likely to fall short of expectations. Since risks are still high, especially in the credit portfolio, we have made sufficient allowance for them in our books. As for net fee and commission income, we believe that the slight uptrend in customer activity will solidify, especially in the securities and payments fields. In addition, we are working intensively on continuing to implement our strategic agenda within the framework of our OpEx (operational excellence) project.

We have stayed true to our declared goals for 2014, which are to deliver to our shareholders another annual balance sheet that is free from surprises and to present a dividend proposal to match our results.

We remain,

Yours faithfully,

Herta Stockbauer Chairwoman	Dieter Krassnitzer Member of the Management Board	Wolfgang Mandl Member of the Management Board

The BKS Bank Group at a glance

	BKS Bank Group		Oberbank Group		BTV Group	
Income account, €m	Q1 2013	Q1 2014	Q1 2013	Q1 2014	Q1 2013	Q1 2014
Net interest income	32.5	39.1	80.4	82.4	40.1	45.3
Impairment charge on loans and advances	(9.79)	(13.9)	(14.8)	(18.1)	(9.5)	(9.4)
Net fee and commission income	11.5	11.7	28.8	30.6	11.4	10.8
General administrative expenses	(24.8)	(25.9)	(56.4)	(57.9)	(23.5)	(31.9)
Profit for the period before tax	11.8	12.3	40.9	42.9	20.7	21.9
Profit for the period after tax	10.4	10.5	33.3	35.6	16.3	17.7
Balance sheet data, €m	31/12/2013	31/3/2014	31/12/2013	31/3/2014	31/12/2013	31/3/2014
Assets	6,743.8	6,738.2	17,531.8	17,457.1	9,588.5	9,478.7
Receivables from customers after impairment charge	4,874.2	4,871.5	11,277.9	11,405.5	6,197.4	6,034.7
Primary deposit balances	4,597.2	4,759.3	12,250.4	12,031.1	6,715.9	6,557.9
– Of which savings deposit balances	1,741.2	1,708.9	3,352.1	3,309.7	1,175.8	1,165.2
– Of which liabilities evidenced by paper	813.9	819.7	2,224.4	2,238.5	1,288.3	1,283.9
Equity	714.2	719.2	1,421.0	1,456.2	913.1	936.5
Customer assets under management	11,383.4	12,238.2	22,787.5	22,766.7	11,545.8	11,509.6
– Of which in customers' securities accounts	6,785.9	7,478.9	10,537.1	10,735.6	4,829.9	4,951.7
Own funds within the meaning of CRR, €m (2013: BWG)	31/12/2013	31/3/2014	31/12/2013	31/3/2014	31/12/2013	31/3/2014
Basis of assessment of own funds	4,423.3	4,996.5	10,734.0	11,594.5	6,055.4	6,279.9
Own funds	707.6	735.7	1,824.8	1,849.3	964.4	1,097.4
Of which Common Equity Tier 1 (CET1)	n/a	606.6	n/a	1,225.5	n/a	782.5
Of which total Tier 1 capital (CET 1 and AT 1)	662.5	616.5	1,320.6	1,284.1	807.0	847.3
Common Equity Tier 1 ratio, %	n/a	12.1	n/a	10.6	n/a	12.5
Tier 1 ratio, % (2013: Basel II)	13.9	12.3	12.3	11.1	13.3	13.5
Own funds ratio, % (2013: Basel II)	16.0	14.7	17.0	16.0	15.9	17.5
Performance, %	2013	Q1 2014	2013	Q1 2014	2013	Q1 2014
Return on equity before tax	6.5	6.9	10.3	12.0	9.3	9.6
Return on equity after tax	5.8	6.1	8.9	10.0	7.3	7.8
Cost:income ratio	54.3	50.8	52.1	48.7	53.3	51.4
Risk:earnings ratio	29.2	35.6	21.1	22.0	26.7	20.8
Resources	2013	Q1 2014	2013	Q1 2014	2013	Q1 2014
Average number of staff	910	912	2,001	2,001	793	1,172
Branches	56	55	150	152	37	37

Consolidated Financial Statements as at and for the Three Months Ended 31 March 2014

Page

Comprehensive Income Statement of the BKS Bank Group for the Period from 1 January to 31 March 2014

INCOME STATEMENT

€k	Note	1/1–31/3/2013	1/1–31/3/2014	+/(–) Change, %
Interest income		47,872	50,053	4.6
Interest expenses		(19,437)	(15,889)	(18.3)
Profit/(loss) from investments in entities accounted for using the equity method		4,058	4,889	20.5
Net interest income	(1)	**32,493**	**39,053**	**20.2**
Impairment charge on loans and advances	(2)	(9,670)	(13,913)	43.9
Net interest income after impairment charge		**22,823**	**25,140**	**10.2**
Fee and commission income		12,242	12,403	1.3
Fee and commission expenses		(764)	(716)	(6.3)
Net fee and commission income	(3)	11,478	**11,687**	**1.8**
Net trading income	(4)	391	321	(17.9)
General administrative expenses	(5)	(24,774)	(25,930)	4.7
Other operating income	(6)	829	869	4.8
Other operating expenses	(6)	(915)	(859)	(6.1)
Profit/(loss) from financial assets (FV)	(7)	808	673	(16.7)
Profit/(loss) from financial assets (AFS)	(8)	1,198	418	(65.1)
Profit/(loss) from financial assets (HTM)	(9)	0	0	—
Profit for the period before tax		**11,838**	**12,319**	**4.1**
Income tax expense	(10)	(1,457)	(1,798)	23.4
Profit for the period after tax		**10,381**	**10,521**	**1.4**
Minority interests in profit for the period		(1)	(1)	—
Profit for the period after tax and minority interests		**10,380**	**10,520**	**1.4**

GAINS AND LOSSES TAKEN DIRECTLY TO EQUITY

€k	1/1–31/3/2013	1/1–31/3/2014	+/(–) Change, %
Profit for the period after tax	**10,381**	**10,521**	**1.4**
Items not reclassified to consolidated profit or loss			
+/(–) Actuarial gains less losses in conformity with IAS 19	0	0	—
+/(–) Deferred taxes in conformity with IAS 19	0	0	—
+/(–) Gains less losses arising from use of the equity method in conformity with IAS 19	(454)	85	(>100)
Items reclassified to consolidated profit or loss			
+/(–) Exchange differences	(145)	(80)	(44.8)
+/(–) Available-for-sale reserve	808	787	(2.6)
+/(–) Deferred taxes taken to AFS reserve items	(188)	(388)	>100
+/(–) Gains less losses arising from use of the equity method	2,653	4,572	72.3
Total income and expenses taken directly to equity	**2,674**	**4,976**	**86.1**
Comprehensive income before minority interests	**13,055**	**15,497**	**18.7**
Of which minority interests	(1)	(1)	—
Comprehensive income after minority interests	**13,054**	**15,496**	**18.7**

QUARTERLY REVIEW

€k	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Interest income	47,872	49,937	47,683	49,129	50,053
Interest expenses	(19,437)	(18,956)	(17,889)	(17,198)	(15,889)
Profit/(loss) from investments in entities accounted for using the equity method	4,058	6,983	7,502	6,520	4,889
Net interest income	**32,493**	**37,964**	**37,296**	**38,451**	**39,053**
Impairment charge on loans and advances	(9,670)	(12,244)	(8,755)	(12,041)	(13,913)
Net interest income after impairment charge	**22,823**	**25,720**	**28,541**	**26,410**	**25,140**
Fee and commission income	12,242	11,698	12,188	12,201	12,403
Fee and commission expenses	(764)	(907)	(830)	(406)	(716)
Net fee and commission income	**11,478**	**10,791**	**11,358**	**11,795**	**11,687**
Net trading income	391	423	399	310	321
General administrative expenses	(24,774)	(25,388)	(24,333)	(26,318)	(25,930)
Other operating income	829	1,121	887	730	869
Other operating expenses	(915)	(1,519)	(6,654)	(1,798)	(859)
Profit/(loss) from financial assets	2,006	306	1,077	(167)	1,091
– Profit/(loss) from financial assets (FV)	808	(120)	424	469	673
– Profit/(loss) from financial assets (AFS)	1,198	426	653	(636)	418
– Profit/(loss) from financial assets (HTM)	0	0	0	0	0
Profit for the period before tax	**11,838**	**11,454**	**11,275**	**10,962**	**12,319**
Income tax expense	(1,457)	(1,050)	(1,188)	(1,238)	(1,798)
Profit for the period after tax	**10,381**	**10,404**	**10,087**	**9,724**	**10,521**
Minority interests in profit for the period after tax	(1)	0	(1)	(1)	(1)
Consolidated profit for the period after tax and minority interests	**10,380**	**10,404**	**10,086**	**9,723**	**10,520**

Balance Sheet of the BKS Bank Group as at 31 March 2014

ASSETS

€k	Note	31/12/2013	31/3/2014	+/(–) Change, %
Cash and balances with the central bank	(11)	104,815	93,049	(11.2)
Receivables from other banks	(12)	116,917	113,380	(3.0)
Receivables from customers	(13)	5,050,314	5,056,009	0.1
– Impairment allowance balance	(14)	(176,109)	(184,553)	4.8
Trading assets	(15)	352	284	(19.3)
Financial assets designated as at fair value through profit or loss	(16)	188,626	175,563	(6.9)
Available-for-sale financial assets	(17)	251,483	263,819	4.9
Held-to-maturity financial assets	(18)	715,548	718,393	0.4
Investments in entities accounted for using the equity method	(19)	361,126	369,577	2.3
Intangible assets	(20)	1,907	1,717	(10.0)
Property and equipment	(21)	63,251	63,105	(0.2)
Investment property	(22)	22,814	22,769	(0.2)
Deferred tax assets	(23)	17,109	17,344	1.4
Other assets	(24)	25,607	27,787	8.5
Total assets		**6,743,760**	**6,738,243**	**(0.1)**

EQUITY AND LIABILITIES

€k	Note	31/12/2013	31/3/2014	+/(–) Change, %
Payables to other banks	(25)	1,302,332	1,111,736	(14.6)
Payables to customers	(26)	3,783,595	3,939,606	4.1
Liabilities evidenced by paper	(27)	591,083	605,631	2.5
Trading liabilities	(28)	404	332	(17.8)
Provisions	(29)	83,992	85,038	1.2
Deferred tax liabilities	(30)	5,593	9,808	75.4
Other liabilities	(31)	39,788	52,897	32.9
Subordinated debt capital	(32)	222,809	214,023	(3.9)
Equity		714,164	719,172	0.7
Of which total minority interests and equity		714,154	719,162	0.7
Of which minority interests in equity		10	10	0.0
Total equity and liabilities		**6,743,760**	**6,738,243**	**(0.1)**

EARNINGS AND DIVIDEND PER SHARE

	31/3/2013	31/3/2014
Average number of shares in issue	32,275,388	32,184,397
Dividend per share, €	0.25	0.25
Earnings per share (diluted and undiluted), €	1.29	1.31

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 IN 2014

€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**
Planned distribution							(8,190)	(8,190)
Taken to retained earnings					32,406		(32,406)	0
Profit for the period after tax							10,521	10,521
Gains and losses taken directly to equity			(80)	399		4,657		4,976
Increase in share capital								0
Change arising from use of the equity method						(1,326)		(1,326)
Changes in treasury shares					(390)			(390)
Other changes					(573)			(573)
At 31 March 2014	**65,520**	**97,929**	**(1,067)**	**2,897**	**535,765**	**7,607**	**10,521**	**719,172**
Available-for-sale reserve								3,851
Deferred tax reserve								(954)

TOTAL MINORITY INTERESTS AND EQUITY IN 2013

€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**	**886,286**
Distribution							(8,190)	(8,190)
Taken to retained earnings					34,936		(34,936)	0
Profit for the period after tax							10,381	10,381
Gains and losses taken directly to equity			(145)	620		2,199		2,674
Increase in share capital								0
Change arising from use of the equity method						(649)		(649)
Changes in treasury shares					(274)			(274)
Other changes					103			103
At 31 March 2013	**65,520**	**97,929**	**(859)**	**502**	**507,114**	**11,744**	**10,381**	**692,331**
Available-for-sale reserve								1,083
Deferred tax reserve								(581)

Cash Flow Statement

CASH FLOWS

€k	1/1–31/3/2013	1/1–31/3/2014
Cash and cash equivalents at end of previous period	**81,749**	**104,815**
Net cash from/(used in) operating activities	(28,502)	7,792
Net cash from/(used in) investing activities	16,610	(10,456)
Net cash from/(used in) financing activities	10,127	(9,176)
Effect of exchange rate changes on cash and cash equivalents	40	74
Cash and cash equivalents at end of period	**80,024**	**93,049**

Cash and cash equivalents were recognized in the line item *Cash and balances with the central bank*.

Notes to the Consolidated Financial Statements of BKS Bank — Material Accounting Policies

I. General information

The Interim Financial Statements of the BKS Bank Group as at and for the three months ended 31 March 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 relevant interpretations by the International Financial Reporting Interpretations Committee (IFRIC).

II. Recognition and measurement

Scope of consolidation

Besides *BKS Bank AG*, the Consolidated Financial Statements accounted for 19 entities (15 consolidated entities and four entities accounted for using the equity method). *BKS 2000 Beteiligungsverwaltungsgesellschaft m.b.H.* was 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. 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	—	31/3/2014
BKS-Leasing Gesellschaft m.b.H	Klagenfurt	99.75	0.25	31/3/2014
BKS-leasing d.o.o.	Ljubljana	100.00	—	31/3/2014
BKS-leasing Croatia d.o.o.	Zagreb	100.00	—	31/3/2014
BKS-Leasing s.r.o. (subgroup with *BKS-Finance s.r.o.*)	Bratislava	100.00	—	31/3/2014
IEV Immobilien GmbH	Klagenfurt	100.00	—	31/3/2014
Immobilien Errichtungs- und Vermietungs GmbH & Co. KG	Klagenfurt	100.00	—	31/3/2014
BKS Zentrale-Errichtungs- und Vermietungs GmbH	Klagenfurt	—	100.00	31/3/2014
BKS Hybrid alpha Gmbh	Klagenfurt	100.00	—	31/3/2014
BKS Hybrid beta GmbH	Klagenfurt	100.00	—	31/3/2014
VBG-CH Verwaltungs- und Beteiligungs GmbH	Klagenfurt	100.00	—	31/3/2014
LVM Beteiligungs Gesellschaft mbH	Klagenfurt	—	100.00	31/3/2014
BKS Immobilien-Service GmbH	Klagenfurt	100.00	—	31/3/2014
BKS Service GmbH	Klagenfurt	100.00	—	31/3/2014
BKS 2000 Beteiligungsverwaltungs GmbH	Klagenfurt	100.00		31/3/2014

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	—	31/12/2013
Bank für Tirol und Vorarlberg AG	Innsbruck	13.59	—	31/12/2013
Alpenländische Garantie-GmbH	Linz	25.00	—	31/3/2014
Drei-Banken Versicherungs-Aktiengesellschaft	Linz	20.00	—	31/3/2014

FOREIGN SUBSIDIARIES AND BRANCHES AT 31 MARCH 2014

€k	Net Interest Income	Operating Profit	Number of Staff (Person Years)	Profit/(Loss) for the Period before Tax
Branches abroad				
Slovenia Branch (banking branch)	2,986	3,424	86	(320)
Slovakia Branch (banking branch)	294	314	19	(63)
Subsidiaries				
BKS Leasing d.o.o., Ljubljana	436	538	11	376
BKS-leasing Croatia d.o.o., Zagreb	432	414	11	69
BKS-Leasing s.r.o.,Bratislava	257	290	14	11
BKS Bank d.d., Rijeka	1,116	1,281	59	83

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 prepared their financial statements in Croatian kunas rather than in euros. 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) that were 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 reporting date, financial assets are tested to determine whether there is objective evidence of impairment. Such objective evidence includes, for instance, a debtor in financial difficulties, default or delay in interest payments or repayments and concessions made by *BKS Bank AG* or the consolidated subsidiary to a debtor for financial or legal reasons connected with the debtor's financial difficulties that would otherwise not have been made.

In the valuations that follow, financial instruments have 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 2012, 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 (ALM) Committee. These positions (asset or liability and associated derivative) were thus measured at fair value through profit or loss and any revaluation gains or losses were recognized in the Income Statement in the line item *Profit/(loss) from financial assets designated as at fair value through profit or loss.*

Available-for-sale financial assets

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

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

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

Investments in entities accounted for using the equity method
Entities in which BKS Bank held a stake of over 20 per cent were accounted for in the Consolidated Financial Statements using the equity method. In addition, *Oberbank AG* and *Bank für Tirol und Vorarlberg 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 for individual positions on an item-by-item basis applying class-specific criteria and by collective assessment of impairment of the portfolio 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 properties held as financial investments 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 charged off at their settlement dates.

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

Property and equipment
The line item *Property and equipment* consists mainly of land, buildings and other property and equipment comprising primarily office furniture and equipment. Property and equipment was recognized at the amortized cost of acquisition or conversion. Ordinary depreciation was linear based on an asset's usual useful life and lay within the following bands:

– immovable assets: 1.5 per cent to 3.0 per cent (i.e. between 33.3 and 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.

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 calculation parameters were unchanged compared with the end of 2013. 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. Interest income (dividend income) from equity investments in entities accounted for using the equity method was disclosed in the line item *Net interest income* net of financing costs.

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 Consolidated 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 Consolidated Financial Statements were made on the basis of the knowledge and information available at the copy deadline date.

Details of the Income Statement

(1) NET INTEREST INCOME

€k	1/1–31/3/2013	1/1–31/3/2014	+/(–) Change, %
Interest income	47,872	50,053	4.6
– Of which from credit operations	36,565	37,920	3.7
– Of which from fixed-interest securities	7,475	7,031	(5.9)
– Of which from lease receivables	1,994	2,073	4.0
– Of which from shares and investments in other entities	1,545	2,445	58.3
– Of which from investment property	293	584	99.3
Interest expenses	19,437	15,889	(18.3)
– Of which on deposits from customers and other banks [1]	12,582	9,094	(27.7)
– Of which on liabilities evidenced by paper	6,748	6,604	(2.1)
– Of which on investment property	107	191	78.5
Profit from investments in entities accounted for using the equity method	4,058	4,889	20.5
– Of which income from investments in entities accounted for using the equity method	4,347	5,120	17.8
– Financing costs of investments in entities accounted for using the equity method [2]	(289)	(231)	(20.1)
Net interest income	**32,493**	**39,053**	**20.2**

[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	1/1–31/3/2013	1/1–31/3/2014	+/(–) Change, %
Impairment allowances	11,268	15,523	37.8
Impairment reversals	(1,785)	(1,596)	(10.6)
Direct write-offs	282	109	(61.3)
Recoveries on receivables previously written off	(95)	(123)	29.5
Impairment charge on loans and advances	**9,670**	**13,913**	**43.9**

(3) NET FEE AND COMMISSION INCOME

€k	1/1–31/3/2013	1/1–31/3/2014	+/(–) Change, %
Fee and commission income	12,242	12,403	1.3
– Of which from payment services	4,945	5,126	3.7
– Of which from securities operations	3,003	3,147	4.8
– Of which from credit operations	3,230	3,116	(3.5)
– Of which from money and foreign exchange transactions	532	458	(13.9)
– Of which from other services	532	556	4.5
Fee and commission expenses	764	716	(6.3)
– Of which arising from payment services	363	371	2.2
– Of which arising from securities operations	229	237	3.5
– Of which arising from credit operations	122	62	(49.2)
– Of which arising from money and foreign exchange transactions	5	4	(20.0)
– Of which arising from other services	45	42	(6.7)
Net fee and commission income	**11,478**	**11,687**	**1.8**

(4) NET TRADING INCOME

€k	1/1–31/3/2013	1/1–31/3/2014	+/(–) Change, %
Price-based contracts	(68)	(1)	(98.5)
Interest rate and currency contracts	459	322	(29.8)
Net trading income	**391**	**321**	**(17.9)**

(5) GENERAL ADMINISTRATIVE EXPENSES

€k	1/1–31/3/2013	1/1–31/3/2014	+/(–) Change, %
Staff costs	16,625	16,847	1.3
– Of which wages and salaries	12,500	12,843	2.7
– Of which social security costs	2,728	2,631	(3.6)
– Of which costs of old-age benefits	1,397	1,373	(1.7)
Other administrative costs	6,591	7,487	13.6
Depreciation/amortization	1,558	1,596	2.4
General administrative expenses	**24,774**	**25,930**	**4.7**

(6) OTHER OPERATING INCOME NET OF OTHER OPERATING EXPENSES

€k	1/1–31/3/2013	1/1–31/3/2014	+/(–) Change, %
Other operating income	829	869	4.8
Other operating expenses	(915)	(859)	(6.1)
Other operating income net of other operating expenses	**(86)**	**10**	**(>100)**

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

€k	1/1–31/3/2013	1/1–31/3/2014	+/(–) Change, %
Revaluation gains and losses on derivatives	1,084	497	(54.2)
Gain/(loss) as a result of using the fair value option	(276)	176	(>100)
Profit/(loss) from financial assets designated as at fair value through profit or loss	**808**	**673**	**(16.7)**

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

€k	1/1–31/3/2013	1/1–31/3/2014	+/(–) Change, %
Revaluation gains and losses	(75)	(18)	(76.0)
Gains and losses realized on disposal	1,273	436	(65.8)
Profit/(loss) from available-for-sale financial assets	**1,198**	**418**	**(65.1)**

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

€k	1/1–31/3/2013	1/1–31/3/2014	+/(–) 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	1/1–31/3/2013	1/1–31/3/2014	+/(–) Change, %
Current taxes	(1,381)	(1,768)	28.0
Deferred taxes	(76)	(30)	(60.5)
Income tax expense	**(1,457)**	**(1,798)**	**23.4**

Details of the Balance Sheet

(11) CASH AND BALANCES WITH THE CENTRAL BANK

€k	31/12/2013	31/3/2014	+/(–) Change, %
Cash in hand	37,016	27,976	(24.4)
Credit balances with central banks of issue	67,799	65,073	(4.0)
Cash and balances with the central bank	**104,815**	**93,049**	**(11.2)**

(12) RECEIVABLES FROM OTHER BANKS

€k	31/12/2013	31/3/2014	+/(–) Change, %
Receivables from Austrian banks	45,485	58,463	28.5
Receivables from foreign banks	71,432	54,917	(23.1)
Receivables from other banks	**116,917**	**113,380**	**(3.0)**

(13) RECEIVABLES FROM CUSTOMERS

€k	31/12/2013	31/3/2014	+/(–) Change, %
Corporate and business banking customers	3,946,284	3,944,403	0.0
Retail banking customers	1,104,030	1,111,606	0.7
Receivables from customers	**5,050,314**	**5,056,009**	**0.1**

(14) IMPAIRMENT ALLOWANCE BALANCE

€k	31/12/2013	31/3/2014	+/(–) Change, %
At beginning of period under review	168,101	176,109	4.8
+ Added	43,789	14,715	(66.4)
– Reversed	(5,364)	(1,596)	(70.2)
– Used	(30,334)	(4,645)	(84.7)
+ Exchange differences	(83)	(30)	(63.9)
At end of period under review	**176,109**	**184,553**	**4.8**

(15) TRADING ASSETS

€k	31/12/2013	31/3/2014	+/(–) 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	284	(19.3)
Trading assets	**352**	**284**	**(19.3)**

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

€k	31/12/2013	31/3/2014	+/(–) Change, %
Bonds and other fixed-interest securities	87,004	77,800	(10.6)
Loans	101,622	97,763	(3.8)
Financial assets designated as at fair value through profit or loss	**188,626**	**175,563**	**(6.9)**

(17) AVAILABLE-FOR-SALE FINANCIAL ASSETS

€k	31/12/2013	31/3/2014	+/(–) Change, %
Bonds and other fixed-interest securities	117,814	117,742	(0.1)
Shares and other variable-yield securities	83,574	89,121	6.6
Investments in other associates and in subsidiaries	35,399	4,357	(87.7)
Other equity investments	14,696	52,599	>100
Available-for-sale financial assets	**251,483**	**263,819**	**4.9**

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 €37.9 million.

(18) HELD-TO-MATURITY FINANCIAL ASSETS

€k	31/12/2013	31/3/2014	+/(–) Change, %
Bonds and other fixed-interest securities	715,548	718,393	0.4
Held-to-maturity financial assets	**715,548**	**718,393**	**0.4**

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

€k	31/12/2013	31/3/2014	+/(–) Change, %
Oberbank AG	237,139	240,353	1.4
Bank für Tirol und Vorarlberg AG	118,849	124,086	4.4
Alpenländische Garantie-GmbH	974	973	(0.1)
Drei-Banken Versicherungs-AG	4,164	4,165	0.0
Investments in entities accounted for using the equity method	**361,126**	**369,577**	**2.3**

(20) INTANGIBLE ASSETS

€k	31/12/2013	31/3/2014	+/(–) Change, %
Goodwill	0	0	—
Other intangible assets	1,907	1,717	(10.0)
Intangible assets	**1,907**	**1,717**	**(10.0)**

(21) PROPERTY AND EQUIPMENT

€k	31/12/2013	31/3/2014	+/(–) Change, %
Land	8,840	8,797	(0.5)
Buildings	43,365	42,438	(2.1)
Other	11,046	11,870	7.5
Property and equipment	**63,251**	**63,105**	**(0.2)**

(22) INVESTMENT PROPERTY

€k	31/12/2013	31/3/2014	+/(–) Change, %
Land	7,679	7,948	3.5
Buildings	15,135	14,821	(2.1)
Investment property	**22,814**	**22,769**	**(0.2)**

(23) DEFERRED TAX ASSETS

€k	31/12/2013	31/3/2014	+/(–) Change, %
Deferred tax assets	**17,109**	**17,344**	**1.4**

(24) OTHER ASSETS

€k	31/12/2013	31/3/2014	+/(–) Change, %
Positive fair values of derivative financial instruments	8,903	7,481	(16.0)
Other items	13,716	17,016	24.1
Deferred items	2,988	3,290	10.1
Other assets	**25,607**	**27,787**	**8.5**

(25) PAYABLES TO OTHER BANKS

€k	31/12/2013	31/3/2014	+/(–) Change, %
Payables to Austrian banks	961,493	775,620	(19.3)
Payables to foreign banks	340,839	336,116	(1.4)
Payables to other banks	**1,302,332**	**1,111,736**	**(14.6)**

(26) PAYABLES TO CUSTOMERS

€k	31/12/2013	31/3/2014	+/(–) Change, %
Savings deposit balances	1,741,201	1,708,897	(1.9)
– Of which from corporate and business banking customers	228,814	215,953	(5.6)
– Of which from retail banking customers	1,512,387	1,492,944	(1.3)
Other payables	2,042,394	2,230,709	9.2
– Of which to corporate and business banking customers	1,394,145	1,541,353	10.6
– Of which to retail banking customers	648,249	689,356	6.3
Payables to customers	**3,783,595**	**3,939,606**	**4.1**

(27) LIABILITIES EVIDENCED BY PAPER

€k	31/12/2013	31/3/2014	+/(–) Change, %
Issued bonds	480,382	509,221	6.0
Other liabilities evidenced by paper	110,701	96,410	(12.9)
Liabilities evidenced by paper	**591,083**	**605,631**	**2.5**

(28) TRADING LIABILITIES

€k	31/12/2013	31/3/2014	+/(–) Change, %
Interest rate contracts	404	332	(17.8)
Trading liabilities	**404**	**332**	**(17.8)**

(29) PROVISIONS

€k	31/12/2013	31/3/2014	+/(–) Change, %
Provisions for post-employment benefits and similar obligations	69,814	70,179	0.5
Provisions for taxes (current tax)	178	761	>100
Other provisions	14,000	14,098	0.7
Provisions	**83,992**	**85,038**	**1.2**

(30) DEFERRED TAX LIABILITIES

€k	31/12/2013	31/3/2014	+/(–) Change, %
Deferred tax liabilities	**5,593**	**9,808**	**75.4**

(31) OTHER LIABILITIES

€k	31/12/2013	31/3/2014	+/(–) Change, %
Negative fair values of derivative financial instruments	21,458	21,161	(1.4)
Other items	16,659	30,944	85.7
Deferred items	1,671	792	(52.6)
Other liabilities	**39,788**	**52,897**	**32.9**

(32) SUBORDINATED DEBT CAPITAL

€k	31/12/2013	31/3/2014	+/(–) Change, %
Supplementary capital	182,809	174,023	(4.8)
Hybrid capital	40,000	40,000	—
Subordinated debt capital	**222,809**	**214,023**	**(3.9)**

(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;
– 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	
	1/1–31/3/2013	1/1–31/3/2014	1/1–31/3/2013	1/1–31/3/2014	1/1–31/3/2013	1/1–31/3/2014
Net interest income	7,693	8,593	20,212	20,067	4,392	10,326
– Of which from investments in entities accounted for using the equity method					4,058	4,889
Impairment charge on loans and advances	(200)	(608)	(9,462)	(13,135)	(8)	(170)
Net fee and commission income	5,243	5,581	6,068	5,866	76	43
Net trading income	0	0	0	0	391	321
General administrative expenses	(12,866)	(13,663)	(9,473)	(9,421)	(1,607)	(1,659)
Other operating income net of other operating expenses	159	150	280	303	(4)	1
Profit from financial assets	0	0	0	0	2,006	1,091
Profit for the period before tax	**29**	**53**	**7,625**	**3,679**	**5,246**	**9,954**
Average risk-weighted assets	564,040	543,662	3,288,386	3,276,257	558,283	582,032
Average allocated equity	46,199	43,493	263,071	262,101	374,765	404,767
ROE based on profit for the period	**0.3%**	**0.5%**	**11.6%**	**5.6%**	**5.6%**	**9.8%**
Cost:income ratio	**98.2%**	**95.4%**	**35.7%**	**35.9%**	**33.1%**	**15.5%**
Risk:earnings ratio	**2.6%**	**7.1%**	**46.8%**	**65.5%**	**0.2%**	**1.6%**

€k	Other		Total	
	1/1–31/3/2013	1/1–31/3/2014	1/1–31/3/2013	1/1–31/3/2014
Net interest income	196	67	32,493	39,053
– Of which from investments in entities accounted for using the equity method			4,058	4,889
Impairment charge on loans and advances	0	0	(9,670)	(13,913)
Net fee and commission income	91	197	11,478	11,687
Net trading income	0	0	391	321
General administrative expenses	(828)	(1,188)	(24,774)	(25,930)
Other operating income net of other operating expenses	(521)	(443)	(86)	10
Profit from financial assets	0	0	2,006	1,091
Profit for the period before tax	**(1,062)**	**(1,367)**	**11,838**	**12,319**
Average risk-weighted assets	40,500	39,051	4,451,209	4,441,003
Average allocated equity	6,281	6,302	690,316	716,663
ROE based on profit for the period			**6.5%**	**6.9%**
Cost:income ratio			**56.0%**	**50.8%**
Risk:earnings ratio			**29.8%**	**35.6%**

(34) SHAREHOLDERS' EQUITY AFTER MINORITY INTERESTS

€k	31/12/2013	31/3/2014	+/(–) Change, %
Subscribed capital	65,520	65,520	—
– Of which share capital	65,520	65,520	—
Capital reserves	97,929	97,929	—
Retained earnings and other reserves	550,715	555,723	0.9
Shareholders' equity before minority interests	714,164	719,172	0.7
Minority interests	(10)	(10)	—
Shareholders' equity after minority interests	**714,154**	**719,162**	**0.7**

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 31 March, eligible own funds came to €735.7 million (31 December 2013: €707.6 million). Surplus own funds came to €336.0 million (31 December 2013: €353.8 million). 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	31/3/2014	+/(–) Change, %
Guarantees	379,178	382,168	0.8
Letters of credit	3,119	376	(87.9)
Contingent liabilities	**382,297**	**382,544**	**0.1**
Other commitments	750,001	764,575	1.9
Commitments	**750,001**	**764,575**	**1.9**

(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 31/3/2014
Unconsolidated subsidiaries				
Receivables	9,611	0	0	5,700
Payables	1,675			1,589
Associates				
Receivables	48,968	0	0	6,830
Payables	186,412			164,906
Key management personnel				
Receivables	505	0	0	490
Payables	895			690
Other related persons				
Receivables	8	0	0	17
Payables	1,046			876

LOANS AND ADVANCES GRANTED

€k	31/12/2013	31/3/2014	+/(–) Change, %
Loans and advances granted to members of the Management Board	192	190	(1.0)
Loans and advances granted to members of the Supervisory Board	313	300	(4.2)
Loans and advances granted	**505**	**490**	**(3.0)**

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

(37) EVENTS AFTER THE INTERIM REPORTING DATE

No activities or events that were exceptional in either form or nature took place at BKS Bank after the interim reporting date (31 March 2014) affecting the assets, liabilities, financial position or profit or loss as presented in this report. However, we do point out that another tranche of ordinary no-par shares was offered for sale as part of a staff share ownership scheme between 1 April 2014 and 22 April 2014 within the scope of the stock buyback programme approved by the 73rd AGM on 15 May 2012. The issue price of each BKS ordinary no-par share was €17.3. A total of 8,852 shares were subscribed for.

(38) FAIR VALUES

31 MARCH 2014

€k	Level 1 'Market Values'	Level 2 'Based on Market Data'	Level 3 'Internal Valuation Methodology'	Fair Values (Total)	Carrying Amounts 31/3/2014	Difference Between Fair Values and Carrying Amounts
Assets						
Receivables from other banks	0	113,431	0	113,431	113,380	51
Receivables from customers	0	5,116,510	0	5,116,510	5,056,010	60,500
Trading assets	0	284	0	284	284	0
Financial assets designated as at fair value through profit or loss	77,801	97,762	0	175,563	175,563	0
Available-for-sale financial assets	244,768	0	19,052	263,820	263,820	0
Held-to-maturity financial assets	776,671	0	0	776,671	718,393	58,278
Investments in entities accounted for using the equity method	305,044	0	5,138	310,182	369,577	(59,395)
Investment property	0	0	34,310	34,310	22,769	11,541
Other assets (derivatives)	0	7,481	0	7,481	7,481	0
Equity and liabilities						
Payables to other banks	0	1,115,402	0	1,115,402	1,111,736	3,666
Payables to customers	0	3,953,157	0	3,953,157	3,939,606	13,551
Liabilities evidenced by paper	518,045	106,321	0	624,366	605,631	18,735
– Of which designated as at fair value through profit or loss	71,704	28,603	0	100,307	100,307	0
Subordinated debt capital	214,806	2,350	0	217,156	214,023	3,133
Trading liabilities	0	332	0	332	332	0
Other liabilities (derivatives)	0	21,161	0	21,161	21,161	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 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). No reclassifications between the individual categories were carried out during the period under review. The valuation models were unchanged.

Level 3: Changes between 1 January and 31 March 2014 €k	At 31/12/2013	Income Statement	Other Comprehensive Income	Purchased	Sold	At 31/3/2014
Available-for-sale financial assets	19,052	0	0	0	0	19,052
Investments in entities accounted for using the equity method	5,138	0	0	0	0	5,138
Total	**24,190**	**0**	**0**	**0**	**0**	**24,190**

(39) BALANCE OF DERIVATIVES OUTSTANDING

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

31/3/2014	Nominal, by Term to Maturity				Fair Values	
€k	< 1 Year	1– 5 Years	> 5 Years	Total	Positive	Negative
Currency contracts	818,384	944,223	—	1,762,607	4,183	7,447
– Of which in trading book	—	—	—	—	—	—
Interest rate contracts	112,714	377,352	290,594	780,660	3,704	13,987
– Of which in trading book	1,714	12,040	17,764	31,518	110	110
Securities contracts	3,200	—	—	3,200	—	126
– Of which in trading book	—	—	—	—	—	—
Total	**934,298**	**1,321,575**	**290,594**	**2,546,467**	**7,887**	**21,560**
– Of which in trading book	1,714	12,040	17,764	31,518	110	110

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 three months ended 31 March 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 Group Management Report for the period from 1 January to 31 March 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 three months of the financial year and their impact on the Consolidated Interim Financial Statements with respect to the material risks and uncertainties for the remaining nine months of the financial year."

Klagenfurt am Wörthersee
21 May 2014

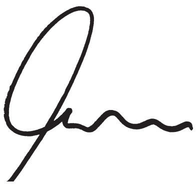
The Management Board

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, 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 2014

1 April 2014:	Publication of the Annual Financial Statements and Consolidated Financial Statements for 2013 in the Internet and in the official *Wiener Zeitung* gazette
15 May 2014:	75th Ordinary General Meeting (AGM)
19 May 2014:	Ex-dividend date
22 May 2014:	Dividend payment date

BKS Bank's Interim Reports

23 May 2014:	Interim Report as at and for the 3 months ended 31 March 2014
22 August 2014:	Semi-Annual Report as at and for the 6 months ended 30 June 2014
28 November 2014:	Interim Report as at and for the 9 months ended 30 September 2014

Publication details:

Published by *BKS Bank AG*, St. Veiter Ring 43, A-9020 Klagenfurt am Wörthersee, Austria. Phone: +43 463 5858-0.

Internet: www.bks.at; e-mail: bks@bks.at or investor.relations@bks.at.

Edited by the Management Board Office of *BKS Bank AG*. Copy deadline date: 21 May 2014.

Translation by Adrian Weisweiller MA (Oxon), London.